

NORTHPORT SCHOOL
DEPARTMENT

NORTHPORT, MAINE

FINANCIAL AUDIT REPORT

JUNE 30, 2016

**NORTHPORt SCHOOL DEPARTMENT
NORTHPORt, MAINE
JUNE 30, 2016**

TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditors' Report

Management Discussion and Analysis (Unaudited)

Financial Statements

Government-Wide Financial Statements

Statement of Net Position

Exhibit I

Statement of Activities

Exhibit II

Fund Financial Statements

Governmental Funds

Balance Sheet

Exhibit III

Reconciliation of the Governmental Funds Balance Sheet
to Statement of Net Position

Exhibit IV

Statement of Revenues, Expenditures and Changes in Fund Balance

Exhibit V

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balance of Governmental Funds to the Statement of Activities

Exhibit VI

Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – General Fund

Exhibit VII

Fiduciary Funds

Statement of Fiduciary Net Position

Exhibit VIII

Notes to Financial Statements

Supplementary Information

Independent Auditors' Report on State Requirements

Exhibit IX

Reconciliation of Audit Adjustments to Annual Financial Data submitted
to the MEDMS Financial System.

Exhibit X

Schedule of Expenditures of Federal Awards

Exhibit XI

Required Supplementary Information

SCHEDULE

Schedule of School Department's Proportionate Share of Net Pension Liability

I

Schedule of School Department Pension Contributions

II

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REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

School Committee, Superintendent, and Business Manager
NORTHPORt SCHOOL DEPARTMENT
Northport, Maine

We have audited the accompanying financial statements of the governmental activities, fiduciary net position, and remaining fund information, which collectively comprise the financial statements, of the Northport School Department, a department of the Town of Northport, as of and for the year ended June 30, 2016, as listed in the table of contents, and the related notes to the financial statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

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 financial statements in order to design audit procedures that are appropriate in the circumstance, 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, fiduciary net position, and remaining fund information of the Northport School Department and the changes in financial position, where applicable, of those activities and funds and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of Northport School Department are intended to present the financial position, the changes in financial position of only that portion of each major fund, and the remaining fund information of the Town of Northport, Maine that is attributable to the transactions of the School Department. They do not purport to, and do not, present fairly the financial position of the Town of Northport, Maine as of June 30, 2016 or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Reconciliation of Audit Adjustments to Annual Financial Data submitted to the MEDMS Financial System and Schedule of Federal Expenditures are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the School Department's Proportionate Share of Net Pension Liability and Schedule of School Department Pension Contributions be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 response to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Management Discussion and Analysis (MD&A) which is the responsibility of management, is represented for purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedure applied in the audit of the financial statements and accordingly we do not express an opinion or provide any assurance on it.

Smith & Associates
SMITH & ASSOCIATES, CPAs
A Professional Association

Yarmouth, Maine
December 28, 2016

NORTHPORT SCHOOL DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis is an analysis of the financial condition and operating results of the Department for the fiscal year ended June 30, 2016 written by the Business Manager. The purpose is to foster increased interest from citizenry and taxpayers and to provide an easily read overview of the Department's financial condition in conjunction with the audited financial statements.

FINANCIAL HIGHLIGHTS

- The assets of Northport School Department exceeded its liabilities at the close of the most recent fiscal year by \$1,448,240 per Exhibit I (net position). Of this amount, \$496,724 (unrestricted net position) may be used to meet the Department's ongoing obligations to citizens and creditors. The Department's total net position increased by \$1,448,240.
- At the close of the current fiscal year, Northport School Department's governmental funds reported combined ending fund balances of \$504,996 an increase of \$504,996 over the prior year. The amount of \$29,405 is the General Fund Unreserved Fund Balance which is available for appropriation in the next budget cycle and represents 1.1% of the total general fund expenditures.
- Northport School Department has \$183,500 committed for alleviating taxes in FY 2016-2017. Northport School Department has \$297,480 committed for Subsequent Fiscal Years. See Note 6 for details of these funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to Northport School Department's financial statements. The Department's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the Department's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* (Exhibit I) presents information on all of the Department's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The *Statement of Activities* (Exhibit II) presents revenue and expenses and shows how the government's net position changed during the most recent fiscal year. All changes in net position are reported in a manner similar to the approach used by a private-sector business in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred. Accordingly, revenues are reported even when they may not be collected for several months after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Both of the government-wide financial statements distinguish functions of the Department that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Currently, the Department is not engaged in any business-type activities.

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

Governmental funds – Most of the Department's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end that are available for spending. 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 Department's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Department's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

Fiduciary Funds – This category is used to account for resources which the Department holds for the specific benefit of certain other parties. Currently the Department uses this category to account for its student activities funds.

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

COMPARATIVE DATA

The following tables provide a summary of Northport School Department's net position and statement of activities for the year ended June 30, 2016, with comparative data for the previous year. Net position serves as a useful indicator of the Department's financial position. Changes in net position generally indicate the direction (positive and negative) of the Department's financial position over time. It is important to note that fiscal 2016 was our first year of operations, thus no prior year amounts are shown.

COMPARATIVE DATA (CONTINUED)**NORTHPORT SCHOOL DEPARTMENT'S NET POSITION**

Condensed Statement of Net Position	Governmental Activities	
	30-Jun-16	30-Jun-15
Assets		
Current and Other Assets	\$ 637,266	\$ 0
Non Current Assets	<u>2,881,844</u>	<u>0</u>
Total Assets	<u>\$ 3,519,110</u>	<u>\$ 0</u>
 Deferred Outflows of Resources	 \$ 17,430	 \$ 0
 Liabilities		
Current and Other Liabilities	\$ 177,929	\$ 0
Long Term Liabilities	<u>1,910,371</u>	<u>0</u>
Total Liabilities	<u>\$ 2,088,300</u>	<u>\$ 0</u>
 Deferred Inflows of Resources	 \$ 0	 \$ 0
 Net Position		
Net Investment in Capital Assets	\$ 972,804	\$ 0
Restricted	-21,288	0
Unrestricted	<u>496,724</u>	<u>0</u>
Total Net Position	<u>\$ 1,448,240</u>	<u>\$ 0</u>

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

An additional portion of the Department's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* \$496,724 (prior year \$0) may be used to meet the governments' ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Department is able to report positive balances in two of these categories of net position, with a small deficit reported in restricted net position. The Department's net position increased by \$1,448,240 during the current fiscal year as shown in Exhibit II.

COMPARATIVE DATA (CONTINUED)**NORTHPORT SCHOOL DEPARTMENT'S CHANGES IN NET POSITION**

Condensed Statement of Activities	Governmental Activities	
	30-Jun-16	30-Jun-15
Revenues:		
Intergovernmental - State Subsidy	\$ 196,862	\$ 0
Intergovernmental - Program Grants	113,887	0
Taxes - Town Assessments	2,664,807	0
Charges for Services - Food Service	9,463	
Unrestricted Investment Earnings	21	0
Miscellaneous	<u>32,545</u>	<u>0</u>
Total Revenues	<u>\$ 3,017,585</u>	<u>\$ 0</u>
Expenses		
Regular Instruction	\$ 1,320,449	\$ 0
Special Education	401,593	0
Student and Staff Support	198,805	0
System Administration	138,202	0
School Administration	172,098	0
Facility Maintenance	239,145	0
Transportation	99,326	0
Other Instructional Programs	1,666	0
Food Service Operations	100,854	0
Construction –Related Expenses	4,170	0
Interest on Long-Term Debt	34,861	0
Depreciation Expense – Unallocated	<u>32,678</u>	<u>0</u>
Total Expenses	<u>\$ 2,743,847</u>	<u>\$ 0</u>
Increase (Decrease) In Net Position	\$ 273,738	\$ 0
Net Position, June 30, 2015	0	0
Transfer of Net Position, July 1, 2015	<u>1,174,502</u>	<u>0</u>
Net Position, June 30, 2016	<u>\$ 1,448,240</u>	<u>\$ 0</u>

ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

The Statement of Activities indicates that the total revenues exceeded total expenditures by \$273,738 which when coupled with net position transferred to the Department upon the withdrawal from RSU 20, results in a strong overall financial position for the year ended June 30, 2016.

ANALYSIS OF SIGNIFICANT INDIVIDUAL FUND BALANCES, TRANSACTIONS AND CHANGES IN FUND BALANCES

General Fund – Revenues were in excess of expenditures and then supplemented by net transfers of \$297,480 thereby increasing the fund balance to \$526,284. While the amount of fund balance that any Department needs to maintain is debatable, this amount is healthy by most standards.

Other Governmental Funds – The decrease of \$21,309 in combined fund balances for this category is primarily due to the School Lunch Program. With 2015-2016 being the first year of the program, we had not budgeted enough local funds to support it. We will continue to locally support the program to restore it to a positive balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

As presented in Exhibit VII, the original budgeted expenditures amount to \$2,896,190. The total actual expenditures for the year ending June 30, 2016, including transfers to and from other funds, was \$2,665,410.

CAPITAL ASSET AND DEBT

Capital Assets

Transfers of Capital Assets as of July 1, 2015 was \$1,778,947. Additions to Capital Assets during the year, net of depreciation, totaled \$1,102,897 for the fiscal year ended June 30, 2016.

Debt

The School Department's total outstanding debt as of June 30, 2016 is \$1,909,040, with \$1,139,520 of this being incurred during the year ended June 30, 2016 to finance work on the Department's school construction project.

FISCAL YEAR 2017 AND BEYOND

At the June, 2016 Town meeting, our townspeople approved a school budget for the fiscal year ended June 30, 2017 in the amount of \$3,146,639 which represents a 9% increase over the corresponding budget for fiscal 2016. Of this amount, \$183,500 is being provided from the Department's fund balance to help reduce the burden on our taxpayers.

The townspeople have also appropriated \$297,480 from fund balance to be used to reduce the property tax burden in subsequent years.

EXHIBIT I

**NORTHPORT SCHOOL DEPARTMENT
STATEMENT OF NET POSITION
JUNE 30, 2016**

	<u>Primary Government</u>
	<u>Governmental Activities</u>
Assets	
Cash and Cash Equivalents	\$ 307,454
Accounts Receivable	329,272
Inventory	540
Capital Assets, Net of Accumulated Depreciation	<u>2,881,844</u>
Total Assets	<u>\$ 3,519,110</u>
Deferred Outflows of Resources	
Related to Pensions	<u>\$ 17,430</u>
Liabilities	
Accounts Payable	\$ 25,944
Accrued Expenses	106,326
Accrued Interest	45,659
Non Current Liabilities	
Due Within One Year	89,694
Due in More Than One Year	<u>1,820,677</u>
Total Liabilities	<u>\$ 2,088,300</u>
Deferred Inflows of Resources	
Related to Pensions	<u>\$ 0</u>
Net Position	
<i>Net Investment in Capital Assets</i>	\$ 972,804
<i>Restricted</i>	
School Hot Lunch Inventory Reserve	540
Grant and Entitlement Purposes (Deficit)	(21,828)
<i>Unrestricted</i>	<u>496,724</u>
Total Net Position	<u>\$ 1,448,240</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

EXHIBIT II

**NORTHPORT SCHOOL DEPARTMENT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets <u>Primary Government</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
				<u>Total</u>	
Governmental Activities					
Regular Instruction	\$ 1,320,449	\$ 0	\$ 45,426	\$ (1,275,023)	
Special Education	401,593	0	36,764	(364,829)	
Student and Staff Support	198,805	0	0	(198,805)	
System Administration	138,202	0	0	(138,202)	
School Administration	172,098	0	0	(172,098)	
Facility Maintenance	239,145	0	0	(239,145)	
Transportation	99,326	0	0	(99,326)	
Other Instructional Programs	1,666	0	1,000	(666)	
Food Service Operations	100,854	9,463	30,697	(60,694)	
Construction-Related Expenses	4,170	0	0	(4,170)	
Interest on Long Term Debt	34,861	0	0	(34,861)	
Depreciation Expense – Unallocated	<u>32,678</u>	<u>0</u>	<u>0</u>	<u>(32,678)</u>	
Total Primary Government	\$ 2,743,847	\$ 9,463	\$ 113,887	\$ (2,620,497)	
General Revenues					
Taxes (Town Assessment)				\$ 2,664,807	
Grants and Contributions Not Restricted to Special Programs				196,862	
Unrestricted Investment Earnings				21	
Miscellaneous				<u>32,545</u>	
Total General Revenues				\$ 2,894,235	
Changes in Net Position				\$ 273,738	
Net Position – June 30, 2015				0	
Transfer of Net Position at July 1, 2015				<u>1,174,502</u>	
Net Position – June 30, 2016				\$ 1,448,240	

The Notes to the Financial Statements are an Integral Part of this Statement.

EXHIBIT III

**NORTHPORT SCHOOL DEPARTMENT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General <u>Fund</u>	Construction <u>Fund</u>	School <u>Lunch</u>	Special Revenue <u>Funds</u>	Total Governmental <u>Funds</u>
Assets					
Cash and Cash Equivalents	\$ 307,454	\$ 0	\$ 0	\$ 0	\$ 307,454
Accounts Receivable	306,476	0	2,918	19,878	329,272
Inventory	0	0	540	0	540
Due From Other Funds	<u>49,453</u>	<u>21</u>	<u>0</u>	<u>7,769</u>	<u>57,243</u>
Total Assets	\$ 663,383	\$ 21	\$ 3,458	\$ 27,647	\$ 694,509
Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 663,383</u>	<u>\$ 21</u>	<u>\$ 3,458</u>	<u>\$ 27,647</u>	<u>\$ 694,509</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance					
Liabilities					
Accounts Payable	\$ 22,983	\$ 0	\$ 0	\$ 2,961	\$ 25,944
Accrued Expenses	106,326	0	0	0	106,326
Due to Other Funds	<u>7,790</u>	<u>0</u>	<u>24,188</u>	<u>25,265</u>	<u>57,243</u>
Total Liabilities	<u>\$ 137,099</u>	<u>\$ 0</u>	<u>\$ 24,188</u>	<u>\$ 28,226</u>	<u>\$ 189,513</u>
Deferred Inflows of Resources	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Fund Balance					
<i>Nonspendable</i>					
School Lunch Inventory Reserve	\$ 0	0	540	0	540
<i>Restricted</i>					
School Construction Fund	0	21	0	0	21
Grant and Entitlement Programs	0	0	0	4,740	4,740
<i>Committed</i>					
Appropriated for FY 2016/2017	183,500	0	0	0	183,500
Appropriated for Subsequent Years	297,480	0	0	0	297,480
<i>Assigned</i>					
Grant and Entitlement Programs	0	0	0	1,988	1,988
General Fund Encumbrances	15,899	0	0	0	15,899
<i>Unassigned</i>					
Grant and Entitlement Programs	0	0	(21,270)	(7,307)	(28,577)
General Fund	<u>29,405</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>29,405</u>
Total Fund Balance	<u>\$ 526,284</u>	<u>\$ 21</u>	<u>\$ (20,730)</u>	<u>\$ (579)</u>	<u>\$ 504,996</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 663,383</u>	<u>\$ 21</u>	<u>\$ 3,458</u>	<u>\$ 27,647</u>	<u>\$ 694,509</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

EXHIBIT IV

**NORTHPORT SCHOOL DEPARTMENT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET POSITION
JUNE 30, 2016**

Total Fund Balance – Total Governmental Funds \$ 504,996

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because

Capital Assets Used in Governmental Activities are Not Current Financial Resources and Therefore are Not Reported in the Governmental Funds Balance Sheet.

2,881,844

Interest Payable on Long-Term Debt and Accrued Compensated Absences Do Not Require Current Financial Resources and Therefore, These Items Are Not Reported as Liabilities in the Governmental Funds Balance Sheet

(46,990)

Long Term Liabilities are Not Due and Payable in the Current Period and Therefore, They are Not Reported in the Governmental Funds Balance Sheet

(1,909,040)

Net Pension Liability and Related Deferred Inflows and Outflows

17,430

Net Position of Governmental Activities

\$ 1,448,240

The Notes to the Financial Statements are an Integral Part of this Statement.

EXHIBIT V

**NORTHPORT SCHOOL DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>General Fund</u>	<u>Construction Fund</u>	<u>School Lunch</u>	<u>Special Revenue Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes (Town Assessment)	\$ 2,664,807	\$ 0	\$ 0	\$ 0	\$ 2,664,807
Intergovernmental	196,862	0	26,069	78,002	300,933
Charges for Services	0	0	9,463	0	9,463
Miscellaneous	<u>32,545</u>	<u>21</u>	<u>0</u>	<u>9,816</u>	<u>42,382</u>
Total Revenues	\$ 2,894,214	\$ 21	\$ 35,532	\$ 87,818	\$ 3,017,585
Expenditures					
<i>Current</i>					
Regular Instruction	\$ 1,287,883	\$ 0	\$ 0	\$ 41,889	\$ 1,329,772
Special Education	363,145	0	0	41,243	404,388
Student and Staff Support Services	199,930	0	0	0	199,930
System Administration	138,202	0	0	0	138,202
School Administration	174,954	0	0	0	174,954
Facility Maintenance	239,145	0	0	0	239,145
Transportation	99,326	0	0	0	99,326
Other Instructional Programs	993	0	0	673	1,666
Food Service	0	0	96,262	4,592	100,854
Debt Service	121,832	0	0	0	121,832
Capital Outlay - Construction	<u>0</u>	<u>1,139,520</u>	<u>0</u>	<u>0</u>	<u>1,139,520</u>
Total Expenditures	\$ 2,625,410	\$ 1,139,520	\$ 96,262	\$ 88,397	\$ 3,949,589
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 268,804	(1,139,499)	(60,730)	\$ (579)	\$ (932,004)
Other Financing Sources (Uses)					
Proceeds of Construction Loan	\$ 0	\$ 1,139,520	\$ 0	\$ 0	\$ 1,139,520
Transfers In (Out)	<u>(40,000)</u>	<u>0</u>	<u>40,000</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	\$ (40,000)	\$ 1,139,520	\$ 40,000	\$ 0	\$ 1,139,520
Net Change in Fund Balance	\$ 228,804	\$ 21	\$ (20,730)	\$ (579)	\$ 207,516
Fund Balance – June 30, 2015	0	0	0	0	0
Transfer of Fund Balance – July 1, 2015	297,480	0	0	0	297,480
Fund Balance – June 30, 2016	\$ 526,284	\$ 21	\$ (20,730)	\$ (579)	\$ 504,996

The Notes to the Financial Statements are an Integral Part of this Statement.

EXHIBIT VI

**NORTHPORT SCHOOL DEPARTMENT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Net Change in Fund Balance – Total Governmental Funds \$ 207,516

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because

Governmental Funds Report Capital Outlays as Expenditures.

However, in the Statement of Activities the Cost of Those Assets is Allocated over their Estimated Useful Lives and Reported as Depreciation Expense.

This is the Amount of Capital Assets Recorded in the Current Period.

1,135,350

Depreciation Expense on Capital Assets is reported in the Government-Wide Statement of Activities and Changes in Net Position, But They do Not Require the Use of Current Financial Resources. Therefore, Depreciation Expense is Not Reported as Expenditure in Governmental Funds.

(32,678)

The Issuance of Long-Term Debt (e.g. Bonds) Provides Current Financial Resources to Governmental Funds, While the Repayment of the Principal of Long-Term Debt Consumes the Current Financial Resources of Governmental Funds. Neither Transaction, However, Has Any Effect on Net Position. Also, Governmental Funds Report the Effect of Issuance Cost, Premiums, Discounts, and Similar Items When Debt is First Issued, Whereas the Amounts are Deferred and Amortized in the Statement of Activities. This Amount is the Net Effect of These Differences in the Treatment of Long-Term Debt and Related Items.

(1,049,826)

Accrued Interest Expense on Long-Term Debt and Accrued Compensated Absences Are Reported in the Government-Wide Statement of Activities and Changes in Net Position, But Do Not Require the Use of Current Financial Resources. Accordingly, These Items Are Not Included Within the Governmental Fund Financial Statements.

(4,054)

Changes in Net Pension Liabilities and Related Deferred Inflows and Outflows 17,430

Change in Net Position of Governmental Activities \$ 273,738

The Notes to the Financial Statements are an Integral Part of this Statement.

EXHIBIT VII

**NORTHPORT SCHOOL DEPARTMENT
GENERAL FUND**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**
FOR THE YEAR ENDED JUNE 30, 2016

	Budget <u>Original</u>	Budget <u>Final</u>	Actual <u>Amounts</u>	Variance With Final Budget Positive (Negative)
Revenues				
Taxes (Town Assessment)	\$ 2,664,807	\$ 2,664,807	\$ 2,664,807	\$ 0
Intergovernmental	196,862	196,862	196,862	0
Charges for Services	50,400	50,400	0	(50,400)
Miscellaneous	24,121	24,121	32,545	8,424
Total Revenues	\$ 2,936,190	\$ 2,936,190	\$ 2,894,214	\$ (41,976)
Expenditures				
<i>Current</i>				
Regular Instruction	\$ 1,427,462	\$ 1,427,462	\$ 1,287,883	\$ 139,579
Special Education	415,380	415,380	363,145	52,235
Student and Staff Support Services	227,511	227,511	199,930	27,581
System Administration	138,584	144,584	138,202	6,382
School Administration	174,665	178,665	174,954	3,711
Facility Maintenance	278,045	267,045	239,145	27,900
Transportation	107,000	107,000	99,326	7,674
Other Instructional Programs	6,705	6,705	993	5,712
Debt Service	120,838	121,838	121,832	6
Total Expenditures	\$ 2,896,190	\$ 2,896,190	\$ 2,625,410	\$ 270,780
Excess (Deficiency) of Revenue Over (Under) Expenditures	\$ 40,000	\$ 40,000	\$ 268,804	\$ 228,804
Other Financing Sources (Uses)				
Transfers In (Out)	(40,000)	(40,000)	(40,000)	0
Net Change in Fund Balance	\$ 0	\$ 0	\$ 228,804	\$ 228,804
Fund Balance – June 30, 2015	0	0	0	0
Transfer of Fund Balance – July 1, 2015	297,480	297,480	297,480	0
Fund Balance – June 30, 2016	\$ 297,480	\$ 297,480	\$ 526,284	\$ 228,804

The Notes to the Financial Statements are an Integral Part of this Statement.

EXHIBIT VIII

**NORTHPORT SCHOOL DEPARTMENT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016**

	<u>Agency Funds</u>
Assets	
Cash and Cash Equivalents	<u>\$ 2,144</u>
Liabilities	
Amounts Held for Others	<u>\$ 2,144</u>
Net Position	
Held in Trust	<u>\$ 0</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. – General Statement

The Northport School Department provides elementary and secondary education to students of the Town of Northport. The School's financial statements include the operation of all organizations for which the Board of Education exercises oversight responsibility.

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

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

The financial statement presentation prescribed by Statement No. 34 includes:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the School's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the School's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements including notes to financial statements.

B. – Financial Reporting Entity

The School Department operates as a department of the Town of Northport, Maine, the financial statements of which are issued separately.

The accompanying financial statements present only the School Department's operations and are not intended to present fairly the financial position and results of operations of the Town of Northport, Maine in conformity with accounting principles generally accepted in the United States of America. Certain disclosures relevant to both the Town and School Department are omitted herein and have been disclosed in the Town's financial statements.

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. – Financial Reporting Entity (Continued)

The School Department was created on June 30, 2015 pursuant to an agreement by which the Town withdrew from RSU No. 20. In accordance with that agreement, certain assets and liabilities previously owned or owed by RSU No. 20 were transferred to and accepted by the School Department, and are reflected within the accompanying financial statements as having been received and assumed on July 1, 2015.

C. – Financial Statements – Government-Wide Statements

The School's financial statements include both government-wide (reporting the School Department as a whole) and fund financial statements (reporting the School's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type.

In the government-wide Statement of Net Position, both the governmental and business-type activities (if applicable) columns (a) are presented on a consolidated basis by column (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The School Department first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, charges for services, etc). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function instruction, support, administering, etc. or a business-type activity. Operating grants include operating-specific and discretionary (whether operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function) are normally covered by general revenue (taxes – town assessment, intergovernmental revenues, interest income, etc).

D. - Financial Statements – Fund Financial Statements

The financial transactions of the School are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The following fund types are used by the School.

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. - Financial Statements – Fund Financial Statements (Continued)

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the School:

General Fund is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Projects Funds are used to account for resources legally or internally restricted for construction and acquisition of capital assets and related costs. Currently the Department carries one such fund in conjunction with its school construction project.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The School Department currently has no proprietary funds.

Fiduciary Funds

Fiduciary Funds are used to report assets held in an agency capacity for others and therefore are not available to support School programs. The reporting focus is on net position and changes in net position and are reported using accounting principles similar to proprietary funds. The Student Activities Fund operates as a Fiduciary Fund.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. GASB No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

The School's fiduciary funds are presented in the fiduciary fund financial statements by type (agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. – Measurement Focus/Basis of Accounting

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

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

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

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

F. – Budgetary Control

Formal budgetary accounting is employed as a management control for the general fund of Northport School Department. The School is required by state law to adopt annual budgets for the general fund and special revenue funds. Each budget is prepared on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles (GAAP). The following procedures are utilized in establishing the budgetary data reflected in the financial statements:

1. Prior to the annual budget meeting, the School prepares a budget for the next succeeding fiscal year beginning July 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the inhabitants of the Town is then called for the purpose of adopting the proposed budget after public notice of the meeting has been given.
3. The budget was adopted subsequent to passage by the inhabitants of the Town and must be filed with the State of Maine Department of Education on a designated date.

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. – Cash and Cash Equivalents

Maine statutes authorize the Department to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and certain corporate stocks and bonds. Generally, the Department invests certain funds in checking, savings accounts or certificates of deposit. The School has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agent.

H. – Inventories

The Lunch Program follows the purchases method of accounting for food and supplies. Inventories are valued at the lower of cost (first-in, first-out basis) or market. The cost of donated federal commodities is computed at fair market value on the date received.

I. - Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	30 Years
Equipment	7 - 12 Years
Vehicles	15 Years

J. - Compensated Absences

Eligible employees are entitled to paid vacation and paid sick days, depending on job classification, length of service, and other factors. The School's policy is to recognize the costs of compensated absences when earned at the government-wide level and when paid at the governmental fund level.

K. – Deferred Outflows and Inflows of Resources

Deferred Outflows of Resources - a consumption of net position by the government that is applicable to a future reporting period. It has a positive effect on net position, similar to assets.

Deferred Inflows of Resources - an acquisition of net position by the government that is applicable to a future reporting period. It has a negative effect on net position, similar to liabilities.

The GASB emphasizes in GASB No. 63 that deferred inflows and deferred outflows are not assets or liabilities and therefore should be separately categorized in the financial statements.

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. – Deferred Outflows and Inflows of Resources (Continued)

The deferred inflows of resources and deferred outflows of resources at June 30, 2016 as listed at in Exhibit I amounted to \$0 and \$17,430, respectively. Per Exhibit III, there are no deferred inflow or outflow of resources at that date at the governmental fund level.

L. - Interfund Activity

Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

M. – Use of Estimates

Preparation of financial statements in conformity with GAAP requires the use of management's estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

N. – Accounts Receivable

Accounts Receivable at June 30, 2016, primarily consist of intergovernmental receivables. There is no allowance for doubtful accounts as the School believes they are 100% collectible.

O. – Equity Classifications

Government-Wide Statements

Net position represent the differences between assets and liabilities. Equity is classified as net position and displayed in three components:

- *Net investment in capital assets* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net position* – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- *Unrestricted net position* – all other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. – Equity Classifications (Continued)

Fund Financial Statements

Governmental fund equity is classified as fund balance. The Town's fund balances represent: (1) **Nonspendable Fund Balance**, resources that cannot be spent because of legal or contractual provisions that require they be maintained intact. (e.g. the principal of an endowment). (2) **Restricted Purposes**, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; (3) **Committed Purposes**, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Selectmen; (4) **Assigned Purposes**, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. (5) **Unassigned Fund Balance**, net resources in excess of what is properly categorized in one of the four categories already described. A positive amount of unassigned fund balance will never be reported in a governmental fund other than the general fund , because GASB Statement 54 prohibits reporting resources in another fund unless they are at least assigned to the purpose of that fund. However, funds other than the general fund could report a negative amount of unassigned fund balance should the total of nonspendable, restricted and committed fund balance exceeds the total net resources of the fund.

NOTE 2 – CASH AND CASH EQUIVALENTS

The School's cash and cash equivalents may be subject to various risks from time to time, as follows:

Deposits

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School's policy is to invest in only financial institutions that are insured by the F.D.I.C. or additional insurance.

The School Department's cash is held in the Town of Northport's cash accounts. At June 30, 2016 the School Department held no deposits subject to custodial credit risk.

Interest Rate Risk – The School does not currently have a deposit policy for interest rate risk as the deposits are held at the Town.

Credit Risk and Concentration of Credit Risk – The School does not have a formal policy regarding credit risk or concentration of credit risk, as all such deposits are held at the Town level.

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance <u>July 1</u>	July 1 Transfers	Additions/ Completions	Ending Balance <u>June 30</u>
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 0	\$ 794,948	\$ 0	\$ 794,948
Construction in Progress	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,135,575</u>	<u>\$ 1,135,575</u>
Total Capital Assets, Not Being Depreciated	<u>\$ 0</u>	<u>\$ 794,948</u>	<u>\$ 1,135,575</u>	<u>\$ 1,930,523</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	\$ 0	\$ 897,113	\$ 0	\$ 897,113
Vehicles	<u>0</u>	<u>86,886</u>	<u>0</u>	<u>86,886</u>
Total Capital Assets, Being Depreciated	<u>\$ 0</u>	<u>\$ 983,999</u>	<u>\$ 0</u>	<u>\$ 983,999</u>
Less Accumulated Depreciation for				
Buildings and Improvements	\$ 0	\$ 0	\$ 22,428	\$ 22,428
Vehicles	<u>0</u>	<u>0</u>	<u>10,250</u>	<u>10,250</u>
Total Accumulated Depreciation	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 32,678</u>	<u>\$ 32,678</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 0</u>	<u>\$ 983,999</u>	<u>\$ (32,678)</u>	<u>\$ 951,321</u>
Governmental Activities Capital Assets, Net	<u>\$ 0</u>	<u>\$ 1,778,947</u>	<u>\$ 1,102,897</u>	<u>\$ 2,881,844</u>

Assets reflected as acquired by transfer from RSU 20 on July 1, 2015 have been recorded at estimated fair value at the time of transfer, using a variety of estimation methods and inputs. Depreciation expense has not been charged as a direct expense of the School Department.

NOTE 4 – LONG-TERM DEBT

At June 30, 2016, loans, leases, and bonds payable consisted of the following individual issues:

	<u>Governmental Activities</u>
Bangor Savings Bank	
Construction Bond Anticipation Note, Interest Rate 0.72%, Maximum Credit Available of \$3,000,000, Maturity January 2017, Obtained in Anticipation of Construction Bond Subsequently Issued by Maine Municipal Bond Bank in Face Amount of \$3,000,000	\$ 1,139,520
Maine Municipal Bond Bank	
General Obligation Bond of 1998, Interest Rate 4.827%, Annual Principal Payments of \$10,700, Maturity in 2018.	32,100

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 – LONG-TERM DEBT (CONTINUED)

	<u>Governmental Activities</u>
Maine Municipal Bond Bank	
General Obligation Bond of 2004, Interest Rate 3.557% to 7.497%, Annual Principal Payments of \$52,511, Maturity in 2024.	\$ 472,595
General Obligation Bond of 2005, Interest Rate 4.000%, Annual Principal Payments of \$26,483, Maturity in 2025.	<u>264,825</u>
Total Loans, Leases and Bonds Payable	<u>\$ 1,909,040</u>

Changes in Outstanding Debt

Transactions for the year ended June 30, 2016, are summarized as follows:

	Obligations					
	Balance <u>July 1</u>	Assumed <u>July 1</u>	Issues or <u>Additions</u>	Payments or <u>Expenditures</u>	Balance <u>June 30</u>	Due Within <u>One Year</u>
Governmental Activities						
General Obligation Bonds	\$ 0	\$ 859,214	\$ 1,139,520	\$ 89,694	\$ 1,909,040	\$ 89,694
Accrued Interest	0	42,936	2,723	0	45,659	45,659
Compensated Absences	<u>0</u>	<u>0</u>	<u>1,331</u>	<u>0</u>	<u>1,331</u>	<u>0</u>
Total Governmental Activities	<u>\$ 0</u>	<u>\$ 902,150</u>	<u>\$ 1,143,574</u>	<u>\$ 89,694</u>	<u>\$ 1,956,030</u>	<u>\$ 135,353</u>

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each debt type for the years subsequent to June 30, 2016, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016/17	\$ 89,694	\$ 35,657	\$ 125,351
2017/18	146,670	37,610	184,280
2018/19	146,670	33,920	180,590
2019/20	135,970	30,549	166,519
2020/21	135,970	27,274	163,244
2021/26	627,330	92,327	719,657
2026/31	284,880	65,214	350,094
2031/36	284,880	33,138	318,018
2036/41	<u>56,976</u>	<u>969</u>	<u>57,945</u>
Total	<u>\$ 1,909,040</u>	<u>\$ 356,658</u>	<u>\$ 2,265,698</u>

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 – RETIREMENT PLAN

The Northport School Department provides retirement pension plan for its employees through a defined benefit pension plan.

I. Defined Benefit Pension Plan - Maine Public Employees Retirement System (MEPERS)

A. Plan Description

Qualifying personnel of the School Department participate in the Maine Public Employees Retirement System. The plan is a multiple employer, cost-sharing pension plan with a special funding situation

A. Plan Description (Continued)

The State of Maine is a non-employer contributing entity in that the state pays the unfunded actuarial liability (UAL) on behalf of the teachers, while the School Department contributes the normal cost, which is actuarially calculated. The School Department has been enrolled in the MEPERS system since July 1, 2015. MEPERS is established under Maine law found in 5 MRSA Part 20. The authority to establish and amend benefit provisions rests with the State legislature.

B. Funding Policy

The School Department makes available to all full time employees the option to make a one-time irrevocable election to participate in the Maine Public Employees Retirement System (MEPERS), State Employees and Teachers Plan. The employee shall pay, through payroll deduction(s), his/her required contribution determined by MEPERS, 7.65%. The School shall pay its required contribution determined by MEPERS. This benefit shall be offered to eligible employees on the date of hire.

C. Pension Benefits

Benefit terms are established in Maine Statute. The System's retirement programs provide defined retirement benefits based on member's average final compensation and service credit earned as of retirement. Vesting (i.e. eligibility of benefits upon reaching qualification) occurs upon the earning of 25 years of service credit for School Department employees.

Normal retirement age of State Employees and Teachers members is age 60 to 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute.

The monthly benefit of members who retire before normal retirement age by virtue of 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 her/his normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employee and teacher members.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual interest credited to member's accounts is set by the System's Board of Trustees.

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 – RETIREMENT PLAN (CONTINUED)

D. Member and Employer Contributions

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 and depend on the terms of the plan under which a member is covered. Employer contributions rates are determined through actuarial valuations. For the year ended June 30, 2016, the member contribution rate was 7.65%, the School Department's contribution rate was 3.36% (normal cost), and the State of Maine contributed 10.02% (UAL).

E. Revenue Recognition

Employer contributions to the System are recognized as additions in the period when they become due pursuant to formal commitments or statutory requirements. Investment income is recognized when earned and investment expenses are recorded when incurred.

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

At June 30, 2016, the School Department reported a net pension liability of \$0. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by actuarial valuation as of that date. The School Department proportion of the net pension liability was based on a projection of the School Department's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At the June 30, 2015 measurement date, the School Department proportion was 0.00%.

For the fiscal year ended June 30, 2016, the School Department recognized pension expense of \$0. At June 30, 2016, the reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources are as follows:

	Deferred <u>Outflows of Resources</u>	Deferred <u>Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 0	\$ 0
Changes in Assumptions	0	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	0	0
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions.	0	0
School Department Contributions Subsequent to the Measurement Date	17,430	0
Total	\$ 17,430	\$ 0

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 – RETIREMENT PLAN (CONTINUED)

F. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

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

For the Year Ended June 30,	Amount
2017	<u>\$ 17,430</u>

G. Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all period included in the measurement:

- | | |
|---|-----------------------|
| <p>➤ Inflation</p> | <p>3.50%</p> |
| ➤ Salary Increases | <p>3.5% to 13.50%</p> |
| ➤ Investment Rate of Return | <p>7.125%</p> |
| ➤ Cost of Living Benefit Increases | <p>2.55%</p> |

For the School Department employees, the mortality rate is based on the RP2000 Combined Mortality Tables for males and females using Scale AA, with a two year setback for active members.

G. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments were 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 weighing 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, 2015 are summarized in the following table:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equities	20%	5.2%
Non- US Equities	20%	5.5%
Private Equity	10%	7.6%
Real Assets:		
Real Estate	10%	3.7%
Infrastructure	10%	4.0%
Hard Assets	5%	4.8%
Fixed Income	<u>25%</u>	<u>0.7%</u>
	<u>100%</u>	

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 – RETIREMENT PLAN (CONTINUED)

H. Discount Rate

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

I. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School Department's proportionate share of the net pension liability calculated using the discount rate of 7.125%, as well as what the School Department proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.125%) or 1 percentage point higher (8.125%) than the current rate:

	1% Decrease <u>(6.125%)</u>	Current Discount Rate <u>(7.125%)</u>	1% Increase <u>(8.125%)</u>
Proportionate Share of the Net Pension Liability	\$0	\$0	\$0

J. Pension Plan Financial and Actuarial Information

Additional financial information and actuarial information can be found in the Maine PERS 2015 Comprehensive Annual Financial Report available online at www.mainepers.org or by contacting the System at (207) 512-3100.

NOTE 6 – INTERFUND ACTIVITY

Interfund balances at June 30, 2016, consisted of the following:

Due To	
General Fund	\$ 49,453
Construction Fund	21
Non-Major Special Revenue Funds	<u>7,769</u>
Total	<u>\$ 57,243</u>
Due From	
General Fund	\$ 7,790
Non-Major Special Revenue Funds	<u>49,453</u>
Total	<u>\$ 57,243</u>

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 – INTERFUND ACTIVITY (CONTINUED)

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

During the year ended June 30, 2016 the Department transferred \$40,000 from the general fund to the food service program.

Transfers are used to (1) move revenues from the fund that the budget requires to collect them to the fund that the budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 – GOVERNMENTAL FUND BALANCES

The Northport School Department has the responsibility for committing fund balance amounts and likewise would be required to modify or rescind those commitments.

When both restricted and unrestricted resources are available for use, it is the School Department's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, and unassigned resources are available for use, it is the School Department's policy to use committed or assigned resources first, then unassigned resources as they are needed.

The General Fund unassigned fund balance total of \$45,264 represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund.

As per Exhibit III, a summary of the nature and purpose of these reserves by fund type at June 30, 2016 follows.

Non-Spendable

School Hot Lunch Inventory	\$ 540
----------------------------	--------

Restricted

Construction Fund	\$ 21
Maine Community Foundation	327
Whole Kids	2,000
Oral Health	200
Proficiency Based Education	2,177
Fresh Fruits and Vegetables Program	36
Total	\$ 4,761

Committed

Appropriated for Fiscal Year 2016/2017	\$ 183,500
Appropriated for Subsequent Fiscal Years	297,480
Total	\$ 480,980

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 – GOVERNMENTAL FUND BALANCES (CONTINUED)

Assigned

General Fund Encumbrances	\$ 15,899
Withdrawal Grants	<u>1,988</u>
Total	<u>\$ 17,887</u>

Unassigned

IDEA	\$ (4,479)
Title VI	(60)
Title IIA	(2,768)
School Lunch Program	(21,270)
General Fund	<u>29,405</u>
Total	<u>\$ 828</u>

NOTE 8 – RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the School carries commercial insurance. There have been no significant reductions in insurance coverage's during the fiscal year and no significant settlements that exceeded insurance coverage.

NOTE 9 – CONCENTRATIONS

The Town of Northport provided \$2,664,804 (88% of Governmental Fund revenues) during the fiscal year ended June 30, 2016.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Northport School Department participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that Northport School Department has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2016, may be impaired. In the opinion of the School Department, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective agents; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 11 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. - Budgetary Accounting

The Northport School Department utilizes a formal budgetary accounting system to control revenues and expenditures accounted for in the General Fund. This budget is established by the School Board and must be approved at a Public Meeting.

**NORTHPORT SCHOOL DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

B. - Excess of Expenditures over Appropriations

For the year ended June 30, 2016, expenditures did not exceed appropriations both in total and at each budget line per Exhibit VII.

C. - Deficit Balances

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year-end.

As of June 30, 2016, four individual fund held deficit balances.

IDEA	\$ (4,479)
Title VI	(60)
Title IIA	(2,768)
School Lunch Program	<u>(20,730)</u>
Total	<u>\$ (28,037)</u>

Management is working to restore these funds' balances to surplus positions.

NOTE 12 – DATE OF MANAGEMENT'S REVIEW

Management has evaluated subsequent events through December 28, 2016, the date on which the financial statements were available to be issued.

Subsequent to June 30, 2016, the Town issued a \$3,000,000 bond to Maine Municipal Bond Bank, the proceeds of which were used to defease the bond anticipation note described in Note 4. This bond calls for annual principal payments of \$150,000 over a twenty-year term, with interest payable semi-annually at rates ranging from 1.16% to 3.492%. Future required payments of principal and interest as reported in Note 4 for the bond anticipation note have been computed using the amortization schedule for the construction bond.

Subsequent to June 30, 2016 the School Department entered into a contract with a bus company under which the company will provide bus service to the Department for the next five school years, at annual costs ranging from \$84,000 to \$89,400.

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EXHIBIT IX

**NORTHPORT SCHOOL DEPARTMENT
INDEPENDENT AUDITORS' REPORT ON STATE REQUIREMENTS**

School Committee, Superintendent and Business Manager

NORTHPORT SCHOOL DEPARTMENT

Northport, Maine

We have audited the financial statements of the Northport School Department for the year ended June 30, 2016, and have issued our report thereon dated December 28, 2016.

The management of the Northport School Department is responsible for the Department's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Department's compliance with laws and regulations, noncompliance with which could have a material effect on the financial statements of the Northport School Department.

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 school has complied with budget content requirements pursuant to section 15693, subsection 1 and cost summary budget format requirement pursuant to sections 1305-C, 1485-C, 1701-C and 2307.
- 2) A determination of whether or not the school has exceeded its authority to expend funds.
- 3) A determination of whether or not the annual financial data submitted to the department is correct.
- 4) A determination of whether or not the District was in compliance with applicable provisions of the Essential Programs and Services Funding Act pursuant to chapter 606-B, Sec. 15671.

The results of our tests indicate that, for the items tested, the Northport School Department 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 Northport School Department was not in compliance with Maine laws and regulations.

Smith & Associates

SMITH & ASSOCIATES, CPAs
A Professional Association

Yarmouth, Maine
December 28, 2016

EXHIBIT X

**NORTHPORT SCHOOL DEPARTMENT
RECONCILIATION OF AUDIT ADJUSTMENTS TO ANNUAL FINANCIAL
DATA SUBMITTED TO THE MEDMS FINANCIAL SYSTEM
JUNE 30, 2016**

	General Fund <u>(100 Series)</u>	Special Revenue Funds (200 Series and Fund 6000)	Capital Project Fund <u>(300 Series)</u>	Total
June 30, 2016 Balance as Per MEDMS Financial System	\$ 526,284	\$(21,345)	\$ 21	\$504,960
Rounding and Immaterial Differences	_____	36	0	36
Audited GAAP Basis Fund Balance - June 30, 2016	<u>\$ 526,284</u>	<u>\$(21,309)</u>	<u>\$ 21</u>	<u>\$504,996</u>
Total Fund Balance Per Exhibit III				<u>\$504,996</u>

EXHIBIT XI

**NORTHPORT SCHOOL DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor Pass Through Grantor <u>Program Title</u>	Federal CFDA Number	Pass Thru Grantor Number	Federal Expenditures
U.S. Department of Agriculture Passed Through Maine Department of Education:			
<i>Child Nutrition Cluster</i>			
<i>Special Milk Program for Children</i>			
Breakfast SNP	10.556	013-05A-3014-05	\$ 4,071
<i>National School Lunch Program</i>			
Section 4 Funds SNP	10.555	013-05A-3022-05	2,069
Section II Funds SNP	10.555	013-05A-3024-05	15,697
Other	10.555	013-05A-3020-05	1,381
<i>Fresh Fruit and Vegetable Program</i>	10.582	013-05A-3028-05	<u>4,628</u>
Total U.S. Department of Agriculture			<u>\$ 27,846</u>
U.S. Department of Education Passed Through Maine Department of Education			
<i>Special Education Grants to States</i>			
Local Entitlement IDEA	84.027	013-05A-3046-12	\$ 36,461
Preschool Grants IDEA	84.173	013-05A-6247-00	303
<i>Improving Teacher Quality State Grants</i>			
No Child Left Behind - Improving Teacher Quality LEA Grants	84.367	013-05A-3042-11	807
<i>Title I Grants to Local Education Agencies</i>			
No Child Left Behind - Disadvantaged	84.010	013-05A-3107-13	<u>26,496</u>
Total Passed Through Maine Department of Education			<u>\$ 64,067</u>
Direct Program			
<i>Title IV Rural Grant</i>	84.358A	N/A	<u>\$ 11,758</u>
Total U.S. Department of Education			<u>\$ 75,825</u>
Total Expenditures of Federal Awards			<u>\$ 103,671</u>

SCHEDULE I

**NORTHPORT SCHOOL DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DEPARTMENT'S PROPORTIONATE SHARE
OF NET PENSION LIABILITY
JUNE 30, 2016**

6/30/16

School Department's Proportion of Net Pension Liability	<u>0.00%</u>
School Department's Proportionate Share of the Net Pension Liability	\$ 0
State of Maine's Proportionate Share of the Net Pension Liability	<u>0</u>
Total	<u>\$ 0</u>
School Department's Covered Employee Payroll	<u>\$ 0</u>
School Department's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Employee Payroll	<u>0.00%</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>83.55%</u>

Amounts presented for each fiscal year were determined as of June 30. The data above was determined by the actuarial valuation date which was one year prior to the audit report date. Retroactive information is not required to be presented. A full 10 year schedule will be displayed as it becomes available.

The Notes to the Financial Statements are an Integral Part of This Statement.

SCHEDULE II

**NORTHPORT SCHOOL DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DEPARTMENT
PENSION CONTRIBUTIONS
JUNE 30, 2016**

6/30/16

Contractually Required Contribution	\$ 17,430
Actual Contribution	<u>(17,430)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>
Covered Employee Payroll	\$ 479,280
Contributions as a Percentage of Covered Employee Payroll	<u>3.64%</u>

Amounts presented for each fiscal year were determined as of June 30. The data above was determined for each Department fiscal year presented, which differs from the timeframes utilized in Schedule I. Retroactive information is not required to be presented. A full 10 year schedule will be displayed as it becomes available.

The Notes to the Financial Statements are an Integral Part of This Statement.