

NORTH HERO SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2017

NORTH HERO SCHOOL DISTRICT
 AUDIT REPORT
 TABLE OF CONTENTS
 JUNE 30, 2017

		<u>Page #</u>
Independent Auditor's Report		1-3
Basic Financial Statements:		
Statement of Net Position	Exhibit A	4
Statement of Activities	Exhibit B	5
Governmental Funds:		
Balance Sheet	Exhibit C	6
Statement of Revenues, Expenditures and Changes in Fund Balances	Exhibit D	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	Exhibit E	8
Fiduciary Fund:		
Statement of Fiduciary Net Position	Exhibit F	9
Notes to the Financial Statements		10-31
Required Supplementary Information:		
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	Schedule 1	32
Schedule of Proportionate Share of the Net Pension Liability – Vermont Municipal Employees Retirement System	Schedule 2	33
Schedule of Contributions – Vermont Municipal Employees Retirement System	Schedule 3	34
Schedule of Proportionate Share of the Net Pension Liability - Vermont State Teachers Retirement System	Schedule 4	35

NORTH HERO SCHOOL DISTRICT
AUDIT REPORT
TABLE OF CONTENTS
JUNE 30, 2017

	<u>Page #</u>
Other Information:	
Combining Balance Sheet – Non-Major Governmental Funds	Schedule 5 36
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds	Schedule 6 37
Independent Auditor’s 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”	38-39
Schedule of Findings and Deficiencies in Internal Control	40-44
Management’s Response to Findings and Deficiencies in Internal Control	

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Independent Auditor's Report

Board of School Directors
North Hero School District
c/o Grand Isle Supervisory Union
5038 US Route 2
North Hero, Vermont 05474

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 North Hero School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the North Hero School 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 includes 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 North Hero School District'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 North Hero School District'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 previously 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 North Hero School District as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Errors

As described in Note III.D. to the financial statements, certain errors were corrected by management during the current year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

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

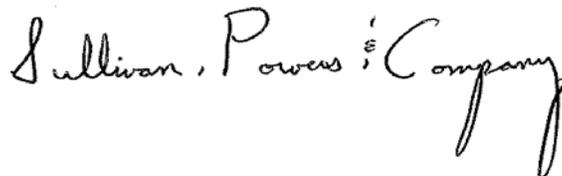
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Hero School District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by "Government Auditing Standards"

In accordance with "Government Auditing Standards", we have also issued our report dated October 19, 2018 on our consideration of the North Hero 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 and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" in considering the North Hero School District's internal control over financial reporting and compliance.

October 19, 2018
Montpelier, Vermont
VT Lic. #92-000180

A handwritten signature in cursive script that reads "Sullivan, Powers & Company". The signature is written in black ink and is positioned to the right of the date and address information.

NORTH HERO SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash	\$ 281,536
Due from the State of Vermont	61,948
Capital Assets:	
Construction in Progress	6,278
Other Capital Assets, (Net of Accumulated Depreciation)	<u>78,075</u>
Total Assets	<u>427,837</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Outflows of Resources Related to the School District's Participation in VMERS	<u>12,362</u>
Total Deferred Outflows of Resources	<u>12,362</u>
 <u>LIABILITIES</u>	
Accounts Payable	48,041
Due to Grand Isle Supervisory Union	110,934
Accrued Payroll and Benefits Payable	35,950
Noncurrent Liability:	
Due in More than One Year	<u>31,364</u>
Total Liabilities	<u>226,289</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Inflows of Resources Related to the School District's Participation in VMERS	<u>3,044</u>
Total Deferred Inflows of Resources	<u>3,044</u>
 <u>NET POSITION</u>	
Net Investment in Capital Assets	84,353
Restricted	87,577
Unrestricted	<u>38,936</u>
Total Net Position	<u>\$ 210,866</u>

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

NORTH HERO SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u> <u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenue and Changes in Net Position</u> <u>Governmental Activities</u>
Functions/Programs:				
Primary Government:				
Governmental Activities:				
Education	\$ <u>1,754,179</u>	\$ <u>70,758</u>	\$ <u>1,668,502</u>	\$ <u>(14,919)</u>
Total Governmental Activities	\$ <u><u>1,754,179</u></u>	\$ <u><u>70,758</u></u>	\$ <u><u>1,668,502</u></u>	<u><u>(14,919)</u></u>
General Revenues and Transfers:				
Unrestricted Interest Income				578
Donations				<u>3,031</u>
Total General Revenues				<u>3,609</u>
Change in Net Position				(11,310)
Net Position - July 1, 2016, as Restated				<u>222,176</u>
Net Position - June 30, 2017				\$ <u><u>210,866</u></u>

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

NORTH HERO SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash	\$ 269,063	\$ 12,473	\$ 281,536
Due from the State of Vermont	61,948	0	61,948
Due From Other Funds	<u>966</u>	<u>0</u>	<u>966</u>
Total Assets	<u>\$ 331,977</u>	<u>\$ 12,473</u>	<u>\$ 344,450</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 48,041	\$ 0	\$ 48,041
Due to Grand Isle Supervisory Union	110,934	0	110,934
Accrued Payroll and Benefits Payable	35,950	0	35,950
Due to Other Funds	<u>0</u>	<u>966</u>	<u>966</u>
Total Liabilities	<u>194,925</u>	<u>966</u>	<u>195,891</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Grants	<u>61,948</u>	<u>0</u>	<u>61,948</u>
Total Deferred Inflows of Resources	<u>61,948</u>	<u>0</u>	<u>61,948</u>
<u>FUND BALANCES</u>			
Restricted	0	12,473	12,473
Committed	75,104	0	75,104
Unrestricted/(Deficit)	<u>0</u>	<u>(966)</u>	<u>(966)</u>
Total Fund Balances	<u>75,104</u>	<u>11,507</u>	86,611
Total Liabilities and Fund Balances	<u>\$ 331,977</u>	<u>\$ 12,473</u>	
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.			84,353
Long-term and Accrued Liabilities, Including Compensated Absences and the Net Pension Liability, are not Due or Payable in the Current Period and, Therefore, are not Reported in the Funds.			(31,364)
Other Assets are not Available to Pay for Current Period Expenditures, and, Therefore, are Deferred in the Funds.			61,948
Deferred Outflows and Inflows of Resources Relating to the School District's Participation in VMERS are Applicable to Future Periods and, Therefore, are not Reported in the Funds.			<u>9,318</u>
Net Position of Governmental Activities			<u>\$ 210,866</u>

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

NORTH HERO SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues:			
Regular Instructional:			
General State Support Grants	\$ 1,320,516	\$ 0	\$ 1,320,516
Other State Revenue	113,722	0	113,722
Other Local Revenue	11,120	0	11,120
Tuition	8,658	0	8,658
Special Education Support:			
State Revenue	78,733	0	78,733
EEE Block Grant	42,195	0	42,195
GISU - Medicaid Reimbursement	2,750	0	2,750
Rental Income	62,100	0	62,100
Interest	563	15	578
Donations	0	3,031	3,031
Intergovernmental Pension Contribution	37,518	0	37,518
	<u>1,677,875</u>	<u>3,046</u>	<u>1,680,921</u>
Total Revenues			
Expenditures:			
Instructional	946,303	0	946,303
Universal Pre-Kindergarten	50,386	0	50,386
Special Education	54,478	0	54,478
Essential Early Education	3,227	0	3,227
Student Body Activities	1,391	0	1,391
Guidance Services	10,067	0	10,067
Health Services	15,368	0	15,368
Speech Services	29,443	0	29,443
Essential Early Education Speech	1,887	0	1,887
Library Services	14,352	0	14,352
Board of Education	8,755	0	8,755
Administration	88,046	0	88,046
Principal	110,972	0	110,972
Special Education Coordinator	224,078	0	224,078
Building Operations	96,532	9,505	106,037
Transportation Service	64,661	0	64,661
Food Service	13,479	0	13,479
Capital Outlay	6,278	0	6,278
	<u>1,739,703</u>	<u>9,505</u>	<u>1,749,208</u>
Total Expenditures			
Net Change in Fund Balance	(61,828)	(6,459)	(68,287)
Fund Balances - July 1, 2016, as Restated	<u>136,932</u>	<u>17,966</u>	<u>154,898</u>
Fund Balances - June 30, 2017	<u>\$ 75,104</u>	<u>\$ 11,507</u>	<u>\$ 86,611</u>

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

NORTH HERO 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

Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:

Net change in fund balances - total government funds (Exhibit D)	\$	(68,287)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets (\$6,278) is allocated over their estimated useful lives and reported as depreciation expense (\$5,833). This is the amount by which capital outlays exceeded depreciation in the current period.		445
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		61,948
Governmental funds report employer pension contributions as expenditures (\$2,178). However, in the statement of activities, the cost of pensions benefits earned net of employee contributions (\$3,956) is reported as pension expense. The amount is the net effect of the differences in the treatment of pension expense.		(1,778)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		<u>(3,638)</u>
Change in net position of governmental activities (Exhibit B)	\$	<u><u>(11,310)</u></u>

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

NORTH HERO SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUND
 JUNE 30, 2017

	<u>Agency Fund</u> <u>Student Activities Fund</u>
 <u>ASSETS</u>	
Cash	\$ <u>2,413</u>
Total Assets	<u>2,413</u>
 <u>LIABILITIES</u>	
Due to Student Organizations	<u>2,413</u>
Total Liabilities	<u>2,413</u>
 <u>NET POSITION</u>	
Total Net Position	\$ <u><u>0</u></u>

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

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

The North Hero School District, (herein the "School District") operates under a School Board/Supervisory Union form of government and provides education for elementary and high school level children.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the School District conform to generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The following is a summary of the more significant accounting policies employed in the preparation of these financial statements.

A. The Financial Reporting Entity

This report includes all of the funds of the School District. The reporting entity consists of the primary government; organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. The primary government is financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government regardless whether the organization has a separately elected governing board; a governing board appointed by a higher level of government; or a jointly appointed board. Based on these criteria, there are no other entities that should be combined with the financial statements of the School District.

B. Basis of Presentation

The accounts of the School District are organized and operated on the basis of fund accounting. A fund is an independent fiscal and accounting entity with a separate set of self-balancing accounts which comprise its assets, liabilities, deferred inflows and outflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled.

The basic financial statements of the School District include both government-wide statements and fund financial statements. The focus of the government-wide statements is on reporting the operating results and financial position of the School District as a whole and present a longer-term view of the School District's finances. The focus of the fund financial statements is on reporting on the operating results and financial position of the most significant funds of the School District and present a shorter-term view of how operations were financed and what remains available for future spending.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government, the School District. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of activities between funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular program or function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the School District's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major funds, each displayed in a separate column.

The School District reports on the following major governmental fund:

General Fund – This is the School District's primary operating fund. It accounts for all financial resources of the general government except those accounted for in another fund.

Additionally, the School District reports the following fund type:

Agency Fund – This fund accounts for resources held by the School District in a purely custodial capacity for other governments, private organizations or individuals.

C. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Government-wide financial statements are reported using the economic resources measurement focus. This means that all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of these funds (whether current or noncurrent) are included on the balance sheet (or statement of net position). Fund equity (i.e., net total position) is segregated into net investment in capital assets, restricted net position, and unrestricted net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Governmental fund financial statements are reported using the current financial resources measurement focus. This means that only current assets, deferred outflows of resources, current liabilities and deferred inflows of resources are generally reported on their balance sheets. Their reported fund balances (net current position) are considered a measure of available spendable resources, and are segregated into nonspendable; restricted; committed; assigned and unassigned amounts. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current position. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

D. Basis of Accounting

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

The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the School District gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the modified accrual basis of accounting. Revenues are recognized when measurable and available. "Measurable" means the amount of the transaction can be determined, and "available" means the amount is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The School District considers all revenues reported in governmental funds to be available if the revenues are collected within sixty days after year end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and other long-term liabilities which are recognized when the obligations are expected to be liquidated or are funded with expendable available financial resources.

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the School District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the School District's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and other grant requirements have been met.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

E. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Equity

1. Cash

The School District considers all short-term investments of ninety (90) days or less to be cash equivalents.

2. Receivables

Receivables are shown net of an allowance for uncollectible accounts for the estimated losses that will be incurred in the collection of the receivables. The estimated losses are based on the judgment of management and a review of the current status of existing receivables. The School District has evaluated the receivables and have deemed the receivables to be collectible. Therefore, no allowance for doubtful accounts is necessary.

3. Internal Balances

Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the fiscal year are referred to as “advances from/to other funds”. All other outstanding balances between funds are reported as “due from/to other funds.”

4. Pensions

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statements element, “deferred outflows of resources”, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. These amounts are deferred and recognized as an outflow of resources in the future periods to which the outflows are related.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, “deferred inflows of resources”, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the future periods to which the inflows are related.

6. Capital Assets

Capital assets are reported at actual cost or estimated historical cost based on appraisals or deflated current replacement cost if purchased or constructed. Contributed assets are recorded at their estimated acquisition value at the time received. Major outlays for capital assets and improvements are capitalized as constructed. Interest is not capitalized during the construction phase of capital assets used in governmental activities. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets’ lives are not capitalized.

Capital assets reported in the government-wide financial statements are depreciated in order that the cost of these assets will be charged to expenses over their estimated service lives, generally using the straight-line method of calculating depreciation.

The capitalization thresholds (the dollar values above which asset acquisitions are added to the capital assets accounts) is generally \$5,000 for individual items. The estimated useful lives of capital assets are as follows:

	<u>Estimated Service Life</u>
Buildings and Building Improvements	30 Years
Equipment and Furnishings	5-20 Years

Capital assets are not reported in the governmental fund type financial statements. Capital outlays in these funds are recorded as expenditures in the year they are acquired.

7. Compensated Absences

It is the School District’s policy to permit employees to accumulate earned but unused sick time. The accrual for unused compensated absence time, based on a standard rate of \$50 per day, is recorded in the government-wide financial statements. The liability for unused compensated absences is not reported in the governmental funds. Payments for unused compensated absences are recorded as expenditures in the year they are paid.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

8. Long-term Liabilities

Long-term liabilities include the net pension liability. Long-term liabilities are reported in the government-wide financial statements.

Governmental fund type financial statements do not include any long-term liabilities as those funds use the current financial resources measurement focus and only include current liabilities on their balance sheets.

9. Fund Equity

Fund equity is classified based upon any restrictions that have been placed on those balances or any tentative plans management may have made for those balances. Restrictions of net position in government-wide financial statements represent amounts that cannot be appropriated or are legally restricted for a specific purpose by a grant, contract, or other binding agreement. Fund balances of governmental funds are classified as nonspendable (not in spendable form or legally required to remain intact); restricted (constraints on the use of resources are either externally imposed by creditors, grantors, or donors, or imposed by law through enabling legislation); committed (constraints on the use of resources are imposed by formal action of the voters); assigned (reflecting the School Board's intended use of the resources); and unassigned.

II. EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUND AND GOVERNMENT-WIDE STATEMENTS

Governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, while government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. These differences in the measurement focus and basis of accounting lead to differences between the governmental fund financial statements and the government-wide financial statements as follows:

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas government-wide statements report revenues when they are earned. Long-term expense differences arise because governmental funds report operating expenses (including interest) using the modified accrual basis of accounting, whereas government-wide statements report expenses using the accrual basis of accounting.

Capital related differences arise because governmental funds report capital outlays as current period expenditures, whereas government-wide statements report depreciation as an expense. Further, governmental funds report the proceeds from the sale of capital assets as revenue, whereas government-wide statements report the gain or loss from the sale of capital assets as revenue or expense.

Pension-related differences arise because governmental funds report the current year's required employer contributions as current period expenditures, whereas government-wide statements report those transactions as deferred outflows of resources. In addition, the accrual for the School District's proportionate share of the net pension liability is recorded in the government-wide financial statements along with the related deferred inflows and outflows of resources.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The School District budget is prepared by the administration with direction from the School Board and the Grand Isle Supervisory Union. Budgeted expenditures are subject to the approval of voters at an Annual School District meeting. There were no budget amendments during the year.

B. Budgeted Deficit

The School District elected to budget expenditures in excess of revenue by \$14,878 in the General Fund in order to utilize a portion of the prior year's surplus. This is reflected as a budgeted deficiency of revenue over expenditures.

C. Excess of Expenditures Over Appropriations

For the year ended June 30, 2017, expenditures in the General Fund exceeded appropriations by \$67,222. These over-expenditures were funded by excess revenues and available fund balance.

D. Restatement of Net Position and Fund Balance

The School District restated its governmental activities net position and General Fund fund balance as of June 30, 2016 as follows:

The net position of the Governmental Activities as of June 30, 2016 was restated as follows:

Net Position – June 30, 2016, as Originally Reported	\$ 208,353
Understatement of Capital Assets	13,080
Understatement of Deferred Outflows of Resources	2,380
Overstatement of Health Insurance Payable	5,938
Understatement of Compensated Absences	<u>(7,575)</u>
Net Position – June 30, 2016, as Restated	\$ <u>222,176</u>

The fund balance of the General Fund as of June 30, 2016 was restated as follows:

Fund Balance – June 30, 2016, as Originally Reported	\$ 130,994
Adjustment to Reflect Overstatement of Accrued Health Insurance Liability	<u>5,938</u>
Fund Balance – June 30, 2016, as Restated	\$ <u>136,932</u>

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

The net effect of the restatement on the June 30, 2016 Governmental Activities Statement of Net Position is to increase assets by \$13,080, increase deferred outflows of resources by \$2,380, decrease liabilities by \$1,637 and increase net position by \$13,823. The net effect of the restatement on the June 30, 2016 General Fund Balance Sheet is to decrease liabilities and increase fund balance by \$5,938. The effect on the Statement of Activities and the Statement of Revenues, Expenditures and Changes in Fund Balances has not been determined.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and investments as of June 30, 2017 consist of the following:

Cash:

Deposits with Financial Institutions	\$ <u>283,949</u>
Total Cash	\$ <u>283,949</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counter-party (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in possession of another party. The School District does not have any policy to limit the exposure to custodial credit risk. The table below shows the custodial credit risk of the School District's deposits.

	<u>Book Balance</u>	<u>Bank Balance</u>
Insured by FDIC	\$ 283,949	\$ 285,886
Uninsured/Collateralized by U.S. Government Agency Securities Held by the Pledging Financial Institution's Agent in the School District's Name	0	5,715
Total	\$ 283,949	\$ 291,601

The difference between the book balance and bank balance is due to reconciling items such as deposits in transit and outstanding checks.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Concentration of Credit Risk

Concentration of credit risk is the risk that a large percentage of the School District's investments are held within one security. The School District does not have any limitations on the amount that can be invested in any one issuer. The School District does not have any investments subject to concentration of credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The School District does not have any policy to limit the exposure to interest rate risk. The School District does not have investments subject to interest rate risk.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The School District does not have a policy to limit the exposure to credit risk. The School District does not have any investments subject to credit risk.

B. Due from the State of Vermont

The due from the State of Vermont as of June 30, 2017, as reported in the statement of net position, is as follows:

State of Vermont Special Education Reimbursement	\$ <u>61,948</u>
Total	\$ <u>61,948</u>

C. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 0	\$ 6,278	\$ 0	\$ 6,278
Total Capital Assets, Not Being Depreciated	0	6,278	0	6,278
Capital Assets, Being Depreciated:				
Buildings	66,000	0	0	66,000
Building Improvements	773,457	0	0	773,457
Furniture and Equipment	40,165	0	20,760	19,405
Totals	879,622	0	20,760	858,862
Less Accumulated Depreciation for:				
Buildings	66,000	0	0	66,000
Building Improvements	699,208 *	3,376	0	702,584
Furniture and Equipment	30,506	2,457	20,760	12,203
Totals	795,714	5,833	20,760	780,787
Net Capital Assets, Being Depreciated	83,908	(5,833)	0	78,075
Governmental Activities Capital Assets, Net	\$ 83,908	\$ 445	\$ 0	\$ 84,353

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

* Beginning accumulated depreciation was adjusted by \$13,080 to eliminate excess depreciation taken in prior years.

Total depreciation expense of \$5,833 was charged to education.

D. Interfund Balances

The composition of interfund balances at June 30, 2017 is as follows:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 966	\$ 0
After School Fund	<u>0</u>	<u>966</u>
Total	<u>\$ 966</u>	<u>\$ 966</u>

E. Deferred Outflows of Resources

Deferred outflows of resources in the Governmental Activities consists of \$414 from the difference between the expected and actual experience, \$3,236 from changes in assumptions, \$6,534 from the difference between the projected and actual investment earnings and \$2,178 of required employer pension contributions subsequent to the measurement date, as further described in Note V.A. Total deferred outflows of resources in the Governmental Activities is \$12,362.

F. Deferred Inflows of Resources

Deferred inflows of resources in the Governmental Activities consists of \$3,044 resulting from changes in the Town's proportional share of contributions related to the Town's participation in the Vermont Municipal Employee's Retirement System (VMERS).

Deferred inflows of resources in the General Fund consists of \$61,948 of grant receivables that were not collected within sixty (60) days after year-end as these would not be available to liquidate current liabilities.

G. Short-Term Debt

The short-term debt activity during the year was as follows:

Beginning Balance	\$ 0
Proceeds of Tax Anticipation Note	100,000
Repayment of Tax Anticipation Notes	<u>(100,000)</u>
Ending Balance	<u>\$ 0</u>

NORTH HERO SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

Total interest expense for all debt during the year included in direct educational expenses on Exhibit B is \$868.

H. Long-term Liabilities

Compensated Absences – It is the policy of the School District to permit employees to accumulate earned but unused benefits. The accrual for unused compensated absences time, based on current pay rates, is recorded in the government-wide financial statements.

Net Pension Liability – The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside to pay current employees, retirees, and beneficiaries. The accrual for the School District’s share of the net pension liability is recorded in the government-wide financial statements.

Changes in all long-term liabilities during the year were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated Absences	\$ 7,575	\$ 3,638	\$ 0	\$ 11,213	\$ 0
Net Pension Liability	<u>12,617</u>	<u>7,534</u>	<u>0</u>	<u>20,151</u>	<u>0</u>
 Total Long-Term Liabilities	 <u>\$ 20,192</u>	 <u>\$ 11,172</u>	 <u>\$ 0</u>	 <u>\$ 31,364</u>	 <u>\$ 0</u>

I. Fund Balances/Net Position

GASB Statement No. 34, as amended by GASB Statement No. 54, requires fund balances reported on the governmental fund balance sheet to be classified using a hierarchy based primarily on the extent to which a government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balances are to be classified as: nonspendable (not in spendable form or legally required to remain intact); restricted (constraints on the use of resources are either externally imposed by creditors, grantors or donors, or imposed by law through enabling legislation); committed (constraints on the use of resources are imposed by formal action of the voters); assigned (reflecting the School Board’s intended use of the resources); and unassigned.

Special Revenue Funds are created only to report a revenue source (or sources) that is restricted or committed to a specified purpose, and that the revenue source should constitute a substantial portion of the resources reported in that fund. Special revenue funds cannot be used to accumulate funds that are not restricted or committed. These amounts will have to be reflected in the General Fund.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Amounts constrained to stabilization will be reported as restricted or committed fund balance in the General Fund if they meet the other criteria for those classifications. However, stabilization is regarded as a specified purpose only if the circumstances or conditions that signal the need for stabilization (a) are identified in sufficient detail and (b) are not expected to occur routinely. The School District does not have any stabilization arrangements.

Some governments create stabilization-like arrangements by establishing formal minimum fund balance policies. The School District does not have any minimum fund balance policies.

When expenditures are incurred for purposes for which both restricted and unrestricted amounts are available, it is the School District's policy to first consider restricted amounts to have been spent, followed by committed, assigned, and finally unassigned amounts.

The Fund Balance/Net Position in the following fund is restricted as follows:

King Trust Fund:

Restricted for Capital Improvements by Donor Request (Source of Revenue is Donations)	\$ <u>12,473</u>
Total Restricted Fund Balance/Net Position	\$ <u>12,473</u>

The Fund Balance in the following fund is committed as follows:

Major Funds

General Fund:

Committed for Capital Repairs and Replacements by the Voters	\$100,000
Amount Committed in Excess of Available Fund Balance	<u>(24,896)</u>
Total Committed Fund Balances	\$ <u>75,104</u>

There is an unassigned deficit of \$966 in the After School Fund. Management is in the process of determining how this deficit will be funded.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

V. OTHER INFORMATION

A. PENSION PLANS

Defined Benefit Plans

Plan Description - VMERS

The Vermont Municipal Employees' Retirement System (VMERS) is a cost-sharing, multiple-employer defined benefit pension plan that is administered by the State Treasurer and its Board of Trustees. It is designed for municipal and school district employees that work on a regular basis and also includes employees of museums and libraries if at least half of that institution's operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter. Any employee hired subsequent to the effective participation date of their employer who meets the minimum hourly requirements is required to join the system. During the year ended June 30, 2017, the retirement system consisted of 441 participating employers.

The plan was established effective July 1, 1975, and is governed by Title 24, V.S.A. Chapter 125.

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

All assets are held in a single trust and are available to pay retirement benefits to all members. Benefits available to each group are based on average final compensation (AFC) and years of creditable service.

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

As of June 30, 2016, the measurement date selected by the State of Vermont, VMERS was funded at 80.95% and had a plan fiduciary net position of \$547,015,114 and a total pension liability of \$675,711,281 resulting in a net position liability of \$128,696,167. As of June 30, 2017, the School District's proportionate share of this was 0.0157% resulting in a net pension liability of \$20,151. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating municipalities, actuarially determined. As of June 30, 2016, the School District's proportion of 0.0157% was a decrease of 0.0007% from its proportion measured as of June 30, 2015.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Summary of System Provisions

Membership – Full time employees of participating municipalities. The School District elected coverage under Group A provisions.

Creditable Service – Service as a member plus purchased service.

Average Final Compensation (AFC) – Group A – Average annual compensation during highest five (5) consecutive years.

Service Retirement Allowance:

Eligibility – Group A – The earlier of age 65 with five (5) years of service or age 55 with thirty-five (35) years of service.

Amount – Group A – 1.4% of AFC times service.

Maximum benefit is 60% of AFC for Group A. The previous amounts include the portion of the allowance provided by member contributions.

Early Retirement Allowance:

Eligibility – Age 55 with five (5) years of service for Group A.

Amount – Normal allowance based on service and AFC at early retirement, reduced by 6% for each year commencement precedes normal retirement age for Group A members.

Vested Retirement Allowance:

Eligibility – Five (5) years of service.

Amount – Allowance beginning at normal retirement age based on AFC and service at termination. The AFC is to be adjusted annually by one-half of the percentage change in the Consumer Price Index, subject to the limits on “Post-Retirement Adjustments”.

Disability Retirement Allowance:

Eligibility – Five (5) years of service and disability as determined by Retirement Board.

Amount – Immediate allowance based on AFC and service to date of disability.

Death Benefit:

Eligibility – Death after five (5) years of service.

Amount – For Group A, reduced early retirement allowance under 100% survivor option commencing immediately or, if greater, survivor(s) benefit under disability annuity computed as of date of death.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Optional Benefit and Death after Retirement – For Group A, lifetime allowance or actuarially equivalent 50% or 100% joint and survivor allowance with refund of contribution guarantee.

Refund of Contribution – Upon termination, if the member so elects or if no other benefit is payable, the member's accumulated contributions are refunded.

Post-Retirement Adjustments – Allowance in payment for at least one year increased on each January 1 by one-half of the percentage increase in Consumer Price Index but not more than 2% for Group A.

Member Contributions – Group A – 2.5%.

Employer Contributions – Group A – 4.0%.

Retirement Stipend – \$25 per month payable at the option of the Board of Trustees.

Significant Actuarial Assumptions and Methods

The actuarial assumptions regarding the incidence of mortality, terminations, retirements and disabilities were changed in accordance with the findings of an experience study covering the five-year period ending June 30, 2014.

Interest Rate: 7.95% per annum.

Salary increases: 5% per year.

Deaths: Group A – RP-2000 Tables for Employees and Healthy Annuitants projected 10 years from the valuation date with Scale BB with a 60% Blue collar and 40% White collar adjustment.

The post-retirement mortality assumption was chosen to recognize improved longevity experience after the valuation date.

Spouse's Age: Husbands are assumed to be three years older than their wives.

Cost-of-Living Adjustments to Benefits of Terminated Vested and Retired Participants: Assumed to occur at the rate of 1.5% per annum for members of Group A.

Actuarial Cost Method: Projected benefit cost method. The unfunded accrued liability is amortized in installments increasing 5% per year.

Asset Valuation Method: Invested assets are reported at fair value.

Note – For funding purposes – A smoothing method is used, under which the value of assets for actuarial purposes equals market value less a five-year phase-in of the differences between actual and assumed investment return. The value of assets for actuarial purposes may not differ from the market value of assets by more than 20%.

Inflation: The separately stated assumptions for investment return, salary increases and cost of living adjustments are consistent with an expected annual inflation rate of 3.00% per year.

NORTH HERO SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

Long-term Expected Rate of Return:

The long-term expected rate of return on investments was determined using best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variable and the asset classes. These best estimate ranges were combined to produce forecasts of the short, intermediate, and longer term horizons by weighting the expected future nominal rates of return by the target asset allocation percentage. The various time horizons in the forecast are intended to capture more recent economic and capital market conditions as well as other plausible environments that could develop in the future over economic cycles.

Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	8.54%
Fixed Income	2.36%
Alternatives	8.35%
Multi-strategy	4.90%

Nominal long-term expected rates of return for these asset classes are equal to the sum of the expected long-term real rates and the expected long-term inflation rate of 3.0%.

Discount Rate – The discount rate used to measure the total pension liability was 7.95%. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current members. The assumed discount rate has been determined in accordance with the method prescribed by GASB 68.

Sensitivity of the School District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the School District’s proportionate share of the net pension liability calculated using the discount rate of 7.95 percent, as well as what the proportionate share would be if it were calculated using a discount rate that is one percent lower (6.95%) or one percent higher (8.95%):

<u>1% Decrease (6.95%)</u>	<u>Discount Rate (7.95%)</u>	<u>1% Increase (8.95%)</u>
\$33,452	\$20,151	\$9,014

Additional Information

Additional information regarding the State of Vermont Municipal Employees’ Retirement System, including the details of the Fiduciary Net Position, is available upon request from the State of Vermont.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Plan Description - VSTRS

The Vermont State Teachers' Retirement System (VSTRS) is a cost-sharing multiple-employer defined benefit pension plan with a special funding situation. It covers nearly all public day school and nonsectarian private high school teachers and administrators as well as teachers in schools and teacher training institutions within and supported by the State that are controlled by the State Board of Education. Membership in the system for those covered classes is a condition of employment. During the year ended June 30, 2016, the retirement system consisted of 288 participating employers.

The plan was created in 1947, and is governed by Title 16, V.S. A. Chapter 555.

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

The Pension Plan is divided into the following membership groups:

- Group A – for public school teachers employed within the State of Vermont prior to July 1, 1981 and elected to remain in Group A.
- Groups C – for public school teachers employed within the State of Vermont on or after July 1, 1990, or hired before July 1, 1990 and were a member of Group B at that time.

All assets are held in a single trust and are available to pay retirement benefits to all members. Benefits available to each group are based on average final compensation (AFC) and years of creditable service, and are summarized as follows:

NORTH HERO SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

Summary of System Provisions

	Group A	Group C - Group # 1 *	Group C - Group #2 ++
Normal service retirement eligibility (no reduction)	Age 60 or with 30 years of service	Age 62 or with 30 years of service	Age 65 or when the sum of age and service equals 90
Average Final Compensation (AFC)	Highest 3 consecutive years, including unused annual leave, sick leave, and bonus/incentives	Highest 3 consecutive years, excluding all payments for anything other than service actually performed	Highest 3 consecutive years, excluding all payments for anything other than service actually performed
Benefit formula - normal service retirement	1.67% x creditable service x AFC	1.25% x service prior to 6/30/90 x AFC + 1.67% x service after 7/1/90 x AFC	1.25% x service prior to 6/30/90 x AFC + 1.67% x service after 7/1/90 x AFC, 2.0% after attaining 20 years
Maximum Benefit Payable	100% of AFC	53.34% of AFC	60% of AFC
Post-Retirement COLA	Full CPI, up to a maximum of 5% after 12 months of retirement; minimum of 1%	50% CPI, up to a maximum of 5% after 12 months of retirement or with 30 years; minimum of 1%	50% CPI, up to a maximum of 5%; minimum of 1% after 12 months of normal retirement or age 65
Early Retirement Eligibility	Age 55 with 5 years of service	Age 55 with 5 years of service	Age 55 with 5 years of service
Early Retirement Reduction	Actuarial reduction	6% per year from age 62	Actuarial reduction
Medical benefits	Health subsidy based on member's service credit	Health subsidy based on member's service credit	Health subsidy based on member's service credit
Dental	Member pays full premium	Member pays full premium	Member pays full premium

* Group #1 are members who were within 5 years of normal retirement (age 62 or 30 years of service) on June 30, 2010.

++ Group #2 are members who were less than 57 years of age or had less than 25 years of service on June 30, 2010.

NORTH HERO SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

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

Contributions

Title 16 VSA Chapter 55 of Vermont Statutes grants the authority to the Board of Trustees of the VSTRS to annually review the amount of State contributions recommended by the actuary of VSTRS in order to achieve and preserve the financial integrity of the fund, and submit this recommendation to the Governor and both houses of the Legislature. The Board of Trustees also certifies the rates of contribution payable by employees. Contribution rates for each group for the various groups are as follows:

	Group A	Group C - Group #1	Group C - Group #2
Employee Contributions	5.5% of gross salary	5% of gross salary with 5 or more years of service as of 7/1/14; 6% of gross salary if less than 5 years of service as of 7/1/14	5% of gross salary with 5 or more years of service as of 7/1/14; 6% of gross salary if less than 5 years of service as of 7/1/14;
Employer Contributions	Varies based on actuarial recommendation	Varies based on actuarial recommendation	Varies based on actuarial recommendation

The School District's Group C members contributed \$18,331.

The District's current year payroll for all employees totaled \$462,000 while its current year's covered payroll for the State Teacher's Retirement Plan equaled \$323,712 resulting in an estimated \$37,518 of on-behalf payments. This amount is included as Revenue and Expenses in Exhibits B and D.

Significant Actuarial Assumptions and Methods

The total pension liability for the June 30, 2016 was determined by rolling forward the total pension liability as of June 30, 2015 to June 30, 2016 using actuarial assumptions outlined below. These assumptions were selected on the basis of an experience study that was performed for the five-year period ending June 30, 2014. The recommended assumption changes based on this experience study were adopted by the Board at its October 29, 2015 Board Meeting, and were effective for the actuarial valuation made as of June 30, 2015. The 7.95% assumed rate of return on assets was adopted by the Board at a meeting on July 27, 2015.

Interest Rate: 7.95% per annum.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Salary Increases: Representative values of the assumed annual rates of future salary increase are as follows:

Age	Annual Rate of Salary Increase
25	8.15%
30	6.84%
35	5.97%
40	5.29%
45	4.80%
50	4.46%
55	4.22%
60	4.12%
64	4.12%

Deaths After Retirement:

The RP-2000 Mortality Tables Projected to 2029 using Scale BB for retirees, terminated vested members and beneficiaries; the RP-2000 Disabled Life Table with projection to 2020 using Scale AA for disabled retirees. The tables used contain a margin to reflect anticipated mortality improvement after the valuation date.

Inflation:

The separately stated assumption for investment return, salary increases and cost of living adjustments are consistent with an expected annual inflation rate of 3.00% to 3.25% per year.

Spouse's Age:

Husbands are assumed to be three years older than their wives.

Cost of Living Adjustments:

Assumed to occur on January 1 following one year of retirement at the rate of 3% per annum for Group A members and 1.5% per annum for Group C members (beginning at age 62 for Group C members who elect reduced early retirement).

Long-term Expected Rate of Return

The long-term expected rate of return on System investments was determined using best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variable and the asset classes. These best estimate ranges were combined to produce forecasts of the short, intermediate, and longer term horizons by weighting the expected future nominal rates of return by the target asset allocation percentage. The various time horizons in the forecast are intended to capture more recent economic and capital market conditions as well as other plausible environments that could develop in the future over economic cycles. To reflect this in the rate-of-return assumption, a Select and Ultimate assumption setting approach, which is cited in Section 3.6.4 of Actuarial Standard of Practice No. 27 as an alternative to a single assumed rate of return, is employed.

NORTH HERO SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long - Term Expected Real Rate of Return</u>
Equity	35.00%	8.54%
Fixed Income	32.00%	2.36%
Alternatives	16.00%	8.35%
Multi-strategy	17.00%	4.90%

Special Funding Situation

The State of Vermont is the nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the School District. Therefore, the School District is considered to be in a special funding situation as defined in GASB No. 68 and the State of Vermont is treated as a nonemployer contributing entity to the VSTRS. Effective July 1, 2015, the State is assessing a \$1,097 annual charge for teacher's health care for all new teachers hired during the year. The total amount paid by the School District for the year ended June 30, 2017 was \$2,633. Since the State does not consider the School District to contribute directly to VSTRS, no net pension liability is recorded by the School District. However, the notes to the financial statements of the School District must disclose the portion of the State's share of the collective net pension liability that is associated with the School District. In addition, each School District recognizes its portion of the collective pension expense as both revenue and pension expense.

B. 403(b) PENSION PLAN

The District offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 403(b). The plan permits all employees to voluntarily defer a portion of their salary until future years. Deferred Compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The School District has no liability for losses under the plan, but does have the duty of care that would be required of an ordinary prudent investor.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

C. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District maintains commercial insurance coverage. Management believes such coverage is sufficient to preclude any significant uninsured losses to the School District. Settled claims have not exceeded this coverage in any of the past three fiscal years.

In addition, the School District is a member of Vermont Educational Health Initiative (VEHI). VEHI is a nonprofit corporation formed to provide health insurance and wellness programs for Vermont school districts and is owned by the participating members. The agreement does not permit VEHI to make additional assessments to its members.

The School District self insures itself for unemployment coverage. The School District must pay the Vermont Department of Labor for any paid claims. The School District paid \$-0- in fiscal year 2017.

D. BUILDING LEASE

On August 1, 2015, the School District entered into a lease agreement with the Town of North Hero, Vermont. The School District will lease building space for five (5) years with payments due semi-annually. Building lease revenue during the period from the Town of North Hero, Vermont was \$37,800.

Future building lease revenue from the Town of North Hero, Vermont is as follows:

2018	\$ 37,800
2019	37,800
2020	<u>37,800</u>
	<u>\$ 113,400</u>

E. RELATED PARTIES

The District has an ongoing financial relationship with the Grand Isle Supervisory Union. Through the Grand Isle Supervisory Union's assessment process, the District's assessment can be increased to cover a share of any prior year deficits and decreased to share in any prior year surpluses. Separate financial statements on the Grand Isle Supervisory Union are available from the Grand Isle Supervisory Union.

NORTH HERO SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget	Actual	Variance Favorable/ (Unfavorable)
Revenues:			
Regular Instructional:			
General State Support Grants	\$ 1,320,516	\$ 1,320,516	\$ 0
Other State Revenue	109,691	113,722	4,031
Other Local Revenue	0	11,120	11,120
Tuition	0	8,658	8,658
Special Education Support:			
State Revenue	78,733	78,733	0
EEE Block Grant	42,195	42,195	0
Medicaid Reimbursement	0	2,750	2,750
Rental Income	68,800	62,100	(6,700)
Interest	150	563	413
Total Revenues	<u>1,620,085</u>	<u>1,640,357</u>	<u>20,272</u>
Expenditures:			
Instructional	977,295	908,785	68,510
Universal Pre-Kindergarten	34,313	50,386	(16,073)
Special Education	55,770	54,478	1,292
Essential Early Education	0	3,227	(3,227)
Student Body Activities	1,700	1,391	309
Guidance Services	10,914	10,067	847
Health Services	10,326	15,368	(5,042)
Speech Services	21,781	29,443	(7,662)
Essential Early Education Speech	0	1,887	(1,887)
Library Services	16,711	14,352	2,359
Board of Education	10,045	8,755	1,290
Administration	205,321	88,046	117,275
Principal	111,877	110,972	905
Special Education Coordinator	20,184	224,078	(203,894)
Building Operations	96,795	96,532	263
Transportation Service	49,931	64,661	(14,730)
Food Service	12,000	13,479	(1,479)
VSBIT Safety Grant Expense	0	6,278	(6,278)
Total Expenses	<u>1,634,963</u>	<u>1,702,185</u>	<u>(67,222)</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>\$ (14,878)</u>	(61,828)	<u>\$ (46,950)</u>
Fund Balance - July 1, 2016, as Restated		<u>136,932</u>	
Fund Balance - June 30, 2017		<u>\$ 75,104</u>	

See Disclaimer in Accompanying Independent Auditor's Report.

NORTH HERO SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 VERMONT MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
 JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Plan Net Pension Liability	\$ 128,696,167	\$ 77,095,810	\$ 9,126,613
School District's Proportion of the Net Pension Liability	0.0157%	0.0164%	0.0176%
School District's Proportionate Share of the Net Pension Liability	\$ 20,151	\$ 12,616	\$ 1,608
School District's Covered Employee Payroll	\$ 54,450	\$ 59,494	\$ 57,185
Proportionate Share of the Net Pension Liability as a Percentage of Covered - Employee Payroll	37.0083%	21.2055%	2.8119%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.95%	87.42%	98.32%

Notes to Schedule

Benefit Changes: None.

Changes in Assumptions: The actuarial assumptions regarding the incidence of mortality, terminations, retirements, and disabilities were changed in accordance with the findings of an experience study covering the five-year period ending June 30, 2014.

Fiscal year 2015 was the first year of implementation, therefore, only three years are shown.

NORTH HERO SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS
 VERMONT MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution (Actuarially Determined)	\$ 2,178	\$ 2,380	\$ 2,287
Contributions in Relation to the Actuarially Determined Contributions	<u>2,178</u>	<u>2,380</u>	<u>2,287</u>
Contribution Excess/(Deficiency)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered - Employee Payroll	\$ 54,450	\$ 59,494	\$ 57,185
Contributions as a Percentage of Covered - Employee Payroll	4.000%	4.000%	4.000%

Notes to Schedule

Valuation Date: June 30, 2016

Fiscal year 2015 was the first year of implementation, therefore, only three years are shown.

NORTH HERO SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 VERMONT STATE TEACHERS RETIREMENT SYSTEM
 JUNE 30, 2017

	2017	2016	2015
Total Plan Net Pension Liability	\$ 1,309,523,451	\$ 1,186,516,454	\$ 958,436,990
School District's Proportion of the Net Pension Liability	0.0628%	0.0666%	0.0641%
School District's Proportionate Share of the Net Pension Liability	\$ 822,598	\$ 789,743	\$ 614,380
School District's Covered Employee Payroll	\$ 323,712	\$ 406,925	\$ 402,618
Proportionate Share of the Net Pension Liability as a Percentage of Covered - Employee Payroll	254.1142%	194.0758%	152.5963%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	55.31%	58.22%	64.02%

Notes to Schedule

Benefit Changes: None.

Changes in Assumptions: None.

Fiscal year 2015 was the first year of implementation, therefore, only three years are shown.

NORTH HERO SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2017

	Special Revenue Fund <u>After School Fund</u>	Permanent Fund <u>King Trust Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ <u>0</u>	\$ <u>12,473</u>	\$ <u>12,473</u>
Total Assets	\$ <u><u>0</u></u>	\$ <u><u>12,473</u></u>	\$ <u><u>12,473</u></u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Due to Other Funds	\$ <u>966</u>	\$ <u>0</u>	\$ <u>966</u>
Total Liabilities	<u>966</u>	<u>0</u>	<u>966</u>
Fund Balances:			
Restricted	0	12,473	12,473
Unassigned/(Deficit)	<u>(966)</u>	<u>0</u>	<u>(966)</u>
Total Fund Balances	<u>(966)</u>	<u>12,473</u>	<u>11,507</u>
Total Liabilities and Fund Balances	\$ <u><u>0</u></u>	\$ <u><u>12,473</u></u>	\$ <u><u>12,473</u></u>

See Disclaimer in Accompanying Independent Auditor's Report.

NORTH HERO SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	Special Revenue Fund <u>After School Fund</u>	Permanent Fund <u>King Trust Fund</u>	<u>Total</u>
Revenues:			
Interest	\$ 0	\$ 15	\$ 15
Donations	<u>0</u>	<u>3,031</u>	<u>3,031</u>
Total Revenues	<u>0</u>	<u>3,046</u>	<u>3,046</u>
Expenditures:			
Building Operations	<u>0</u>	<u>9,505</u>	<u>9,505</u>
Total Expenditures	<u>0</u>	<u>9,505</u>	<u>9,505</u>
Net Change in Fund Balances	0	(6,459)	(6,459)
Fund Balances - July 1, 2016	<u>(966)</u>	<u>18,932</u>	<u>17,966</u>
Fund Balances - June 30, 2017	<u>\$ (966)</u>	<u>\$ 12,473</u>	<u>\$ 11,507</u>

See Disclaimer in Accompanying Independent Auditor's Report.

Sullivan, Powers & Co., P.C.

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Independent Auditor's 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"

Board of School Directors
North Hero School District
c/o Grand Isle Supervisory Union
5038 US Route 2
North Hero, Vermont 05474

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 North Hero School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the North Hero School District's basic financial statements, and have issued our report thereon dated October 19, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as described in the accompanying Schedule of Findings and Deficiencies in Internal Control, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 North Hero School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Deficiencies in Internal Control as Items 2017-01 and 2017-02 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Deficiencies in Internal Control as Items 2017-03 through 2017-07 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Hero School District's financial statements are free of 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".

We also noted certain other matters that we reported in a separate letter to the management of the North Hero School District dated October 19, 2018.

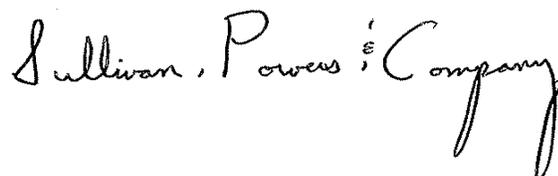
North Hero School District's Response to Deficiencies in Internal Control

The North Hero School District's responses to the deficiencies in internal control identified in our audit is included with the accompanying Schedule of Findings and Deficiencies in Internal Control. The North Hero School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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 North Hero School District'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 North Hero School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October 19, 2018
Montpelier, Vermont
VT Lic. #92-000180



NORTH HERO SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND DEFICIENCIES IN
INTERNAL CONTROL
JUNE 30, 2017

Deficiencies in Internal Control:

Material Weaknesses:

2017-01 Timely Reconciliation of Balance Sheet Accounts

Criteria:

Internal controls should be in place to provide for the timely reconciliation of all balance sheet accounts to supporting documentation on a monthly basis in order to detect and correct errors in account balances.

Condition:

The School District does not have internal controls in place to ensure that timely reconciliations are performed for all balance sheet accounts. Most of the balance sheet accounts were not reconciled to the actual balances at year end or during the year which resulted in various adjustments to revenue and expenses.

Cause:

Unknown.

Effect:

Most of the School District's balance sheet account balances were incorrect during the year and at year end.

Recommendation:

We recommend that all balance sheet accounts be reconciled to supporting documentation on a monthly basis in order to detect and correct errors.

2017-02 Special Education Report

Criteria:

Internal controls should be in place to ensure that the final Special Education Expenditures Report (SEER) agrees to the underlying accounting records. Furthermore, a secondary review performed by the Director of Special Education should be done and documented.

NORTH HERO SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND DEFICIENCIES IN
INTERNAL CONTROL
JUNE 30, 2017

Condition:

The School District does not have adequate controls in place to provide for a complete and accurate submission of the final SEER. Numerous amendments were necessary resulting from inaccuracies in the general ledger.

Cause:

Unknown.

Effect:

The final SEER is not correct and will require an amended submission by the Supervisory Union.

Recommendation:

We recommend the District implement controls to ensure that the SEER agrees to the underlying accounting records and require the review and approval by the Director of Special Education before the final submission to the State of Vermont.

Significant Deficiencies:

2017-03 Fixed Assets Accounting and Reporting

Criteria:

Procedures should be in place to provide for complete and accurate tracking of the School District's fixed assets. Complete and accurate records are vital to the effective safeguarding of fixed assets owned by the district. They are needed to maintain individual accountability for resources, to develop the insurable value of district-owned property and equipment, and to document proof of loss for claims. In addition, fixed asset records are essential for effective long-range management planning for replacement of existing property and equipment.

Condition:

The School District has not verified their schedule of fixed assets nor have they performed periodic inventories substantiating the existence of the fixed assets.

Cause:

Unknown.

NORTH HERO SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND DEFICIENCIES IN
INTERNAL CONTROL
JUNE 30, 2017

Effect:

Fixed assets could be susceptible to misappropriation as the District is not safeguarding its fixed assets from potential loss. Additionally, fixed assets could be misstated on the government-wide financial statements due to additions or deletions not recognized.

Recommendation:

We recommend that the District implement procedures to account for and record fixed asset activity. Furthermore, District personnel should perform periodic inventory of fixed assets to ensure the schedules completeness.

2017-04 Controls Over Accounts Payable

Criteria:

Internal controls should be in place to ensure that accounts payable and related expenses are reported in the correct accounting period. Additionally, accounts payable recorded in the general ledger should tie to the subsidiary ledger detailing the vendor and amount owed at year end.

Condition:

There were insufficient controls in place to ensure that all accounts payable were recorded in the proper fiscal year. As a result, adjustments were required in order to adjust accounts payable to actual.

Cause:

Unknown.

Effect:

The School District's accounts payable balances were incorrect.

Recommendation:

We recommend that the School District implement controls to ensure they review year end invoices in order to properly record all accounts payable.

2017-05 Health Insurance Reconciliation

Criteria:

Internal controls should be in place to ensure that payroll withholdings are adequate to cover the employee portion of health insurance expenses as agreed upon in the teacher's contracts.

NORTH HERO SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND DEFICIENCIES IN
INTERNAL CONTROL
JUNE 30, 2017

Condition:

The School District does not have controls in place to reconcile employee benefit withholdings. The District was not withholding enough to cover health insurance expenses for individuals not participating in summer pay. Additionally, when an employee changed health insurance plans, the withholdings were not adjusted accordingly to reflect the change in cost.

Cause:

Unknown.

Effect:

The allocation between employee and employer portion of health insurance expenses was incorrect which resulted in the District overpaying for multiple teachers.

Recommendation:

We recommend that the District implement internal controls requiring an employee withholding reconciliation to supporting documentation to ensure the appropriate allocation of employee and employer related expenses.

2017-06 Accounting and Procedures Manual

Criteria:

An accounting and procedures manual should be in place. This manual should define duties and responsibilities for current personnel so as to prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. It will also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees.

Condition:

The School District does not have an accounting and procedures manual in place.

Cause:

Unknown.

Effect:

The School District staff does not have a manual to turn to when questions arise about the scope of their duties and responsibilities.

NORTH HERO SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND DEFICIENCIES IN
INTERNAL CONTROL
JUNE 30, 2017

Recommendation:

We recommend that the School District develop this document for all accounting procedures as soon as possible. Each individual should document their duties and how to perform them. The manual should include examples of forms with descriptions of their use. Once developed, only changes in procedures or forms will require changes in the manual.

We believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

We also recommend that the School District make sure that there are no jobs related to accounting and finance that only one person knows how to perform. The procedures manual would also be useful in determining whether this situation exists.

2017-07 Authorization of General Journal Entries

Criteria:

Internal controls should be in place that require appropriate individuals to approve all adjustments to the books of original entry.

Condition:

Internal controls over recording of journal entries are inadequately designed. Journal entries prepared by the Business Manager are not reviewed by another individual nor is adequate supporting documentation retained.

Cause:

Unknown.

Effect:

This one deficiency in internal control structure could allow other working control policies to be circumvented.

Recommendation:

We recommend that the School District consistently ensure that all journal entries are properly supported with documentation as to how and where the amount was derived. We also recommend that all journal entries be reviewed by an appropriate official so as not to circumvent the original approval process.

North Hero FY17 Audit Response

2017-01 Timely Reconciliation of Balance Sheet Accounts

Criteria:

Internal controls should be in place to provide for the timely reconciliation of all balance sheet accounts to supporting documentation on a monthly basis in order to detect and correct errors in account balances.

Recommendation:

We recommend that all balance sheet accounts be reconciled to supporting documentation on a monthly basis in order to detect and correct errors.

Management Response: Balance Sheet reconciliation files have been created for the Supervisory Union and all school districts. Reconciliations will be completed on a monthly basis with appropriate supporting documentation.

2017-02 Special Education Report

Criteria:

Internal controls should be in place to ensure that the Special Education Expenditures Report (SEER) agrees to the underlying accounting records. Furthermore, a secondary review performed the Director of Special Education, should be done and documented.

Recommendation:

We recommend the District implement controls to ensure that the SEER agrees to the underlying accounting records and require the review and approval by the Director of Special Education before the final submission to the State of Vermont

Management Response: Controls will be put in place to ensure that the SEER agrees to the underlying accounting records. The final SEER will be reviewed with the Director of Special Education prior to submission to the State.

2017-03 Fixed Assets Accounting and Reporting

Criteria:

Procedures should be in place to provide for complete and accurate tracking of the School District's fixed assets. Complete and accurate records are vital to the effective safeguarding of fixed assets owned by the district. They are needed to maintain individual accountability for resources, to develop the insurable value of district-owned property and equipment, and to document proof of loss for claims. In addition, fixed asset records are essential for effective long-range management planning for replacement of existing property and equipment.

Recommendation:

We recommend that the District implement procedures to account for and record fixed asset activity. Furthermore, District personnel should perform periodic inventory of fixed assets to ensure the schedules completeness.

Management Response: Internal control procedures will be developed to ensure that fixed asset activity is accounted for. District and central office personnel will conduct periodic inventories of fixed assets

2017-04 Controls Over Accounts Payable

Criteria:

Internal controls should be in place to ensure that accounts payable and related expenses are reported in the correct accounting period. Additionally, accounts payable recorded in the general ledger should agree to the subsidiary ledger detailing the vendor and amount owed at year end.

Recommendation:

We recommend that the School District implement controls to ensure they review year end invoices in order to properly record all accounts payable.

Management Response: The School District will implement year end procedures to ensure that accounts payable are properly recorded.

2017-05 Health Insurance Reconciliation

Criteria:

Internal controls should be in place to ensure that payroll withholdings are adequate to cover the employee portion of health insurance expenses as agreed upon in the teacher's contracts.

Recommendation:

We recommend that the District implement internal controls requiring an employee withholding reconciliation to supporting documentation to ensure the appropriate allocation of employee and employer related expenses.

Management Response: Controls will be implemented to ensure that employee withholding reconciliations are completed with supporting documentations.

2017-06 Accounting and Procedures Manual

Criteria:

An accounting and procedures manual should be in place. This manual should define duties and responsibilities for current personnel so as to prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. It will also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees.

Recommendation:

We recommend that the Supervisory Union develop this document for all accounting procedures as soon as possible. Each individual should document their duties and how to perform them. The manual should include examples of forms with descriptions of their use. Once developed, only changes in procedures or forms will require changes in the manual.

We believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

We also recommend that the Supervisory Union make sure that there are no jobs related to accounting and finance that only one person knows how to perform. The procedures manual would also be useful in determining whether this situation exists.

Management Response: Management agrees that an Accounting & Procedures manual be developed and put into place. Management also agrees to facilitate cross training of staff.

2017-07 Authorization of General Journal Entries

Criteria:

Internal controls should be in place that require appropriate individuals to approve all adjustments to the books of original entry.

Recommendation:

We recommend that the School District consistently ensure that all journal entries are properly supported with documentation as to how and where the amount was derived. We also recommend that all journal entries be reviewed by an appropriate official so as not to circumvent the original approval process.

Management Response: Management agrees and will ensure that supporting documentation is attached to journal entries. In addition, journal entries will require at least two signatures.