

**HILLSBORO-DEERING COOPERATIVE
SCHOOL DISTRICT**

Financial Statements

With Schedule of Expenditures of Federal Awards

June 30, 2017

and

Independent Auditor's Report

**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***

**Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance**

Schedule of Findings and Questioned Costs

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
FINANCIAL STATEMENTS
June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the School Board
Hillsboro-Deering Cooperative School District

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 Hillsboro-Deering Cooperative School District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsboro-Deering Cooperative School District, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress for other post-employment benefits, schedule of changes in the District's proportionate share of the net pension liability, and schedule of District contributions on pages i-v and 27-32 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hillsboro-Deering Cooperative School District's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Additionally, the combining nonmajor governmental fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the combining nonmajor governmental fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the combining nonmajor governmental fund financial statements 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 July 25, 2018 on our consideration of the Hillsboro-Deering Cooperative School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 Hillsboro-Deering Cooperative School District's internal control over financial reporting and compliance.

Vachon Cloutay & Company PC

Manchester, New Hampshire
July 25, 2018

**HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2017**

Presented herewith please find the Management Discussion & Analysis Report for the Hillsboro-Deering Cooperative School District (the District) for the fiscal year ending June 30, 2017. Responsibility for both the accuracy of the data and the completeness and fairness of this presentation (including all disclosures) rests with management. To the best of our knowledge and belief, the data contained herein is accurate in all material respects. This data is reported in a manner designed to fairly present the District's financial position, and the results of operations of the various funds of the District. All disclosures necessary to enable the reader to gain an accurate understanding of the District's financial activities have been included.

The District is responsible for establishing an accounting and internal control structure designed to ensure that the physical, data, informational, intellectual, and human resource assets of the District are protected from loss, theft, and misuse, and to ensure that adequate accounting information is maintained and reported in conformity with generally accepted accounting principles (GAAP). Management also strives to ensure that these assets are put to good and effective use. The internal control structure is designed to provide reasonable assurances that these objectives are attained.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Hillsboro-Deering Cooperative School District using the integrated approach as prescribed by GASB Statement 34.

This discussion and analysis is intended to serve as an introduction to Hillsboro-Deering Cooperative School District's financial statements. The basic financial statements are comprised of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District finances, in a manner similar to most private-sector companies.

The statement of net position presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the remaining difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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 District uses fund accounting to ensure and

**HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2017**

demonstrate compliance with finance-related legal requirements. All the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the 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 fund balance sheet and the statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental activities statement of net position and statement of activities.

The District maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and the statement of revenues, expenditures and changes in fund balances for the General Fund and Grants Fund, which are both considered major funds. Data from other governmental funds are combined into a single, aggregate presentation.

The District adopts an annual appropriation budget for its governmental funds. A budgetary comparison has been provided for the General Fund to demonstrate compliance with this budget. Budgetary information has not been included in these financial statements for the Grants Fund as it is neither practical nor meaningful.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District's fiduciary funds consist solely of the Student Activities Agency Funds.

Notes to the Basic Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

Financial Highlights

As of the close of the fiscal year, total assets and deferred outflows of resources were less than liabilities and deferred inflows of resources by (\$1,142,136) (i.e., net position), a decrease of (\$515,740) from the previous year.

**HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2017**

Total Governmental Funds reported combined ending fund balances of \$2,953,294, an increase of \$520,810 from the previous year.

The General Fund shows a year end fund balance of \$2,563,895, an increase of \$530,2017 from the previous year.

The Nonmajor Governmental Fund shows a year end fund balance of \$389,399, a decrease of (\$8,874) from the previous year.

Statement of Net Position

The table below provides a summary of the District's net position for the fiscal years ended June 30, 2017 and 2016:

	<u>FY 2017</u>	<u>FY 2016</u>
Capital and other assets:		
Capital assets, net	\$ 17,333,358	\$ 15,440,928
Other assets	<u>3,380,665</u>	<u>2,722,831</u>
Total Assets	<u>20,714,023</u>	<u>18,163,759</u>
Deferred Outflows of Resources		
Deferred outflows related to pension	<u>4,353,390</u>	<u>1,098,491</u>
Total Deferred Outflows of Resources	<u>4,353,390</u>	<u>1,098,491</u>
Long-term and other liabilities:		
Long-term liabilities	25,043,103	18,365,202
Other liabilities	<u>528,640</u>	<u>366,550</u>
Total Liabilities	<u>25,571,743</u>	<u>18,731,752</u>
Deferred Inflows of Resources		
Deferred inflows related to pension	<u>637,806</u>	<u>1,156,894</u>
Total Deferred Inflows of Resources	<u>637,806</u>	<u>1,156,894</u>
Net Position:		
Net investment in capital assets	10,178,164	10,244,904
Restricted	389,399	391,678
Unrestricted	<u>(11,709,699)</u>	<u>(11,262,978)</u>
Total Net Position	<u>\$ (1,142,136)</u>	<u>\$ (626,396)</u>

Statement of Activities

Changes in net position for the fiscal years ended June 30, 2017 and 2016 are as follows:

**HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2017**

	<u>FY 2017</u>	<u>FY 2016</u>
Program revenues:		
Charges for services	\$ 1,817,334	\$ 1,947,301
Operating grants and contributions	1,810,511	1,856,193
Capital grants and contributions	342,731	369,132
Total program revenues	<u>3,970,576</u>	<u>4,172,626</u>
General revenues:		
Property taxes	12,495,832	12,339,511
State adequacy education grant	6,108,231	6,174,036
Investment income	2,645	1,214
Miscellaneous	111,519	142,217
Total general revenues	<u>18,718,227</u>	<u>18,656,978</u>
Total revenues	<u>22,688,803</u>	<u>22,829,604</u>
Expenses:		
Instruction	14,198,661	13,487,639
Supporting services	1,783,176	1,545,335
Instructional staff services	789,177	874,955
General administration	2,102,850	2,108,986
Operation and maintenance of plant	2,624,163	2,419,168
Pupil transportation	760,240	760,060
Food service	615,621	624,475
Debt service	330,655	225,126
Total expenses	<u>23,204,543</u>	<u>22,045,744</u>
Change in net position	(515,740)	783,860
Net position - beginning of year	<u>(626,396)</u>	<u>(1,410,256)</u>
Net position - ending of year	<u>\$ (1,142,136)</u>	<u>\$ (626,396)</u>

The District's combined net position decreased by 82.3% to (\$1,142,136) on the full accrual basis of accounting.

Hillsboro-Deering Cooperative School District Activities

As shown in the above statement, the District experienced a decrease in financial position of (\$515,740) from the prior fiscal year.

The General Fund shows a fund balance of \$2,563,895 (including expendable trusts), an increase of \$530,217 or 26.1% from the previous fiscal year. A decrease in fund balance was anticipated as the District applied fund balance to proposed expenditures and stabilized the tax rate.

The Grants Fund is used to account for financial resources of the various state and federal grant activities of the District and is self-balancing.

The Nonmajor Governmental Fund of the District consists of the Food Service Fund and Donations Fund, which had a combined year end fund balance of \$389,399. The activities of the Nonmajor Governmental Funds experienced a decrease from the prior year in the amount of (\$8,874).

**HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2017**

General Fund Budgetary Highlights

Actual total revenues on the budgetary basis were less than the budgeted amount by (\$21,567). A significant portion of this difference is due to excess Catastrophic Aid and Medicaid revenue from the State of New Hampshire offset by the decrease of anticipated tuition charges. Actual total expenditures and other financing uses were below budgeted appropriations by \$1,150,675. Significant savings were realized in instruction, supporting services, general administration, operation and maintenance of plant and transfers out.

Capital Assets

The Hillsboro-Deering Cooperative School District considers a capital asset to be an asset with a useful life of greater than one year and whose costs exceed or equal \$5,000. Assets are depreciated using the straight-line method over the course of their estimated useful life. During the fiscal year ended June 30, 2017, the net capital assets of the District increased by \$1,892,430 as a result of additions of \$2,705,268, current period depreciation expense of (\$811,618), and disposals of assets with a net book value of \$1,220. See Note 3 in the notes to the basic financial statements for additional information on the capital assets activity.

Long-Term Obligations

During the fiscal year ended June 30, 2017, the District's bonds payable decreased by (\$735,000) as a result of scheduled payments on the existing obligations, while capital leases payable increased by \$2,723,937, as a result of a new lease of \$2,776,729 (including the lease premium) and scheduled payments on the existing lease of (\$51,024). The liabilities for other post-employment benefits and net pension had a net increase in potential future payments of \$4,340,866 and \$246,121, respectively. Compensated absences payable and early retirement benefits had net increases in potential future payments of \$20,647 and \$93,194, respectively. See Notes 4, 5 & 6 in the notes to the basic financial statements for additional information on the long-term obligations.

Contacting Hillsboro-Deering Cooperative School District's Financial Management

This financial report serves to provide our citizens and creditors with a general overview of the District's finances and to show accountability for the money it receives. If you have questions about this report or need to get additional information, contact the SAU #34 Business Office at PO Box 2190, 78 School Street, Hillsboro, NH 03244.

EXHIBIT A
HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
Statement of Net Position
June 30, 2017

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 2,366,726
Due from other governments	975,834
Inventory	7,129
Prepaid expenses	1,000
Restricted cash	29,767
Total Current Assets	<u>3,380,665</u>
Noncurrent Assets:	
Capital assets:	
Non-depreciable capital assets	57,374
Depreciable capital assets, net	17,275,984
Total Noncurrent Assets	<u>17,333,358</u>
Total Assets	<u>20,714,023</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pension	4,353,390
Total Deferred Outflows of Resources	<u>4,353,390</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	322,938
Accrued interest payable	101,269
Due to other governments	99,784
Advances from grantors	4,649
Current portion of bonds payable	735,000
Current portion of capital leases payable	92,421
Total Current Liabilities	<u>1,356,061</u>
Noncurrent Liabilities:	
Bonds payable	3,675,000
Capital leases payable	2,682,540
Compensated absences payable	126,985
Early retirement benefits	336,421
Net pension liability	16,345,560
Other post-employment benefits	1,049,176
Total Noncurrent Liabilities	<u>24,215,682</u>
Total Liabilities	<u>25,571,743</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pension	637,806
Total Deferred Inflows of Resources	<u>637,806</u>
NET POSITION	
Net investment in capital assets	10,178,164
Restricted for:	
Donations Fund - donations and after school programs	311,837
Food Service	77,562
Unrestricted (deficit)	<u>(11,709,699)</u>
Total Net Position	<u>\$ (1,142,136)</u>

See accompanying notes to the basic financial statements

EXHIBIT B
HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
Instruction	\$ 14,198,661	\$ 1,561,769	\$ 1,451,690		\$ (11,185,202)
Supporting services	1,783,176				(1,783,176)
Instructional staff services	789,177				(789,177)
General administration	2,102,850				(2,102,850)
Operation and maintenance of plant	2,624,163				(2,624,163)
Pupil transportation	760,240		24,600		(735,640)
Food service	615,621	255,565	334,221		(25,835)
Interest and fiscal charges	330,655			\$ 342,731	12,076
Total governmental activities	<u>\$ 23,204,543</u>	<u>\$ 1,817,334</u>	<u>\$ 1,810,511</u>	<u>\$ 342,731</u>	<u>(19,233,967)</u>
General revenues:					
					12,495,832
					6,108,231
					2,645
					111,519
					<u>18,718,227</u>
					(515,740)
					(626,396)
					<u>\$ (1,142,136)</u>

See accompanying notes to the basic financial statements

EXHIBIT C
HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,366,726			\$ 2,366,726
Due from other governments	801,001	\$ 154,809	\$ 20,024	975,834
Due from other funds	151,437		379,306	530,743
Inventory			7,129	7,129
Prepaid expenses			1,000	1,000
Restricted cash	29,767			29,767
Total Assets	<u>3,348,931</u>	<u>154,809</u>	<u>407,668</u>	<u>3,911,408</u>
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 3,348,931</u>	<u>\$ 154,809</u>	<u>\$ 407,668</u>	<u>\$ 3,911,408</u>
LIABILITIES				
Accounts payable	\$ 305,946	\$ 3,372	\$ 13,620	\$ 322,938
Due to other governments	99,784			99,784
Advances from grantors			4,649	4,649
Due to other funds	379,306	151,437		530,743
Total Liabilities	<u>785,036</u>	<u>154,809</u>	<u>18,269</u>	<u>958,114</u>
DEFERRED INFLOWS OF RESOURCES				
Total Deferred Inflows of Resources	-	-	-	-
FUND BALANCES				
Nonspendable			8,129	8,129
Restricted	29,767		381,270	411,037
Committed	956,170			956,170
Assigned	1,577,958			1,577,958
Total Fund Balances	<u>2,563,895</u>	<u>-</u>	<u>389,399</u>	<u>2,953,294</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,348,931</u>	<u>\$ 154,809</u>	<u>\$ 407,668</u>	<u>\$ 3,911,408</u>

See accompanying notes to the basic financial statements

EXHIBIT C-1

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position**

June 30, 2017

Total Fund Balances - Governmental Funds (Exhibit C)	\$ 2,953,294
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	17,333,358
Deferred outflows of resources and deferred inflows of resources that do not require or provide the use of current financial resources are not reported within the funds.	
Deferred outflows related to net pension liability	4,353,390
Deferred inflows related to net pension liability	(637,806)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of:	
Bonds payable	(4,410,000)
Capital leases payable	(2,774,961)
Compensated absences payable	(126,985)
Early retirement benefits	(336,421)
Net pension liability	(16,345,560)
Other post-employment benefits	(1,049,176)
Accrued interest on long-term obligations	(101,269)
Net Position of Governmental Activities	<u>\$ (1,142,136)</u>

See accompanying notes to the basic financial statements

EXHIBIT D
HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	General <u>Fund</u>	Grants <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:				
Taxes	\$ 12,495,832			\$ 12,495,832
Intergovernmental	7,089,104	\$ 838,148	\$ 334,221	8,261,473
Charges for services	1,440,047		377,287	1,817,334
Interest income	2,645			2,645
Miscellaneous	66,257		45,262	111,519
Total Revenues	<u>21,093,885</u>	<u>838,148</u>	<u>756,770</u>	<u>22,688,803</u>
Expenditures:				
Current operations:				
Instruction	12,298,764	838,148	193,031	13,329,943
Supporting services	1,720,068			1,720,068
Instructional staff services	771,943			771,943
General administration	2,105,204			2,105,204
Operation and maintenance of plant	1,871,347			1,871,347
Pupil transportation	760,240			760,240
Food service			607,613	607,613
Capital outlay	2,736,007			2,736,007
Debt service:				
Principal retirement	735,000			735,000
Interest and fiscal charges	307,357			307,357
Total Expenditures	<u>23,305,930</u>	<u>838,148</u>	<u>800,644</u>	<u>24,944,722</u>
Excess of revenues over (under) expenditures	<u>(2,212,045)</u>	<u>-</u>	<u>(43,874)</u>	<u>(2,255,919)</u>
Other financing sources (uses):				
Capital lease proceeds	2,736,018			2,736,018
Capital lease premium	40,711			40,711
Transfers in	533		35,000	35,533
Transfers out	(35,000)	(533)		(35,533)
Total other financing sources (uses)	<u>2,742,262</u>	<u>(533)</u>	<u>35,000</u>	<u>2,776,729</u>
Net change in fund balances	530,217	(533)	(8,874)	520,810
Fund balances at beginning of year	<u>2,033,678</u>	<u>533</u>	<u>398,273</u>	<u>2,432,484</u>
Fund balances at end of year	<u>\$ 2,563,895</u>	<u>\$ -</u>	<u>\$ 389,399</u>	<u>\$ 2,953,294</u>

See accompanying notes to the basic financial statements

EXHIBIT D-1
HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
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, 2017

Net Change in Fund Balances - Governmental Funds (Exhibit D)	\$ 520,810
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	1,893,650
Repayment of bond principal is an expenditure in the governmental funds when due, but the repayment reduces long-term liabilities in the statement of net position.	735,000
Repayment of principal on capital leases is an expenditure in the governmental funds when due, but the repayment reduces long-term liabilities in the statement of net position.	51,024
Proceeds from capital lease issuances are other financing sources in the funds, but the capital lease issuances increase long-term liabilities in the statement of net position.	(2,736,018)
Governmental funds report the effect of debt issuance premiums when debt is first issued, whereas these amounts are amortized in the statement of activities over the life of the related debt.	(38,943)
In the statement of activities, interest is accrued on outstanding bonds and capital leases, whereas in governmental funds, an interest expenditure is reported when due.	(25,066)
Some expenses reported in the statement of activities, such as compensated absences, early retirement benefits and other post-employment benefits, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(348,098)
Governmental funds report pension contributions as expenditures. However, in the statement of activities, pension expense reflects the change in the net pension liability and related deferred outflows and inflows of resources, and does not require the use of current financial resources. This is the amount by which pension expense exceeded pension contributions in the current period.	(566,879)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss of disposed capital assets reduced by the actual proceeds received from the sale of capital assets.	<u>(1,220)</u>
Change in Net Position of Governmental Activities (Exhibit B)	<u>\$ (515,740)</u>

See accompanying notes to the basic financial statements

EXHIBIT E
HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

		Student Activities <u>Agency Fund</u>
	ASSETS	
Cash and cash equivalents		\$ 86,945
Total Assets		<u>\$ 86,945</u>
	LIABILITIES	
Due to student groups		\$ 86,945
Total Liabilities		<u>\$ 86,945</u>

See accompanying notes to the basic financial statements

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hillsboro-Deering Cooperative School District conform to accounting principles generally accepted in the United States of America for local educational units of government, except as indicated hereinafter. The following is a summary of significant accounting policies.

Financial Reporting Entity

The Hillsboro-Deering Cooperative School District (the District) is an independent governmental entity organized under the laws of the State of New Hampshire to provide public education within the borders of the Towns of Hillsboro and Deering, New Hampshire. The District's legislative body is the annual deliberative session followed by balloting of registered voters within the District and is governed by an elected School Board. Administrative services are provided to the District by School Administrative Unit #34. The District has no other separate organizational units, which meet criteria for inclusion in the financial statements as defined by the Governmental Accounting Standards Board (GASB).

Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

1. Government-Wide Financial Statements:

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

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

2. Fund Financial Statements:

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District employs the use of two categories of funds: governmental and fiduciary.

1. Governmental Funds:

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources, and liabilities and deferred inflows of resources, is reported as fund balance. The following are the District's major governmental funds:

The *General Fund* is the main operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

The *Grants Fund* is used to account for the financial transactions related to various state and federal education grants and the related expenditures.

2. Fiduciary Funds:

Fiduciary fund reporting focuses on net position and changes in net position. The District maintains one fiduciary fund, an agency fund known as the Student Activities Agency Fund. The agency fund was established to account for revenues generated by student managed activities. The District's agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Measurement Focus

1. Government-Wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the District are included on the Statement of Net Position.

2. Fund Financial Statements:

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

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue and in the presentation of expenses versus expenditures.

1. Revenues – Exchange and Non-Exchange Transactions:

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 9). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, and student fees.

Grants and entitlements received before the eligibility requirements are met are recorded as advances from grantors. On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows of resources.

2. Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

Budgetary Data

The District's budget represents functional appropriations as authorized by annual District meetings. The school board may transfer funds between operating categories as they deem necessary. The District adopts its budget under State regulations, which differ somewhat from accounting principles generally accepted in the United States of America in that the focus is on the entire governmental unit rather than on the basis of fund types.

State law requires balanced budgets but requires the use of beginning fund balance to reduce the property tax rate. For the year ended June 30, 2017, the District applied \$509,028 of its fund balance to reduce taxes.

Inventory

On government-wide financial statements, inventory is presented at the lower of cost or market on a first-in, first-out basis. Inventory in governmental funds consists of food supplies held for consumption. The cost of inventory items is recorded as expenditures in the governmental fund types when initially purchased.

Capital Assets

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

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

All reported capital assets except for land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Description</u>	<u>Years</u>
Land improvements		20
Buildings and improvements		5-50
Furniture and equipment		2-20

Compensated Absences

Pursuant to the collective bargaining agreement, District teachers may earn and accumulate (subject to certain limitations) unused sick leave. District teachers with at least 10 years of service may accumulate up to a maximum of 100 unused sick days and teachers with 20 years or more of service may accumulate up to a maximum of 118 unused sick days. Upon termination of employment, District teachers with 10 years of continuous service shall receive a separation payment in the amount of 50% of their unused sick

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

leave at the rate of \$50 per day. These provisions do not apply to District teachers opting for the early retirement benefits incentive (see 'Early Retirement Benefits' below).

Pursuant to the collective bargaining agreement, District support staff may earn and accumulate (subject to certain limitations) unused sick leave. Upon termination for cause, all unused sick leave balances for District support staff shall lapse. Upon resignation, District support staff with at least 10 years of service shall receive \$20 per day for any unused sick leave up to 90 days and District support staff with at least 20 years of service shall receive \$30 per day for any unused sick leave up to 90 days.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee death or retirement. The entire compensated absence liability is reported on the government-wide financial statements.

Early Retirement Benefits

Upon voluntary separation from the District, teachers with 20 years or more of District service (including any and all time served in any schools that are in the District) are eligible to receive a one-time separation payment. The amount of the separation payment is calculated at 1% of employee salary multiplied by the number of years in the District, plus 50% of their per diem rate multiplied by their number of unused sick days up to a maximum of 118 days.

For governmental fund financial statements, early retirement benefits are reported as liabilities and expenditures as payments come due each period based upon voluntary separation of qualified teachers. The entire early retirement benefits liability is reported on the government-wide financial statements.

Lease Premium

Lease premiums are amortized as a component of interest expense over the life of the related lease using the effective interest rate method. Leases payable are reported in the accompanying financial statements gross of any applicable unamortized lease premium.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources, are reported as obligations of the funds. However, compensated absences and early retirement benefits that will be paid from governmental funds are reported as liabilities in the fund financial statements only to the extent that they are due for payment during the current fiscal year. General obligation bonds, capital leases, and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

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 New Hampshire Retirement System (NHRS) and additions to/deductions from NHRS's fiduciary net position have been determined on the same basis as they are reported by NHRS. For this purpose, benefit

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Net Position

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

The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balance Policy

Under GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned. These components of fund balance are defined as follows:

- *Nonspendable Fund Balance*: Amounts that are not in a spendable form or are required to be maintained intact.
- *Restricted Fund Balance*: Amounts that can only be spent for specific purposes stipulated by applicable state and local laws and regulations, external resource providers or through enabling legislation.
- *Committed Fund Balance*: Amounts constrained to specific purposes pursuant to a formal action by the District itself using its highest level of decision-making authority (the School Board). To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same formal action to remove or change the constraint.
- *Assigned Fund Balance*: Amounts the District intends to use for specific purposes, but do not meet the criteria to be classified as restricted or committed. For governmental funds other than the General Fund, assigned fund balance represents the remaining balance that is not restricted or committed.
- *Unassigned Fund Balance*: Includes the residual classification for the District's General Fund and includes all spendable amounts not constrained in other classifications. In other governmental funds, the unassigned classification should only be used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District's policy is to return to the Towns, any unassigned fund balance at fiscal year-end, to be used to offset the subsequent fiscal year's tax rate. As authorized at the 2016 annual District meeting, the School Board has the authority to retain unassigned fund balance of the General Fund in an amount, not to exceed in any fiscal year, 2.5% of the current fiscal year's net assessment for emergency expenditures or to reduce the tax rate.

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

Authority to Assign

The School Board delegates to the Superintendent of Schools, the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available fund balance in any particular fund.

Spending Prioritizations

The District's policy is to first apply restricted resources when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by assigned amounts then unassigned amounts.

Deficit Fund Balance

Pursuant to the District's policy, at year end if any of the special revenue funds has a deficit unassigned fund balance, a transfer from the General Fund will be recorded at year end to cover the deficit, providing the General Fund has the resources to do so.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 2—DEPOSITS

Deposits as of June 30, 2017 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 2,366,726
Restricted cash	29,767
Statement of Fiduciary Net Position:	
Cash and cash equivalents	86,945
	<u>\$ 2,483,438</u>

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

Deposits at June 30, 2017 consist of the following:

Cash on hand	\$ 350
Deposits with financial institutions	<u>2,483,088</u>
	<u>\$ 2,483,438</u>

The District's investment policy for governmental funds require that deposits and investments be made in accordance with RSA 197:23a. The District Treasurer shall deposit moneys in participating units in the public deposit investment pool established pursuant to RSA 383:22, or in federally insured banks chartered under the laws of New Hampshire or the federal government with a branch within the state, except that funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the regional federal reserve bank collateral security for such deposits of United States government obligations, United States government agency obligations, or obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

Deposits for the Student Activities Agency Fund are at the discretion of the School Principals and Superintendent of Schools.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned. For assurance against custodial credit risk, the District's investment policy stipulates that all deposits and investments be covered by federal depository insurance, with all balances in excess of FDIC insurance limits to be collateralized.

Of the District's deposits with financial institutions at year end, \$2,889,676 was collateralized by securities held by the bank in the bank's name.

NOTE 3—CAPITAL ASSETS

The following is a summary of changes in capital assets of the governmental activities:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 57,374			\$ 57,374
Total capital assets not being depreciated	<u>57,374</u>	<u>\$ -</u>	<u>\$ -</u>	<u>57,374</u>
Other capital assets:				
Land improvements	424,837	36,468		461,305
Buildings and improvements	26,346,963	2,582,782		28,929,745
Furniture and equipment	1,546,507	86,018	(230,500)	1,402,025
Total other capital assets at historical cost	<u>28,318,307</u>	<u>2,705,268</u>	<u>(230,500)</u>	<u>30,793,075</u>

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

Less accumulated depreciation for:

Land improvements	(358,554)	(10,525)		(369,079)
Buildings and improvements	(11,209,783)	(696,213)		(11,905,996)
Furniture and equipment	(1,366,416)	(104,880)	229,280	(1,242,016)
Total accumulated depreciation	(12,934,753)	(811,618)	229,280	(13,517,091)
Total other capital assets, net	15,383,554	1,893,650	(1,220)	17,275,984
Total capital assets, net	<u>\$ 15,440,928</u>	<u>\$ 1,893,650</u>	<u>\$ (1,220)</u>	<u>\$ 17,333,358</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 82,097
General administration	9,839
Operation and maintenance of plant	714,905
Food service	4,777
	<u>\$ 811,618</u>

The balance of the assets acquired through capital leases as of June 30, 2017 is as follows:

	Buildings and Improvements	Furniture and Equipment
Cost	\$ 2,560,370	\$ 86,018
Less: accumulated depreciation	(239,378)	(17,204)
	<u>\$ 2,320,992</u>	<u>\$ 68,814</u>

NOTE 4—LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in long-term obligations of the governmental activities are as follows:

Type	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
Bonds payable	\$ 5,145,000		\$ (735,000)	\$ 4,410,000	\$ 735,000
Capital leases payable	51,024	\$ 2,736,018	(51,024)	2,736,018	92,421
Premium on capital lease		40,711	(1,768)	38,943	
Total Capital leases payable	51,024	2,776,729	(52,792)	2,774,961	92,421
Compensated absences payable	106,338	36,599	(15,952)	126,985	-
Early retirement benefits	243,227	136,793	(43,599)	336,421	-
Totals	<u>\$ 5,545,589</u>	<u>\$ 2,950,121</u>	<u>\$ (847,343)</u>	<u>\$ 7,648,367</u>	<u>\$ 827,421</u>

Payments on the general obligation bonds, capital leases, compensated absences and early retirement benefits are paid out of the General Fund.

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

General Obligation Bonds

General obligation bonds are direct obligations of the District, for which its full faith and credit are pledged, and are payable from taxes levied on all taxable property located within District boundaries.

Bonds payable at June 30, 2017 are comprised of the following individual issue:

<u>Description</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at June 30, 2017</u>
2002 School Construction Bonds	<u>\$ 14,750,000</u>	3.0-5.0%	August 2022	<u>\$ 4,410,000</u>

Debt service requirements to retire general obligation bonds outstanding at June 30, 2017 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2018	\$ 735,000	\$ 173,788	\$ 973,468
2019	735,000	136,748	941,495
2020	735,000	128,625	908,787
2021	735,000	91,875	871,748
2022	735,000	55,125	790,125
2023	735,000	18,375	753,375
	<u>\$ 4,410,000</u>	<u>\$ 604,536</u>	<u>\$ 5,238,998</u>

Capital Lease Obligations

Capital lease obligations represent lease agreements entered into for the financing of equipment acquisitions and energy efficient improvements to the buildings. These contracts are subject to cancellation should funds not be appropriated to meet payment obligations. Amounts are annually budgeted in the applicable function. The following are the individual capital lease obligations outstanding at June 30, 2017:

Office Equipment, due in annual installments of \$18,716 through August 1, 2021, including interest at 3.59%	\$ 86,018
Energy efficient building improvements, due in annual principal installments ranging from \$75,000 to \$185,000 through July 2036, interest at 3.00%	<u>2,650,000</u>
	2,736,018
Add: <i>Unamortized Lease Premium</i>	<u>38,943</u>
Total Capital Leases Payable	<u>\$ 2,774,961</u>

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

Debt service requirements for the capital lease obligations outstanding at June 30, 2017 are as follows:

Year Ending June 30,	Principal	Interest	Totals
2018	\$ 92,421	\$ 83,848	\$ 176,269
2019	96,253	82,924	179,177
2020	101,836	80,113	181,949
2021	117,441	77,011	194,452
2022	123,067	73,617	196,684
2023-2027	615,000	317,999	932,999
2028-2031	725,000	223,211	948,211
2032-2036	865,000	76,303	941,303
Total	2,736,018	1,015,026	3,751,044
Add: <i>Unamortized Lease Premium</i>	38,943		38,943
	<u>\$ 2,774,961</u>	<u>\$ 1,015,026</u>	<u>\$ 3,789,987</u>

NOTE 5—DEFINED BENEFIT PENSION PLAN

Plan Description

The District contributes to the New Hampshire Retirement System (NHRS), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The New Hampshire Retirement System is a public employee retirement system that administers a single cost-sharing multiple-employer defined benefit pension plan. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature.

The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.

Substantially all full-time state and local employees, public school teachers, permanent firefighters and permanent police officers within the State are eligible and required to participate in the Pension Plan.

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

Benefits Provided

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

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

Group II members vested by January 1, 2012, who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have not attained status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the benefit commencement date precedes the month after which the member attains 52.5 years of age by 1/4 of 1%. For Group II members who commenced service prior to July 1, 2011, who have not attained vested status prior to January 1, 2012, benefits are calculated depending on age and years of creditable service as follows:

<u>Years of Creditable Service as of January 1, 2012</u>	<u>Minimum Age</u>	<u>Minimum Service</u>	<u>Benefit Multiplier</u>
At least 3 but less than 10 years	46	21	2.4%
At least 6 but less than 8 years	47	22	2.3%
At least 4 but less than 6 years	48	23	2.2%
Less than 4 years	49	24	2.1%

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

Funding Policy

Plan members are required to contribute 7.0% of their covered salary and the District is required to contribute at an actuarially determined rate. The District's contribution rates for the covered payroll of teachers and general employees were 12.72% and 10.86%, respectively. The District contributes 100% of the employer cost for teachers and general employees of the District.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The District's contributions to the NHRS for the year ending June 30, 2017 were \$1,128,436.

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

At June 30, 2017, the District reported a liability of \$16,345,560 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by a roll forward of the actuarial valuation from June 30, 2015. The District's proportion of the net pension liability was based on actual contributions by the District during the relevant fiscal year relative to the actual contributions of all participating plan members, excluding contributions to separately finance specific liabilities of individual employers or NHRS. At June 30, 2016, the District's proportion was approximately 0.3074 percent, which was an increase of 0.0044 percentage points from its proportion measured as of June 30, 2015.

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

For the year ended June 30, 2017, the District recognized pension expense of \$1,697,510. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 45,424	\$ 206,404
Changes in assumptions	2,011,619	
Net difference between projected and actual investment earnings on pension plan investments	1,022,662	
Changes in proportion and differences between District contributions and proportionate share of contributions	145,249	431,402
District contributions subsequent to the measurement date	1,128,436	
Totals	<u>\$ 4,353,390</u>	<u>\$ 637,806</u>

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions is reflected as an increase to unrestricted net position in the amount of \$3,715,584. The District reported \$1,128,436 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the measurement period ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense for the measurement periods as follows:

<u>June 30,</u>	
2017	\$ 458,395
2018	458,395
2019	851,378
2020	778,447
2021	40,533
	<u>\$ 2,587,148</u>

Actuarial Assumptions

The total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2015, using the following actuarial assumptions:

Inflation	2.5 percent
Wage inflation	3.25 percent
Salary increases	5.6 percent, average, including inflation
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

Mortality rates were based on the RP-2014 employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on the last experience study. Retirement rates were based on a table of rates that are specific to the type of eligibility condition, last updated in 2015 pursuant to an experience study of the period July 1, 2010 – June 30, 2015.

The long-term expected rate of return on pension 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 pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of weighted average long-term expected real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Net of inflation assumption of 2.5%)</u>
Fixed income	25%	(0.25)-1.71%
Domestic equity	30%	4.25-4.50%
International equity	20%	4.75-6.25%
Real estate	10%	3.25%
Private equity	5%	6.25%
Private debt	5%	4.75%
Opportunistic	5%	3.68%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the collective pension liability was 7.25%, a decrease of .50% from the June 30, 2015 measurement date. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer contributions are projected based on the expected payroll of current members only. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the collective pension liability.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the 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 or 1-percentage-point higher than the single discount rate:

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

	1% Decrease <u>(6.25%)</u>	Current Discount Rate <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
District's proportionate share of the net pension liability	\$ 21,002,931	\$ 16,345,560	\$ 12,483,008

NOTE 6—OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits, the District provides post-employment health insurance benefits to its eligible retirees and their spouses. The District provides medical, prescription drug, mental health and substance abuse benefits to retirees and their covered dependents. Retirees under the age of 65 are assumed to elect coverage under the Access Blue NE plan for fiscal year 2017 and all future years. Upon termination of employment with the District, if an employee is not eligible for immediate or vested deferred pension benefits through NHRS, the individual will still qualify as a retiree of the District for group health plan coverage. To qualify for these benefits employees hired before July 1, 2011 must meet one of the following eligibility requirements: age 60 or older with no minimum service requirement, age 50 with at least 10 years of service, or age plus service equals 70 with a minimum of 20 years of service. Employees hired on or after July 1, 2011 must be age 60 and have 30 years of service. To qualify, or to continue to qualify as a retiree, the individual must also not be actively working more than 20 hours per week or covered under another employer-sponsored group health plan. Retirees are required to pay 100% of the cost for coverage. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50.

As of July 1, 2015, the most recent actuarial valuation date, 7 retirees and 188 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

Annual OPEB Costs

The District's annual OPEB expense for the fiscal year ended June 30, 2017 is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid, on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of thirty years. The District's annual OPEB cost for the year ending June 30, 2017 including the amount actually contributed to the plan, and the change in the District's net OPEB obligation based on an actuarial valuation as of July 1, 2015 is as follows:

Annual Required Contribution (ARC)	\$ 283,639
Interest on net OPEB obligation	32,597
Adjustment to ARC	<u>(46,212)</u>
Annual OPEB cost	270,024
Contributions made	<u>(35,767)</u>
Increase in net OPEB obligation	234,257
Net OPEB obligation - beginning of year	<u>814,919</u>
Net OPEB obligation - end of year	<u>\$ 1,049,176</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2017, 2016 and 2015 are as follows:

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2017	\$ 270,024	13.2%	\$ 1,049,176
6/30/2016	\$ 266,089	2.8%	\$ 814,919
6/30/2015	\$ 144,144	13.3%	\$ 556,272

Funded Status and Funding Progress for OPEB

The funded status of the plan as of July 1, 2015, the date of the most recent actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 2,446,577
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 2,446,577</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 9,275,908
UAAL as a percentage of covered payroll	26.4%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. The total cost of providing post-employment benefits is projected, taking into account assumptions about current claim cost, turnover, mortality, health care trends, and other actuarial assumptions. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions for OPEB

Projections of benefits for financial reporting purposes are based on the plan as understood by the District and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2015 actuarial valuation, the Projected Unit Credit Method was used. The actuarial value of assets was not determined as the District has not advance funded its obligation. The District employs the Pay-as-you-go Cash Basis to fund the plan. The actuarial assumptions included a 4.0% investment rate of return and an initial annual medical cost trend of 2.04% which increases to a 5.0% long-term rate for all medical benefits after nine years. The amortization costs for the initial Unfunded Actuarial Accrued Liability (UAAL) is a level dollar amortization for a period of thirty years on a closed basis.

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

NOTE 7—INTERFUND BALANCES AND TRANSFERS

The District has combined the cash resources of its governmental funds. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance. Interfund balances at June 30, 2017 are as follows:

		Due from		
		General	Grants	
		Fund	Fund	Totals
Debit	General Fund		\$ 151,437	\$ 151,437
	Nonmajor Governmental Funds	\$ 379,306		379,306
		<u>\$ 379,306</u>	<u>\$ 151,437</u>	<u>\$ 530,743</u>

During the year, several interfund transactions occurred between funds. The General Fund made transfers to the Food Service Fund and the Donations Fund, Nonmajor Governmental Funds, to subsidize the operations of the Food Service Fund and the middle school after school program of the Donations Fund. The transfers were made in accordance with the District's fund balance policy and budgetary authorizations. Interfund transfers for the year ended June 30, 2017 are as follows:

	Transfers in	Transfers out
General Fund	\$ 533	\$ (35,000)
Grants Fund		(533)
Nonmajor Governmental Funds:		
Food Service Fund	15,000	
Donations Fund	20,000	
	<u>\$ 35,533</u>	<u>\$ (35,533)</u>

NOTE 8—COMPONENTS OF FUND BALANCE

The components of the District's fund balance for its governmental funds at June 30, 2017 are as follows:

	Fund Balances	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Inventory			\$ 7,129	\$ 7,129
Prepaid expenses			1,000	1,000
Restricted for:				
Food service operations			69,433	69,433
Donations and after school programs			311,837	311,837
Energy efficiency improvements		\$ 29,767		29,767
Committed for:				
Expendable trusts		806,170		806,170
Subsequent fiscal year appropriation		150,000		150,000
Assigned for:				
Encumbrances		116,717		116,717
Designated to offset subsequent fiscal year tax rate		1,461,241		1,461,241
		<u>\$ 2,563,895</u>	<u>\$ 389,399</u>	<u>\$ 2,953,294</u>

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

NOTE 9—PROPERTY TAXES

Property taxes levied to support the Hillsboro-Deering Cooperative School District are based on the assessed valuation of the prior April 1st for all taxable real property.

Under state statutes, the Towns of Hillsboro and Deering, New Hampshire (both independent governmental units) collect School District taxes and State of New Hampshire Education taxes as part of local property tax assessments. As collection agents, the Towns are required to pay over to the District their share of property tax assessments through periodic payments based on cash flow requirements of the District. The Towns assume financial responsibility for all uncollected property taxes under state statutes. For the year ended June 30, 2017, School District taxes were \$11,049,046 and State of New Hampshire Education taxes were \$1,446,786.

The District is entitled to receive monies under the established payment schedule and the unpaid amount at the fiscal year end, if any, is considered to be an "accounts receivable" since the revenue is both measurable and available.

NOTE 10—RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2017, the District was a member of and participated in a public entity risk pool (Trust) for property and liability insurance and worker's compensation coverage. Coverage has not been significantly reduced from the prior year and settled claims have not exceeded coverage in any of the past three years.

The Trust agreements permit the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at June 30, 2017.

Property and Liability Insurance

The Trust provides certain property and liability insurance coverage to member school districts, school administrative units, and other qualified political subdivisions of New Hampshire. As a member of the Trust, the District shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. The program includes a Self-Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000, up to an aggregate of \$5,000,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

Worker's Compensation

The Trust provides statutory worker's compensation coverage to member school districts, school administrative units, and other qualified political subdivisions of New Hampshire. The Trust is self-

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2017

sustaining through annual member premiums and provides coverage for the statutorily required workers' compensation benefits and employer's liability coverage up to \$2,000,000. The program includes a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

NOTE 11—CONTINGENT LIABILITIES

Federal Grants

The District participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amounts, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Litigation

There may be various claims and suits pending against the District, which arise in the normal course of the District's activities. In the opinion of District management, any potential claims against the District, which are not covered by insurance are immaterial and would not affect the financial position of the District.

NOTE 12—IMPLEMENTATION OF FUTURE ACCOUNTING STANDARDS

The Government Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which the District is required to implement in the fiscal year ending June 30, 2018. Management believes that this pronouncement will have a potentially significant impact on the District's government-wide financial statements. The District will have to report its proportional share of the New Hampshire Retirement System's unfunded OPEB liability in the financial statements for the fiscal year beginning after June 15, 2017. Additionally, Statement No. 75 modifies the allowable methods, recognition and measurement criteria related to how the District accounts for and reports its single employer OPEB plan, currently disclosed in Note 6.

SCHEDULE 1
HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	Final Budget - Favorable (Unfavorable)
Revenues:				
Taxes	\$ 12,495,831	\$ 12,495,831	\$ 12,495,832	\$ 1
Intergovernmental	6,938,170	6,938,170	7,089,104	150,934
Charges for services	1,649,800	1,649,800	1,440,047	(209,753)
Interest income	-	-	994	994
Miscellaneous	30,000	30,000	66,257	36,257
Total Revenues	<u>21,113,801</u>	<u>21,113,801</u>	<u>21,092,234</u>	<u>(21,567)</u>
Expenditures:				
Current operations:				
Instruction	12,707,533	12,707,533	12,298,786	408,747
Supporting services	1,835,678	1,835,678	1,720,168	115,510
Instructional staff services	880,498	880,498	782,823	97,675
General administration	2,244,568	2,244,568	2,105,045	139,523
Operation and maintenance of plant	2,057,609	2,057,609	1,789,070	268,539
Pupil transportation	766,866	766,866	768,185	(1,319)
Debt service:				
Principal retirement	735,000	735,000	735,000	-
Interest and fiscal charges	206,495	206,495	206,495	-
Total Expenditures	<u>21,434,247</u>	<u>21,434,247</u>	<u>20,405,572</u>	<u>1,028,675</u>
Excess of revenues over (under) expenditures	<u>(320,446)</u>	<u>(320,446)</u>	<u>686,662</u>	<u>1,007,108</u>
Other financing (uses):				
Transfers in	75,000	75,000	533	(74,467)
Transfers out	(357,000)	(357,000)	(235,000)	122,000
Total other financing (uses)	<u>(282,000)</u>	<u>(282,000)</u>	<u>(234,467)</u>	<u>47,533</u>
Net change in fund balance	<u>(602,446)</u>	<u>(602,446)</u>	<u>452,195</u>	<u>1,054,641</u>
Fund balance at beginning of year				
- Budgetary Basis	<u>1,159,046</u>	<u>1,159,046</u>	<u>1,159,046</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 556,600</u>	<u>\$ 556,600</u>	<u>\$ 1,611,241</u>	<u>\$ 1,054,641</u>

See accompanying notes to the required supplementary information

SCHEDULE 2

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT

Schedule of Funding Progress for Other Post-Employment Benefits

For the Year Ended June 30, 2017

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2011	\$ -	\$ 716,774	\$ 716,774	0%	\$ 8,075,695	8.9%
7/1/2013	\$ -	\$ 958,267	\$ 958,267	0%	\$ 8,777,965	10.9%
7/1/2015	\$ -	\$ 2,446,577	\$ 2,446,577	0%	\$ 9,275,908	26.4%

See accompanying notes to the required supplementary information

SCHEDULE 3

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT

Schedule of Changes in the District's Proportionate Share of the Net Pension Liability

For the Year Ended June 30, 2017

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability (asset)	0.3133%	0.3030%	0.3133%	0.3212%
District's proportionate share of the net pension liability (asset)	\$ 16,345,560	\$ 12,004,694	\$ 11,758,573	\$ 13,823,763
District's covered-employee payroll	\$ 8,749,174	\$ 8,589,679	\$ 8,594,068	\$ 8,926,829
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	186.82%	139.76%	136.82%	154.86%
Plan fiduciary net position as a percentage of the total pension liability	58.30%	65.47%	66.32%	59.81%

See accompanying notes to the required supplementary information

SCHEDULE 4
HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
Schedule of District Contributions
For the Year Ended June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,128,436	\$ 1,098,491	\$ 1,016,636	\$ 1,016,296	\$ 798,676
Contributions in relation to the contractually required contribution	<u>(1,128,436)</u>	<u>(1,098,491)</u>	<u>(1,016,636)</u>	<u>(1,016,296)</u>	<u>(798,676)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 8,984,501	\$ 8,749,174	\$ 8,589,679	\$ 8,594,068	\$ 8,926,829
Contributions as a percentage of covered-employee payroll	12.56%	12.56%	11.84%	11.83%	8.95%

See accompanying notes to the required supplementary information

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

General Fund

Amounts recorded as budgetary amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund (Schedule 1) are reported on the basis budgeted by the District. Those amounts differ from those reported in conformity with accounting principles generally accepted in the United States of America in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit D). General Fund budgetary revenues and other financing sources and expenditures and other financing uses were adjusted for encumbrances, capital lease activity, non-budgetary revenues and expenditures, and budgetary transfers as follows:

	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Per Exhibit D	\$ 23,871,147	\$ 23,340,930
Encumbrances, June 30, 2016		(180,206)
Encumbrances, June 30, 2017		116,717
Capital lease activity	(2,776,729)	(2,747,250)
Non-budgetary revenues and expenditures	(1,651)	(89,619)
Budgetary transfers		200,000
Per Schedule 1	<u>\$ 21,092,767</u>	<u>\$ 20,640,572</u>

Major Special Revenue Fund

The District adopts its budget under regulations of the New Hampshire Departments of Education and Revenue Administration which differ from accounting principles generally accepted in the United States of America. Consequently, budgetary information is not presented for the Grants Fund as the information is neither practical nor meaningful.

NOTE 2—SCHEDULE OF CHANGES IN THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF DISTRICT CONTRIBUTIONS

In accordance with GASB Statement #68, *Accounting and Financial Reporting for Pensions*, the District is required to disclose historical information for each of the prior ten years within a schedule of changes in the District's proportionate share of the net pension liability, and schedule of District contributions. The District implemented the provisions of GASB Statement #68 during the year ended June 30, 2015. Accordingly, the historic information has only been presented for those years which information was readily available. Additional disclosures will be made in future years as the information becomes available.

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
For the Year Ended June 30, 2017

Changes in Actuarial Assumptions

For the June 30, 2015 actuarial valuation, the New Hampshire Retirement System reduced its assumption for the investment rate of return from 7.75% to 7.25%, decreased the price inflation from 3.0% to 2.5%, decreased the wage inflation from 3.75% to 3.25%, and decreased the salary increases from 5.8% to 5.6%. Additionally, the mortality table was changed from the RP-2000 projected to 2020 with Scale AA to the RP-2014 employee generational mortality table for males and females, adjusted for mortality improvements using Scale MP-2015.

SCHEDULE I
HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Granting Agency/Recipient State Agency/Grant Program/State <u>Grant Number</u>	Federal Catalogue <u>Number</u>	Total Federal <u>Expenditures</u>
DEPARTMENT OF AGRICULTURE		
Pass Through Payments from the New Hampshire Department of Education		
<i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	\$ 90,561
National School Lunch Program	10.555	
School Lunch (Cash)		216,248
Commodities (Non-cash)		34,789
		<u>251,037</u>
<i>Total Child Nutrition Cluster</i>		<u>341,598</u>
Fresh Fruit and Vegetable Program	10.582	19,312
Total Department of Agriculture		<u>360,910</u>
DEPARTMENT OF EDUCATION		
Pass Through Payments from the New Hampshire Department of Education		
Title I Grants to Local Educational Agencies	84.010	
#60060		3,467
#68839		26,416
#70060		340,407
#71508		5,250
#78839		23,081
		<u>398,621</u>
<i>Special Education Cluster (IDEA):</i>		
Special Education - Grants to States	84.027	
#72576		279,917
Special Education - Preschool Grants	84.173	
#72576		5,990
<i>Total Special Education Cluster (IDEA)</i>		<u>285,907</u>
Twenty-First Century Community Learning Centers	84.287	
#66289		174
#76289		78,889
		<u>79,063</u>
Improving Teacher Quality State Grants	84.367	
#54850		8,589
#64850		12,398
#65372		9,332
#74850		23,648
		<u>53,967</u>
School Improvement Grants	84.377	
#50405		20,590
Total Department of Education		<u>838,148</u>
Total Expenditures of Federal Awards		<u>\$ 1,199,058</u>

See notes to schedule of expenditures of federal awards

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

NOTE 1—GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Hillsboro-Deering Cooperative School District (the District) under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hillsboro-Deering Cooperative School District, it is not intended to and does not present the financial position or changes in net position of the Hillsboro-Deering Cooperative School District.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's basic financial statements. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursements.

NOTE 3—INDIRECT COST RATE

The Hillsboro-Deering Cooperative School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4—RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The recognition of expenditures of federal awards has been reported as intergovernmental revenues in the District's basic financial statements in the following governmental funds:

Major Governmental Fund:	
Grants Fund	\$ 838,148
Nonmajor Governmental Funds:	
Food Service Fund	326,121
	<u>\$ 1,164,269</u>

**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**

Independent Auditor's Report

To the School Board
Hillsboro-Deering Cooperative School District

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 Hillsboro-Deering Cooperative School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Hillsboro-Deering Cooperative School District's basic financial statements, and have issued our report thereon dated July 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hillsboro-Deering Cooperative School District'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 Hillsboro-Deering Cooperative School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hillsboro-Deering Cooperative School District's internal control.

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

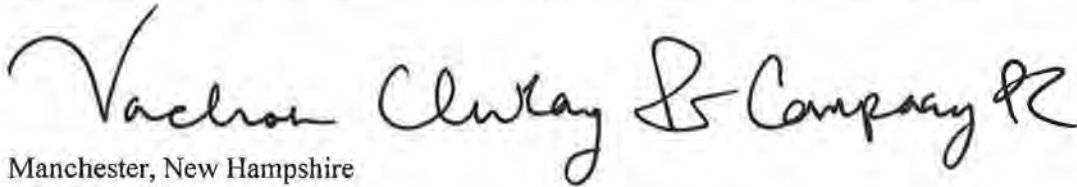
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hillsboro-Deering Cooperative School District'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.

A handwritten signature in black ink that reads "Vachon Clurkey & Company PC". The signature is written in a cursive, flowing style.

Manchester, New Hampshire
July 25, 2018

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

To the School Board
Hillsboro-Deering Cooperative School District

Report on Compliance for Each Major Federal Program

We have audited the Hillsboro-Deering Cooperative School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hillsboro-Deering Cooperative School District's major federal programs for the year ended June 30, 2017. The Hillsboro-Deering Cooperative School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hillsboro-Deering Cooperative School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Hillsboro-Deering Cooperative School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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



Manchester, New Hampshire
July 25, 2018

**Hillsboro-Deering Cooperative School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017**

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<u>Unmodified – all reporting units</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	
Significant deficiency(ies) identified	<u> </u> yes	<u> X </u> none reported	
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no	

Federal Awards

Internal Control over major programs:			
Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	
Significant deficiency(ies) identified	<u> </u> yes	<u> X </u> none reported	
Type of auditor's report issued on compliance for major federal programs:	<u>Unmodified</u>		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u> </u> yes	<u> X </u> no	

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
84.010	Title I Grants to Local Educational Agencies
84.027 & 84.173	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between Type A and Type B program: \$ 750,000

Auditee qualified as low-risk auditee? yes X no

Section II—Financial Statement Findings

There were no findings relating to the financial statements required to be reported by GAGAS.

Section III—Federal Award Findings and Questioned Costs

There were no findings and questioned costs as defined under 2 CFR 200.516(a).

SCHEDULE A
HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT
Combining Balance Sheet
Governmental Funds - All Nonmajor Funds
June 30, 2017

	Food Service Fund	Donations Fund	Total Nonmajor Funds
ASSETS			
Accounts receivable	\$ 209		\$ 209
Due from other governments	20,024		20,024
Due from other funds	61,473	\$ 317,833	379,306
Inventory	7,129		7,129
Prepaid expenses	1,000		1,000
Total Assets	<u>89,835</u>	<u>317,833</u>	<u>407,668</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 89,835</u>	<u>\$ 317,833</u>	<u>\$ 407,668</u>
LIABILITIES			
Accounts payable	\$ 12,273	\$ 1,347	\$ 13,620
Advances from grantors		4,649	4,649
Total Liabilities	<u>12,273</u>	<u>5,996</u>	<u>18,269</u>
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Nonspendable	8,129		8,129
Restricted	69,433	311,837	381,270
Total Fund balances	<u>77,562</u>	<u>311,837</u>	<u>389,399</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 89,835</u>	<u>\$ 317,833</u>	<u>\$ 407,668</u>

SCHEDULE B

HILLSBORO-DEERING COOPERATIVE SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds - All Nonmajor Funds

For the Year Ended June 30, 2017

	Food Service <u>Fund</u>	Donations <u>Fund</u>	Total Nonmajor <u>Funds</u>
Revenues:			
Intergovernmental	\$ 334,221		\$ 334,221
Charges for services	255,565	\$ 121,722	377,287
Miscellaneous		45,262	45,262
Total Revenues	<u>589,786</u>	<u>166,984</u>	<u>756,770</u>
Expenditures:			
Current operations:			
Instruction		193,031	193,031
Food service	<u>607,613</u>		<u>607,613</u>
Total Expenditures	<u>607,613</u>	<u>193,031</u>	<u>800,644</u>
Excess of revenues (under) expenditures	<u>(17,827)</u>	<u>(26,047)</u>	<u>(43,874)</u>
Other financing sources:			
Transfers in	<u>15,000</u>	<u>20,000</u>	<u>35,000</u>
Total other financing sources	<u>15,000</u>	<u>20,000</u>	<u>35,000</u>
Net change in fund balances	(2,827)	(6,047)	(8,874)
Fund balances at beginning of year	<u>80,389</u>	<u>317,884</u>	<u>398,273</u>
Fund balances at end of year	<u>\$ 77,562</u>	<u>\$ 311,837</u>	<u>\$ 389,399</u>