

Audited Financial Statements
and Other Financial Information

Hazen Union School District #26

June 30, 2018



Proven Expertise and Integrity

HAZEN UNION SCHOOL DISTRICT #26

CONTENTS

JUNE 30, 2018

| | PAGE |
|--|---------|
| INDEPENDENT AUDITORS' REPORT | 1 - 3 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 4 -11 |
| <u>BASIC FINANCIAL STATEMENTS</u> | |
| GOVERNMENT-WIDE FINANCIAL STATEMENTS | |
| STATEMENT A - STATEMENT OF NET POSITION | 12 |
| STATEMENT B - STATEMENT OF ACTIVITIES | 13 -14 |
| FUND FINANCIAL STATEMENTS | |
| STATEMENT C - BALANCE SHEET - GOVERNMENTAL FUNDS | 15 |
| STATEMENT D - RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION | 16 |
| STATEMENT E - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS | 17 |
| STATEMENT F - RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES | 18 |
| STATEMENT G - STATEMENT OF NET POSITION - FIDUCIARY FUNDS | 19 |
| STATEMENT H - STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS | 20 |
| NOTES TO FINANCIAL STATEMENTS | 21 - 61 |
| <u>REQUIRED SUPPLEMENTARY INFORMATION</u> | |
| REQUIRED SUPPLEMENTARY INFORMATION DESCRIPTION | 62 |

| | |
|---|----|
| SCHEDULE 1 - BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS - BUDGET AND ACTUAL - GENERAL FUND | 63 |
| SCHEDULE 2 - SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY | 64 |
| SCHEDULE 3 - SCHEDULE OF CONTRIBUTIONS - PENSIONS | 65 |
| SCHEDULE 4 - SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY | 66 |
| SCHEDULE 5 - SCHEDULE OF CONTRIBUTIONS - OPEB | 67 |
| NOTES TO REQUIRED SUPPLEMENTARY INFORMATION | 68 |
| <u>OTHER SUPPLEMENTARY INFORMATION</u> | |
| OTHER SUPPLEMENTARY INFORMATION DESCRIPTION | 69 |
| SCHEDULE A - BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS - BUDGET AND ACTUAL - GENERAL FUND REVENUES | 70 |
| SCHEDULE B - SCHEDULE OF DEPARTMENTAL OPERATIONS - GENERAL FUND | 71 |
| SCHEDULE C - COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS | 72 |
| SCHEDULE D - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS | 73 |
| SPECIAL REVENUE FUNDS DESCRIPTION | 74 |
| SCHEDULE E - COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS | 75 |
| SCHEDULE F - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS | 76 |
| FIDUCIARY FUNDS DESCRIPTION | 77 |

SCHEDULE G - COMBINING SCHEDULE OF NET POSITION - FIDUCIARY FUNDS - PRIVATE-PURPOSE FUNDS 78 - 79

SCHEDULE H - COMBINING SCHEDULE OF CHANGES IN NET POSITION FIDUCIARY FUNDS - PRIVATE-PURPOSE FUNDS 80 - 81

FEDERAL COMPLIANCE

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* 82 - 83



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INDEPENDENT AUDITORS' REPORT

School Board
Hazen Union School District #26
Hardwick, Vermont

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 Hazen Union School District #26, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Hazen Union School District #26'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 of material misstatement.

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

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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 of and the aggregate remaining fund information of the Hazen Union School District #26 as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and pension and OPEB information on pages 4 through 11 and 63 through 68 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 Hazen Union School District #26's basic financial statements. The Budgetary Comparison Schedule - Budgetary Basis - Budget and Actual - General Fund Revenues, Schedule of Departmental Operations - General Fund, combining and individual nonmajor and fiduciary fund financial statements and capital asset schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Budgetary Comparison Schedule - Budgetary Basis - Budget and Actual - General Fund Revenues, Schedule of Departmental Operations - General Fund, combining and individual nonmajor and fiduciary fund financial statements and capital asset schedules are the responsibility of management and were derived from and related 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 Budgetary Comparison Schedule - Budgetary Basis - Budget and Actual - General Fund Revenues, Schedule of Departmental Operations - General Fund, combining and individual nonmajor and fiduciary fund financial statements and capital asset schedules are 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 January 9, 2019, on our consideration of the Hazen Union School District #26's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 the Hazen Union School District #26's internal control over financial reporting and compliance.

RHR Smith & Company

Buxton, Maine
Vermont Registration No. 092.0000697
January 9, 2019

**REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

(UNAUDITED)

The following management's discussion and analysis of the Hazen Union School District #26's financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the School District's financial statements.

Financial Statement Overview

The School District's basic financial statements include the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes required supplementary information which consists of the general fund budgetary comparison schedule and pension schedules, and other supplementary information which includes combining and other schedules.

Basic Financial Statements

The basic financial statements include financial information in two differing views: the government-wide financial statements and the fund financial statements. These basic financial statements also include the notes to financial statements that explain in more detail certain information in the financial statements and also provide the user with the accounting policies used in the preparation of the financial statements.

Government-Wide Financial Statements

The government-wide financial statements provide a broad view of the School District's operations in a manner that is similar to private businesses. These statements provide both short-term as well as long-term information in regards to the School District's financial position. These financial statements are prepared using the accrual basis of accounting. This measurement focus takes into account all revenues and expenses associated with the fiscal year regardless of when cash is received or paid. The government-wide financial statements include the following two statements:

The Statement of Net Position - this statement presents *all* of the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference being reported as net position.

The Statement of Activities - this statement presents information that shows how the government's net position changed during the period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Both of the above mentioned financial statements have one column for the School District's one type of activity. The type of activity presented for the School District is:

- *Governmental activities* - The activities in this section are mostly supported by intergovernmental revenues (federal and state grants). All of the School District's basic services are reported in governmental activities, which include instruction, student/instructor support, administration, operations and miscellaneous.

Fund Financial Statements

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

Governmental funds: All of the basic services provided by the School District are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balance of spendable resources available at the end of the fiscal year. Such information will be useful in evaluating the government's near-term financing requirements. This approach is known as the current financial resources measurement focus and the modified accrual basis of accounting. Under this approach, revenues are recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the School District's finances to assist in determining whether there will be adequate financial resources available to meet the current needs of the School District.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The School District presents three columns in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances. The School District's major funds are the general fund and the capital projects fund. All other funds are shown as nonmajor and are combined in the "Other Governmental Funds" column on these statements.

The general fund is the only fund for which the School District legally adopted a budget. The Budgetary Comparison Schedule - Budgetary Basis - Budget and Actual - General Fund provides a comparison of the original and final budget and the actual expenditures for the current year.

Fiduciary Funds: These funds are used to account for resources held for the benefit of parties outside the School District. These funds are not reflected in the government-wide statements because the resources of these funds are not available to support the School District's own programs. The accounting used for fiduciary funds are much like that of proprietary funds. They use the accrual basis of accounting.

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 the Fund Financial Statements. The Notes to Financial Statements can be found following the Statement of Changes in Net Position - Fiduciary Funds.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information, which includes a Budgetary Comparison Schedule - Budgetary Basis - Budget and Actual - General Fund, a Schedule of Proportionate Share of the Net Pension Liability, a Schedule of Contributions - Pensions, a Schedule of Proportionate Share of the Net OPEB Liability, a Schedule of Contributions - OPEB and Notes to Required Supplementary Information.

Other Supplementary Information

Other supplementary information follows the required supplementary information. These combining and other schedules provide information in regards to nonmajor and fiduciary funds, capital asset activity and other detailed budgetary information for the general fund.

Government-Wide Financial Analysis

Our analysis below focuses on the net position, and changes in net position of the School District's governmental activities. The School District's total net position increased by \$355,575 from \$658,510 to \$1,014,085.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased for governmental activities to a balance of \$172,919 at the end of this year.

Table 1
Hazen Union School District #26
Net Position
June 30,

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|-------------------|
| Assets: | | |
| Current Assets | \$ 725,906 | \$ 186,705 |
| Capital Assets | 1,285,266 | 1,332,590 |
| Total Assets | <u>2,011,172</u> | <u>1,519,295</u> |
| Deferred Outflows of Resources: | | |
| Deferred Outflows Related to Pensions | 85,133 | 106,967 |
| Total Deferred Outflows of Resources | <u>85,133</u> | <u>106,967</u> |
| Liabilities: | | |
| Current Liabilities | 628,526 | 445,632 |
| Long-term Obligations Outstanding | 446,167 | 515,037 |
| Total Liabilities | <u>1,074,693</u> | <u>960,669</u> |
| Deferred Inflows of Resources: | | |
| Deferred Revenue | - | 1,432 |
| Deferred Inflows Related to Pensions | 7,527 | 5,651 |
| Total Deferred Inflows of Resources | <u>7,527</u> | <u>7,083</u> |
| Net Position: | | |
| Net Investment in Capital Assets | 837,012 | 756,135 |
| Restricted | 4,154 | 157 |
| Unrestricted (Deficit) | 172,919 | (97,782) |
| Total Net Position | <u>\$ 1,014,085</u> | <u>\$ 658,510</u> |

Revenues and Expenses

Revenues for the School District's governmental activities decreased by 6.33%, while total expenses decreased by 12.19%. The decrease in revenues was due to a decrease in charges for services, grants and contributions not restricted to specific programs and miscellaneous, offset by increases in operating grants and contributions. The decrease in expenses was due to decreases in all categories except for state on-behalf payments and miscellaneous.

Table 2
Hazen Union School District #26
Change in Net Position
For the Years Ended June 30,

| | 2018 | 2017 |
|--|--------------|------------|
| Revenues | | |
| <i>Program Revenues:</i> | | |
| Charges for services | \$ 610,988 | \$ 622,730 |
| Operating grants and contributions | 1,055,276 | 827,839 |
| <i>General Revenues:</i> | | |
| Grants and contributions not restricted to specific programs | 5,910,924 | 6,613,595 |
| Miscellaneous | 61,268 | 90,712 |
| Total Revenues | 7,638,456 | 8,154,876 |
| Expenses | | |
| Instruction | 3,610,752 | 4,271,906 |
| Student/instructor support | 736,691 | 1,042,409 |
| Administration | 726,174 | 909,702 |
| Operations | 1,040,428 | 1,222,227 |
| State on-behalf payments | 1,055,276 | 743,000 |
| Miscellaneous | 25,640 | 13,835 |
| Unallocated depreciation | 81,356 | 91,215 |
| Total Expenses | 7,282,881 | 8,294,294 |
| Change in Net Position | 355,575 | (139,418) |
| Net Position - July 1 | 658,510 | 797,928 |
| Net Position - June 30 | \$ 1,014,085 | \$ 658,510 |

Financial Analysis of the School District's Fund Statements

Governmental funds: The financial reporting focus of the School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information may be useful in assessing the School District's financial requirements. In particular, unassigned fund balance may serve as a useful measure of a government's financial position at the end of the year, and the net resources available for spending.

Table 3
Hazen Union School District #26
Fund Balances - Governmental Funds
June 30,

| | 2018 | 2017 |
|------------------------|------------|-----------|
| Major Funds: | | |
| General Fund: | | |
| Nonspendable | \$ 10,623 | \$ - |
| Assigned | 275,406 | 35,378 |
| Capital Projects Fund: | | |
| Committed | 1,635 | 1,634 |
| Total Major Funds | \$ 287,664 | \$ 37,012 |
| Nonmajor Funds: | | |
| Special Revenue Funds: | | |
| Restricted | \$ 4,154 | \$ 157 |
| Total Nonmajor Funds | \$ 4,154 | \$ 157 |

The general fund total fund balance increased by \$250,651 from the prior fiscal year primarily due to revenues exceeding expenditures for current activity. The capital projects fund total fund balance increased by \$1 from the prior fiscal year due to interest income. The nonmajor funds total fund balance increased by \$3,997 from the prior fiscal year primarily due to the addition of the work based learning special revenue fund.

Budgetary Highlights

There was no difference between the original and final budget for the general fund. (See page 63)

The general fund actual revenues were under budgeted amounts by \$96,866 primarily due to intergovernmental revenues and tuition being receipted under budgeted amounts.

The general fund actual expenditures were under budgeted amounts by \$347,517 primarily due to all actual expenditures being within or below budgeted amounts, with the exception of miscellaneous and debt service.

Capital Asset and Long-Term Debt Activity

Capital Assets

As of June 30, 2018, the School District's capital assets decreased by \$47,324 from the prior year. This decrease was the result of current year additions of \$34,032 less current year depreciation expense of \$81,356.

**Table 4
Hazen Union School District #26
Capital Assets (Net of Depreciation)
June 30,**

| | 2018 | 2017 |
|----------------------------|--------------|--------------|
| Land improvements | \$ 169,623 | \$ 185,056 |
| Buildings and improvements | 953,413 | 1,000,910 |
| Machinery and equipment | 133,405 | 133,424 |
| Total | \$ 1,285,266 | \$ 1,332,590 |

Debt

At June 30, 2018, the School District had \$335,511 in a note payable versus \$500,000 in the previous year. Other obligations include capital leases payable, accrued compensated absences and net pension liability. Refer to Note 6 of Notes to Financial Statements for more detailed information.

Currently Known Facts, Decisions, or Conditions

Economic Factors and Next Year's Budgets and Rates

The 2018-2019 budget could be severely impacted by:

- Reduction of State funding
- Declining availability of grant dollars
- Volatility of student population; including tuition students
- Act 179 - District funding of the Vermont State Teachers Retirement System
- Act 46 - State mandated mergers, transition timeline, merger appeals & budgeting challenges
- High staff turnover rate for the Business Office personnel
- Increased homelessness in member districts

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact John Smith, Jr., CFO, Orleans Southwest School District at P.O. Box 338, 156 Daniels Road, Hardwick, Vermont 05843 or by phone 802-472-2902.

HAZEN UNION SCHOOL DISTRICT #26

STATEMENT OF NET POSITION
JUNE 30, 2018

| | Governmental Activities |
|---|----------------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 699,094 |
| Accounts receivable (net of allowance for uncollectibles) | 16,189 |
| Prepaid items | <u>10,623</u> |
| Total current assets | <u>725,906</u> |
| Noncurrent assets: | |
| Land | 13,200 |
| Land improvements, net of accumulated depreciation | 169,623 |
| Buildings and improvements, net of accumulated depreciation | 953,413 |
| Infrastructure, net of accumulated depreciation | 15,625 |
| Machinery and equipment, net of accumulated depreciation | <u>133,405</u> |
| Total noncurrent assets | <u>1,285,266</u> |
| TOTAL ASSETS | <u>2,011,172</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows related to pensions | <u>85,133</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>85,133</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 2,096,305</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | \$ 10,566 |
| Accrued expenses | 410,536 |
| Due to other governments | 12,986 |
| Current portion of long-term obligations | <u>194,438</u> |
| Total current liabilities | <u>628,526</u> |
| Noncurrent liabilities: | |
| Noncurrent portion of long-term obligations: | |
| Note payable | 168,854 |
| Accrued compensated absences | 26,854 |
| Net pension liability | <u>156,545</u> |
| Total noncurrent liabilities | <u>446,167</u> |
| TOTAL LIABILITIES | <u>1,074,693</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows related to pensions | <u>7,527</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>7,527</u> |
| NET POSITION | |
| Net investment in capital assets | 837,012 |
| Restricted: Special revenue funds | 4,154 |
| Unrestricted | <u>172,919</u> |
| TOTAL NET POSITION | <u>1,014,085</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u>\$ 2,096,305</u> |

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue & Changes in Net Position |
|------------------------------------|---------------------|-------------------------|-------------------------------------|-----------------------------------|---|
| | | Charges for Services | Operating Grants & Contributions | Capital Grants & Contributions | Total Governmental Activities |
| Governmental activities: | | | | | |
| Instruction | \$ 3,610,752 | \$ 557,662 | \$ - | \$ - | \$ (3,053,090) |
| Student/instructor support | 736,691 | - | - | - | (736,691) |
| Administration | 726,174 | - | - | - | (726,174) |
| Operations | 1,040,428 | 53,326 | - | - | (987,102) |
| State on-behalf payments | 1,055,276 | - | 1,055,276 | - | - |
| Miscellaneous | 25,640 | - | - | - | (25,640) |
| Interest on long-term debt | 6,564 | - | - | - | (6,564) |
| Unallocated depreciation (Note 4)* | 81,356 | - | - | - | (81,356) |
| Total governmental activities | <u>\$ 7,282,881</u> | <u>\$ 610,988</u> | <u>\$ 1,055,276</u> | <u>\$ -</u> | <u>(5,616,617)</u> |

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

STATEMENT B (CONTINUED)
HAZEN UNION SCHOOL DISTRICT #26

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Changes in net position: | |
| Net (expense) revenue | <u>(5,616,617)</u> |
| General revenues: | |
| Grants and contributions not restricted to specific programs | 5,910,924 |
| Miscellaneous | <u>61,268</u> |
| Total general revenues | <u>5,972,192</u> |
| Change in net position | 355,575 |
| NET POSITION - JULY 1 | <u>658,510</u> |
| NET POSITION - JUNE 30 | <u><u>\$ 1,014,085</u></u> |

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

| | General Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|-----------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 697,459 | \$ 1,635 | \$ - | \$ 699,094 |
| Accounts receivable (net of allowance for uncollectibles) | 16,189 | - | - | 16,189 |
| Prepaid items | 10,623 | - | - | 10,623 |
| Due from other funds | - | - | 4,293 | 4,293 |
| TOTAL ASSETS | \$ 724,271 | \$ 1,635 | \$ 4,293 | \$ 730,199 |
| LIABILITIES | | | | |
| Accounts payable | \$ 10,427 | \$ - | \$ 139 | \$ 10,566 |
| Accrued expenses | 410,536 | - | - | 410,536 |
| Due to other governments | 12,986 | - | - | 12,986 |
| Due to other funds | 4,293 | - | - | 4,293 |
| TOTAL LIABILITIES | 438,242 | - | 139 | 438,381 |
| FUND BALANCES | | | | |
| Nonspendable - prepaid items | 10,623 | - | - | 10,623 |
| Restricted | - | - | 4,154 | 4,154 |
| Committed | - | 1,635 | - | 1,635 |
| Assigned | 275,406 | - | - | 275,406 |
| Unassigned | - | - | - | - |
| TOTAL FUND BALANCES | 286,029 | 1,635 | 4,154 | 291,818 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 724,271 | \$ 1,635 | \$ 4,293 | \$ 730,199 |

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

| | Total Governmental Funds |
|---|--------------------------------|
| | |
| Total Fund Balances | \$ 291,818 |
| 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 in the funds, net of accumulated depreciation | 1,285,266 |
| Deferred outflows of resources related to pensions are not financial resources and therefore are not reported in the funds | 85,133 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | |
| Note payable | (335,511) |
| Capital leases payable | (112,743) |
| Accrued compensated absences | (35,806) |
| Net pension liability | (156,545) |
| Deferred inflows of resources related to pensions are not financial resources and therefore are not reported in the funds | (7,527) |
| | |
| Net position of governmental activities | \$ 1,014,085 |

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

| | General Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|------------------------------------|-------------------|-----------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | |
| Intergovernmental revenues | \$ 6,035,464 | \$ - | \$ - | \$ 6,035,464 |
| Tuition | 557,662 | - | - | 557,662 |
| Charges for services | 53,326 | - | - | 53,326 |
| Interest income | 36,280 | 1 | - | 36,281 |
| State on-behalf payments | 242,702 | - | - | 242,702 |
| Miscellaneous | 19,987 | - | 5,000 | 24,987 |
| TOTAL REVENUES | <u>6,945,421</u> | <u>1</u> | <u>5,000</u> | <u>6,950,422</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instruction | 3,630,801 | - | - | 3,630,801 |
| Student/instructor support | 736,691 | - | - | 736,691 |
| Administration | 814,426 | - | - | 814,426 |
| Operations | 1,074,460 | - | - | 1,074,460 |
| State on-behalf payments | 242,702 | - | - | 242,702 |
| Miscellaneous | 24,637 | - | 1,003 | 25,640 |
| Debt service | | | | |
| Principal | 164,489 | - | - | 164,489 |
| Interest | 6,564 | - | - | 6,564 |
| TOTAL EXPENDITURES | <u>6,694,770</u> | <u>-</u> | <u>1,003</u> | <u>6,695,773</u> |
| NET CHANGE IN FUND BALANCES | 250,651 | 1 | 3,997 | 254,649 |
| FUND BALANCES - JULY 1 | <u>35,378</u> | <u>1,634</u> | <u>157</u> | <u>37,169</u> |
| FUND BALANCES - JUNE 30 | <u>\$ 286,029</u> | <u>\$ 1,635</u> | <u>\$ 4,154</u> | <u>\$ 291,818</u> |

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

| | |
|---|--------------------------|
| Net change in fund balances - total governmental funds (Statement E) | <u>\$ 254,649</u> |
| Amounts reported for governmental activities in the Statement of Activities (Statement B) are different because: | |
| Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense allocated to those expenditures over the life of the assets: | |
| Capital asset acquisitions | 34,032 |
| Depreciation expense | <u>(81,356)</u> |
| | <u>(47,324)</u> |
| Deferred outflows of resources are a consumption of net position by the government that are applicable to a future reporting period and therefore are not reported in the funds | <u>(21,834)</u> |
| Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position | <u>(124,540)</u> |
| Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position | <u>252,741</u> |
| Deferred inflows of resources are an acquisition of net position by the government that are applicable to a future reporting period and therefore are not reported in the funds | <u>(1,876)</u> |
| 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: | |
| Accrued compensated absences | 11,393 |
| Retirement incentive payable | 27,844 |
| Net pension liability | <u>4,522</u> |
| | <u>43,759</u> |
| Change in net position of governmental activities (Statement B) | <u><u>\$ 355,575</u></u> |

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

STATEMENT OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2018

| | Agency Funds | Total Private- Purpose Funds |
|----------------------------|-------------------------------|---------------------------------------|
| | <u>Student Activities</u> | <u>Funds</u> |
| ASSETS | | |
| Cash and cash equivalents | \$ 56,055 | \$ 62,712 |
| Investments | - | 1,686 |
| Due from other governments | - | 10,350 |
| TOTAL ASSETS | <u><u>\$ 56,055</u></u> | <u><u>\$ 74,748</u></u> |
| LIABILITIES | | |
| Deposits held for others | \$ 56,055 | \$ 74,748 |
| TOTAL LIABILITIES | <u><u>\$ 56,055</u></u> | <u><u>\$ 74,748</u></u> |

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

| | Total Private- Purpose Funds |
|--|--|
| | <u> </u> |
| ADDITIONS | |
| Net increase (decrease) in the fair value of investments | \$ 36 |
| Total additions | <u> 36</u> |
| DEDUCTIONS | |
| Miscellaneous | <u> 3,040</u> |
| Total deductions | <u> 3,040</u> |
| CHANGE IN NET POSITION | (3,004) |
| NET POSITION - JULY 1 | <u> 77,752</u> |
| NET POSITION - JUNE 30 | <u><u> \$ 74,748</u></u> |

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The School District was incorporated under the laws in the State of Vermont. The School District operates under the School Board-superintendent form of government and provides the following services: instruction, student/instructor support, operations and administration.

The School District's financial statements are prepared in accordance with 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 School District's combined financial statements include all accounts and all operations of the School District. We have determined that the School District has no component units as described in GASB Statement No. 14 and amended by GASB Statements No. 39 and No. 61.

Implementation of New Accounting Standards

During the year ended June 30, 2018, the following statements of financial accounting standards issued by the Governmental Accounting Standards Board became effective:

Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*" The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. Management has determined the impact of this Statement is not material to the financial statements.

Statement No. 81, "*Irrevocable Split-Interest Agreements*". The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements in which a donor transfers resources to an intermediary to hold and

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. As such, this Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Management has determined the impact of this Statement is not material to the financial statements.

Statement No. 85, "Omnibus 2017." The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Management has determined the impact of this Statement is not material to the financial statements.

Statement No. 86, "Certain Debt Extinguishment Issues." The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Management has determined the impact of this Statement is not material to the financial statements.

Government-Wide and Fund Financial Statements

The School District's basic financial statements include both government-wide (reporting the School District as a whole) and fund financial statements (reporting the School District's major funds).

Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. All activities of the School District are categorized as governmental.

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

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide Statement of Activities reports both the gross and net cost of each of the School District's functions (instruction, operations, etc.) excluding fiduciary activities. The functions are also supported by general government revenues (certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. For the most part, the interfund activity has been eliminated from these government-wide financial statements.

The net costs (by function) are normally covered by general revenue (taxes, certain intergovernmental revenues and charges for services, etc.).

The School District does not allocate indirect costs. All costs are charged directly to the corresponding School District.

The government-wide focus is more on the sustainability of the School District as an entity and the change in the School District's net position resulting from the current year's activities.

Measurement Focus - Basic Financial Statements & Fund Financial Statements

The financial transactions of the School District are reported in the individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, 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 District:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of 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 District:

Major Funds

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

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- b. The Capital Projects Fund is used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Nonmajor Funds

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

2. Fiduciary Funds:

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support the School District's programs. The reporting focus is on net position and changes in net position and is reported using accounting principles similar to proprietary funds.

The School District's fiduciary funds are presented in the fiduciary fund financial statements by type (agency and private-purpose). 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 financial statements.

The emphasis in fund financial statements is on the major funds in the governmental activities category. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenses of either the fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

1. Accrual

Governmental activities in the government-wide financial statements and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Budget

The School District's policy is to adopt an annual budget for operations. The budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

In accordance with Governmental Accounting Standards Board Statement No. 24, *Accounting and Reporting for Certain Grants and Other Financial Assistance*, payments made by the State of Vermont to the Vermont State Retirement System for teachers and certain other school employees are reported as offsetting revenues and expenditures of the general fund.

| | |
|----------------------------------|---------------------|
| Revenues per budgetary basis | \$ 6,702,719 |
| Add: On-behalf payments | 242,702 |
| Total GAAP basis | <u>\$ 6,945,421</u> |
| | |
| Expenditures per budgetary basis | \$ 6,452,068 |
| Add: On-behalf basis | 242,702 |
| Total GAAP basis | <u>\$ 6,694,770</u> |

The following procedures are followed in establishing budgetary data reflected in the financial statements:

The following procedures are followed in establishing budgetary data reflected in the financial statements:

1. The annual school budget is the planning management tool, which delineates the District's educational priorities and programs and forms the basis for voter review and approval of the budget according to applicable State of Vermont education finance laws.

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. The Board budget process includes input from school district administration and staff, educational priorities for the next school year, along with public hearings, which include the School Board and general public.
3. The budget document itself is based upon the most current funding information available along with the projection of current revenues and expenditures for the next year. At the conclusion of the budget process, a final budget is approved by the School Board.

Deposits and Investments

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

It is the School District's policy to value investments at fair value. None of the School District's investments are reported at amortized cost. The School District Treasurer is authorized by State Statutes to invest all excess funds in the following:

- Obligations of the U.S. Government, its agencies and instrumentalities
- Certificates of deposits and other evidences of deposits at banks, savings and loan associations, and credit unions
- Repurchase agreements
- Money market mutual funds

The Hazen Union School District #26 has no formal investment policy but instead follows the State of Vermont Statutes.

Receivables

Receivables include amounts due from governmental agencies. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. Allowances are reported when accounts are proven to be uncollectible. Allowances for uncollectible accounts netted with accounts receivable were \$26,539 for the year ended June 30, 2018. The allowance for uncollectible accounts is estimated to be \$0 as of June 30, 2018.

Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

other funds.” While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Any residual balances outstanding between governmental activities and business-type activities are reported in the governmental-wide financial statements as “internal balances”.

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of Governmental Funds.

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 estimated useful lives.

The assets are valued at historical cost when available and estimated historical cost where actual invoices or budgetary data was unavailable. Donated fixed assets are valued at their estimated fair market value on the date received. All retirements have been recorded by eliminating the net carrying values.

Estimated useful lives are as follows:

| | |
|-------------------------|---------------|
| Land improvements | 10 - 40 years |
| Buildings | 25 - 50 years |
| Building improvements | 10 - 50 years |
| Infrastructure | 10 - 50 years |
| Machinery and equipment | 3 - 30 years |

Long-term Obligations

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

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All long-term debt to be repaid from governmental resources is reported as liabilities in government-wide statements. The long-term debt consists of a note payable, capital leases payable, accrued compensated absences and net pension liability.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Vermont State Teachers' Retirement System (VSTRS) and the Vermont Municipal Employees' Retirement System (VMERS) Plans and additions to/deductions from the VSTRS and VMERS Plans' fiduciary net position have been determined on the same basis as they are reported by the VSTRS and VMERS Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

OPEB

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, information about the fiduciary net position of the Vermont State Teachers' Retirement System (VSTRS). Additions to/deductions from the VSTRS OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by VSTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Compensated Absences

The School District's policies regarding vacation and sick time do permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred. As of June 30, 2018, the School District's liability for compensated absences is \$35,806.

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislations adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or restricted net position.

Fund Balance

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the School District is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components - nonspendable, restricted, committed, assigned and unassigned.

Nonspendable - This includes amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted - This includes amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - This includes amounts that can be used only for specific purposes determined by a formal action of the inhabitants of the Town. The inhabitants of the Town through Town meetings are the highest level of decision-making authority of the School District. Commitments may be established, modified, or rescinded only through a Town meeting vote.

Assigned - This includes amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The authority for assigning fund balance is expressed by the School Board.

Unassigned - This includes all other spendable amounts. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

funds besides the general fund can only report a negative unassigned fund balance amount.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the School District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Town meeting vote has provided otherwise in its commitment or assignment actions.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will at times report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District only has one type of this item, deferred amounts on pensions that qualifies for reporting in this category. This item is reported in the statement of net position.

In addition to liabilities, the statement of financial position and or balance sheet will at times report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred revenue qualifies for reporting in this category. This item is reported in both the statements of net position and governmental funds balance sheet. Deferred inflows related to pensions qualify for reporting in this category as well. This item is reported only in the statement of net position. All items in this category are deferred and recognized as inflows of resources in the period that the amounts become available.

Program Revenues

Program revenues include all directly related income items applicable to a particular program (charges to customers or applicants for goods, services, or privileges provided; operating or capital grants and contributions, including special assessments).

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end. The School District does not utilize encumbrance accounting for its general fund.

Use of Estimates

During the preparation of the School District's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent items as of the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results may differ from these estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

The School District's investment policies, which follow state statutes, authorize the School District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, other states and Canada, provided such securities are rated within the three highest grades by an approved rating service of the State of Vermont, corporate stocks and bonds within statutory limits, financial institutions, mutual funds and repurchase agreements. These investment policies apply to all School District funds.

Deposits:

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the School District will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The School District does not have a policy covering custodial credit risk. However, the School District maintains deposits in qualifying financial institutions that are a member of the FDIC or NCUSIF.

At June 30, 2018, the School District's cash balance of \$817,861 was comprised of bank balances of \$1,035,187. All of these bank deposits were fully covered by federal depository insurance, and consequently were not exposed to custodial credit risk.

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

| <u>Account Type</u> | <u>Bank Balance</u> |
|--------------------------------|-------------------------|
| Checking accounts | \$ 126,621 |
| ICS accounts | 560,891 |
| Savings accounts | 2,646 |
| Money market checking accounts | 345,029 |
| | <u>\$ 1,035,187</u> |

Investments:

Custodial credit risk for investments is that, in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Currently, the School District does not have a policy for custodial credit risk for investments. At June 30, 2018, the School District had \$1,686 in certificates of deposit which were fully insured by FDIC.

The following is a summary of the School District's investments at June 30, 2018:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>N/A</u> | <u>Less than 1 Year</u> | <u>1 - 5 Years</u> | <u>Over 5 Years</u> |
|-------------------------|-----------------------|-------------|-----------------------------|--------------------|-------------------------|
| Certificates of deposit | <u>\$ 1,686</u> | <u>\$ -</u> | <u>\$ 1,686</u> | <u>\$ -</u> | <u>\$ -</u> |

Credit risk - Statutes for the State of Vermont authorize the School District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, other states and Canada, provided such securities are rated within the three highest grades by an approved rating service of the State of Vermont, corporate stocks and bonds within statutory limits, financial institutions, mutual funds and repurchase agreements. The School District does not have an investment policy on credit risk. Generally, the School District invests excess funds in savings accounts and various insured certificates of deposit.

Interest rate risk - is the risk that changes in interest rates will adversely affect the fair value of an investment. The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from fluctuations in interest rates.

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2018 consisted of the following individual fund receivables and payables:

| | Receivables (Due from) | Payables (Due to) |
|--------------------------------|---------------------------|----------------------|
| General fund | \$ - | \$ 4,293 |
| Nonmajor special revenue funds | 4,293 | - |
| | <u>\$ 4,293</u> | <u>\$ 4,293</u> |

NOTE 4 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2018:

| | Balance, 7/1/17 | Additions | Disposals | Balance, 6/30/18 |
|---------------------------------------|---------------------|--------------------|-------------|---------------------|
| <u>Governmental activities:</u> | | | | |
| Non-depreciated assets: | | | | |
| Land | \$ 13,200 | \$ - | \$ - | \$ 13,200 |
| | <u>13,200</u> | <u>-</u> | <u>-</u> | <u>13,200</u> |
| Depreciated assets: | | | | |
| Land improvements | 381,080 | - | - | 381,080 |
| Buildings and improvements | 4,014,538 | - | - | 4,014,538 |
| Infrastructure | - | 15,625 | - | 15,625 |
| Machinery and equipment | 349,202 | 18,407 | - | 367,609 |
| Vehicles | 12,000 | - | - | 12,000 |
| | <u>4,756,820</u> | <u>34,032</u> | <u>-</u> | <u>4,790,852</u> |
| Less: accumulated depreciation | | | | |
| Land improvements | (196,024) | (15,433) | - | (211,457) |
| Buildings and improvements | (3,013,628) | (47,497) | - | (3,061,125) |
| Machinery and equipment | (215,778) | (18,426) | - | (234,204) |
| Vehicles | (12,000) | - | - | (12,000) |
| | <u>(3,437,430)</u> | <u>(81,356)</u> | <u>-</u> | <u>(3,518,786)</u> |
| Net capital assets | <u>\$ 1,332,590</u> | <u>\$ (47,324)</u> | <u>\$ -</u> | <u>\$ 1,285,266</u> |
| <u>Current year depreciation:</u> | | | | |
| District-wide | | | | \$ 81,356 |
| Total depreciation expense | | | | <u>\$ 81,356</u> |

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 - SHORT-TERM DEBT

On July 3, 2017, the Hazen Union School District #26 issued a tax/revenue anticipation note to provide liquidity for governmental operations financed by property taxes. The tax/revenue anticipation note allowed principal draws up to \$2,150,000 at 1.15% interest per annum with a maturity date of June 29, 2018. At June 29, 2018 the tax/revenue anticipation note was paid in full. Interest expense for the note was \$24,454.

| | Balance 7/1/17 | Additions | Reductions | Balance 6/30/18 |
|-------------------------------|-------------------|--------------|----------------|--------------------|
| Tax/revenue anticipation note | \$ - | \$ 2,150,000 | \$ (2,150,000) | \$ - |

NOTE 6 - LONG-TERM DEBT

The following is a summary of changes in the long-term debt for the year ended June 30, 2018:

| | Balance, 7/1/17 | Additions | Deletions | Balance, 6/30/18 | Current Portion |
|------------------------------|--------------------|-------------------|---------------------|---------------------|--------------------|
| Note payable | \$ 500,000 | \$ - | \$ (164,489) | \$ 335,511 | \$ 166,657 |
| Capital leases payable | 76,455 | 124,540 | (88,252) | 112,743 | 18,829 |
| Retirement incentive payable | 27,844 | - | (27,844) | - | - |
| Accrued compensated absences | 47,199 | - | (11,393) | 35,806 | 8,952 |
| Net pension liability | 161,067 | - | (4,522) | 156,545 | - |
| | <u>\$ 812,565</u> | <u>\$ 124,540</u> | <u>\$ (296,500)</u> | <u>\$ 640,605</u> | <u>\$ 194,438</u> |

A summary of the outstanding note payable is as follows:

\$500,000 Note payable to Union Bank. Annual principal and interest payments of \$171,053 with 1.31% interest per annum and a maturity date of June 26, 2020. \$ 335,511

The following is a summary of outstanding note principal and interest requirements for the fiscal years ending June 30:

| Year | Principal | Interest | Total Debt Service |
|------|-------------------|-----------------|-----------------------|
| 2019 | \$ 166,657 | \$ 4,396 | \$ 171,053 |
| 2020 | 168,854 | 2,200 | 171,054 |
| | <u>\$ 335,511</u> | <u>\$ 6,596</u> | <u>\$ 342,107</u> |

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 - LONG-TERM DEBT (CONTINUED)

A summary of the outstanding capital leases payable is as follows:

| | |
|--|-------------------|
| Capital lease payable to Marlin Leasing Corporation, with three annual payments of principal and interest of \$8,393. Maturity in July of 2018. | \$ 8,000 |
| Capital lease payable to Apple, Inc., as assigned to Wells Fargo Vendor Financial Services, LLC, interest at a rate of 4.99%, three annual payments of principal and interest of \$11,398. Maturity in July of 2018. | 10,829 |
| Capital lease payable to USBank, interest at a rate of 3.94%, annual principal and interest payments of \$20,467. Maturity in January of 2022. | 74,345 |
| Capital lease payable to Municipal Leasing Consultants, interest at a rate of 4.49%, annual principal and interest payments of \$10,449. Maturity in August of 2019 | <u>19,569</u> |
| Total Capital Leases Payable | <u>\$ 112,743</u> |

The following is a summary of outstanding capital lease requirements for the fiscal years ending June 30:

| | |
|--|-------------------|
| Year Ending June 30: | |
| <u>2019</u> | \$ 50,727 |
| 2020 | 30,936 |
| 2021 | 20,487 |
| 2022 | <u>20,487</u> |
| Total minimum lease payment | 122,637 |
| Less amount representing interest | <u>(9,894)</u> |
| Present value of future minimum lease payments | <u>\$ 112,743</u> |

NOTE 7 - NONSPENDABLE FUND BALANCE

At June 30, 2018, the School District had the following nonspendable fund balance:

| | |
|---------------|------------------|
| General fund: | |
| Prepaid items | <u>\$ 10,623</u> |

NOTE 8 - RESTRICTED FUND BALANCES

At June 30, 2018, the School District had the following restricted fund balances:

| | |
|---|-----------------|
| Nonmajor special revenue funds (Schedule E) | <u>\$ 4,154</u> |
|---|-----------------|

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 - COMMITTED FUND BALANCE

At June 30, 2018, the School District had the following committed fund balance:

| | |
|-----------------------|-----------------|
| Capital projects fund | <u>\$ 1,635</u> |
|-----------------------|-----------------|

NOTE 10 - ASSIGNED FUND BALANCE

At June 30, 2018, the School District had the following assigned fund balance:

| | |
|----------------|-------------------|
| General fund: | |
| FY 2019 budget | <u>\$ 275,406</u> |

NOTE 11 - DEFINED BENEFIT PENSION PLANS

VERMONT STATE TEACHERS' RETIREMENT SYSTEM

Plan Description

All of the teachers employed by the School District participate in the Vermont State Teachers' Retirement System ("VSTRS"), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation, covering nearly all public day school and nonsectarian private Union teachers and administrators as well as teachers in schools and teacher training institutions within and supported by the State of Vermont that are controlled by the State Board of Education. Membership in the system for those covered classes is a condition of employment. During the year ended June 30, 2017 (the most recent period available), the retirement system consisted of 299 participating employers.

The plan was established effective July 1, 1947, and is governed by *Title 16, V.S.A. Chapter 55*. Subsequent Vermont state legislation, *Act 74*, which became effective on July 1, 2010, contained numerous changes to the plan benefits available to current and future members, as well as a change in access to health care coverage after retirement, resulting from a multi-party agreement to provide sustainability of quality pension and retiree health benefits for Vermont teachers.

The general administration and responsibility for formulating administrative policy and procedures of the retirement System for its members and their beneficiaries is vested in the Board of Trustees consisting of six members. They are the Secretary of Education (ex-officio); the State Treasurer (ex-officio), the Commissioner of Financial Regulation (ex-officio); two members and one alternate elected by active members of the System under rules adopted by the Board; and one retired member and one alternate elected by the board of directors of Association of Retired Teachers of Vermont. The Chair is elected by the Board and acts as executive officer of the Board.

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

All assets are held in a single trust and are available to pay retirement benefits to all members. Benefits available to each group are based on average final compensation (AFC) and years of creditable service. The Vermont State Agency of Administration issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the VSTRS. That report may be viewed on the State's Department of Finance & Management website at: http://finance.vermont.gov/reports_and_publications/cafr.

Benefits Provided

The VSTRS provides retirement, and disability benefits, annual cost-of-living adjustments, health care and death benefits to plan members and beneficiaries. There are two levels of contributions and benefits in the System: Group A - for public school teachers employed within the State of Vermont prior to July 1, 1981 and elected to remain in Group A; and Group C - for public school teachers employed within the State of Vermont on or after July 1, 1990. Group C also includes those teachers hired prior to July 1, 1990 and were in Group B on July 1, 1990. When Act 74 became effective on June 30, 2010, Group C was further bifurcated into Groups #1 and #2. Group #1 contains members who were at least 57 years of age or had at least 25 years of service, and Group #2 contains members who were less than 57 years of age and had less than 25 years of service.

Benefits available to each group are based on average final compensation (AFC) and years of creditable service, and are summarized below:

| VSTRS | Group A | Group C – Group # 1 | Group C – Group # 2 |
|--|--|--|--|
| Normal service retirement eligibility (no reduction) | Age 60 or 30 years of service | Age 62 or with 30 years of service | Age 65 or when the sum of age and service equals 90 |
| Average Final Compensation (AFC) | Highest 3 consecutive years, including unused annual leave, sick leave, and bonus/incentives | Highest 3 consecutive years, excluding all payments for anything other than service actually performed | Highest 3 consecutive years, excluding all payments for anything other than service actually performed |
| Benefit formula – normal service retirement | 1.67% x creditable service x AFC | 1.25% x service prior to 6/30/90 x AFC + 1.67% x service after 7/1/90 x AFC | 1.25% x service prior to 6/30/90 x AFC + 1.67% x service after 7/1/90 x AFC, 2.0% after attaining 20 years |

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

| VSTRS | Group A | Group C – Group # 1 | Group C – Group # 2 |
|--|--|--|--|
| Normal service retirement eligibility (no reduction) | Age 60 or 30 years of service | Age 62 or with 30 years of service | Age 65 or when the sum of age and service equals 90 |
| Average Final Compensation (AFC) | Highest 3 consecutive years, including unused annual leave, sick leave, and bonus/incentives | Highest 3 consecutive years, excluding all payments for anything other than service actually performed | Highest 3 consecutive years, excluding all payments for anything other than service actually performed |
| Benefit formula – normal service retirement | 1.67% x creditable service x AFC | 1.25% x service prior to 6/30/90 x AFC + 1.67% x service after 7/1/90 x AFC | 1.25% x service prior to 6/30/90 x AFC + 1.67% x service after 7/1/90 x AFC, 2.0% after attaining 20 years |

Other post-employment benefits are available to all plan members include the following:

| VSTRS | Group A | Group C – Group # 1 | Group C – Group # 2 |
|------------------|---|---|---|
| Medical Benefits | Health subsidy based on member's service credit | Health subsidy based on member's service credit | Health subsidy based on member's service credit |
| Dental | Members pays full premium | Members pays full premium | Members pays full premium |

Contributions

VSTRS is a cost-sharing public employee retirement system with one exception: all risks and costs are not shared by the School District but are the liability of the State of Vermont. VSTRS is funded through State and employee contributions and trust fund investment earnings; and the School District has no legal obligation for paying benefits. Required contributions to the System are made by the State of Vermont based upon a valuation report prepared by the System's actuary, which varies by plan group. The Vermont State Teachers Retirement System estimates the contributions on behalf of the School District's employees included in the teacher's retirement plan which approximates \$242,702 or 13.58% of total payroll for employees covered under the plan.

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Employee contribution rates by plan group follow:

| VSTRS | Group A | Group C – Group # 1 | Group C – Group # 2 |
|------------------------|----------------------|--|--|
| Employee Contributions | 5.5% of gross salary | 5.0% of gross salary with 5 or more years of service as of 7/1/14; 6.0% of gross salary if less than 5 years of service as of 7/1/14 | 5.0% of gross salary with 5 or more years of service as of 7/1/14; 6.0% of gross salary if less than 5 years of service as of 7/1/14 |

Employee contributions totaled \$95,630 during the year and were paid by the School District to the State of Vermont. The School District has no other liability under the plan. The School District's total payroll for all employees covered under this plan was \$1,787,205 for the year ended June 30, 2018.

VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Plan Description

The Vermont Municipal Employees' Retirement System (VMERS) is a cost-sharing, multiple-employer defined benefit pension plan that is administered by the State Treasurer and its Board of Trustees. The plan was established effective July 1, 1975, and is governed by *Title 24, V.S.A. Chapter 125*. It is designed for school districts and other municipal employees that work on a regular basis and also includes employees of museums and libraries if at least half of that institution's operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter. Any employee hired subsequent to the effective participation date of their employer who meets the minimum hourly requirements is required to join the system. Employees of the School other than Teachers are eligible to participate in the VMERS providing they work on a regular basis for not less than 30 hours a week and for not less than 1,040 hours for the school year.

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

The general administration and responsibility for formulating administrative policy and procedures of the Retirement System for its members and their beneficiaries is vested in the Board of Trustees consisting of five members. They are the State Treasurer, two employee representatives elected by the membership of the system, and two employer representatives-one elected by the governing bodies of participating employers of the system, and one selected by the Governor from a list of four nominees. The list of four nominees is jointly submitted by the Vermont League of Cities and Schools and the Vermont School Boards Association.

All assets are held in a single trust and are available to pay retirement benefits to all members. Benefits available to each group are based on average final compensation (AFC) and years of creditable service. VMERS does not issue stand-alone financial reports, but instead are included as part of the State of Vermont's Comprehensive Annual Financial Report (CAFR). The CAFR may be viewed on the State's Department of Finance & Management website at:

http://finance.vermont.gov/reports_and_publications/cafr.

Benefits Provided

The pension plan is divided into four membership groups:

- Group A - general employees whose legislative bodies have not elected to become a member of Group B or Group C
- Groups B & C - general employees whose legislative bodies have elected to become members of Group B or Group C
- Group D - sworn police officers, firefighters and emergency medical personnel

The School District participates in Group A. Benefits available to each group are based on average final compensation (AFC) and years of creditable service, and are summarized below:

| VMERS | Group A | Group B | Group C | Group D |
|---------------------------------------|--|--|--------------------------------|--------------------------------|
| Normal service retirement eligibility | Age 65 with 5 years of service, or age 55 with 35 years of service | Age 62 with 5 years of service, or age 55 with 30 years of service | Age 55 with 5 years of service | Age 55 with 5 years of service |
| Average Final Compensation (AFC) | Highest 5 consecutive years | Highest 3 consecutive years | Highest 3 consecutive years | Highest 2 consecutive years |

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

| VMERS | Group A | Group B | Group C | Group D |
|--|---------------------------------|--|--|--|
| Benefit formula – normal service Retirement (no reduction) | 1.4% x creditable service x AFC | 1.7% x creditable service x AFC + previous service; 1.4% x Group A service x AFC | 2.5% x creditable service x AFC + previous service; 1.4% x Group A service x AFC; 1.7% x Group B x AFC | 2.5% x creditable service x AFC + previous service; 1.4% x Group A service x AFC; 1.7% x Group B x AFC; 2.5% x Group C service x AFC |
| Maximum Benefit Payable | 60% of AFC | 60% of AFC | 50% of AFC | 50% of AFC |
| Post-Retirement COLA | 50% of CPI, up to 2% per year | 50% of CPI, up to 3% per year | 50% of CPI, up to 3% per year | 50% of CPI, up to 3% per year |
| Early Retirement Eligibility | Age 55 with 5 years of service | Age 55 with 5 years of service | N/A | Age 50 with 20 years of service |
| Early Retirement Reduction | 6% per year from age 65 ** | 6% per year from age 62 ** | N/A | No reduction |

** - A special early retirement factor of 3% per year only for municipal police officers who have attained age 60

Members of all groups may qualify for vested deferred allowance, disability allowances and death benefit allowance subject to meeting various eligibility requirements. Benefits are based on AFC and service.

Contributions

Title 24 VSA Chapter 125 of Vermont Statutes grants the authority to the Retirement Board to annually review the amount of municipalities' contributions as recommended by the actuary of the retirement system in order to achieve and preserve the financial integrity of the fund, and to certify the rates of contributions payable by employers. The Board of Trustees also certifies the rates of contribution payable by employees. Contribution rates for each group are as follows:

| VMERS | Group A | Group B | Group C | Group D |
|------------------------|----------------------|------------------------|-----------------------|------------------------|
| Employee Contributions | 2.5% of gross salary | 4.875% of gross salary | 10.0% of gross salary | 11.35% of gross salary |
| Employer Contributions | 4.0% of gross salary | 5.5% of gross salary | 7.25% of gross salary | 9.85% of gross salary |

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Employee contributions are withheld pre-income tax by the School District and are remitted to the State of Vermont. Such withholdings for the year ended June 30, 2018 totaled \$11,855. The School District contributed \$18,968 for the year ended June 30, 2018. The School District's total payroll for the year ended June 30, 2018 for all employees covered under this plan was \$474,203.

Pension Liabilities

VSTRS Plan

The State is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of member employers. Therefore, these employers are considered to be in a special funding situation as defined in GASB No. 68 and the State is treated as a nonemployer to VSTRS. Since the School District does not contribute directly to VSTRS, no net pension liability was recorded at June 30, 2018. The State's portion of the collective net pension liability that was associated with the School District was as follows:

| | |
|---|----------------------------|
| School's proportionate share of the net pension liability | \$ - |
| State's proportionate share of the net pension liability associated with the Town | <u>4,662,945</u> |
| Total | <u><u>\$ 4,662,945</u></u> |

The State of Vermont's proportionate share of the net pension liability associated with the School District is equal to the collective net pension liability, actuarially measured as of June 30, 2017, multiplied by the School District's proportionate share percentage. The School District's proportionate share percentage was based on its reported salaries to the total reported salaries for all participating employers. At June 30, 2017, the School District's proportion was 0.31455% which was a decrease of 0.00529% from its proportion measured as of June 30, 2016.

VMERS Plan

At June 30, 2018, the School District reported a liability of \$156,545 for its proportionate share of the net pension liabilities for each plan. The net pension liabilities were measured as of June 30, 2017, and the total pension liabilities used to calculate the net pension liabilities was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liabilities were based on a projection of

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

the School District's long-term share of contributions to each pension plan relative to the projected contributions of all participating towns, actuarially determined.

At June 30, 2017, the School District's proportion was 0.12920% for VMERS, which was an increase of 0.00405% from its proportion measured as of June 30, 2016 for VMERS.

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

For the year ended June 30, 2018, the School District recognized total pension expense of \$636,386 and revenue of \$636,386 for support provided by the State of Vermont for the VSTRS plan. In the same period, the School District recognized pension expense of \$19,188 for the VMERS plan. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | VSTRS | | VMERS | |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ - | \$ 2,277 | \$ 3,875 |
| Changes of assumptions | - | - | 32,772 | - |
| Net difference between projected and actual earnings on pension plan investments | - | - | 26,073 | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | - | 5,043 | 3,652 |
| Contributions subsequent to the measurement date | - | - | 18,968 | - |
| Total | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 85,133</u> | <u>\$ 7,527</u> |

\$18,968 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

| | VSTRS Plan | VMERS Plan |
|--------------------------|---------------|---------------|
| | <hr/> | <hr/> |
| Plan year ended June 30: | | |
| 2018 | \$ - | \$ 20,661 |
| 2019 | - | 30,097 |
| 2020 | - | 8,592 |
| 2021 | - | (712) |
| Thereafter | - | - |

Significant Actuarial Assumptions and Methods

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using the actuarial assumptions outlined below. These assumptions were selected on the basis of the experience study that was performed on July 27, 2015:

Investment Rate of Return: For both plans, 7.50% per annum.

Inflation: The separately stated assumptions for investment return, salary increases and cost of living adjustments for both plans are consistent with an expected annual inflation rate of 2.50% per year.

Salary Increases: Representative values of the assumed annual rates of future salary increases for the VSTRS plan are as follows:

| Age | Annual Rate of Salary Increase |
|-----|--------------------------------|
| 25 | 7.78% |
| 30 | 6.47% |
| 35 | 5.60% |
| 40 | 4.92% |
| 45 | 4.43% |
| 50 | 4.09% |
| 55 | 3.85% |
| 60 | 3.75% |

For the VMERS plan, increases are 5.00% per year.

Deaths After Retirement: The VSTRS plan used the RP-2014 White Collar Employee with generational improvement Table for pre-retirement, the RP-2014 White Collar Annuitant with generational improvement Table for healthy retirees, and the RP-2014 Disabled Mortality Table for disabled retirees.

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Mortality rates for pre-retirement, healthy retirees and disabled retirees in the VMERS plan for Groups A, B, C and D were based variations of RP-2014 Tables with generational improvement using Scale SSA-2017 as follows:

Pre-retirement - Groups A, B, and C blended with a 60% Blue Collar Employee and 40% Healthy Employee, and Group D with a Blue Collar Annuitant Table

Healthy Retiree - Groups A, B and C with a 60% Blue Collar Annuitant and 40% Healthy Annuitant, and Group D with a Blue Collar Annuitant Table

Disabled Retiree - All Groups with a Disabled Mortality Table

Separation from Service Before Retirement (Due to Withdrawal and Disability):
Representative values of the assumed annual rates of withdrawal and disability are as follows:

VSTRS Plan:

| Age | Withdrawal | | Disability | |
|-----|------------|--------|------------|--------|
| | Male | Female | Male | Female |
| 25 | 21.00% | 20.00% | 0.005% | 0.008% |
| 30 | 12.60% | 14.00% | 0.008% | 0.008% |
| 35 | 8.40% | 11.30% | 0.010% | 0.008% |
| 40 | 6.50% | 9.03% | 0.015% | 0.010% |
| 45 | 5.80% | 6.30% | 0.026% | 0.023% |
| 50 | 5.40% | 5.25% | 0.067% | 0.070% |
| 55 | 5.40% | 5.04% | 0.044% | 0.048% |
| 60 | 5.40% | 5.04% | 0.147% | 0.084% |

VMERS Plan:

| Service | Withdrawal | | |
|---------|------------|------------|------------|
| | Male | Female | |
| | All Ages | Ages 25-34 | Other Ages |
| 0 | 22.5% | 45.0% | 30.0% |
| 1 | 16.2% | 33.0% | 22.0% |
| 2 | 13.5% | 27.0% | 18.0% |
| 3 | 12.2% | 22.5% | 15.0% |
| 4 | 10.8% | 18.0% | 12.0% |
| 5 | 9.0% | 15.0% | 10.0% |
| 6 | 8.1% | 13.5% | 9.0% |
| 7 | 7.2% | 12.0% | 8.0% |
| 8 | 7.2% | 9.0% | 6.0% |
| 9 | 6.3% | 9.0% | 6.0% |
| 10+ | 3.6% | 7.5% | 5.0% |

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Disability

| Age | Male | Female |
|-----|---------|---------|
| 25 | 0.0100% | 0.0050% |
| 30 | 0.0130% | 0.0065% |
| 35 | 0.0170% | 0.0085% |
| 40 | 0.0300% | 0.0150% |
| 45 | 0.0500% | 0.0250% |
| 50 | 0.0900% | 0.0450% |
| 55 | 0.1800% | 0.0900% |
| 60 | 0.3150% | 0.1575% |
| 65 | 0.3150% | 0.1575% |

Retirement Rates: For the VSTRS plan:

| Age | Reduced Early Retirement | | Full Early Retirement |
|-----|--------------------------|---------|-------------------------|
| | Group A | Group C | Grandfathered (Group C) |
| 55 | 6.13% | 6.13% | 6.13% |
| 56 | 6.25% | 6.25% | 6.25% |
| 57 | 6.25% | 6.25% | 6.25% |
| 58 | 6.25% | 6.25% | 6.25% |
| 59 | 9.38% | 9.38% | 9.38% |
| 60 | 12.50% | 18.75% | 18.75% |
| 61 | 18.75% | 18.75% | 18.75% |

Service Retirement

| Age | Group A | Group C | |
|-----|---------|-------------------|---------------|
| | | Non-Grandfathered | Grandfathered |
| 60 | 12.5% | 17.0% | N/A |
| 61 | 18.8% | 17.0% | N/A |
| 62 | 25.0% | 20.0% | 20.0% |
| 63 | 22.0% | 22.0% | 22.0% |
| 64 | 22.0% | 22.0% | 22.0% |
| 65 | 33.0% | 33.0% | 33.0% |
| 66 | 33.0% | 33.0% | 33.0% |
| 67 | 33.0% | 33.0% | 33.0% |
| 68 | 22.0% | 22.0% | 22.0% |
| 69 | 33.0% | 33.0% | 33.0% |
| 70 | 100.0% | 100.0% | 100.0% |

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Retirement After 30 Years of Service

| Age | Group A | Grandfathered (Group C) |
|-----|---------|-------------------------|
| 49 | 0.00% | 0.00% |
| 50 | 40.00% | 40.00% |
| 51 | 20.00% | 20.00% |
| 52 | 20.00% | 20.00% |
| 53 | 20.00% | 20.00% |
| 54 | 20.00% | 20.00% |
| 55 | 20.00% | 8.75% |
| 56 | 10.00% | 6.25% |
| 57 | 10.00% | 6.25% |
| 58 | 10.00% | 10.00% |
| 59 | 10.00% | 10.00% |
| 60 | 30.00% | 25.00% |
| 61 | 25.50% | 17.00% |

For the VMERS Plan:

Retirement Group A

| Age | Male | Female | Age | Male | Female |
|-----|-------|--------|-----|--------|--------|
| 55 | 3.0% | 4.9% | 63 | 21.0% | 22.5% |
| 56 | 7.5% | 7.7% | 64 | 21.0% | 25.0% |
| 57 | 5.0% | 7.0% | 65 | 56.0% | 25.0% |
| 58 | 5.0% | 4.9% | 66 | 15.0% | 20.0% |
| 59 | 7.2% | 7.0% | 67 | 20.0% | 30.0% |
| 60 | 7.2% | 4.9% | 68 | 20.0% | 20.0% |
| 61 | 12.0% | 10.5% | 69 | 20.0% | 20.0% |
| 62 | 28.0% | 10.5% | 70 | 100.0% | 100.0% |

Retirement Group B

| Age | Male | Female | Age | Male | Female |
|-----|-------|--------|-----|--------|--------|
| 55 | 4.9% | 4.9% | 63 | 24.0% | 14.0% |
| 56 | 4.9% | 4.9% | 64 | 18.0% | 14.0% |
| 57 | 4.9% | 8.4% | 65 | 48.0% | 28.0% |
| 58 | 4.9% | 8.4% | 66 | 30.0% | 18.0% |
| 59 | 4.9% | 4.9% | 67 | 30.0% | 14.0% |
| 60 | 4.9% | 8.4% | 68 | 30.0% | 14.0% |
| 61 | 14.0% | 10.5% | 69 | 30.0% | 14.0% |
| 62 | 36.0% | 17.5% | 70 | 100.0% | 100.0% |

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Retirement Group C

| Age | Male | Female | Age | Male | Female |
|-----|-------|--------|-----|--------|--------|
| 55 | 30.0% | 0.0% | 63 | 10.0% | 20.0% |
| 56 | 10.0% | 5.0% | 64 | 20.0% | 20.0% |
| 57 | 5.0% | 5.0% | 65 | 35.0% | 35.0% |
| 58 | 20.0% | 25.0% | 66 | 35.0% | 35.0% |
| 59 | 20.0% | 5.0% | 67 | 35.0% | 35.0% |
| 60 | 10.0% | 5.0% | 68 | 35.0% | 35.0% |
| 61 | 10.0% | 5.0% | 69 | 35.0% | 35.0% |
| 62 | 40.0% | 5.0% | 70 | 100.0% | 100.0% |

Retirement Group D

| Age | <20 Years of Service | 20+ Years of Service | Age | <20 Years of Service | 20+ Years of Service |
|-----|-------------------------|-------------------------|-----|-------------------------|-------------------------|
| 50 | 0.0% | 40.0% | 58 | 10.0% | 10.0% |
| 51 | 0.0% | 35.0% | 59 | 10.0% | 10.0% |
| 52 | 0.0% | 30.0% | 60 | 15.0% | 15.0% |
| 53 | 0.0% | 25.0% | 61 | 10.0% | 10.0% |
| 54 | 0.0% | 20.0% | 62 | 25.0% | 25.0% |
| 55 | 15.0% | 15.0% | 63 | 25.0% | 25.0% |
| 56 | 10.0% | 10.0% | 64 | 25.0% | 25.0% |
| 57 | 10.0% | 10.0% | 65 | 100.0% | 100.0% |

Inactive Members: Valuation liability for the VSTRS plan equals 332.5% of accumulated contributions and 200% for the VMERS plan.

Future Administrative Expenses: No provisions were made for the VSTRS plan. For the VMERS plan, an expense adjustment based on actual expenses for the previous year is reflected in the development of recommended employer contribution levels.

Unknown Data for Participants: For both plans, they are the same as those exhibited by participants with similar known characteristics. If not specified, participants are assumed to be male.

Percent Married: For both plans, 85% of male members are assumed to be married. 35% of female members for the VSTRS plan and 50% of female members for the VMERS plan are assumed to be married.

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Spouse's Age: For both plans, husbands are assumed to be three years older than their wives.

Cost-of-Living Adjustments: Adjustments for both plans are assumed to occur on January 1 following one year of retirement. For the VSTRS plan this occurs at the rate of 2.55% per annum for Group A members and 1.40% per annum for Group C members (beginning at age 62 for Group C members who elect reduced early retirement). For the VMERS plan, this occurs at the rate of 1.15% per annum for Group A members and 1.30% per annum for Groups B, C and D members (beginning Normal Retirement eligibility age for members who elect reduced early retirement, at age 62 for Group A, B and D members who receive a disability retirement benefit and at age 55 for members of Group C who receive a disability retirement benefit).

Actuarial Cost Method: For both plans is the Entry Age Actuarial Cost Method. Entry age is the age at date of employment, or, if date is unknown, current age minus years of service. Normal Cost and Accrued Actuarial Liability are calculated on an individual basis and are allocated by salary, with Normal Cost determined using the plan of benefits applicable to each participant.

For the VSTRS plan, the *asset valuation method* used equals the preliminary asset value plus 20% of the difference between the market and preliminary asset values. The preliminary asset value is equal to the previous year's asset value (for valuation purposes) adjusted for contributions less benefit payments and expenses and expected investment income. If necessary, a further adjustment is made to ensure that the valuation assets are within 20% of the market value.

A smoothing *asset valuation method* was used for funding purposes in the VMERS plan, under which the value of assets for actuarial purposes equals market value less a five-year phase-in of the differences between actual and assumed investment return. Then value of assets for actuarial purposes may not differ from the market value of assets by more than 20%.

The *long-term expected rate of return* on both plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) developed for each major asset class. These best estimate ranges were 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 rates of return for each major asset class included in the target asset allocation as of June 30, 2017 are summarized in the following table:

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|-----------------|-------------------|--|
| US Equity | 16.00% | 6.07% |
| Non-US Equity | 16.00% | 7.42% |
| Global Equity | 9.00% | 6.85% |
| Fixed Income | 24.00% | 2.41% |
| Real Estate | 8.00% | 4.62% |
| Private Markets | 15.00% | 7.80% |
| Hedge Funds | 8.00% | 3.95% |
| Risk Parity | 4.00% | 4.84% |

Discount Rate

The discount rate used to measure the total pension liability was 7.50% for the VSTRS plan and the VMERS plan. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy which exceeds the actuarially determined contribution rate. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current System members. The assumed discount rate has been determined in accordance with the method prescribed by GASB 68.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.50% for both the VSTRS and VMERS plans, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

| | 1% Decrease | Discount Rate | 1% Increase |
|--|----------------|------------------|----------------|
| <u>VSTRS:</u> | | | |
| Discount rate | 6.50% | 7.50% | 8.50% |
| School's proportionate share of the net pension liability | \$ - | \$ - | \$ - |
| <u>VMERS:</u> | | | |
| Discount rate | 6.50% | 7.50% | 8.50% |
| School's proportionate share of the net pension liability | \$ 279,501 | \$ 156,545 | \$ 54,573 |

Pension Plan Fiduciary Net Position

The schedule of employer allocations and schedule of pension amounts by employer are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The schedules present amounts that are elements of the financial statements of the VSTRS and VMERS or their participating employers. VSTRS and VMERS do not issue stand-alone financial reports, but instead are included as part of the State of Vermont's Comprehensive Annual Financial Report (CAFR). The CAFR can be viewed on the State's Department of Finance & Management website at: http://finance.vermont.gov/reports_and_publications/cafr

NOTE 12 - OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN

VERMONT STATE TEACHERS' RETIREMENT SYSTEM

Plan Description

The Vermont State Teachers' Retirement System provides postemployment benefits to eligible VSTRS employees who retire from the System through a cost-sharing, multiple-employer postemployment benefit (OPEB) plan (the Plan).

The plan covers nearly all public day school and nonsectarian private high school teachers and administrators as well as teachers in schools and teacher training institutions within and supported by the State that are controlled by the State Board of Education. Membership in the system for those covered classes is a condition of employment. During the year ended June 30, 2017 (the most recent period available), the plan consisted of 266 participating employers.

Vermont Statute Title 16 Chapter 55 assigns the authority to VSTRS to establish and amend the benefits provisions of the Plan and to establish maximum obligations of the Plan members to contribute to the Plan. Management of the Plan is vested in the

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 - OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

Vermont State Teachers' Retirement System Board of Trustees, which consists of the Secretary of Education (ex-officio); the State Treasurer (ex-officio); the Commissioner of Financial Regulation (ex-officio); two trustees and one alternate who are members of the system (each elected by the system under rules adopted by the Board) and one trustee and one alternate who are retired members of the system receiving retirement benefits (who are elected by the Association of Retired Teachers of Vermont).

All assets of the Plan are held in a single trust and are available to pay OPEB benefits to all members. The Vermont State Agency of Administration issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the VSTRS. That report may be viewed on the State's Department of Finance & Management website at: http://finance.vermont.gov/reports_and_publications/cafr.

Benefits Provided

VSTRS retirees and their spouses are eligible for medical, prescription drug and dental benefits on a lifetime basis if the retiree is eligible for pension benefits, as described in the Notes to Financial Statements for Defined Benefit Plan(s).

Contributions

Varying levels of contributions are required from retirees and spouses for medical and prescription drug coverage at the following premium subsidy rates:

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 - OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

| | Retiree Subsidy | | Spouse Subsidy* | |
|------------------------------|--|----------------------------------|---|--|
| Retired before June 30, 2010 | At least ten years of service- 80% of premium Less than ten years of service- 0% of premium | | 0% of premium | |
| Retired after June 30, 2010 | 10 years or more of service at June 30, 2010-80% of premium | | Years of service at June 30, 2010-80% of premium: | |
| | Less than 10 years of service at June 30, 2010: | | | |
| | Less than 15 years at retirement | Less than 15 years at retirement | Less than 10 years | 25 years at retirement |
| | 15-19.99 years at retirement | 15-19.99 years at retirement | 10-14.99 years | 25 years at retirement |
| | 20-24.99 years at retirement | 20-24.99 years at retirement | 15-24.99 years | 10 additional years from June 30, 2010 |
| | 25 years or more at retirement | 25 years or more at retirement | 25-29.99 years | 35 years at retirement |
| 30 or more years | | | 5 additional years from June 30, 2010 | |

* Spouses of retirees who do not meet the requirements for an 80% subsidy can receive unsubsidized coverage

Premium Reduction Option: Participants retiring on or after January 1, 2007 with a VSTRS premium subsidy have a one-time option to reduce the VSTRS subsidy percentage during the retiree's life so that a surviving spouse may continue to receive the same VSTRS subsidy for the spouse's lifetime. If the retiree elects the joint and survivor pension option but not the Premium Reduction Option, spouses are covered for the spouse's lifetime but pay 100% of the plan premium after the retiree's death.

OPEB Liabilities

The State is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of member employers. Therefore, these employers are considered to be in a special funding situation as defined in GASB No. 75 and the State is treated as a nonemployer to VSTRS. Since the School District does not contribute directly to VSTRS, no net OPEB liability was recorded at June 30, 2018.

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 - OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

The State's portion of the collective net OPEB liability that was associated with the School District was as follows:

| | | |
|---|----|------------------|
| School District's proportionate share of the net OPEB liability | \$ | - |
| State's proportionate share of the net OPEB liability associated with the School District | | <u>3,205,213</u> |
| Total | \$ | <u>3,205,213</u> |

The State of Vermont's proportionate share of the net OPEB liability associated with the School District is equal to the collective net OPEB liability, actuarially measured as of June 30, 2017, multiplied by the School District's proportionate share percentage. The School District's proportionate share percentage was based on its reported salaries to the total reported salaries for all participating employers. At June 30, 2017, the School District's proportion was 0.34380% which was a decrease of 0.00636% from its proportion measured as of June 30, 2016.

OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the School District recognized total OPEB expense of \$176,188 and revenue of \$176,188 for support provided by the State of Vermont for the Plan. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 - OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

| | <u>VSTRS OPEB Plan</u> | |
|--|---|--|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Differences between expected and actual experience | \$ - | \$ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | - |
| Contributions subsequent to the measurement date | - | - |
| Total | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

| | <u>VSTRS OPEB Plan</u> |
|--------------------------|------------------------|
| Plan year ended June 30: | |
| 2018 | \$ - |
| 2019 | - |
| 2020 | - |
| 2021 | - |
| 2022 | - |
| Thereafter | - |

Discount Rate

The discount rate is the single rate of return, that when applied to all projected benefit payments, results in an actuarial present value that is the sum of the actuarial present value of projected benefit payments projected to be funded by plan assets using a long term rate of return, and the actuarial present value of projected benefit payments that are not included in (1) using a yield or index rate for 20 year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The sensitivity of net OPEB liability to changes in discount rate are as follows:

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 - OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

| | 1% Decrease | Discount Rate | 1% Increase |
|--|----------------|------------------|----------------|
| VSTRS OPEB Plan: | | | |
| Discount rate | 4.58% | 5.58% | 6.58% |
| School District's proportionate share of the net OPEB liability | \$ - | \$ - | \$ - |

Healthcare Trend Rate

Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. The trend rate assumptions were developed using Segal's internal guidelines, which are established each year using data sources such as the 2018 Segal Health Trend Survey, internal client results, trends from other published surveys prepared by the S&P Dow Jones Indices, consulting firms and brokers, and CPI statistics published by the Bureau of Labor Statistics. The sensitivity of net OPEB liability to changes in healthcare trend rates are as follows:

| | 1% Decrease | Healthcare Trend Rates | 1% Increase |
|--|----------------|---------------------------|----------------|
| School District's proportionate share of the net OPEB liability | \$ - | \$ - | \$ - |

Actuarial Methods and Assumptions

The total OPEB liability for the Plan was determined by an actuarial valuation as of June 30, 2016, using the following methods and assumptions applied to all periods included in the measurement:

Actuarial Cost Method

The Entry Age Normal Actuarial Cost Method is used to determine costs. Under this funding method, a normal cost rate is determined as a level percent of pay for each active Plan member and then summed to produce the total normal cost for this Plan. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

Amortization

The total OPEB liability of this Plan is amortized on an open 30-year period. The amortization method is a level dollar amortization method.

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 - OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

Asset Valuation Method

The Asset Valuation Method used equals the preliminary asset value plus 20% of the difference between the market and preliminary asset values. The preliminary asset value is equal to the previous year's asset value (for valuation purposes) adjusted for contributions less benefit payments and expenses and expected investment income. If necessary, a further adjustment is made to ensure that the valuation assets are within 20% of the market value.

The long-term expected rate of return on both plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) developed for each major asset class. These best estimate ranges were 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 rates of return for each major asset class included in the target asset allocation as of June 30, 2017 are summarized in the following table:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|-------------------------------|-------------------|--|
| Large cap equity | 20.00% | 5.92% |
| International equity | 15.00% | 6.71% |
| Emerging international equity | 5.00% | 9.70% |
| Core bonds | 60.00% | 1.38% |
| Inflation | | 2.75% |
| Total | 100.00% | |

Assumptions

The actuarial assumptions used to calculate the actuarially determined contribution rates can be found in the Report on the Actuarial Valuation of Post-Retirement Benefits of the Vermont State Teachers' Retirement System Prepared as of June 30, 2016 completed by Buck Consulting. As of June 30, 2017, they are as follows:

| | |
|---------------------------|--|
| Discount Rate | 3.58% |
| Salary Increase Rate | Varies by age |
| Non-Medicare | 7.50% graded to 4.50% over 12 years |
| Medicare | 7.75% graded to 4.50% over 11 years |
| Retiree Contributions | Equal to health trend |
| Pre-retirement Mortality | 98% of RP-2014 White Collar Employee with generational projection using Scale SSA-2017. |
| Post-retirement Mortality | 98% of RP-2014 White Collar Annuitant with generational projection using Scale SSA-2017. |

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 - OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

Changes in Net OPEB Liability

Changes in net OPEB liability are recognized in OPEB expense for the year ended June 30, 2018 with the following exceptions:

Changes in Assumptions

Differences due to changes in assumptions about future economic, demographic or claim and expense factors or other inputs are recognized in OPEB expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. The first year is recognized as OPEB expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources. The amortization period was six years for June 30, 2017. For the fiscal year ended June 30, 2017, there were no changes in assumptions with the exception of the discount rate was increased from 2.85% to 3.58%.

OPEB Plan Fiduciary Net Position

The schedule of employer allocations and schedule of OPEB amounts by employer are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The schedules present amounts that are elements of the financial statements of VSTRS or their participating employers. VSTRS does not issue stand-alone financial reports, but instead are included as part of the State of Vermont's Comprehensive Annual Financial Report (CAFR). The CAFR can be viewed on the State's Department of Finance & Management website at: http://finance.vermont.gov/reports_and_publications/cafr

NOTE 13 - CONTINGENCIES

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

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

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 - CONTINGENCIES (CONTINUED)

The School District participates in a medical insurance plan negotiated through VEHI. This plan is a high-deductible plan with an HRA (Health Reimbursement Arrangement) funded by the School District. The organization contracted to coordinate the processing of claims on behalf of the School District with HRA funds has not processed all claims through June 30, 2018, and as of the date of this report. Additionally, they were unable to provide management with the outstanding amount to be expensed by the School District through June 30, 2018. Therefore, the amount, if any, of any liabilities arising from the unprocessed claims cannot be determined at this time.

NOTE 14 - RISK MANAGEMENT

The School District 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 District carries commercial insurance or participates in a public entity and self-insured risk pool.

Based on the coverage provided by the insurance purchased, the School District is not aware of any material actual or potential claim liabilities which should be recorded as of June 30, 2018. There were no significant reductions in insurance coverage from that of the prior year and amounts of settlements have not exceeded insurance coverage in the past three years.

The School District is a member of the Vermont School Boards Association. The Association has set up two insurance Trusts; Vermont School Boards Insurance Trust, Inc. (VSBIT) for worker compensation, multi-line intermunicipal school program, and unemployment compensation program, and the Vermont Education Health Initiative (VEHI) for medical benefits. VSBIT and VEHI are nonprofit corporations formed to provide insurance and risk management programs for Vermont School Districts and is owned by the participating School Districts. The Trusts are not licensed insurance carriers and members are not protected by the Vermont Insurance Guaranty Association.

To provide insurance coverage, VEHI has established a self-funded fully insured program in conjunction with Blue Cross and Blue Shield (BCBS). A portion of member contributions is used to purchase reinsurance and to fund a reserve required by the reinsurance. Contributions in excess of claims requirements, reserve fund requirements, reinsurance and administrative costs are returned to participants. The pooling agreement does not permit the pool to make additional assessments to its members.

To provide unemployment coverage, VSBIT has established a separate trust of funds from member contributions to pay administrative costs, unemployment claims,

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14- RISK MANAGEMENT (CONTINUED)

and to provide excess reinsurance protections. Contributions are based on payroll expense and the previous two year unemployment compensation experience. In the event that total contributions assessed to and made by all members result in an actual or projected financial deficit and VSBIT is unable to meet its required obligations, the program will be terminated with each member assessed their proportionate share of the deficit.

To provide worker's compensation coverage, VSBIT has established a separate trust of funds from member contributions to pay administrative costs and workers compensation coverage. Contributions are based upon formulas applied to payroll expense. At the end of the coverage period, the members will be assessed or refunded any difference between estimated contributions and actual expenses.

Multi-Line Intermunicipal School Program provides coverage for property; inland marine and boiler and machinery; crime; commercial general liability; automobile/garagekeepers; and educators legal liability. Annual contributions are based upon appropriate rates applicable to each member; such rates are set based on recommendations of a qualified actuary, plus a proportionate share of all operational and administrative cost including excess reinsurance premiums incurred by the trust. In the event that total contributions assessed to and made by all members result in an actual or projected financial deficit and VSBIT is unable to meet its required obligations, the program will be terminated with each member assessed their proportionate share of the deficit.

NOTE 15 - RELATED ORGANIZATIONS

The School District has an ongoing financial responsibility to Orleans Southwest School District as defined in GASB 14, paragraph 71. Through Orleans Southwest School District's assessment process, the School District's assessment can be increased to cover a share of any prior year deficits and decreased to share in any prior year surpluses. Separate financial statements on Orleans Southwest School District are available from Orleans Southwest School District.

Hazen Union School District #26 provides services to Greensboro, Hardwick and Woodsbury School Districts (i.e. education services grades 7-12).

Hazen Union School District #26 accepts 7-12 tuition students from Wolcott School District and Stannard School District as well as other districts outside the OSSU.

Hazen Union School District #26 shares a Driver's Education teacher and vehicle with Craftsbury School District.

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 16 - COMPARATIVE DATA/RECLASSIFICATION

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the School District's financial position and operations. Also, certain amounts presented in the prior year's data have been reclassified to be consistent with the current year's presentation.

NOTE 17 - SUBSEQUENT EVENT

On July 2, 2018 the Hazen Union #26 School District issued a tax anticipation note to provide liquidity for governmental operations financed by property taxes. The tax anticipation note allows principal draws up to \$1,428,479 at 1.99% interest per annum with a maturity date of June 28, 2019.

Required Supplementary Information

Required supplementary information includes financial information and disclosures that are required by the Government Accounting Standards Board but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule - Budgetary Basis - Budget and Actual - General Fund
- Schedule of Proportionate Share of the Net Pension Liability
- Schedule of Contributions - Pensions
- Schedule of Proportionate Share of the Net OPEB Liability
- Schedule of Contributions - OPEB
- Notes to Required Supplementary Information

HAZEN UNION SCHOOL DISTRICT #26

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2018

| | Budgeted Amounts | | Actual Amounts | Variance Positive (Negative) |
|---------------------------------------|------------------|------------------|-------------------|------------------------------------|
| | Original | Final | | |
| Budgetary Fund Balance, July 1 | \$ 35,378 | \$ 35,378 | \$ 35,378 | \$ - |
| Resources (Inflows): | | | | |
| Intergovernmental: | | | | |
| State support | 6,187,825 | 6,187,825 | 5,889,014 | (298,811) |
| Other | 132,500 | 132,500 | 146,450 | 13,950 |
| Tuition | 421,260 | 421,260 | 312,991 | (108,269) |
| Tech tuition | - | - | 244,671 | 244,671 |
| Charges for services | 32,000 | 32,000 | 53,326 | 21,326 |
| Interest income | 1,000 | 1,000 | 36,280 | 35,280 |
| Miscellaneous | 25,000 | 25,000 | 19,987 | (5,013) |
| Amounts Available for Appropriation | <u>6,834,963</u> | <u>6,834,963</u> | <u>6,738,097</u> | <u>(96,866)</u> |
| Charges to Appropriations (Outflows): | | | | |
| Current: | | | | |
| Instruction | 3,718,108 | 3,842,979 | 3,630,801 | 212,178 |
| Student/instructor support | 936,960 | 811,692 | 736,691 | 75,001 |
| Administration | 985,917 | 850,938 | 814,426 | 36,512 |
| Operations | 1,158,600 | 1,105,415 | 1,074,460 | 30,955 |
| Miscellaneous | - | 17,522 | 24,637 | (7,115) |
| Debt service | | | | |
| Principal | - | 164,489 | 164,489 | - |
| Interest | - | 6,550 | 6,564 | (14) |
| Total Charges to Appropriations | <u>6,799,585</u> | <u>6,799,585</u> | <u>6,452,068</u> | <u>347,517</u> |
| Budgetary Fund Balance, June 30 | <u>\$ 35,378</u> | <u>\$ 35,378</u> | <u>\$ 286,029</u> | <u>\$ 250,651</u> |

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 FISCAL YEARS*

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| <u>VSTRS:</u> | | | | | |
| Proportion of the net pension liability | 0.31% | 0.32% | 0.33% | 0.32% | 0.29% |
| Proportionate share of the net pension liability | \$ - | \$ - | \$ - | \$ - | \$ - |
| State's proportionate share of the net pension liability associated with the School District | <u>4,662,945</u> | <u>4,188,391</u> | <u>3,958,868</u> | <u>\$ 3,058,849</u> | <u>\$ 2,957,635</u> |
| Total | <u>\$ 4,662,945</u> | <u>\$ 4,188,391</u> | <u>\$ 3,958,868</u> | <u>\$ 3,058,849</u> | <u>\$ 2,957,635</u> |
| Covered-employee payroll | \$ 2,074,104 | \$ 2,071,922 | \$ 1,860,838 | \$ 1,809,122 | \$ 1,648,843 |
| Proportionate share of the net pension liability as a percentage of its covered-employee payroll | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Plan fiduciary net position as a percentage of the total pension liability | 53.98% | 55.31% | 58.22% | 64.02% | 60.59% |
| <u>VMERS:</u> | | | | | |
| Proportion of the net pension liability | 0.13% | 0.13% | 0.11% | 0.13% | 0.14% |
| Proportionate share of the net pension liability | \$ 156,545 | \$ 161,067 | \$ 86,153 | \$ 12,223 | \$ 50,490 |
| Covered-employee payroll | \$ 527,526 | \$ 475,525 | \$ 390,525 | \$ 416,175 | \$ 431,875 |
| Proportionate share of the net pension liability as a percentage of its covered-employee payroll | 29.68% | 33.87% | 22.06% | 2.94% | 11.69% |
| Plan fiduciary net position as a percentage of the total pension liability | 83.64% | 80.95% | 87.42% | 98.32% | 92.71% |

* The amounts presented for each fiscal year were determined as of June 30, and are for those years for which information is available.

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

SCHEDULE OF CONTRIBUTIONS - PENSIONS
LAST 10 FISCAL YEARS*

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| <u>VSTRS:</u> | | | | | |
| Contractually required contribution | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the contractually required contribution | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered-employee payroll | \$ 1,787,205 | \$ 2,074,104 | \$ 2,071,922 | \$ 1,860,838 | \$ 1,809,122 |
| Contributions as a percentage of covered-employee payroll | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| <u>VMERS:</u> | | | | | |
| Contractually required contribution | \$ 18,968 | \$ 21,101 | \$ 19,021 | \$ 15,621 | \$ 16,647 |
| Contributions in relation to the contractually required contribution | <u>(18,968)</u> | <u>(21,101)</u> | <u>(19,021)</u> | <u>(15,621)</u> | <u>(16,647)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered-employee payroll | \$ 474,203 | \$ 527,526 | \$ 475,525 | \$ 390,525 | \$ 416,175 |
| Contributions as a percentage of covered-employee payroll | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |

* The amounts presented for each fiscal year are for those years for which information is available.

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
LAST 10 FISCAL YEARS*

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|--------------|
| <u>VSTRS OPEB Plan:</u> | | |
| Proportion of the net OPEB liability | 0.34% | 0.35% |
| School District's proportionate share of the net OPEB liability | \$ - | \$ - |
| State's proportionate share of the net OPEB liability associated with the School District | 3,205,213 | - |
| Total | <u>\$ 3,205,213</u> | <u>\$ -</u> |
| Covered-employee payroll | \$ 2,074,104 | \$ 2,071,922 |
| Proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 0.00% | 0.00% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0.00% | 0.00% |

* The amounts presented for each fiscal year were determined as of June 30 and are for those years for which information is available.

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26
 SCHEDULE OF CONTRIBUTIONS - OPEB
 LAST 10 FISCAL YEARS*

| | 2018 | 2017 |
|---|--------------|--------------|
| <u>VSTRS OPEB Plan:</u> | | |
| Contractually required contribution | \$ - | \$ - |
| Contributions in relation to the contractually required contribution | - | - |
| Contribution deficiency (excess) | \$ - | \$ - |
| Covered-employee payroll | \$ 1,787,205 | \$ 2,074,104 |
| Contributions as a percentage of covered- employee payroll | 0.00% | 0.00% |

* The amounts presented for each fiscal year are for those years for which information is available.

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018

Changes of Assumptions

The actuarial assumptions regarding inflation, investment return, salary increase, COLA increase and mortality were changed based on reviews of economic assumptions, rates of mortality and future expectations of experience for VSTRS.

The actuarial assumptions regarding inflation, investment return, COLA increase and mortality were changed based on reviews of economic assumptions, rates of mortality and future expectations of experience for VMERS.

The discount rate increased from 2.85% to 3.58% for the VSTRS OPEB liability.

Other Supplementary Information

Other supplementary information includes financial statements and schedules not required by the Government Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

- Budgetary Comparison Schedule - Budgetary Basis - Budget and Actual - General Fund Revenues
- Schedule of Departmental Operations - General Fund
- Combining Balance Sheet - Nonmajor Governmental Funds
- Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
- Combining Balance Sheet - Nonmajor Special Revenue Funds
- Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds
- Combining Schedule of Net Position - Fiduciary Funds - Private-Purpose Funds
- Combining Schedule of Changes in Net Position - Fiduciary Funds - Private-Purpose Funds
- Schedule of General Capital Assets by Function
- Schedule of Changes in General Capital Assets by Function

HAZEN UNION SCHOOL DISTRICT #26

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 BUDGET AND ACTUAL - GENERAL FUND REVENUES
 FOR THE YEAR ENDED JUNE 30, 2018

| | Original Budget | Final Budget | Actual Amounts | Variance Positive (Negative) |
|--|---------------------|---------------------|---------------------|------------------------------------|
| Resources (Inflows): | | | | |
| Intergovernmental Revenues: | | | | |
| State - General | \$ 6,187,825 | \$ 6,187,825 | \$ 5,889,014 | \$ (298,811) |
| Subgrants | 31,000 | 31,000 | - | (31,000) |
| Support Services | 61,000 | 61,000 | - | (61,000) |
| State - Special Education | 5,000 | 5,000 | - | (5,000) |
| State - Other | 22,000 | 22,000 | 3,000 | (19,000) |
| Admissions | 6,000 | 6,000 | 9,178 | 3,178 |
| Driver's Education Reimbursement | - | - | 5,409 | 5,409 |
| Tech Transportation | - | - | 16,374 | 16,374 |
| High School Completion | - | - | 24,483 | 24,483 |
| Lunch - State | - | - | 1,098 | 1,098 |
| Breakfast - State | - | - | 346 | 346 |
| Additional Breakfast Reimbursement - State | - | - | 990 | 990 |
| Lunch - Federal | - | - | 55,887 | 55,887 |
| Breakfast - Federal | - | - | 19,179 | 19,179 |
| Reduced Lunch Initiative | - | - | 2,054 | 2,054 |
| Commodities | 7,500 | 7,500 | 8,452 | 952 |
| Tuition | 421,260 | 421,260 | 312,991 | (108,269) |
| Tech Tuition | - | - | 244,671 | 244,671 |
| Charges for Services: | | | | |
| Student Meals | 32,000 | 32,000 | 27,413 | (4,587) |
| Adult Meals | - | - | 7,172 | 7,172 |
| Purchased Services - Hardwick | - | - | 9,370 | 9,370 |
| Purchased Services - Craftsbury | - | - | 9,371 | 9,371 |
| Interest Income | 1,000 | 1,000 | 36,280 | 35,280 |
| Miscellaneous: | | | | |
| Prior Year | - | - | 19,512 | 19,512 |
| Rent/lease of Facility | - | - | 98 | 98 |
| Other Receipts | 25,000 | 25,000 | 377 | (24,623) |
| Amounts Available for Appropriation | <u>\$ 6,799,585</u> | <u>\$ 6,799,585</u> | <u>\$ 6,702,719</u> | <u>\$ (96,866)</u> |

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

SCHEDULE OF DEPARTMENTAL OPERATIONS - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|--|---------------------|---------------------|---------------------|------------------------------------|
| Instruction - | | | | |
| General education | \$ 3,022,940 | \$ 3,197,903 | \$ 3,007,007 | \$ 190,896 |
| Special education | 538,600 | 476,758 | 476,540 | 218 |
| Co-curricular | 156,568 | 168,318 | 147,254 | 21,064 |
| | <u>3,718,108</u> | <u>3,842,979</u> | <u>3,630,801</u> | <u>212,178</u> |
| Student/Instructor Support - | | | | |
| Guidance | 454,823 | 475,201 | 446,823 | 28,378 |
| Health services | 81,333 | 67,681 | 65,271 | 2,410 |
| Psychological services | 45,700 | 43,400 | 34,449 | 8,951 |
| Speech and audiology services | 41,600 | 41,600 | 41,317 | 283 |
| Occupational therapy services | 7,100 | 7,100 | 6,991 | 109 |
| Improvement of instruction | 32,942 | 55,584 | 46,345 | 9,239 |
| Library / media services | 102,529 | 59,516 | 49,526 | 9,990 |
| Technology integration | 170,933 | 61,610 | 45,969 | 15,641 |
| | <u>936,960</u> | <u>811,692</u> | <u>736,691</u> | <u>75,001</u> |
| Administration - | | | | |
| School Board | 61,810 | 47,588 | 33,243 | 14,345 |
| Office of Superintendent | 79,600 | 79,600 | 79,226 | 374 |
| Office of Principal | 353,607 | 342,779 | 321,373 | 21,406 |
| Special education administration | 16,900 | 16,900 | 16,731 | 169 |
| Fiscal Services/Tech admin/Grant Admin | 474,000 | 364,071 | 363,853 | 218 |
| | <u>985,917</u> | <u>850,938</u> | <u>814,426</u> | <u>36,512</u> |
| Operations - | | | | |
| Operations and maintenance | 689,204 | 632,674 | 620,601 | 12,073 |
| Student transportation | 237,786 | 241,131 | 245,850 | (4,719) |
| Food service | 231,610 | 231,610 | 208,009 | 23,601 |
| | <u>1,158,600</u> | <u>1,105,415</u> | <u>1,074,460</u> | <u>30,955</u> |
| Miscellaneous - | | | | |
| Other outlays and prior year adjustments | - | 17,522 | 24,637 | (7,115) |
| Debt Service - | | | | |
| Principal | - | 164,489 | 164,489 | - |
| Interest | - | 6,550 | 6,564 | (14) |
| | <u>-</u> | <u>171,039</u> | <u>171,053</u> | <u>(14)</u> |
| TOTAL DEPARTMENTAL OPERATIONS | <u>\$ 6,799,585</u> | <u>\$ 6,799,585</u> | <u>\$ 6,452,068</u> | <u>\$ 347,517</u> |

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

| | Special Revenue Funds | Total Nonmajor Governmental Funds |
|--|-----------------------------|---|
| | <u> </u> | <u> </u> |
| ASSETS | | |
| Due from other funds | \$ 4,293 | \$ 4,293 |
| TOTAL ASSETS | <u>\$ 4,293</u> | <u>\$ 4,293</u> |
| LIABILITIES | | |
| Accounts payable | \$ 139 | \$ 139 |
| TOTAL LIABILITIES | <u>139</u> | <u>139</u> |
| FUND BALANCES | | |
| Nonspendable | - | - |
| Restricted | 4,154 | 4,154 |
| Committed | - | - |
| Assigned | - | - |
| Unassigned | - | - |
| TOTAL FUND BALANCES | <u>4,154</u> | <u>4,154</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 4,293</u> | <u>\$ 4,293</u> |

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

| | Special Revenue Funds | Total Nonmajor Governmental Funds |
|-----------------------------|-----------------------------|---|
| | <u> </u> | <u> </u> |
| REVENUES | | |
| Other income | \$ 5,000 | \$ 5,000 |
| TOTAL REVENUES | <u> 5,000</u> | <u> 5,000</u> |
| EXPENDITURES | | |
| Other | <u> 1,003</u> | <u> 1,003</u> |
| TOTAL EXPENDITURES | <u> 1,003</u> | <u> 1,003</u> |
| NET CHANGE IN FUND BALANCES | 3,997 | 3,997 |
| FUND BALANCES - JULY 1 | <u> 157</u> | <u> 157</u> |
| FUND BALANCES - JUNE 30 | <u> \$ 4,154</u> | <u> \$ 4,154</u> |

See accompanying independent auditors' report and notes to financial statements.

Special Revenue Funds

Special revenue funds are established to account for the proceeds of specific revenue sources (other than fiduciary trusts or for major capital projects) that are legally restricted to expenditures for specific purposes.

HAZEN UNION SCHOOL DISTRICT #26

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2018

| | Flexible Pathways | Work Based Program | Total |
|--|----------------------|--------------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| ASSETS | | | |
| Due from other funds | \$ 68 | \$ 4,225 | \$ 4,293 |
| TOTAL ASSETS | <u>\$ 68</u> | <u>\$ 4,225</u> | <u>\$ 4,293</u> |
| LIABILITIES | | | |
| Accounts payable | \$ - | \$ 139 | \$ 139 |
| TOTAL LIABILITIES | <u>-</u> | <u>139</u> | <u>139</u> |
| FUND BALANCES | | | |
| Nonspendable | - | - | - |
| Restricted | 68 | 4,086 | 4,154 |
| Committed | - | - | - |
| Assigned | - | - | - |
| Unassigned | - | - | - |
| TOTAL FUND BALANCES | <u>68</u> | <u>4,086</u> | <u>4,154</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 68</u> | <u>\$ 4,225</u> | <u>\$ 4,293</u> |

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018

| | Flexible Pathways | Work Based Learning | Total |
|-----------------------------|----------------------|---------------------------|------------------------|
| REVENUES | | | |
| Other income | \$ - | \$ 5,000 | \$ 5,000 |
| TOTAL REVENUES | <u>-</u> | <u>5,000</u> | <u>5,000</u> |
| EXPENDITURES | | | |
| Other | <u>89</u> | <u>914</u> | <u>1,003</u> |
| TOTAL EXPENDITURES | <u>89</u> | <u>914</u> | <u>1,003</u> |
| NET CHANGE IN FUND BALANCES | (89) | 4,086 | 3,997 |
| FUND BALANCES - JULY 1 | <u>157</u> | <u>-</u> | <u>157</u> |
| FUND BALANCES - JUNE 30 | <u><u>\$ 68</u></u> | <u><u>\$ 4,086</u></u> | <u><u>\$ 4,154</u></u> |

See accompanying independent auditors' report and notes to financial statements.

Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support the School District's programs. The reporting focus is on net position and changes in net position and is reported using accounting principles similar to proprietary funds.

HAZEN UNION SCHOOL DISTRICT #26

COMBINING SCHEDULE OF NET POSITION - FIDUCIARY FUNDS
PRIVATE-PURPOSE FUNDS
JUNE 30, 2018

| | Concept 2 Scholarship | Dave Morse Scholarship | Leone Cobb Scholarship | Trish Geisler Memorial Fund | Class of 1955 Memorial | Edward O. Gates Memorial Fund | Hardwick Gazette |
|----------------------------|--------------------------|------------------------------|---------------------------|-----------------------------------|---------------------------|--|---------------------|
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ - | | \$ 8,120 | \$ 9,454 | \$ 11,566 | \$ 9,775 | \$ - |
| Investments | - | - | - | - | - | - | 1,686 |
| Due from other governments | 2,000 | 8,350 | - | - | - | - | - |
| TOTAL ASSETS | <u>\$ 2,000</u> | <u>\$ 8,350</u> | <u>\$ 8,120</u> | <u>\$ 9,454</u> | <u>\$ 11,566</u> | <u>\$ 9,775</u> | <u>\$ 1,686</u> |
| LIABILITIES | | | | | | | |
| Deposits held for others | \$ 2,000 | \$ 8,350 | \$ 8,120 | \$ 9,454 | \$ 11,566 | \$ 9,775 | \$ 1,686 |
| TOTAL LIABILITIES | <u>\$ 2,000</u> | <u>\$ 8,350</u> | <u>\$ 8,120</u> | <u>\$ 9,454</u> | <u>\$ 11,566</u> | <u>\$ 9,775</u> | <u>\$ 1,686</u> |

HAZEN UNION SCHOOL DISTRICT #26

COMBINING SCHEDULE OF NET POSITION - FIDUCIARY FUNDS
PRIVATE-PURPOSE FUNDS
JUNE 30, 2018

| | Catherine Eastman Memorial Fund | Jean Hackett Scholarship Fund | Raymond Hussey Memorial Fund | Coca Cola Scholarship | Sheila Johnson Memorial Fund | Leon Bellavance Memorial Fund | Ransom Tink Eastman Student Aid Fund | Total |
|----------------------------|--|--|---------------------------------------|--------------------------|---------------------------------------|--|---|------------------|
| ASSETS | | | | | | | | |
| Cash and cash equivalents | \$ 1,011 | \$ 10,241 | \$ 8,861 | \$ - | \$ 159 | \$ 1,505 | \$ 2,020 | \$ 62,712 |
| Investments | - | - | - | - | - | - | - | 1,686 |
| Due from other governments | - | - | - | - | - | - | - | 10,350 |
| TOTAL ASSETS | <u>\$ 1,011</u> | <u>\$ 10,241</u> | <u>\$ 8,861</u> | <u>\$ -</u> | <u>\$ 159</u> | <u>\$ 1,505</u> | <u>\$ 2,020</u> | <u>\$ 74,748</u> |
| LIABILITIES | | | | | | | | |
| Deposits held for others | \$ 1,011 | \$ 10,241 | \$ 8,861 | \$ - | \$ 159 | \$ 1,505 | \$ 2,020 | \$ 74,748 |
| TOTAL LIABILITIES | <u>\$ 1,011</u> | <u>\$ 10,241</u> | <u>\$ 8,861</u> | <u>\$ -</u> | <u>\$ 159</u> | <u>\$ 1,505</u> | <u>\$ 2,020</u> | <u>\$ 74,748</u> |

See accompanying independent auditors' report and notes to financial statements.

HAZEN UNION SCHOOL DISTRICT #26

COMBINING SCHEDULE OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
 PRIVATE-PURPOSE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018

| | Concept 2 Scholarship | Dave Morse Scholarship | Leone Cobb Scholarship | Trish Geisler Memorial Fund | Class of 1955 Memorial | Edward O. Gates Memorial Fund | Hardwick Gazette |
|--|--------------------------|------------------------------|---------------------------|-----------------------------------|---------------------------|--|---------------------|
| ADDITIONS | | | | | | | |
| Net increase (decrease) in the fair value of investments | \$ - | \$ - | \$ 6 | \$ 7 | \$ 1 | \$ 5 | \$ 3 |
| Total additions | - | - | 6 | 7 | 1 | 5 | 3 |
| DEDUCTIONS | | | | | | | |
| Distributions | | | | | | | |
| Miscellaneous | - | - | 1,000 | 450 | - | - | - |
| Total deductions | - | - | 1,000 | 450 | - | - | - |
| CHANGE IN NET POSITION | - | - | (994) | (443) | 1 | 5 | 3 |
| NET POSITION - JULY 1 | 2,000 | 8,350 | 9,114 | 9,897 | 11,565 | 9,770 | 1,683 |
| NET POSITION - JUNE 30 | \$ 2,000 | \$ 8,350 | \$ 8,120 | \$ 9,454 | \$ 11,566 | \$ 9,775 | \$ 1,686 |

HAZEN UNION SCHOOL DISTRICT #26

COMBINING SCHEDULE OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
PRIVATE-PURPOSE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

| | Catherine Eastman Memorial Fund | Jean Hackett Scholarship Fund | Raymond Hussey Memorial Fund | Coca Cola Scholarship | Sheila Johnson Memorial Fund | Leon Bellavance Memorial Fund | Ransom Tink Eastman Student Aid Fund | Total |
|--|--|--|---------------------------------------|--------------------------|---------------------------------------|--|---|------------------|
| ADDITIONS | | | | | | | | |
| Net increase (decrease) in the fair value of investments | \$ 1 | \$ 1 | \$ 1 | \$ - | \$ - | \$ 1 | \$ 10 | \$ 36 |
| Total additions | <u>1</u> | <u>1</u> | <u>1</u> | <u>-</u> | <u>-</u> | <u>1</u> | <u>10</u> | <u>36</u> |
| DEDUCTIONS | | | | | | | | |
| Miscellaneous | 100 | 500 | 400 | 500 | 40 | 50 | - | 3,040 |
| Total deductions | <u>100</u> | <u>500</u> | <u>400</u> | <u>500</u> | <u>40</u> | <u>50</u> | <u>-</u> | <u>3,040</u> |
| CHANGE IN NET POSITION | (99) | (499) | (399) | (500) | (40) | (49) | 10 | (3,004) |
| NET POSITION - JULY 1 | <u>1,110</u> | <u>10,740</u> | <u>9,260</u> | <u>500</u> | <u>199</u> | <u>1,554</u> | <u>2,010</u> | <u>77,752</u> |
| NET POSITION - JUNE 30 | <u>\$ 1,011</u> | <u>\$ 10,241</u> | <u>\$ 8,861</u> | <u>\$ -</u> | <u>\$ 159</u> | <u>\$ 1,505</u> | <u>\$ 2,020</u> | <u>\$ 74,748</u> |

See accompanying independent auditors' report and notes to financial statements.



Proven Expertise and Integrity

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

School Board
Hazen Union School District #26
Hardwick, Vermont

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 Hazen Union School District #26 as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Hazen Union School District #26's basic financial statements, and have issued our report thereon dated January 9, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hazen Union School District #26's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hazen Union School District #26's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hazen Union School District #26's internal control.

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

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

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.

RHR Smith & Company

Buxton, Maine
Vermont Registration No. 092.0000697
January 9, 2019