

**SOUTH HERO SCHOOL DISTRICT**

**AUDIT REPORT**

**JUNE 30, 2017**

SOUTH HERO SCHOOL DISTRICT  
 AUDIT REPORT  
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Independent Auditor's Report

Board of School Directors  
South 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, the business-type activities, each major fund and the aggregate remaining fund information of the South 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 South 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 South 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 South 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, the business-type activities, each major fund and the aggregate remaining fund information of the South Hero School District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***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 the 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.

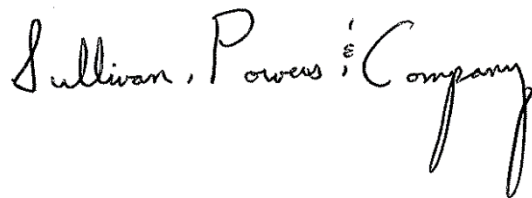
***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South 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 15, 2018 on our consideration of the South 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 South Hero School District's internal control over financial reporting and compliance.

October 15, 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.

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

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash	\$ 284,240	\$ 0	\$ 284,240
Due from the State of Vermont	80,513	0	80,513
Internal Balances	(35,645)	35,645	0
Capital Assets:			
Land	39,200	0	39,200
Other Capital Assets, (Net of Accumulated Depreciation)	<u>847,495</u>	<u>10,451</u>	<u>857,946</u>
Total Assets	<u>1,215,803</u>	<u>46,096</u>	<u>1,261,899</u>
<u>LIABILITIES</u>			
Accounts Payable	11,062	69	11,131
Accrued Payroll and Benefits Payable	102,641	0	102,641
Due to Town of South Hero	58,065	0	58,065
Due to Grand Isle Supervisory Union	41,744	0	41,744
Due to Private Purpose Trust Funds	73,923	0	73,923
Accrued Interest Payable	6,501	0	6,501
Noncurrent Liabilities:			
Due within One Year	122,277	0	122,277
Due in More than One Year	<u>253,246</u>	<u>0</u>	<u>253,246</u>
Total Liabilities	<u>669,459</u>	<u>69</u>	<u>669,528</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	561,099	10,451	571,550
Restricted	8,429	0	8,429
Unrestricted/(Deficit)	<u>(23,184)</u>	<u>35,576</u>	<u>12,392</u>
Total Net Position	<u>\$ 546,344</u>	<u>\$ 46,027</u>	<u>\$ 592,371</u>

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

SOUTH HERO 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	Business-type Activities	Total
Functions/Programs:						
Primary Government:						
Governmental Activities:						
Education	\$ 3,541,944	\$ 116,210	\$ 3,346,098	\$ (79,636)	\$ 0	\$ (79,636)
Total Governmental Activities	<u>3,541,944</u>	<u>116,210</u>	<u>3,346,098</u>	<u>(79,636)</u>	<u>0</u>	<u>(79,636)</u>
Business-type Activities:						
Food Service	23,854	24,538	26,082	0	26,766	26,766
Total Business-type Activities	<u>23,854</u>	<u>24,538</u>	<u>26,082</u>	<u>0</u>	<u>26,766</u>	<u>26,766</u>
Total Primary Government	<u>\$ 3,565,798</u>	<u>\$ 140,748</u>	<u>\$ 3,372,180</u>	<u>(79,636)</u>	<u>26,766</u>	<u>(52,870)</u>
General Revenues and Transfers:						
Unrestricted Interest Income				3	0	3
Total General Revenues and Transfers				<u>3</u>	<u>0</u>	<u>3</u>
Change in Net Position				(79,633)	26,766	(52,867)
Net Position - July 1, 2016, as Restated				<u>625,977</u>	<u>19,261</u>	<u>645,238</u>
Net Position - June 30, 2017				<u>\$ 546,344</u>	<u>\$ 46,027</u>	<u>\$ 592,371</u>

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



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

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<u>ASSETS</u>			
Cash	\$ 277,020	\$ 7,220	\$ 284,240
Due from State of Vermont	80,513	0	80,513
Due from Other Funds	<u>0</u>	<u>9,929</u>	<u>9,929</u>
Total Assets	<u>\$ 357,533</u>	<u>\$ 17,149</u>	<u>\$ 374,682</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 11,062	\$ 0	\$ 11,062
Accrued Payroll and Benefits Payable	102,641	0	102,641
Due to Town of South Hero	58,065	0	58,065
Due to Grand Isle Supervisory Union	41,744	0	41,744
Due to Other Funds	<u>119,497</u>	<u>0</u>	<u>119,497</u>
Total Liabilities	<u>333,009</u>	<u>0</u>	<u>333,009</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Grants	<u>80,513</u>	<u>0</u>	<u>80,513</u>
Total Deferred Inflows of Resources	<u>80,513</u>	<u>0</u>	<u>80,513</u>
<u>FUND BALANCES</u>			
Nonspendable	0	6,000	6,000
Restricted	0	2,429	2,429
Committed	0	8,720	8,720
Unassigned/(Deficit)	<u>(55,989)</u>	<u>0</u>	<u>(55,989)</u>
Total Fund Balances/(Deficit)	<u>(55,989)</u>	<u>17,149</u>	<u>(38,840)</u>
Total Liabilities and Fund Balances	<u>\$ 357,533</u>	<u>\$ 17,149</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.	886,695
Other Assets are not Available to Pay for Current-Period Expenditures, and, Therefore, are Deferred in the Funds.	80,513
Long Term and Accrued Liabilities, Including Notes Payable, are not Due or Payable in the Current Period and, therefore, are Not Reported in the Funds.	<u>(382,024)</u>
Net Position of Governmental Activities	<u>\$ 546,344</u>

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

SOUTH 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	\$ 2,905,460	\$ 0	\$ 2,905,460
Other State Revenue	81,289	0	81,289
State Aid Transportation	32,196	0	32,196
Special Education Support:			
State Revenue	144,526	0	144,526
EEE Block Grant	13,458	0	13,458
Rental Income	115,603	0	115,603
Interest	0	3	3
Miscellaneous	607	0	607
Intergovernmental Pension Contribution	88,656	0	88,656
 Total Revenues	 <u>3,381,795</u>	 <u>3</u>	 <u>3,381,798</u>
Expenditures:			
Instructional	2,129,648	0	2,129,648
Universal Pre-Kindergarten	36,045	0	36,045
Special Education	97,503	0	97,503
Essential Early Education	5,323	0	5,323
Student Body Activities	16,526	0	16,526
Summer School Program	1,386	0	1,386
Guidance Services	74,748	0	74,748
Health Services	25,302	0	25,302
Speech Services	148	0	148
Essential Early Education Speech	983	0	983
Library Services	70,675	0	70,675
Board of Education	11,555	0	11,555
Administration	178,260	0	178,260
Principal	216,235	0	216,235
Special Education Coordination	310,764	0	310,764
Building Operations	208,476	0	208,476
Transportation Service	81,089	0	81,089
Food Services	48,404	0	48,404
Capital Outlay	132,555	0	132,555
Debt Service:			
Principal	110,000	0	110,000
Interest	9,068	0	9,068
 Total Expenditures	 <u>3,764,693</u>	 <u>0</u>	 <u>3,764,693</u>
Excess/(Deficiency) of Revenues Over Expenditures	(382,898)	3	(382,895)
Fund Balances - July 1, 2016, as Restated	<u>326,909</u>	<u>17,146</u>	<u>344,055</u>
Fund Balances/(Deficit) - June 30, 2017	<u>\$ (55,989)</u>	<u>\$ 17,149</u>	<u>\$ (38,840)</u>

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

SOUTH 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)	\$	(382,895)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$132,555) exceeded depreciation expense (\$28,252) in the current period.		104,303
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		80,513
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 (\$110,000) exceed proceeds (\$-0-).		110,000
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>8,446</u>
Change in net position of governmental activities (Exhibit B)	\$	<u><u>(79,633)</u></u>

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

SOUTH HERO SCHOOL DISTRICT  
STATEMENT OF FUND NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2017

	<u>Hot Lunch Fund</u>
<u>ASSETS</u>	
Current Assets:	
Due from Other Funds	\$ <u>35,645</u>
Total Current Assets	<u>35,645</u>
Noncurrent Assets:	
Capital Assets:	
Furniture and Equipment	52,250
Less: Accumulated Depreciation	<u>(41,799)</u>
Total Noncurrent Assets	<u>10,451</u>
Total Assets	\$ <u><u>46,096</u></u>
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	\$ <u>69</u>
Total Current Liabilities	<u>69</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	10,451
Unrestricted	<u>35,576</u>
Total Net Position	<u>46,027</u>
Total Liabilities and Net Position	\$ <u><u>46,096</u></u>

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

SOUTH HERO SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2017

	Hot Lunch Fund
Operating Revenues:	
Federal and State Grants	\$ 26,082
Food Sales	24,538
	50,620
Operating Expenses:	
Wages and Benefits	136
Food	22,005
Supplies	450
Depreciation	1,263
	23,854
Change in Net Position	26,766
Net Position - July 1, 2016	19,261
	46,027
Net Position - June 30, 2017	\$ 46,027

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

SOUTH HERO SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2017

	Hot Lunch Fund
Cash Flows From Operating Activities:	
Receipts from Food Sales	\$ 24,538
Receipts from State and Federal Grants	26,082
Payments for Goods and Services	(22,805)
Payments for Wages and Benefits	(136)
Net Cash Provided by Operating Activities	27,679
Cash Flows From Noncapital Financing Activities:	
Decrease/(Increase) in Due from Other Funds	(27,679)
Net Cash Provided/(Used) by Noncapital Financing Activities	(27,679)
Cash Flows From Capital and Related Financing Activities	0
Cash Flows From Investing Activities	0
Net Increase in Cash	0
Cash - July 1, 2016	0
Cash - June 30, 2017	\$ 0
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 26,766
Depreciation	1,263
Decrease in Accounts Payable	(350)
Net Cash Provided by Operating Activities	\$ 27,679

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

SOUTH HERO SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2017

	Private Purpose Trust Funds	Agency Fund <hr/> Student Activities Fund
<u>ASSETS</u>		
Cash	\$ 31,690	\$ 17,048
Due from Other Funds	73,923	0
Total Assets	105,613	17,048
<u>LIABILITIES</u>		
Due to Student Organizations	0	17,048
Total Liabilities	0	17,048
<u>NET POSITION</u>		
Held in Trust for Various Purposes	105,613	0
Total Net Position	\$ 105,613	\$ 0

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

SOUTH HERO SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Net Investment Income	\$ <u>58</u>
Total Additions	<u>58</u>
<u>DEDUCTIONS:</u>	
Scholarships and Awards	<u>1,125</u>
Total Deductions	<u>1,125</u>
Change In Net Position	(1,067)
Net Position - July 1, 2016	<u>106,680</u>
Net Position - June 30, 2017	\$ <u><u>105,613</u></u>

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



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

The South 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.

SOUTH 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. These statements distinguish between the governmental and business-type activities of the School District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The only business-type activity of the School District is the Hot Lunch Fund.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities and each segment of the School District's business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function or program. 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, proprietary, 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.

The School District reports on the following major enterprise fund:

Hot Lunch Fund – This fund accounts for the food service activities of the School District.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions.

Additionally, the School District reports the following fund types:

Private Purpose Trust Funds – These funds are used to report trust arrangements under which resources are to be used for the benefit of students enrolling in higher education. All investment earnings and in some cases, the principal of these funds, may be used to support these activities.

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

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

**C. Measurement Focus**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus. This means that all assets and liabilities and deferred inflows and outflows 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 investment in capital assets, net of related debt, restricted net position, and unrestricted net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

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, proprietary and fiduciary fund 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.

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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.

**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.

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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.

**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>
Land	N/A
Buildings and Building Improvements	15-50 Years
Furniture and Equipment	5-25 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. Compensated Absences**

It is the School District’s policy to permit employees to accumulate earned but unused sick time. Upon retirement, if a teacher has served within the Supervisory Union or member districts for a minimum of five (5) years, they shall be entitled to compensation for the unused days subject to the maximum accrual of 120 days. The accrual for unused compensated absence time, based on a standard rate of \$50 per day, is recorded in the government-wide and proprietary fund 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.

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**7. Early Retirement Incentives**

The School District may offer early retirement incentives at the School Board's discretion. Teachers electing to resign and receive the incentive will receive fifty percent (50%) of their contracted salary amount paid in three equal annual installments. The accrual for early retirement incentives is recorded in the government-wide and proprietary fund financial statements. The liability for early retirement incentives is not reported in the governmental funds. Payments for early retirement incentives are recorded as expenditures in the year they are paid.

**8. Long-term Liabilities**

Long-term liabilities include bonds and notes. Long-term liabilities are reported in the government-wide and proprietary fund 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 and proprietary fund 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:

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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’s 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 \$120,330 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 \$97,562. These over-expenditures were partially funded by available fund balance.

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**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	\$732,809
Overstatement of Cash	(5,574)
Understatement of Accrued Health Insurance Liability	(44,954)
Understatement of Retirement Incentives Liability	(24,554)
Understatement of Accrued Compensated Absences	<u>(31,750)</u>
Net Position – June 30, 2016, as Restated	<u>\$625,977</u>

The net effect of the restatement on the June 30, 2016 statement of net position is that the assets were overstated by \$5,574 and the liabilities were understated by \$101,258 and net position was overstated by \$106,832. The effect on the Statement of Activities for the year ended June 30, 2016 has not been determined.

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

Fund Balance – June 30, 2016, as Originally Reported	\$377,437
Overstatement of Cash	(5,574)
Understatement of Accrued Health Insurance Liability	<u>(44,954)</u>
Fund Balance – June 30, 2016, as Restated	<u>\$326,909</u>

The effect of this restatement on the General Fund Balance Sheet is that assets were overstated by \$5,574, liabilities were understated by \$44,954 and fund balance was overstated by \$50,528. The effect on the 2016 Statement of Revenues, Expenditures and Changes in Fund Balance has not been determined.

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits**

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

Cash:	
Deposits with Financial Institutions	\$ <u>332,978</u>
Total Cash	\$ <u>332,978</u>



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**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.

	Book Balance	Bank Balance
Insured - FDIC/SIPC	\$ 298,738	\$ 301,803
Uninsured, Collateralized by U.S. Government Securities Held by the Bank in the Bank's Name for the Benefit of the School District	34,240	68,863
Total	\$ 332,978	\$ 370,666

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.

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**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>\$80,513</u>
Total	<u>\$80,513</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:				
Land	\$ 39,200	\$ 0	\$ 0	\$ 39,200
Total Capital Assets, Not Being Depreciated	<u>39,200</u>	<u>0</u>	<u>0</u>	<u>39,200</u>
Capital Assets, Being Depreciated:				
Buildings	86,000	0	0	86,000
Building Improvements	1,075,539	59,299	0	1,134,838
Furniture and Equipment	245,371	73,256	0	318,627
Totals	<u>1,406,910</u>	<u>132,555</u>	<u>0</u>	<u>1,539,465</u>
Less Accumulated Depreciation for:				
Buildings	86,000	0	0	86,000
Building Improvements	409,658	25,571	0	435,229
Furniture and Equipment	168,060	2,681	0	170,741
Totals	<u>663,718</u>	<u>28,252</u>	<u>0</u>	<u>691,970</u>
Net Capital Assets, Being Depreciated	<u>743,192</u>	<u>104,303</u>	<u>0</u>	<u>847,495</u>
Governmental Activities Capital Assets, Net	<u>\$ 782,392</u>	<u>\$ 104,303</u>	<u>\$ 0</u>	<u>\$ 886,695</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities</b>				
Capital Assets, Being Depreciated:				
Furniture and Equipment	\$ 52,250	\$ 0	\$ 0	\$ 52,250
Totals	<u>52,250</u>	<u>0</u>	<u>0</u>	<u>52,250</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	40,536	1,263	0	41,799
Totals	<u>40,536</u>	<u>1,263</u>	<u>0</u>	<u>41,799</u>
Net Capital Assets, Being Depreciated	<u>11,714</u>	<u>(1,263)</u>	<u>0</u>	<u>10,451</u>
Business-type Activities Capital Assets, Net	<u>\$ 11,714</u>	<u>\$ (1,263)</u>	<u>\$ 0</u>	<u>\$ 10,451</u>

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Depreciation was charged as follows:

Governmental Activities:		Business-type Activities:	
Education	\$ <u>28,252</u>	Food Service	\$ <u>1,263</u>
Total Depreciation Expense - Governmental Activities	\$ <u><u>28,252</u></u>	Total Depreciation Expense - Business-type Activities	\$ <u><u>1,263</u></u>

**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	\$ 119,497
Non-Major Governmental Funds	9,929	0
Hot Lunch Fund	35,645	0
Private Purpose Trust Funds	<u>73,923</u>	<u>0</u>
Total	\$ <u><u>119,497</u></u>	\$ <u><u>119,497</u></u>

**E. Deferred Inflows of Resources**

Deferred inflows or resources consists of \$80,513 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. Long-term Liabilities**

Note Payable – The School District has a note payable to finance capital improvements with a local bank.

Retirement Incentives – The School District has one (1) teacher who has elected to participate in the retirement incentive program and receive fifty percent (50%) of their contracted salary paid in three (3) equal annual installments. The accrual for retirement incentives is recorded in the government-wide financial statements.

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

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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>				
Community Bank, Capital Improvements, Annual Principal Payments of \$110,000 Plus Interest Due on July 1, Interest at 1.97%. Due July 1, 2019	\$435,596	\$ 0	\$110,000	\$325,596
Total Governmental Activities	\$435,596	\$ 0	\$110,000	\$325,596

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>
Note Payable	\$ 435,596	\$ 0	\$ 110,000	\$ 325,596	\$ 110,000
Retirement Incentives	24,554	0	12,277	12,277	12,277
Compensated Absences	31,750	5,900	0	37,650	0
Total Long-term Liabilities	\$ 491,900	\$ 5,900	\$ 122,277	\$ 375,523	\$ 122,277

Debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 110,000	\$ 6,501
2019	110,000	4,334
2020	105,596	2,167
Total	\$ 325,596	\$ 13,002

**G. Fund Balances**

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.

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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 fund balance in the following fund is nonspendable as follows:

Non-Major Fund:

Permanent Fund:

Nonspendable Grace Allen Fund Principal	\$ <u>6,000</u>
Total Nonspendable Fund Balance	\$ <u>6,000</u>

The fund balances in the following funds are restricted as follows:

Non-Major Funds:

Special Revenue Fund:

Restricted for Bowser Grant Expenses by Grant Agreement (Source of Revenue is Grant Revenue)	\$ <u>1,209</u>
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Permanent Fund:

Restricted for Grace Allen Fund by Donations – Expendable Portion (Source of Revenue is Donations)	<u>1,220</u>
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Total Restricted Fund Balances	\$ <u>2,429</u>
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The fund balance in the following fund is committed as follows:

Non-Major Fund:

Capital Projects Fund:

Committed for Capital Projects by the Voters	\$ <u>8,720</u>
Total Committed Fund Balance	\$ <u>8,720</u>

The School District has a unassigned deficit of \$55,989 in the General Fund. This deficit will be funded with the collection of grant receivables. The School District has also budgeted to utilize fund balance in the amount of \$255,879 in fiscal year 2018 to reduce the tax rate, however, the School District has a deficit.

**H. Restricted Net Position**

The restricted net position of the School District as of June 30, 2017 consisted of the following:

Governmental Activities:

Restricted for Bowser Grant Fund by Grant Agreement	\$ 1,209
Restricted for Grace Allen Fund by Trust Agreement	<u>7,220</u>
Total Restricted Net Position	\$ <u>8,429</u>

**I. Net Position Held in Trust for Various Purposes**

Private Purpose Trust Funds:

Restricted for Scholarships by Donors:

Rolland Gifford Fund	\$ 1,408
Sarah Boardman Fund	1,185
Kay Carter Fund	5,585
Diana Rabourn Fund	30,282
Donald Robinson Fund	<u>67,153</u>

Total Restricted Net Position	\$ <u>105,613</u>
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**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:

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**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.



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**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 \$42,460.

The District's current year payroll for all employees totaled \$1,066,922 while its current year's covered payroll for the State Teacher's Retirement Plan equaled \$764,939 resulting in an estimated \$88,656 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.

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Interest Rate: 7.95% per annum.

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).

SOUTH 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 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.

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 \$2,194. In addition, effective July 1, 2015, the State is assessing a 11.59% contribution for all teachers paid with Federal Funds. The total amount paid by the School District for the year ended June 30, 2017 was (\$-0-). Since the State does not consider the School District to contribute directly to VSTRS, no net pension liability is recorded by the School District. The School District’s portion of the State’s share of the collective net pension liability is \$1,807,599 as of June 30, 2017.

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

**B. 403(b) PENSION PLAN**

The School 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. The School District contributes five percent (5%) for some non-teaching positions. All other employees may also contribute to the plan, however, there will be no employer contributions. As of June 30, 2017, the District has eight (8) employees who had enrolled in the plan. The School District has two non-teaching (2) employees who the School District contributes a match of five percent (5%). The School District's covered payroll was \$80,444 and the pension contribution made by the District for the period ending June 30, 2017 was \$4,022. The School District had six (6) employees who are making 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 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 insurance coverage through the Vermont School Boards Insurance Trust, Inc. covering each of those risks of loss. 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. The School District must remain a member for a minimum of one year and may withdraw from the Fund after that time by giving sixty days notice. Fund underwriting and rate setting policies have been established after consultation with actuaries. Fund members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Fund were to be exhausted, members would be responsible for the Fund's liabilities.

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 has elected to pay actual unemployment claims instead of enrolling in an employment insurance program. No liabilities have been accrued as the School District is not able to make an estimate as to any future costs. The School District paid \$311 in unemployment claims during 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 of the Grand Isle Supervisory Union are available from the Grand Isle Supervisory Union.

SOUTH HERO SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget	Actual	Variance Favorable/ (Unfavorable)
Revenues:			
Regular Instructional:			
General State Support Grants	\$ 2,905,460	\$ 2,905,460	\$ 0
Other State Revenue	81,578	81,289	(289)
State Aid Transportation	32,711	32,196	(515)
Special Education Support:			
State Revenue	216,999	144,526	(72,473)
EEE Block Grant	13,458	13,458	0
Rental Income	115,067	115,603	536
Interest	100	0	(100)
Miscellaneous	0	607	607
Total Revenues	3,365,373	3,293,139	(72,234)
Expenditures:			
Instructional	2,030,967	2,080,775	(49,808)
Universal Pre-Kindergarten	77,300	36,045	41,255
Special Education	145,192	97,503	47,689
Essential Early Education	10,477	5,323	5,154
Student Body Activities	20,357	16,526	3,831
Summer School Program	1,398	1,386	12
Guidance Services	73,018	74,748	(1,730)
Health Services	28,269	25,302	2,967
Speech Services	0	148	(148)
Essential Early Education Speech	0	983	(983)
Library Services	68,176	70,675	(2,499)
Board of Education	10,647	11,555	(908)
Administration	178,260	178,260	0
Principal	168,584	216,235	(47,651)
Special Education Coordination	269,020	310,764	(41,744)
Building Operations	212,982	208,476	4,506
Transportation Services	74,555	81,089	(6,534)
Food Services	0	48,404	(48,404)
Debt Service	116,501	119,068	(2,567)
Total Expenses	3,485,703	3,583,265	(97,562)
Excess/(Deficiency) of Revenues Over Expenditures	\$ (120,330)	(290,126)	\$ (169,796)
Adjustments to Reconcile from the Budgetary Basis of Accounting to the Modified Accrual Basis of Accounting:			
Unbudgeted Capital Outlay		(92,772)	
Net Change in Fund Balance		(382,898)	
Fund Balance - July 1, 2016, as Restated		326,909	
Fund Balance/(Deficit) - June 30, 2017		\$ (55,989)	

See Disclaimer in Accompanying Independent Auditor's Report.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
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	0.1380%	0.1271%	0.1346%
School District's Proportionate Share of the Net Pension Liability	\$ 1,807,599	\$ 1,508,090	\$ 1,289,841
School District's Covered Employee Payroll	\$ 764,939	\$ 863,407	\$ 917,094
Proportionate Share of the Net Pension Liability as a Percentage of Covered - Employee Payroll	236.3063%	174.6673%	140.6444%
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.

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

	Special Revenue Fund <u>Bowser Grant Fund</u>	Capital Projects Fund <u>Capital Projects Fund</u>	Permanent Fund <u>Grace Allen Fund</u>	<u>Total</u>
<u>ASSETS</u>				
Cash	\$ 0	\$ 0	\$ 7,220	\$ 7,220
Due from Other Funds	<u>1,209</u>	<u>8,720</u>	<u>0</u>	<u>9,929</u>
Total Assets	<u>\$ 1,209</u>	<u>\$ 8,720</u>	<u>\$ 7,220</u>	<u>\$ 17,149</u>
<u>LIABILITIES</u>				
Liabilities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>FUND BALANCES</u>				
Nonspendable	0	0	6,000	6,000
Restricted	1,209	0	1,220	2,429
Committed	<u>0</u>	<u>8,720</u>	<u>0</u>	<u>8,720</u>
Total Fund Balances	<u>1,209</u>	<u>8,720</u>	<u>7,220</u>	<u>17,149</u>
Total Liabilities and Fund Balances	<u>\$ 1,209</u>	<u>\$ 8,720</u>	<u>\$ 7,220</u>	<u>\$ 17,149</u>

See Disclaimer in Accompanying Independent Auditor's Report.

SOUTH 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>Bowser Grant Fund</u>	Capital Projects Fund <u>Capital Projects Fund</u>	Permanent Fund <u>Grace Allen Fund</u>	<u>Total</u>
Revenues:				
Investment Income	\$ <u>0</u>	\$ <u>0</u>	\$ <u>3</u>	\$ <u>3</u>
Total Revenues	<u>0</u>	<u>0</u>	<u>3</u>	<u>3</u>
Expenditures:				
Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	0	0	3	3
Fund Balances - July 1, 2016	<u>1,209</u>	<u>8,720</u>	<u>7,217</u>	<u>17,146</u>
Fund Balances - June 30, 2017	\$ <u><u>1,209</u></u>	\$ <u><u>8,720</u></u>	\$ <u><u>7,220</u></u>	\$ <u><u>17,149</u></u>

See Disclaimer in Accompanying Independent Auditor's Report.



SOUTH HERO SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET POSITION  
 PRIVATE PURPOSE TRUST FUNDS  
 JUNE 30, 2017

	Rolland Gifford Fund	Sarah Boardman Fund	Kay Carter Fund	Diana Rabourn Fund	Donald Robinson Fund	Total
<u>ASSETS</u>						
Cash	\$ 1,408	\$ 0	\$ 0	\$ 30,282	\$ 0	\$ 31,690
Due from Other Funds	<u>0</u>	<u>1,185</u>	<u>5,585</u>	<u>0</u>	<u>67,153</u>	<u>73,923</u>
Total Assets	<u>1,408</u>	<u>1,185</u>	<u>5,585</u>	<u>30,282</u>	<u>67,153</u>	<u>105,613</u>
Liabilities:	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>NET POSITION</u>						
Held in Trust for Various Purposes	<u>1,408</u>	<u>1,185</u>	<u>5,585</u>	<u>30,282</u>	<u>67,153</u>	<u>105,613</u>
TOTAL NET POSITION	<u>\$ 1,408</u>	<u>\$ 1,185</u>	<u>\$ 5,585</u>	<u>\$ 30,282</u>	<u>\$ 67,153</u>	<u>\$ 105,613</u>

See Disclaimer in Accompanying Independent Auditor's Report.

SOUTH HERO SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 PRIVATE PURPOSE TRUST FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017

	Rolland Gifford Fund	Sarah Boardman Fund	Kay Carter Fund	Diana Rabourn Fund	Donald Robinson Fund	Total
<u>ADDITIONS</u>						
Net Investment Income	\$ <u>2</u>	\$ <u>1</u>	\$ <u>1</u>	\$ <u>54</u>	\$ <u>0</u>	\$ <u>58</u>
Total Additions	<u>2</u>	<u>1</u>	<u>1</u>	<u>54</u>	<u>0</u>	<u>58</u>
<u>DEDUCTIONS</u>						
Scholarships and Awards	<u>25</u>	<u>0</u>	<u>0</u>	<u>100</u>	<u>1,000</u>	<u>1,125</u>
Total Deductions	<u>25</u>	<u>0</u>	<u>0</u>	<u>100</u>	<u>1,000</u>	<u>1,125</u>
Change in Net Position	(23)	1	1	(46)	(1,000)	(1,067)
Net Position - July 1, 2016	<u>1,431</u>	<u>1,184</u>	<u>5,584</u>	<u>30,328</u>	<u>68,153</u>	<u>106,680</u>
Net Position - June 30, 2017	<u>\$ <u>1,408</u></u>	<u>\$ <u>1,185</u></u>	<u>\$ <u>5,585</u></u>	<u>\$ <u>30,282</u></u>	<u>\$ <u>67,153</u></u>	<u>\$ <u>105,613</u></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  
South 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, the business-type activities, each major fund and the aggregate remaining fund information of the South 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 South Hero School District's basic financial statements, and have issued our report thereon dated October 15, 2018.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the South 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 South Hero School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the South 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 South 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 South 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 South Hero School District dated October 15, 2018.

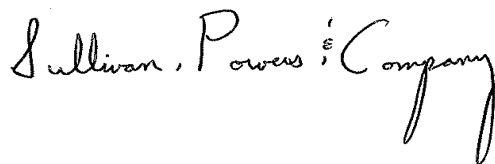
### ***South Hero School District's Response to Deficiencies in Internal Control***

The South Hero School District's response to the deficiencies in internal control identified in our audit is included with the accompanying Schedule of Findings and Deficiencies in Internal Control. The South 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 South 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 South Hero School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October 15, 2018  
Montpelier, Vermont  
VT Lic. #92-000180



SOUTH 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.

*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.

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

*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.

*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.

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

*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.

*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.

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

*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.

*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.



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

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.

## **South 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.*

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