

**ISLE LA MOTTE SCHOOL DISTRICT**

**AUDIT REPORT**

**JUNE 30, 2017**

ISLE LA MOTTE SCHOOL DISTRICT  
 AUDIT REPORT  
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Independent Auditor's Report

Board of School Directors  
Isle La Motte 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 Isle La Motte School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Isle La Motte 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 Isle La Motte 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 Isle La Motte 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 Isle La Motte 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.C. 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***

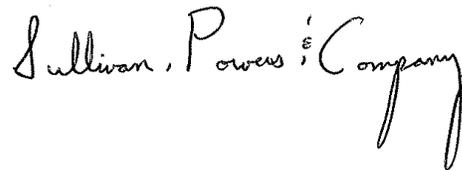
Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information for the General Fund in Schedule 1 and the Schedule of Proportionate Share of the Net Pension Liability on Schedule 2 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 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 Isle La Motte 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 Isle La Motte School District's internal control over financial reporting and compliance.

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

A handwritten signature in black ink that reads "Sullivan, Powers & Company". The signature is written in a cursive style with a large, stylized 'S' at the beginning and a long, sweeping tail at the end.

ISLE LA MOTTE SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2017

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash	\$ 34,784
Due from State of Vermont	5,852
Due from Grand Isle Supervisory Union	70,533
Capital Assets:	
Construction in Progress	10,000
Other Capital Assets, (Net of Accumulated Depreciation)	<u>587,517</u>
Total Assets	<u>708,686</u>
<u>LIABILITIES</u>	
Accounts Payable	2,361
Accrued Payroll and Benefits Payable	7,650
Short-Term Note Payable	75,000
Noncurrent Liabilities:	
Due within One Year	<u>14,668</u>
Total Liabilities	<u>99,679</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	597,517
Unrestricted	<u>11,490</u>
Total Net Position	<u>\$ 609,007</u>

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

ISLE LA MOTTE SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

	Program Revenues		Net (Expenses) Revenue and Changes in Net Position	
Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
Functions/Programs:				
Primary Government:				
Governmental Activities:				
Education	\$ <u>1,106,755</u>	\$ <u>14,500</u>	\$ <u>1,081,769</u>	\$ <u>(10,486)</u>
Total Governmental Activities	\$ <u><u>1,106,755</u></u>	\$ <u><u>14,500</u></u>	\$ <u><u>1,081,769</u></u>	<u>(10,486)</u>
General Revenues:				
Unrestricted Interest Income			<u>390</u>	
Total General Revenues			<u>390</u>	
Change in Net Position			(10,096)	
Net Position - July 1, 2016, As Restated			<u>619,103</u>	
Net Position - June 30, 2017			\$ <u><u>609,007</u></u>	

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

ISLE LA MOTTE SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017

	General Fund	Special Revenue Fund Food Service Fund	Total Governmental Funds
<u>ASSETS</u>			
Cash	\$ 34,784	\$ 0	\$ 34,784
Due from State of Vermont	5,852	0	5,852
Due from Grand Isle Supervisory Union	70,533	0	70,533
Due from Other Funds	0	2,086	2,086
Total Assets	\$ 111,169	\$ 2,086	\$ 113,255
<u>LIABILITIES</u>			
Accounts Payable	\$ 2,361	\$ 0	\$ 2,361
Accrued Payroll and Benefits Payable	7,650	0	7,650
Short-Term Note Payable	75,000	0	75,000
Due to Other Funds	2,086	0	2,086
Total Liabilities	87,097	0	87,097
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Grants	5,852	0	5,852
Total Deferred Inflows of Resources	5,852	0	5,852
<u>FUND BALANCES</u>			
Unrestricted	18,220	2,086	20,306
Total Fund Balances	18,220	2,086	20,306
Total Liabilities and Fund Balances	\$ 111,169	\$ 2,086	
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.			597,517
Other Assets are not Available to Pay for Current-Period Expenditures, and, Therefore, are Deferred in the Funds.			5,852
Long Term and Accrued Liabilities, Including Bonds Payable, are not Due or Payable in the Current Period and, Therefore, are Not Reported in the Funds.			(14,668)
Net Position of Governmental Activities			\$ 609,007

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

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

	General Fund	Special Revenue Fund Food Service Fund	Total Governmental Funds
Revenues:			
Regular Instructional:			
General State Support Grants	\$ 883,464	\$ 0	\$ 883,464
State and Federal Grants	0	3,092	3,092
Other State Revenue	50,755	0	50,755
Special Education Support:			
State Revenue	87,305	0	87,305
EEE Block Grant	21,138	0	21,138
GISU - Medicaid Reimbursement	5,000	0	5,000
Rental Income	14,500	0	14,500
Food Sales	0	119	119
Interest	390	0	390
Intergovernmental Pension Contribution	25,044	0	25,044
Total Revenues	<u>1,087,596</u>	<u>3,211</u>	<u>1,090,807</u>
Expenditures:			
Instructional	619,554	0	619,554
Universal Pre-Kindergarten	12,368	0	12,368
Special Education	266	0	266
Student Body	677	0	677
Guidance Services	13,744	0	13,744
Health Services	7,682	0	7,682
Speech Services	13,951	0	13,951
Library Services	1,774	0	1,774
Board of Education	4,199	0	4,199
Administration	53,621	0	53,621
Principal	78,187	0	78,187
Special Education Coordinator	194,665	0	194,665
Building Operations	56,075	0	56,075
Food Service	23,000	1,976	24,976
Miscellaneous	331	0	331
Capital Outlay	10,000	0	10,000
Debt Service:			
Principal	39,559	0	39,559
Interest	220	0	220
Total Expenditures	<u>1,129,873</u>	<u>1,976</u>	<u>1,131,849</u>
Excess/(Deficiency) of Revenues Over Expenditures	(42,277)	1,235	(41,042)
Fund Balances - July 1, 2016, As Restated	<u>60,497</u>	<u>851</u>	<u>61,348</u>
Fund Balances - June 30, 2017	<u>\$ 18,220</u>	<u>\$ 2,086</u>	<u>\$ 20,306</u>

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

ISLE LA MOTTE 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)	\$	(41,042)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets (\$10,000) is allocated over their estimated useful lives and reported as depreciation expense (\$24,465). This is the amount by which capital outlays exceeded depreciation in the current period.		(14,465)
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		5,852
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net amount by which repayments in the current period (\$39,559) exceed proceeds (\$-0-).		<u>39,559</u>
Change in net position of governmental activities (Exhibit B)	\$	<u><u>(10,096)</u></u>

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

ISLE LA MOTTE SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUND  
 JUNE 30, 2017

	Agency Fund Student Activities Fund
<u>ASSETS</u>	
Cash	\$ <u>2,068</u>
Total Assets	<u>2,068</u>
<u>LIABILITIES</u>	
Due to Student Organizations	<u>2,068</u>
Total Liabilities	<u>2,068</u>
<u>NET POSITION</u>	
Total Net Position	\$ <u><u>0</u></u>

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

ISLE LA MOTTE SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

The Isle La Motte 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 imposed 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.

ISLE LA MOTTE 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.

ISLE LA MOTTE 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.

ISLE LA MOTTE 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. Deferred Outflows 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.

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.

ISLE LA MOTTE SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**5. 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	30-50 Years
Infrastructure	30 Years
Equipment and Furnishings	5-15 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.

**6. Long-term Liabilities**

Long-term liabilities include bonds and notes. 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.

**7. 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.

ISLE LA MOTTE SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**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.

Long-term debt transaction differences arise because governmental funds report long-term debt proceeds as other financing sources and principal payments as expenditures, whereas government-wide statements report those transactions as increases and decreases in liabilities, respectively.

**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 \$69,638 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.

ISLE LA MOTTE SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**C. 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	\$ 621,463
Adjustment to Reflect Understatement of Accounts Payable and Accrued Health Insurance Liability	<u>(2,360)</u>
Net Position – June 30, 2016, as Restated	<u>\$ 619,103</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	\$ 62,858
Adjustment to Reflect Understatement of Accounts Payable and Accrued Health Insurance Liability	<u>(2,361)</u>
Fund Balance – June 30, 2016, as Restated	<u>\$ 60,497</u>

The net effect of the restatement on the June 30, 2016 Governmental Activities Statement of Net Position and the General Fund Balance Sheet is that the liabilities and fund balance/net position were understated by \$2,360. 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>36,852</u>
Total Cash	\$ <u>36,852</u>

ISLE LA MOTTE SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**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	\$ <u>36,852</u>	\$ <u>71,134</u>
Total	\$ <u><u>36,852</u></u>	\$ <u><u>71,134</u></u>

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

**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.

ISLE LA MOTTE SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**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>5,852</u>
Total	\$ <u>5,852</u>

**C. Capital Assets**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 0	\$ 10,000	\$ 0	\$ 10,000
Total Capital Assets, Not Being Depreciated	0	10,000	0	10,000
Capital Assets, Being Depreciated:				
Buildings	800,000 *	0	0	800,000
Building Improvements	40,000	0	0	40,000
Infrastructure	68,581	0	0	68,581
Furniture and Equipment	73,796 *	0	5,105	68,691
Totals	982,377	0	5,105	977,272
Less Accumulated Depreciation for:				
Buildings	320,000 *	16,000	0	336,000
Building Improvements	6,400	1,600	0	8,000
Infrastructure	20,574	2,286	0	22,860
Furniture and Equipment	23,421 *	4,579	5,105	22,895
Totals	370,395	24,465	5,105	389,755
Net Capital Assets, Being Depreciated	611,982	(24,465)	0	587,517
Governmental Activities Capital Assets, Net	\$ 611,982	\$ (14,465)	\$ 0	\$ 597,517

\* Beginning assets and accumulated depreciation were adjusted by \$56,000 and \$22,400, respectively, to reclassify buildings that were previously recorded as furniture and equipment.

Total depreciation expense of \$24,465 was charged to education.

ISLE LA MOTTE SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2017

**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	\$ 0	\$ 2,086
Food Service Fund	<u>2,086</u>	<u>0</u>
Total	<u>\$ 2,086</u>	<u>\$ 2,086</u>

**E. Deferred Inflows of Resources**

Deferred inflows or resources consists of \$5,852 of grant receivables that were not collected within sixty (60) days after year-end as these would not be available to liquidate current liabilities.

**F. Short-Term Debt**

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

Beginning Balance	\$ 0
Tax Anticipation Note, Peoples United Bank, \$75,000 with Interest at 1.95%. Total Principal and Interest are Due on November 1, 2017.	75,000
Repayment of Tax Anticipation Notes	<u>0</u>
Ending Balance	<u>\$75,000</u>

Total interest expense for all debt during the year included in direct educational expenses on Exhibit B is \$220.

**G. Long-term Liabilities**

General Obligation Bonds. The School District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and to refund prior issues. General obligation bonds have been issued for general governmental activities. Bonds are reported in governmental activities if the debt is expected to be repaid from general governmental revenues.

General obligation bonds are direct obligations and pledge the full faith and credit of the School District. New bonds generally are issued as 10 to 20 year bonds. Refunding bonds are issued for various terms based on the debt service of the debt refunded.

The School District has a note payable to finance capital projects and purchases to the Trustee of Public Funds of the Town of Isle La Motte, Vermont.

ISLE LA MOTTE SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

Long-term debt outstanding as of June 30, 2017 was as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
<u>Governmental Activities:</u>				
Vermont Municipal Bond Bank, Annual Principal Payments of \$25,000, Interest Due Semi- Annually, Various Interest Rates, Currently at 6.093%. Due and Paid on December 1, 2016.	\$25,000	\$ 0	\$25,000	\$ 0
Trustees of Public Funds, Town of Isle La Motte, Vermont, Annual Principal Payments Ranging from \$14,451 - \$14,668, Interest at .75%.	<u>29,227</u>	<u>0</u>	<u>14,559</u>	<u>14,668</u>
Total Governmental Activities	<u>\$54,227</u>	<u>\$ 0</u>	<u>\$39,559</u>	<u>\$ 14,668</u>

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
General Obligation Bond Payable	\$ 25,000	\$ 0	\$ 25,000	\$ 0	\$ 0
Note Payable	<u>29,227</u>	<u>0</u>	<u>14,559</u>	<u>14,668</u>	<u>14,668</u>
Total Long-Term Liabilities	<u>\$ 54,227</u>	<u>\$ 0</u>	<u>\$ 39,559</u>	<u>\$ 14,668</u>	<u>\$ 14,668</u>

ISLE LA MOTTE SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2017

Debt service requirements to maturity are as follows:

Year Ending	Governmental Activities	
	Principal	Interest
2017		
2018	\$ 14,668	\$ 110
Total	\$ 14,668	\$ 110

**H. 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.

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 School District does not have any restricted, committed or assigned net position or fund balances.

ISLE LA MOTTE SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**V. OTHER INFORMATION**

**A. PENSION PLANS**

**Defined Benefit Plans**

**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:

ISLE LA MOTTE SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Summary of System Provisions**

	<b>Group A</b>	<b>Group C - Group # 1</b> *	<b>Group C - Group #2</b> ++
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.

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.

ISLE LA MOTTE SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2017

**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 \$12,428.

The District's current year payroll for all employees totaled \$277,017 while its current year's covered payroll for the State Teacher's Retirement Plan equaled \$216,087 resulting in an estimated \$25,044 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.

ISLE LA MOTTE 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.

ISLE LA MOTTE 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 \$3,291. 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. As of June 30, 2017, the District has one (1) employee who has enrolled in the plan and makes employee only deferrals. Deferred Compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The 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.

**C. RISK MANAGEMENT**

The Isle La Motte 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 Isle La Motte School District maintains commercial insurance coverage. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Isle La Motte School District. Settled claims have not exceeded this coverage in any of the past three fiscal years.

ISLE LA MOTTE SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

In addition, the Isle La Motte 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 Isle La Motte 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. 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.

ISLE LA MOTTE 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	\$ 883,464	\$ 883,464	\$ 0
Other State Revenue	48,510	50,755	2,245
Other Local Revenue	2,500	0	(2,500)
Tuition	29,823	0	(29,823)
Special Education Support:			
State Revenue	135,327	87,305	(48,022)
EEE Block Grant	22,265	21,138	(1,127)
Medicaid Reimbursement	0	5,000	5,000
Rental Income	14,500	14,500	0
Interest	300	390	90
Total Revenues	<u>1,136,689</u>	<u>1,062,552</u>	<u>(74,137)</u>
Expenditures:			
Instructional	613,075	594,510	18,565
Universal Pre-Kindergarten	34,716	12,368	22,348
Special Education	646	266	380
Student Body Activities	1,900	677	1,223
Guidance Services	5,158	13,744	(8,586)
Health Services	9,768	7,682	2,086
Speech Services	6,686	13,951	(7,265)
Library Services	2,278	1,774	504
Board of Education	4,875	4,199	676
Administration	53,621	53,621	0
Principal	75,927	78,187	(2,260)
Special Education Coordinator	283,199	194,665	88,534
Fiscal Services	600	0	600
Building Operations	50,961	66,075	(15,114)
Debt Service	38,917	39,779	(862)
Food Service	24,000	23,000	1,000
Miscellaneous Expense	0	331	(331)
Total Expenditures	<u>1,206,327</u>	<u>1,104,829</u>	<u>101,498</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>\$ (69,638)</u>	<u>(42,277)</u>	<u>\$ 27,361</u>
Fund Balance - July 1, 2016, As Restated		<u>60,497</u>	
Fund Balance - June 30, 2017		<u>\$ 18,220</u>	

See Disclaimer in Accompanying Independent Auditor's Report.

ISLE LA MOTTE 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	0.0381%	0.0449%	0.0418%
School District's Proportionate Share of the Net Pension Liability	\$ 498,381	\$ 532,862	\$ 400,829
School District's Covered Employee Payroll	\$ 216,087	\$ 246,540	\$ 250,468
Proportionate Share of the Net Pension Liability as a Percentage of Covered - Employee Payroll	230.6390%	216.1361%	160.0320%
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: 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 (5) year period ending June 30, 2014.

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

# Sullivan, Powers & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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VT Lic. #92-000180

## 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  
Isle La Motte 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 Isle La Motte School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Isle La Motte 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 Isle La Motte 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 Isle La Motte School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Isle La Motte 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 Isle La Motte 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 Isle La Motte 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 Isle La Motte School District dated October 19, 2018.

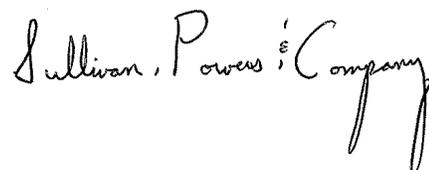
### ***Isle La Motte School District's Response to Deficiencies in Internal Control***

The Isle La Motte 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 Isle La Motte 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 Isle La Motte 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 Isle La Motte 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



ISLE LA MOTTE 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.

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*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.

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*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.

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*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.

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*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.

## **Isle La Motte 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.*