

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

CERTIFIED PUBLIC ACCOUNTANTS

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January 30, 2015

School Board  
Colchester School District  
Laker Lane, P.O. Box 27  
Colchester, Vermont 05446-0027

We have audited the financial statements of the Colchester School District as of and for the year ended June 30, 2014 and have issued our report thereon dated January 30, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the Colchester School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Colchester School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Colchester School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Colchester School District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the second paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been 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. We did not identify any deficiencies in the internal control that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, the School Board and others within the Colchester School District and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to thank the staff of the Colchester School District for their assistance and cooperativeness throughout our audit. It has been a pleasure working with you.

Respectfully submitted,

*Sullivan, Powers & Company*

SULLIVAN, POWERS & CO.  
Certified Public Accountant

**COLCHESTER SCHOOL DISTRICT**

**AUDIT REPORT AND REPORTS ON COMPLIANCE AND  
INTERNAL CONTROL**

**JUNE 30, 2014**

**COLCHESTER SCHOOL DISTRICT  
AUDIT REPORT  
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JUNE 30, 2014**

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## Independent Auditor's Report

School Board  
Colchester School District  
Laker Lane, P.O. Box 27  
Colchester, Vermont 05446-0027

### **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 Colchester School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Colchester 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 Colchester 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 Colchester 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 Colchester School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters – Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 12 and the budgetary comparison information for the General Fund in Schedule 1 on page 43 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Matters - Other Information**

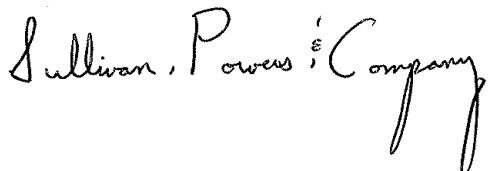
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Colchester School District's basic financial statements. The accompanying financial information listed as Schedules 2 and 3 in the table of contents are presented for purposes of additional analysis and is 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.

Our audit was conducted for the purpose of forming opinions, on the financial statements that collectively comprise the Colchester School District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations" and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by "Government Auditing Standards"**

In accordance with "Government Auditing Standards", we have also issued our report dated January 30, 2015 on our consideration of the Colchester 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 Colchester School District's internal control over financial reporting and compliance.

January 30, 2015  
Montpelier, Vermont  
VT Lic. #92-000180

A handwritten signature in black ink that reads "Sullivan, Powers & Company". The signature is cursive and fluid, with "Sullivan" on top, "Powers" in the middle, and "& Company" at the bottom right.

**COLCHESTER SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

The discussion and analysis of Colchester School District's (herein the "School District") financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Information contained in this section is qualified by the more detailed information contained elsewhere in the School District's financial statements, related notes to financial statements, and any accompanying materials. To the extent this discussion contains any forward-looking statements of the School District's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

**FINANCIAL HIGHLIGHTS**

- The School District's financial status has remained stable during Fiscal Year ("FY") 2014.
- Total net position increased \$382,639 which represents a 3.2% increase from FY 2013.
- The School District spent \$37,267,900 (including general fund, grants, and enterprise funds) compared to overall revenue of \$37,650,539.
- Revenues exceeded expenditures in the General Fund by \$499,723 or about 1.38%.
- When comparing the budgeted revenue of \$33,242,169 and budgeted expenditures of \$33,342,169 approved by the voters on May 7, 2013, the School District received \$33,569,498 (100.98%) and spent \$33,286,895 (99.83%). Revenues exceeded expenses by \$282,603.
- Capital assets, net of accumulated depreciation, increased by \$1,803,193 during the period July 1, 2013 through June 30, 2014.
- Through "normal" debt retirement, the School District reduced its outstanding long-term debt by \$260,409. There are three (3) obligations owed by the School District:
  - Municipal Bond Bank for major repairs to all buildings and expansion to Malletts Bay School, incurred in 1997 in the amount of \$3,150,000
    - Annual payment of \$160,000 until December 2007 then payments decrease to annual payments of \$155,000 starting December 2008 plus interest
    - Balance at the end of FY 2014: \$465,000
  - Municipal Bond Bank for renovation to Colchester High School science lab, incurred in FY 2014 in the amount of \$5,000,000
    - Interest only payments until May 2017 then annual principal payments of \$294,118 starting November 2017 plus interest
    - Balance at the end of FY 2014: \$5,000,000
  - DeLage Landen Financial note payable for copiers incurred in 2012 in the amount of \$314,757
    - Monthly payments of principal and interest of \$9,150
    - Balance at the end of FY 2014: \$90,265

## **OVERVIEW OF FINANCIAL STATEMENTS**

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

- 1) Government-wide financial statements,
- 2) Fund financial statements, and
- 3) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

**1) Government-wide financial statements:** The government-wide financial statements are designed to provide readers with a broad overview of the School District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

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

The statement of activities presents information showing how the School District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements are designed to include not only the School District itself (known as the primary government), but also any legally separate entities for which the School District is financially accountable (known as component units). The School District has no component units.

The government-wide financial statements can be found in Exhibits A and B of this report.

**2) Fund financial statements:** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School District can be divided into three categories: governmental, proprietary and fiduciary funds.

**a) Governmental funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School District's current financing requirements. Governmental funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental funds statements provide a detailed short-term view of the School District's operations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School District's current financing decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are found in Exhibits C and E.

The basic governmental fund financial statements can be found in Exhibits C through E of this report.

**b) Proprietary funds:** Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The School District uses an enterprise fund to account for its Food Service activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities. The basic proprietary fund financial statements can be found in Exhibits F through H of the financial statements.

**c) Fiduciary funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected in the government-wide financial statements because resources of these funds are not available to support the School District's own programs. The accrual basis of accounting is used for fiduciary funds. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The School District's fiduciary activities are presented in separate Statements of Fiduciary Net Position in Exhibits I and J.

- 3) Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

**Other information:** In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information.

The School District adopts an annual operating budget for the General Fund. A budgetary comparison statement has been provided for the General Fund. This information can be found in Schedule 1 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Net position:** Net position may serve over time as a useful indicator of the government's financial position. In the case of the School District, assets exceeded liabilities by \$12,371,789 as of June 30, 2014.

By far, the largest portion of the School District's net position (81.56%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, furniture and equipment, less any related debt used to acquire those assets that is still outstanding). The School District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending.

The School District's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the School District's net position for the fiscal year ended June 30, 2014 and 2013.

**Summarized Statement of Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 7,199,593	\$ 2,595,481	\$ (32,507)	\$ (74,615)	\$ 7,167,086	\$ 2,520,866
Capital Assets	12,747,197	10,935,396	189,276	197,884	12,936,473	11,133,280
Total Assets	19,946,790	13,530,877	156,769	123,269	20,103,559	13,654,146
Current Liabilities	2,107,889	772,474	35,605	39,441	2,143,494	811,915
Noncurrent Liabilities	5,588,276	853,081	0	0	5,588,276	853,081
Total Liabilities	7,696,165	1,625,555	35,605	39,441	7,731,770	1,664,996
Net Position						
Invested in Capital Assets,						
Net of Related Debt	9,904,928	10,119,722	189,276	197,884	10,094,204	10,317,606
Restricted	50,531	46,110	0	0	50,531	46,110
Unrestricted/(Deficit)	2,295,166	1,739,490	(68,112)	(114,056)	2,227,054	1,625,434
Total Net Position	\$ 12,250,625	\$ 11,905,322	\$ 121,164	\$ 83,828	\$ 12,371,789	\$ 11,989,150

**Changes in net position:** The School District's total revenues for the fiscal year ended June 30, 2014 were \$37,650,539. The total expenses were \$37,267,900. The following table presents a summary of the changes in net position for the fiscal year ended June 30, 2014 and 2013.

### Summarized Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
Program Revenues						
Charges for service	\$ 983,325	\$ 963,696	\$ 685,542	\$ 717,589	\$ 1,668,867	\$ 1,681,285
Operating Grants and Contributions	35,400,025	33,169,943	438,637	380,699	35,838,662	33,550,642
Capital Grants and Contributions	75,000	50,000	0	0	75,000	50,000
Investment Earnings	67,941	64,359	69	69	68,010	64,428
<b>Total Revenues</b>	<b>36,526,291</b>	<b>34,247,998</b>	<b>1,124,248</b>	<b>1,098,357</b>	<b>37,650,539</b>	<b>35,346,355</b>
<b>Expenses</b>						
Education	36,180,988	34,837,386	0	0	36,180,988	34,837,386
Food Service	0	0	1,086,912	1,113,371	1,086,912	1,113,371
<b>Total Expenses</b>	<b>36,180,988</b>	<b>34,837,386</b>	<b>1,086,912</b>	<b>1,113,371</b>	<b>37,267,900</b>	<b>35,950,757</b>
<b>Change in Net Position</b>	<b>345,303</b>	<b>(589,388)</b>	<b>37,336</b>	<b>(15,014)</b>	<b>382,639</b>	<b>(604,402)</b>
Net Position - Beginning of Year	11,905,322	12,494,710	83,828	98,842	11,989,150	12,593,552
<b>Net Position - End of Year</b>	<b>\$ 12,250,625</b>	<b>\$ 11,905,322</b>	<b>\$ 121,164</b>	<b>\$ 83,828</b>	<b>\$ 12,371,789</b>	<b>\$ 11,989,150</b>

### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds:** The focus of the School District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the School District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the School District's net resources available for spending at the end of the fiscal year.

The financial performance of the School District as a whole is reflected in its governmental funds. As the School District completed the year, its governmental funds reported a combined fund balance of \$5,115,813, an increase of \$3,289,680. The School District has nonspendable funds of \$490,706 for prepaid expenses such as insurance premiums that are required before the end of each fiscal year. Restricted funds consist of \$50,531 for impact fees and \$2,712,996 for building renovations. The remaining fund balance of \$1,861,580 or 36.4% is unrestricted and available for spending. The School District has assigned \$1,081,936 of the unrestricted fund balance for special education contingencies, capital reserve funds and other miscellaneous funds.

The General Fund is the principal operating fund of the School District.

## CAPITAL ASSETS

**Capital Assets:** As of June 30, 2014, the School District's total capital assets were \$27,777,954 including land, school buildings, furniture and equipment. This amount represents an increase of \$2,622,788 from the previous year. Total accumulated depreciation as of June 30, 2014 was \$14,841,481 and total depreciation expense for the year ending June 30, 2014 was \$1,104,010 resulting in total net capital assets of \$12,936,473 as of June 30, 2014.

Additional information of the School District's capital assets can be found in Note IV (E) of this report.

## DEBT ADMINISTRATION

The following table details the debt service applied during FY 2014.

	<u>Principal Balance June 30, 2013</u>	<u>Principal Additions</u>	<u>Principal Payment</u>	<u>Principal Balance June 30, 2014</u>
Municipal Bond Bank	\$ 620,000	\$ 0	\$ 155,000	\$ 465,000
DeLage Landen Financial	\$ 195,674	\$ 0	\$ 105,409	\$ 90,265
Municipal Bond Bank	\$ 0	\$5,000,000	\$ 0	\$ 5,000,000

Additional information of the School District's long-term debt can be found in Note IV (H) of this report.

## GENERAL FUND BUDGETARY HIGHLIGHTS

- When comparing the budgeted revenue of \$32,242,169 and budgeted expenditures of \$33,342,169, approved by the voters on May 7, 2013, the School District received \$33,569,498 (100.98%) and spent \$33,286,895 (99.83%). Revenues exceeded expenses by \$282,603. This was the result of a concerted effort of the School Board and Administration to implement a budget plan within the resources approved by the voters and the use of reasonable internal controls.

Revenue exceeded the budget for the year by 0.98% or \$327,329. The following items were the driving factors.

- Tuition revenue was over budget by \$189,742 or 24.0%. This was mainly due to unbudgeted excess cost tuition for special education students.
- Special education expenditure reimbursement was over budget by \$174,811 or 6.5%. This figure includes extraordinary and state placed revenue.

The District finished the year spending 99.83% of its planned expenditures. Budget exceeded spending for the year by \$55,274. The following items are worth noting.

- Support staff expenditures finished over budget by \$149,415 or 3.17% due to unanticipated student need in support of special education.
- Repairs and maintenance were well over budget by \$177,636 or 32.6%. The primary driver was the district's continued upgrade to electrical capacity and availability at all buildings. The District also spent funds (unbudgeted) on the Colchester Alternative Program renovation project. Other factors were ordinary repairs and maintenance that were required at all buildings that cannot always be anticipated.
- Unbudgeted construction services of \$245,400 were incurred. The expenditures in this area were the result of three projects: (1) Replacement of the pump station at CHS, (2) Security software/hardware district wide, and, (3) New concrete sidewalk at CHS.
- Tuition to private and Vermont schools was well under budget by \$228,713. This was partly due to the expansion of the Colchester Alternative Program space. This is also a driving factor in the support staff being over budget.
- The equipment expenditure was over budget by \$163,247 or 36.2% due to unbudgeted purchases. Some of the purchases were through the school's operating budgets whereas others were district wide based on need/desire.
- Interest expense was over budget by \$60,675 or 33.5% as a result of the bond utilized to finance the science lab renovation.

## **MAINTENANCE OF THE FACILITIES**

- Initiated the remodeling of the science labs at CHS.
- Replaced the pump station at CHS.
- Replaced the concrete sidewalk at CHS.
- Refinished the gym floors at CMS and CHS. This will help to extend the overall useful life of the floors.
- Installed security system at all schools and expanded the camera coverage at CHS.
- Performed regular maintenance on all septic tanks. Continued regular preventative maintenance will allow all systems to operate beyond their expected useful life.
- Conducted preventive maintenance on all HVAC systems. This is important to keep the systems operating properly and to reduce the district's energy consumption.
- Inspected and repaired, as needed, all installed gym and playground equipment.
- Continued electrical upgrades at all schools to keep up with the increased electrical need due to the enhanced use of information technology equipment.
- Remodeled the Colchester Alternative Program space to add more space and to better support student need.

- Installed additional wireless access points in all buildings to improve the access of wireless devices. The demand continues to grow as schools move toward a more mobile learning environment.
- Assessed the condition of all roofs throughout the district completing any necessary repairs.

## **FACTORS TO CONSIDER THAT COULD AFFECT THE FINANCIAL CONDITION OF THE SCHOOL DISTRICT AND FUTURE BUDGETS**

- **Economy:** The economy continues to slowly improve in many areas. While unemployment rates are relatively low compared to the national average, this can also be attributed to workers leaving Vermont to find employment. As a result, payroll gains are relatively stagnant.
- **Education Spending:** The cost of education continues to increase significantly while the student population declines. Vermont has one of the highest per pupil spending costs in the nation. The General Fund revenue is not currently sufficient to properly support education or to provide any property tax relief. These factors will put a continued strain on school budgets and funding.
- **Budget Increases:** The School District's budgets have increased an average of 2.33% over the last 5 years. This is viewed by many in the community as unsustainable due to the lack of support from the General Fund and the heavy reliance on property taxes.
- **Student Enrollment:** As student population goes down, so does the District's funding. While the School District's student population has declined for the past several years, it would appear to be leveling out. Despite the flattening enrollment, the District still has significantly less students than it did just five years ago. Having less students, and rising expenses, causes the per pupil spending to be higher. A school's operational cost does not generally decrease proportionally as the student population decreases. When the state calculates the local tax rate, the most critical element is the cost per equalized pupil. Therefore, for the same level of spending, a lower number of students equates to a higher tax rate.
- **State/Federal Requirements:**
  - **No Child Left Behind** (“NCLB”): This federal education reform law creates goals and benchmarks for each school district in the country. Meeting these goals is expensive. This will continue to put a strain on education spending.
  - **Title I:** This federal requirement is tied closely with NCLB. Failure to meet the NCLB goals restricts the flexibility of Title I resources. This will result in either a reduction in some services or an increase in local tax rate. Title I funds continue to decline year to year.
  - **Special Education:** Mandates continue to increase and spending in this area exceeds the cost of regular education thus further driving up overall budget increases regardless of the revenue side of the budget.
  - **Vermont State Teachers Retirement System:** Starting in FY'16, school districts will be responsible for paying annual contributions to the VSTRS plan for all federally funded employees that are members of the VSTRS plan. This will reduce federal dollars that were previously available to support education.

- **Contracts:** Compensation increase for teachers, administrators and support staff will range from 2.75% to 3.15% for the next three years. Subsequent to year-end, teacher and administrator agreements were approved. The support staff contract is in the final year in Fiscal 2015 and a new contract will need to be negotiated.
- **Healthcare:** Large scale changes in the health care industry might result in higher increases to the district in the next few years. The district has felt some shelter from working with Vermont School Board Insurance Trust in prior years.

## CURRENT STATUS

- ⊕ The School District remains financially stable.
- ⊕ The current resources are adequate for today's needs.
- ⊕ The physical plant is in good condition and improving.
- ⊕ Energy conservation remains a primary focus for the school district.
- ⊕ Class sizes and student to teacher ratios are appropriate.
- ⊕ The rising cost of education and the state funding formula will continue to challenge tax payers.
- ⊕ The slowly recovering economy will continue to have an effect on the District.
- ⊕ The current shortfall in the general and educational fund will continue to pressure the District's budget and the quality of education.

## CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Business and Operations Manager of the Colchester School District, P.O. Box 27, Colchester, VT 05446, telephone (802) 264-5999.

**COLCHESTER SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2014**

	Governmental Activities	Business-type Activities	Total
<b><u>ASSETS</u></b>			
Cash	\$ 2,510,143	\$ 8,697	\$ 2,518,840
Cash- Restricted	3,982,098	0	3,982,098
Receivables (Net of Allowance for Uncollectibles)	38,063	64,363	102,426
Due from the Town of Colchester	51,865	0	51,865
Inventories	0	17,070	17,070
Prepaid Expenses	490,706	4,081	494,787
Internal Balances	126,718	(126,718)	0
Capital Assets:			
Land	43,810	0	43,810
Land Improvements	270,000	0	270,000
Construction in Progress	2,286,173	0	2,286,173
Other Capital Assets (Net of Accumulated Depreciation)	<u>10,147,214</u>	<u>189,276</u>	<u>10,336,490</u>
Total Assets	<u>19,946,790</u>	<u>156,769</u>	<u>20,103,559</u>
<b><u>LIABILITIES</u></b>			
Accounts Payable	1,442,449	328	1,442,777
Accrued Payroll and Benefits Payable	173,039	575	173,614
Due to State of Vermont	36,083	0	36,083
Unearned Revenue	432,209	34,702	466,911
Accrued Interest Payable	24,109	0	24,109
Noncurrent Liabilities:			
Due within One Year	245,265	0	245,265
Due in More than One Year	<u>5,343,011</u>	<u>0</u>	<u>5,343,011</u>
Total Liabilities	<u>7,696,165</u>	<u>35,605</u>	<u>7,731,770</u>
<b><u>NET POSITION</u></b>			
Net Investment in Capital Assets	9,904,928	189,276	10,094,204
Restricted For:			
Impact Fee Eligible Expenses	50,531	0	50,531
Unrestricted/(Deficit)	<u>2,295,166</u>	<u>(68,112)</u>	<u>2,227,054</u>
Total Net Position	<u>\$ 12,250,625</u>	<u>\$ 121,164</u>	<u>\$ 12,371,789</u>

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

**COLCHESTER SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014**

	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Functions/Programs:</b>							
Primary Government:							
Governmental Activities:							
Education	\$ 36,180,988	\$ 983,325	\$ 35,400,025	\$ 75,000	\$ 277,362	\$ 0	\$ 277,362
Total Governmental Activities	36,180,988	983,325	35,400,025	75,000	277,362	0	277,362
Business-Type Activities:							
Food Service	1,086,912	685,542	438,637	0	0	37,267	37,267
Total Business-Type Activities	1,086,912	685,542	438,637	0	0	37,267	37,267
Total Primary Government	\$ 37,267,900	\$ 1,668,867	\$ 35,838,662	\$ 75,000	277,362	37,267	314,629
<b>General Revenues:</b>							
Unrestricted Interest Income					67,672	69	67,741
Restricted Interest Income					269	0	269
Total General Revenues					67,941	69	68,010
Change in Net Position					345,303	37,336	382,639
Net Position - July 1, 2013					11,905,322	83,828	11,989,150
Net Position - June 30, 2014					\$ 12,250,625	\$ 121,164	\$ 12,371,789

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

**COLCHESTER SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014**

	General Fund	Capital Projects Fund	Total
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 2,510,143	\$ 3,982,098	\$ 6,492,241
Miscellaneous Receivables	12,884	0	12,884
Due from Other Funds	0	689,896	689,896
Due from the State of Vermont	25,179	0	25,179
Due from the Town of Colchester	51,865	0	51,865
Prepaid Expenses	<u>490,706</u>	0	<u>490,706</u>
Total Assets	<u>\$ 3,090,777</u>	<u>\$ 4,671,994</u>	<u>\$ 7,762,771</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Accounts Payable	\$ 173,407	\$ 1,269,042	\$ 1,442,449
Accrued Payroll Liabilities	173,039	0	173,039
Due to Other Funds	563,178	0	563,178
Due to State of Vermont	36,083	0	36,083
Unearned Revenue	<u>432,209</u>	0	<u>432,209</u>
Total Liabilities	<u>1,377,916</u>	<u>1,269,042</u>	<u>2,646,958</u>
Fund Balances:			
Nonspendable	490,706	0	490,706
Restricted	50,531	2,712,996	2,763,527
Assigned	391,980	689,956	1,081,936
Unassigned	<u>779,644</u>	0	<u>779,644</u>
Total Fund Balances	<u>1,712,861</u>	<u>3,402,952</u>	<u>5,115,813</u>
Total Liabilities and Fund Balances	<u>\$ 3,090,777</u>	<u>\$ 4,671,994</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.			12,747,197
Long Term and Accrued Liabilities, Including Bonds Payable, are not Due or Payable in the Current Period and, therefore, are Not Reported in the Funds.			<u>(5,612,385)</u>
Net Position of Governmental Activities			<u>\$ 12,250,625</u>

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

**COLCHESTER SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund	Capital Projects Fund	Total
<b>Revenues:</b>			
Regular Instructional:			
General State Support Grants	\$ 27,306,403	\$ 0	\$ 27,306,403
Other State Revenue	897,503	0	897,503
Federal Grants	550,109	0	550,109
Tuition	835,350	0	835,350
Other Local Revenue	227,784	0	227,784
Local Grants	280,476	0	280,476
Interest	67,672	269	67,941
Special Education Support:			
State Revenue	4,064,776	0	4,064,776
Federal Revenue	508,482	0	508,482
Tuition	147,975	0	147,975
Intergovernmental Pension Contribution	<u>1,639,492</u>	<u>0</u>	<u>1,639,492</u>
Total Revenues	<u>36,526,022</u>	<u>269</u>	<u>36,526,291</u>
<b>Expenditures:</b>			
Regular Instructional:			
Direct Instructional	14,470,645	0	14,470,645
Vocational Tuition	902,026	0	902,026
Student Support Services	1,936,699	0	1,936,699
Staff Support Services	1,375,543	0	1,375,543
General Administration	630,895	0	630,895
School Administration	2,064,452	0	2,064,452
Fiscal Services	1,245,019	0	1,245,019
Operation and Maintenance of Plant	3,217,506	0	3,217,506
Transportation Services	935,392	0	935,392
Special Education Support:			
Direct Instructional	6,167,430	0	6,167,430
Student Support Services	1,194,130	0	1,194,130
Staff Support Services	47,808	0	47,808
General Administration	372,356	0	372,356
Transportation Services	235,884	0	235,884
Capital Outlay	728,126	2,210,312	2,938,438
Debt Service:			
Principal	260,409	0	260,409
Interest	<u>241,979</u>	<u>0</u>	<u>241,979</u>
Total Expenditures	<u>36,026,299</u>	<u>2,210,312</u>	<u>38,236,611</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>499,723</u>	<u>(2,210,043)</u>	<u>(1,710,320)</u>
<b>Other Financing Sources/(Uses):</b>			
Proceeds from Debt	0	5,000,000	5,000,000
Transfers In/Out	<u>(222,824)</u>	<u>222,824</u>	<u>0</u>
Total Other Financing Sources/(Uses)	<u>(222,824)</u>	<u>5,222,824</u>	<u>5,000,000</u>
Net Change in Fund Balance	276,899	3,012,781	3,289,680
Fund Balance - July 1, 2013	<u>1,435,962</u>	<u>390,171</u>	<u>1,826,133</u>
Fund Balance - June 30, 2014	<u>\$ 1,712,861</u>	<u>\$ 3,402,952</u>	<u>\$ 5,115,813</u>

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

**COLCHESTER 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, 2014**

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)	\$ 3,289,680
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 outlay (\$2,938,438) exceeded depreciation (\$1,085,010) in the current period.	1,853,428
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, donations and disposals) is to decrease net position	(41,627)
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 proceeds in the current period (\$5,000,000) exceeded repayments (\$260,409).	(4,739,591)
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>(16,587)</u>
Change in net position of governmental activities (Exhibit B)	<u>\$ 345,303</u>

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

COLCHESTER SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2014

	Food Service Fund
<b><u>ASSETS</u></b>	
Current Assets:	
Cash	\$ 8,697
Miscellaneous Receivables	526
Due from State of Vermont	63,837
Inventory	17,070
Prepaid Expenses	<u>4,081</u>
Total Current Assets	<u>94,211</u>
Noncurrent Assets:	
Capital Assets:	
Equipment	477,036
Accumulated Depreciation	<u>(287,760)</u>
Total Noncurrent Assets	<u>189,276</u>
Total Assets	<u>\$ 283,487</u>
<b><u>LIABILITIES</u></b>	
Current Liabilities:	
Accounts Payable	\$ 328
Accrued Payroll and Benefits Payable	575
Due to Other Funds	126,718
Unearned Revenue	<u>34,702</u>
Total Current Liabilities	<u>162,323</u>
<b><u>NET POSITION</u></b>	
Net Investment in Capital Assets	189,276
Unrestricted/(Deficit)	<u>(68,112)</u>
Total Net Position	<u>121,164</u>
Total Liabilities and Net Position	<u>\$ 283,487</u>

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

**COLCHESTER SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

	Food Service Fund
<b>OPERATING REVENUES:</b>	
State and Federal Grants	\$ 380,831
Food Service Sales	685,542
Commodities	47,721
Miscellaneous Income	<u>10,085</u>
Total Operating Revenues	<u>1,124,179</u>
<b>OPERATING EXPENSES:</b>	
Wages and Benefits	553,249
Food	420,924
Supplies	30,976
Commodities	47,721
Professional Services	1,304
Miscellaneous	12,944
Depreciation	<u>19,000</u>
Total Operating Expenses	<u>1,086,118</u>
Operating Income	<u>38,061</u>
<b>NONOPERATING REVENUES/(EXPENSES):</b>	
Interest Income	69
Loss on Disposal of Equipment	<u>(794)</u>
Total Nonoperating Revenues/(Expenses)	<u>(725)</u>
Change in Net Position	37,336
Net Position - July 1, 2013	<u>83,828</u>
Net Position - June 30, 2014	<u>\$ 121,164</u>

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

**COLCHESTER SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

	Food Service Fund
Cash Flows From Operating Activities:	
Receipts from Food Sales	\$ 685,776
Receipts from State and Federal Grants	319,144
Receipts from Miscellaneous Income	12,748
Payments to Suppliers	(470,321)
Payments for Wages and Benefits	<u>(558,161)</u>
Net Cash Provided/(Used) by Operating Activities	<u>(10,814)</u>
Cash Flows From Noncapital Financing Activities:	
Change in Due to Other Funds	<u>21,799</u>
Net Cash Provided by Noncapital Financing Activities	<u>21,799</u>
Cash Flows From Capital and Related Financing Activities:	
Purchase of Equipment	<u>(11,186)</u>
Net Cash Provided/(Used) by Capital and Related Financing Activities	<u>(11,186)</u>
Cash Flows From Investing Activities:	
Receipt of Interest	<u>69</u>
Net Cash Provided by Investing Activities	<u>69</u>
Net Decrease in Cash	(132)
Cash - July 1, 2013	<u>8,829</u>
Cash - June 30, 2014	<u>\$ 8,697</u>
Adjustments to Reconcile Operating Income to Net Cash Provided/(Used) by Operating Activities:	
Operating Income	\$ 38,061
Depreciation	19,000
Net Change in Commodities Inventory	(2,151)
Decrease in Miscellaneous Receivables	2,663
Increase in Due from State of Vermont	(63,837)
Increase in Inventory	(188)
Increase in Prepaid Expenses	(525)
Decrease in Accounts Payable	(1,309)
Decrease in Accrued Payroll	(4,912)
Increase in Unearned Revenue - Food Sales	234
Increase in Unearned Revenue - State Grants	<u>2,150</u>
Net Cash Provided/(Used) by Operating Activities	<u>\$ (10,814)</u>

The School District received \$49,872 and consumed \$47,721 of federal commodities during the year.

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

**COLCHESTER SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2014**

	Private Purpose <u>Trust Funds</u>	Agency Fund - Student Activities Fund
<b><u>ASSETS</u></b>		
Cash	\$ 1,135	\$ 104,054
Investments	<u>131,369</u>	<u>20,072</u>
Total Assets	<u>132,504</u>	<u>124,126</u>
<b><u>LIABILITIES</u></b>		
Due to Student Organizations	0	124,126
Total Liabilities	<u>0</u>	<u>124,126</u>
<b><u>NET POSITION</u></b>		
Held in Trust for Various Purposes	<u>132,504</u>	0
Total Net Position	<u>\$ 132,504</u>	<u>\$ 0</u>

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

**COLCHESTER SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

	<b>Private Purpose Trust Funds</b>
<b><u>ADDITIONS:</u></b>	
Contributions	\$ 8,915
Net Investment Income	<u>419</u>
Total Additions	<u><u>9,334</u></u>
<b><u>DEDUCTIONS:</u></b>	
Scholarships and Awards	<u>9,600</u>
Total Deductions	<u>9,600</u>
Change In Net Position	(266)
Net Position - July 1, 2013	<u>132,770</u>
Net Position - June 30, 2014	<u><u>\$ 132,504</u></u>

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

**COLCHESTER SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

The Colchester School District (herein the “School District”) consists of Colchester High School, Colchester Middle School, Malletts Bay, Union Memorial and Porters Point Elementary Schools in addition to several special and vocational educational programs.

The School District, for financial reporting purposes, includes all of the funds and account groups relevant to the operations of the Colchester School District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Colchester School District.

## **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 burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. 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, 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.

COLCHESTER SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014

**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 Food Service 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 funds:

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.

Capital Projects Fund – This fund accounts for the capital projects and capital reserve of the School District.

The School District reports on the following major enterprise funds:

Food Service 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.

COLCHESTER SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014

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 and to support women studies. All investment earnings and in some cases, the principal of these funds, may be used to support these activities.

Agency Funds – These funds account for monies maintained for various student groups at the School District.

### **C. Measurement Focus**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. This means that all assets and liabilities 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 and current liabilities 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 and proprietary 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 assessments, grants and donations. On the accrual basis, revenue from assessments is recognized in the fiscal year for which the assessments are levied. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

COLCHESTER SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014

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. However, the School District does not follow this policy in regards to certain grant revenue. This is a departure from accounting principles generally accepted in the United States of America. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, certain compensated absences and other long-term liabilities which are recognized when the obligations are expected to be liquidated or are funded with expendable available financial resources.

In the General Fund, \$161,703 of grant revenue was recorded as revenue at June 30, 2013, respectively, that was not received within the period of availability. The effect at June 30, 2014 is that revenue and the net change in fund balance is understated by \$161,703. Management has determined that this amount is not material to the financial statements.

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

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

#### **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 and liabilities 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. Future Changes in Accounting Standards**

The Governmental Accounting Standards Board (GASB) issued Statement No. 68, “Financial Reporting for Pension Plans” – an amendment of GASB Statement No. 27, effective for fiscal years beginning after June 15, 2014. This new accounting and reporting standard may impact the School District’s measurement and recognition of pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures in government-wide and/or enterprise fund financial statements. The requirements of this statement may require restating of beginning net position. The School District is currently not planning to early implement this Statement and has made no estimation of the effect this Statement will have in the financial statements.

**COLCHESTER SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

**G. Assets, Liabilities and Equity**

**1. Cash**

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

**2. Investments**

The School District invests as allowed by State Statute. Investments with readily determinable fair values are reported at their fair values on the balance sheet. Unrealized gains and losses are included in revenue.

**3. 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. At June 30, 2014, the allowance is \$-0-.

**4. Internal Balances**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds”. All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

**5. Inventories and Prepaid Expenses**

Inventory quantities are determined by physical count and are valued at cost. Inventories in the Food Service Fund consist of food and supplies.

Certain payments to vendors reflect costs that are applicable to future accounting periods and are recorded as prepaid expenses.

Reported inventories and prepaid expenses of governmental funds in the fund financial statements are offset by a nonspendable fund balance as these are not in spendable form.

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## **6. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statements element, “deferred outflows of resources”, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. The School District did not have any items that qualified for reporting in this category.

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. The School District did not have any items that qualified for reporting in this category.

## **7. 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 fair 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. Infrastructure assets are reported starting with fiscal year ending June 30, 2004. The School District has elected to not report major general infrastructure assets retroactively.

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 asset accounts) are generally \$2,500 to \$3,000 for individual items and \$10,000 for an asset group. The estimated useful lives of capital assets are as follows:

	<u>Estimated Service Life</u>
Land and Land Improvements	N/A
Outdoor Assets	10-60 Years
Buildings and Building Improvements	20-96 Years
Equipment and Furniture	3-50 Years
Books	8-15 Years
Vehicles	4-25 Years
Food Service Equipment	7-30 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 incurred.

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### **8. Compensated Absences**

It is the policy of the School District to permit employees to accumulate earned but unused vacation benefits up to five (5) days for twelve (12) month administrators and support staff. Two administrators are allowed to accumulate ten (10) days based on their contracts. No School District employees are entitled to a payout of sick benefits upon separation from service. The accrual for unused compensated absences, based on current pay rates, is recorded in the government-wide financial statements. The liability for unused compensated absences is not reported in the governmental fund type financial statements. Payments for unused compensated absences are recorded as expenditures in the year they are paid.

### **9. Long-term Liabilities**

Long-term liabilities include bonds and notes payable and compensated absences. Long-term liabilities are reported in the government-wide and proprietary fund type 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 assets and liabilities on their balance sheets.

### **10. 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:

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.

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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 bond 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**

An annual budget is adopted for the General Fund. The General Fund budgetary basis of accounting utilizes generally accepted accounting principles but excludes unbudgeted items.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The School Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1<sup>st</sup>. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain taxpayer comments. Said hearings are held more than two days prior to the date of the annual School District meeting. The School Board then reviews the budget and adopts it with or without change. The proposed budget is distributed to the legal voters of the Town of Colchester at least ten days before the public hearing.

3. The School Superintendent may at any time transfer an unencumbered balance or portion thereof between general classifications of expenditures within an office, department or agency under his/her jurisdiction.

There were no budget amendments during the year.

#### **B. Budgeted Deficit**

The School District elected to budget expenditures in excess of revenue by \$100,000 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. Fund Deficit**

The \$68,112 unrestricted deficit in the Food Service Fund will be funded with future food sales, reduction in expenses and support from the General Fund.

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## **IV. DETAILED NOTES ON ALL FUNDS**

### **A. Cash and Investments**

Cash and investments are comprised of the following:

Cash:

Deposits with Financial Institutions	\$2,623,364
Petty Cash	<u>665</u>
Total Cash	<u>2,624,029</u>

Restricted Cash:

Deposits with Investment Company	<u>3,982,098</u>
Total Restricted Cash	<u>3,982,098</u>
Total Cash	<u>6,606,127</u>

Investments:

Certificate of Deposit	<u>151,441</u>
Total Investments	<u>151,441</u>
Total Cash and Investments	<u>\$ 6,757,568</u>

### **Custodial Credit Risk**

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

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	Book Balance	Bank Balance
Insured (FDIC)	\$ 610,283	\$ 619,107
Uninsured, Collateralized by U.S. Government Securities, Federal Agency Issued Mortgage Backed Securities and/or General Obligation Vermont Municipal Notes and Bonds Held by the Bank's Trust Department with a Security Interest Granted to the School District	2,414,522	2,821,858
Uninsured, Uncollateralized-Held by the Bank's Trust Department	3,732,098	3,732,098
Petty Cash	665	N/A
Total	<u>\$ 6,757,568</u>	<u>\$ 7,173,063</u>

The difference between the book balance and the 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.

Information about the sensitivity of the fair values of the School District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the School District's investments by maturity.

	Remaining Maturity	
Investment Type	Less than 1 Year	Total
Certificates of Deposit	<u>\$ 151,441</u>	<u>\$ 151,441</u>

The School District has nine (9) certificates of deposit ranging from \$1,536 to \$90,784 with interest rates ranging from .30% to .40%. All of the certificates of deposit mature during fiscal year 2015.

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**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The School District's certificates of deposit are exempt from the credit risk analysis. The School District does not have any policy to limit the exposure to credit risk.

**Restricted Cash**

Cash is restricted in accordance with the General Obligation Bond issued through the Vermont Municipal Bond Bank for the School District's capital projects. The debt instrument requires proceeds to be in custody with a third party financial institution which is U.S. Bank. The amount of restricted cash is \$3,982,098.

**B. Receivables**

Receivables at June 30, 2014, as reported in the statement of net position, net of applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Special Education - Extraordinary Reimbursement	\$ 14,397	\$ 0	\$ 14,397
State Grants Receivable	9,901	63,837	73,738
Miscellaneous	<u>13,765</u>	<u>526</u>	<u>14,291</u>
 Total	 <u>\$ 38,063</u>	 <u>\$ 64,363</u>	 <u>\$ 102,426</u>

**C. Due from the Town of Colchester**

The Due from the Town of Colchester consists of the following at June 30, 2014:

Impact Fees	\$50,531
Telephone/Election Fees	<u>1,334</u>
 Total	 <u>\$51,865</u>

**COLCHESTER SCHOOL DISTRICT**  
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#### **D. Prepaid Expenses**

Prepaid expenses consists of the following at June 30, 2014:

	Governmental Activities	Business-Type Activities	Total
Health Insurance	\$ 301,879	\$ 0	\$ 301,879
Dental, Life and Long Term			
Disability Insurance	33,317	0	33,317
Professional Development	9,803	525	10,328
Software Support	87,735	3,556	91,291
Summer Services - Special Education	40,931	0	40,931
Building and Equipment Rental	15,239	0	15,239
Miscellaneous	<u>1,802</u>	<u>0</u>	<u>1,802</u>
Total	<u>\$ 490,706</u>	<u>\$ 4,081</u>	<u>\$ 494,787</u>

#### **E. Capital Assets**

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 43,810	\$ 0	\$ 0	\$ 43,810
Land Improvements	270,000	0	0	270,000
Construction in Progress	<u>76,961</u>	<u>2,209,212</u>	<u>0</u>	<u>2,286,173</u>
Total Capital Assets, Not Being Depreciated	<u>390,771</u>	<u>2,209,212</u>	<u>0</u>	<u>2,599,983</u>
Capital Assets, Being Depreciated:				
Outdoor Assets	1,362,548	2,856	0	1,365,404
Buildings and Building Improvements	16,368,077	223,134	0	16,591,211
Equipment and Furniture	4,533,335	479,758	299,141	4,713,952
Books	1,585,578	0	1,982	1,583,596
Vehicles	<u>447,344</u>	<u>23,478</u>	<u>24,050</u>	<u>446,772</u>
Totals	<u>24,296,882</u>	<u>729,226</u>	<u>325,173</u>	<u>24,700,935</u>
Less Accumulated Depreciation for:				
Outdoor Assets	645,284	78,010	0	723,294
Buildings and Building Improvements	9,062,944	415,028	0	9,477,972
Equipment and Furniture	2,626,214	499,277	277,305	2,848,186
Books	1,176,918	61,086	1,982	1,236,022
Vehicles	<u>240,897</u>	<u>31,609</u>	<u>4,259</u>	<u>268,247</u>
Totals	<u>13,752,257</u>	<u>1,085,010</u>	<u>283,546</u>	<u>14,553,721</u>
Net Capital Assets, Being Depreciated	<u>10,544,625</u>	<u>(355,784)</u>	<u>41,627</u>	<u>10,147,214</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,935,396</u>	<u>\$ 1,853,428</u>	<u>\$ 41,627</u>	<u>\$ 12,747,197</u>

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<b>Business-Type Activities</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Being Depreciated:				
Equipment	\$ 456,389	\$ 11,186	\$ 1,663	\$ 465,912
Vehicle	11,124	0	0	11,124
<b>Totals</b>	<b>467,513</b>	<b>11,186</b>	<b>1,663</b>	<b>477,036</b>
Less Accumulated Depreciation for:				
Equipment	268,702	15,292	869	283,125
Vehicle	927	3,708	0	4,635
<b>Totals</b>	<b>269,629</b>	<b>19,000</b>	<b>869</b>	<b>287,760</b>
Net Capital Assets, Being Depreciated	197,884	(7,814)	794	189,276
Business-Type Activities Capital Assets, Net	<b>\$ 197,884</b>	<b>\$ (7,814)</b>	<b>\$ 794</b>	<b>\$ 189,276</b>

Depreciation was charged as follows:

Governmental Activities:	Business - Type Activities:	
Education	\$ <u>1,085,010</u>	Food Service
Total Depreciation Expense - Governmental Activities	<u>\$ 1,085,010</u>	Total Depreciation Expense - Business-Type Activities
		<u>\$ 19,000</u>

## F. Interfund Balances and Transfers

The composition of interfund balances at June 30, 2014 is as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 0	\$ 563,178
Capital Projects Fund	689,896	0
Food Service Fund	<u>0</u>	<u>126,718</u>
<b>Totals</b>	<b>\$689,896</b>	<b>\$ 689,896</b>

Interfund transfers during the year ended June 30, 2014 were as follows:

<u>Transfer From</u>	<u>Amount</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	<u>\$222,824</u>	Capital Projects Fund	<u>\$222,824</u>	Capital Reserves

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**G. Unearned Revenue**

Unearned revenue primarily consists of grants received in excess of eligible expenses at June 30, 2014 as follows:

	Governmental Activities	Business-Type Activities	Total
Medicaid	\$ 376,603	\$ 0	\$ 376,603
EPSDT	24,396	0	24,396
Title I	1,868	0	1,868
Title II	8,327	0	8,327
Title III	2,157	0	2,157
IDEA-B	9,956	0	9,956
Miscellaneous	8,902	0	8,902
Student /Adult Meal Payment	0	26,849	26,849
USDA Commodities	<u>0</u>	<u>7,853</u>	<u>7,853</u>
 Total	 <u>\$ 432,209</u>	 <u>\$ 34,702</u>	 <u>\$ 466,911</u>

**H. Long-term Liabilities**

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

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

Other Notes Payable – The School District has other notes payable to finance various capital purchases through local banks.

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

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Long-term liabilities outstanding as of June 30, 2014 were as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
<b><u>Governmental Activities:</u></b>				
Note Payable – DeLage Landen Financial for Copiers, Payments are \$9,150 Monthly with 2.975% Interest, Due May, 2015	\$ 195,674	\$ 0	\$ 105,409	\$ 90,265
Bond Payable – Vermont Municipal Bond Bank for Renovations of Science Labs, Interest Only Until May, 2017, then Annual Principal Payments of \$294,118 Payable on November 15, Interest Ranging from 1.934% to 4.64% Payable on May 15 and November 15, Due November, 2033	0	5,000,000	0	5,000,000
Bond Payable - Vermont Municipal Bond Bank for Renovations at all of the District's Schools, Payments are \$160,000 Annually Until December, 2006, then Payments Decrease to \$155,000, Interest is at 5.093%, Due December, 2016	<u>620,000</u>	<u>0</u>	<u>155,000</u>	<u>465,000</u>
Total Long-Term Debt - Governmental Activities	<u>\$ 815,674</u>	<u>\$ 5,000,000</u>	<u>\$ 260,409</u>	<u>\$ 5,555,265</u>

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<b><u>Governmental Activities:</u></b>					
General Obligation Bonds Payable	\$ 620,000	\$ 5,000,000	\$ 155,000	\$ 5,465,000	\$ 155,000
Notes Payable	195,674	0	105,409	90,265	90,265
Compensated Absences	<u>37,407</u>	<u>0</u>	<u>4,396</u>	<u>33,011</u>	<u>0</u>
Total Governmental Activities	<u>\$ 853,081</u>	<u>\$ 5,000,000</u>	<u>\$ 264,805</u>	<u>\$ 5,588,276</u>	<u>\$ 245,265</u>
Long-Term Liabilities	<u>\$ 853,081</u>	<u>\$ 5,000,000</u>	<u>\$ 264,805</u>	<u>\$ 5,588,276</u>	<u>\$ 245,265</u>

**COLCHESTER SCHOOL DISTRICT  
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Debt service requirements to maturity are as follows:

Year Ending <u>June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 245,265	\$ 201,918
2016	155,000	191,408
2017	155,000	182,105
2018	294,118	183,562
2019	294,118	177,300
2020-2024	1,470,588	761,161
2025-2029	1,470,588	489,235
2030-2034	<u>1,470,588</u>	<u>167,866</u>
Total	<u>\$5,555,265</u>	<u>\$2,354,555</u>

### **I. Short-Term Debt**

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

Beginning Balance	\$ 0
Proceeds of Tax Anticipation Note	3,500,000
Repayment of Tax Anticipation Note	<u>(3,500,000)</u>
Ending Balance	\$ 0

Total interest expense for all debt during the year included in direct educational expenses on Exhibit B is \$241,979.

Subsequent to year end, the School District borrowed \$3,060,000 on a current expense note from the People's United Bank with interest at 1.18% and due on June 30, 2015.

### **J. Fund Balances/Net Position**

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

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

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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.

Restricted Net Position

The net position in the governmental activities is restricted as follows:

Restricted for Bond Payments for Malletts Bay School by Impact Fees	\$ <u>50,531</u>
Total Restricted Net Position	\$ <u>50,531</u>

Nonspendable Fund Balances

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

Nonspendable General Fund Prepaid Expenses	\$ <u>490,706</u>
Total Nonspendable Fund Balances	\$ <u>490,706</u>

Restricted Fund Balances

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

Restricted for Bond Payments for Malletts Bay School by Impact Fees	\$ <u>50,531</u>
Restricted for Building Renovations – Unspent Bond Proceeds	\$ <u>2,712,996</u>
Total Restricted Fund Balances	\$ <u>2,763,527</u>

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**Assigned Fund Balances**

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

General Fund:

Assigned for Special Education	\$ 145,652
Assigned for E-Rate	143,093
Assigned for Technical Education	54,652
Assigned for Miscellaneous	13,557
Assigned for Wellness	10,375
Assigned for GSSG	9,214
Assigned for Education Programs	6,371
Assigned for Music Program	5,195
Assigned for Parking Permits	2,195
Assigned for PSAT and AP Testing Program	741
Assigned for Summer School	596
Assigned for Athletic Programs	339

Capital Projects Fund:

Assigned for Future Capital Projects	<u>689,956</u>
Total Assigned Fund Balances	<u>\$1,081,936</u>

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

The net position held in trust for various purposes as of June 30, 2014 consisted of the following:

**Private Purpose Trust Funds**

Restricted for Scholarships by Donors:

General Trust Fund	\$ 1,536
Colchester Community Fund	91,919
Woodmen Fund	15,505
Faller Fund	8,318
Mallory Fund	7,886
Kohlasch Fund	2,340

Restricted for Library Women Studies:

Kelly Foundation Fund	<u>5,000</u>
Total	<u>\$132,504</u>

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## V. OTHER INFORMATION

### A. BENEFIT PLANS

#### Vermont State Teachers' Retirement System:

The teachers employed by the School District are covered by the Vermont State Teachers' Retirement System which is a cost sharing multiple employer retirement system. Vermont State statutes provide the authority under which benefit provisions and the State's obligation to contribute are established. Required contributions to the system are made by the State of Vermont based upon a valuation report prepared by the System's actuary.

All licensed teachers become members of the retirement system upon employment. Group C members, who are all former Group B members and members hired after June 30, 1990, are required to contribute at a rate of 5.0% of earnable compensation. The School District's Group C members contributed \$717,188. Vesting occurs upon reaching five (5) years of creditable service. The State makes retirement contributions on all eligible covered salaries on-behalf of the District.

The District's current year payroll for all employees totaled \$21,119,411 while its current year's covered payroll for the State Teacher's Retirement Plan equaled \$14,343,766 resulting in an estimated \$1,639,492 of on-behalf payments. This amount is included as Revenue and Expenses in Exhibits B and D. Additional information regarding the State Teachers' Retirement System of Vermont is available upon request from the State of Vermont.

#### Vermont Municipal Employees Retirement:

Employees, other than teachers, are covered under the Vermont Municipal Employees' Retirement System. All eligible employees covered under Group A contribute 2.5% of gross wages while the School District contributes 4%. One (1) employee is under Group C which requires employee contributions of 9.25% of gross wages while the School District contributes 6.5%. Total payroll for the year was \$21,119,411 while the covered payroll for Group A and C was \$5,487,228 and \$109,234, respectively. Total pension expense for the years ended June 30, 2014, 2013 and 2012 were \$227,134, \$210,448 and \$197,778, respectively.

The School District pays all costs accrued each year for the plan. The premise of this plan is to provide a retirement plan covering municipal employees at a uniform state-wide contribution rate based upon an actuarial valuation of all State of Vermont municipal employees. Activity in this plan is done in the aggregate, not by municipality. The net position available for benefits as well as the present value of vested and nonvested plan benefits by municipality are not available.

Additional information regarding the Vermont Municipal Employee's Retirement System is available upon request from the State of Vermont.

COLCHESTER SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014

## **B. RISK MANAGEMENT**

The Colchester 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 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 District paid \$35,605 in unemployment claims during fiscal year 2014.

## **C. COMMITMENTS**

The School District has a transportation agreement with Student Transport of Vermont, Inc. d/b/a Mountain Transit for five (5) years starting May 15, 2012. The total cost for the 2014 fiscal year was \$785,391. Subsequent years shall increase by the price index set forth by the New England Economic Project.

The School District leases space at 308 Blakely Road. On January 1, 2013, the School District entered into a new agreement for more space. The monthly payment is \$4,500. The lease ends on June 30, 2016. Total lease payments for the 2014 fiscal year were \$54,000.

## **D. CONCENTRATIONS**

The District received the majority of its revenue from State and Federal grants.

## **E. CONTINGENCIES**

Grants and contracts require the fulfillment of certain conditions set forth in the instrument of the grant or contract including a true up by the grantor. Failure to fulfill the conditions or the results of the true up could result in the return of funds to the grantors. Although that is a possibility, management deems the contingency remote, since by accepting the awards and their terms, it has accommodated the objectives of the School District to the provisions of the grants.

**COLCHESTER SCHOOL DISTRICT**  
**SCHEDULE OF REVENUE AND EXPENDITURES**  
**BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>Revenue:</b>			
Regular Instructional:			
General State Support Grants	\$ 27,306,403	\$ 27,306,403	\$ 0
Other State Revenue	841,559	819,031	(22,528)
Tuition	791,000	832,767	41,767
Other Local Revenue	60,000	112,403	52,403
Special Education Support:			
State Revenue	3,590,797	3,774,786	183,989
Federal Grants	527,410	508,482	(18,928)
Tuition	0	147,975	147,975
Interest	<u>125,000</u>	<u>67,651</u>	<u>(57,349)</u>
Total Revenue	<u>33,242,169</u>	<u>33,569,498</u>	<u>327,329</u>
<b>Expenditures:</b>			
Regular Instructional:			
Direct Instructional	13,607,747	13,548,073	59,674
Vocational Tuition	932,551	902,027	30,524
Student Support Services	1,568,951	1,613,375	(44,424)
Staff Support Services	993,709	1,007,934	(14,225)
General Administration	737,188	626,005	111,183
School Administration	1,874,687	1,955,083	(80,396)
Fiscal Services	1,559,477	1,233,659	325,818
Operation and Maintenance of Plant	3,296,348	3,450,361	(154,013)
Transportation Services	1,025,660	924,831	100,829
Special Education Support:			
Direct Instructional	5,724,598	5,719,679	4,919
Student Support Services	1,090,929	1,116,843	(25,914)
Staff Support Services	125,153	47,808	77,345
School Administration	354,593	356,671	(2,078)
Transportation Services	221,709	217,998	3,711
Debt Service	228,869	343,724	(114,855)
Transfer to Capital Reserve Fund	<u>0</u>	<u>222,824</u>	<u>(222,824)</u>
Total Expenditures	<u>33,342,169</u>	<u>33,286,895</u>	<u>55,274</u>
Excess/(Deficiency) of Revenue Over Expenditures	<u>\$ (100,000)</u>	<u>282,603</u>	<u>\$ 382,603</u>

The following adjustments reconcile the Change in Fund Balance - Budgetary Basis to the Change in Fund Balance - GAAP Basis

Unbudgeted State Revenue	78,472
Unbudgeted Local Revenue	115,381
Unbudgeted Tuition	2,583
Unbudgeted Interest	21
Unbudgeted Federal Grants	550,109
Unbudgeted Special Education Payments	289,990
Unbudgeted Local Grants	280,476
Unbudgeted Intergovernmental Pension Contribution	1,639,492
Unbudgeted Regular Education Expenses	(2,403,619)
Unbudgeted Special Education Expenses	<u>(558,609)</u>
Net Change in Fund Balance (GAAP Basis) - Exhibit D	<u>\$ 276,899</u>

See Disclaimer in Accompanying Independent Auditor's Report.

COLCHESTER SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
PRIVATE PURPOSE TRUST FUNDS  
JUNE 30, 2014

	General Trust Fund	Colchester Community Fund	Woodmen Fund	Kelly Foundation Fund	Faller Fund	Mallory Fund	Kohlasch Fund	Total
<b><u>ASSETS</u></b>								
Cash	\$ 0	\$ 1,135	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,135
Investments in Certificates of Deposit	<u>1,536</u>	<u>90,784</u>	<u>15,505</u>	<u>5,000</u>	<u>8,318</u>	<u>7,886</u>	<u>2,340</u>	<u>131,369</u>
<b>TOTAL ASSETS</b>	<b><u>1,536</u></b>	<b><u>91,919</u></b>	<b><u>15,505</u></b>	<b><u>5,000</u></b>	<b><u>8,318</u></b>	<b><u>7,886</u></b>	<b><u>2,340</u></b>	<b><u>132,504</u></b>
<b><u>LIABILITIES AND NET POSITION</u></b>								
Liabilities:	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Position:								
Restricted	<u>1,536</u>	<u>91,919</u>	<u>15,505</u>	<u>5,000</u>	<u>8,318</u>	<u>7,886</u>	<u>2,340</u>	<u>132,504</u>
<b>Total Net Position</b>	<b><u>1,536</u></b>	<b><u>91,919</u></b>	<b><u>15,505</u></b>	<b><u>5,000</u></b>	<b><u>8,318</u></b>	<b><u>7,886</u></b>	<b><u>2,340</u></b>	<b><u>132,504</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>1,536</u></b>	<b><u>91,919</u></b>	<b><u>15,505</u></b>	<b><u>5,000</u></b>	<b><u>8,318</u></b>	<b><u>7,886</u></b>	<b><u>2,340</u></b>	<b><u>132,504</u></b>

See Disclaimer in Accompanying Independent Auditor's Report.

**COLCHESTER SCHOOL DISTRICT**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**PRIVATE PURPOSE TRUST FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	General Trust Fund	Colchester Community Fund	Woodmen Fund	Kelly Foundation Fund	Faller Fund	Mallory Fund	Kohlasch Fund	Total
<b>Additions:</b>								
Contributions	\$ 4,550	\$ 4,365	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,915
Interest Income	8	263	64	0	36	34	14	419
<b>Total Additions</b>	<b>4,558</b>	<b>4,628</b>	<b>64</b>	<b>0</b>	<b>36</b>	<b>34</b>	<b>14</b>	<b>9,334</b>
<b>Deductions:</b>								
Scholarships and Awards	5,050	2,400	150	0	500	500	1,000	9,600
<b>Total Deductions</b>	<b>5,050</b>	<b>2,400</b>	<b>150</b>	<b>0</b>	<b>500</b>	<b>500</b>	<b>1,000</b>	<b>9,600</b>
Change in Net Position	(492)	2,228	(86)	0	(464)	(466)	(986)	(266)
Net Position - July 1, 2013	2,028	89,691	15,591	5,000	8,782	8,352	3,326	132,770
<b>Net Position - June 30, 2014</b>	<b>\$ 1,536</b>	<b>\$ 91,919</b>	<b>\$ 15,505</b>	<b>\$ 5,000</b>	<b>\$ 8,318</b>	<b>\$ 7,886</b>	<b>\$ 2,340</b>	<b>\$ 132,504</b>

See Disclaimer in Accompanying Independent Auditor's Report.

**COLCHESTER SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

Grant Title Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<b><u>U.S. Department of Education</u></b>				
Passed through Vermont State Department of Education				
Title I	84.010	CFP-1401	409,000	\$ 377,941
Special Education Cluster (IDEA)				
IDEA-B Flow Through	84.027	4226-1401	510,579	501,157
IDEA-B Preschool Incentive	84.173	4228-1401	7,325	7,325
Total Special Education Cluster (IDEA)				<u>508,482</u>
Title II-A	84.367	CFP-1401	176,631	159,436
English Language Acquisition Grant	84.365	4375-1401	15,357	4,911
Passed through Chittenden Central Supervisory Union				
English Language Acquisition Grant	84.365		13,131	<u>7,820</u>
Total Passed through Chittenden Central Supervisory Union				<u>7,820</u>
Total U.S. Department of Education				<u>1,058,590</u>
<b><u>U.S. Department of Agriculture</u></b>				
Passed through Vermont State Department of Education				
Child Nutrition Cluster				
National Hot Lunch	10.555	4450-1401	N/A	279,480
School Breakfast Program	10.553	4452-1401	N/A	83,376
Total Child Nutrition Cluster				<u>362,856</u>
Commodities	10.565	4453-1301	N/A	5,703
Commodities	10.565	4453-1401	N/A	42,019
Total U.S. Department of Agriculture				<u>410,578</u>
Total Federal Awards				\$ <u>1,469,168</u>

The Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Colchester School District and was prepared using the significant accounting policies outlined in Note 1 to the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

# 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"

School Board  
Colchester School District  
Laker Lane, P.O. Box 27  
Colchester, Vermont 05446-0027

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 Colchester School District as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Colchester School District's basic financial statements and have issued our report thereon dated January 30, 2015.

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

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

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

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

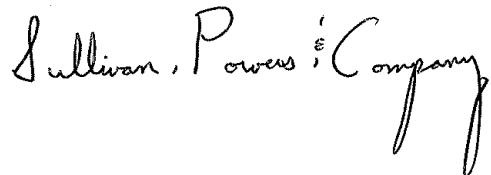
### **Compliance and Other Matters**

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

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Colchester 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 Colchester School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

January 30, 2015  
Montpelier, Vermont  
VT Lic. #92-000180

A handwritten signature in black ink that reads "Sullivan, Powers & Company". The signature is fluid and cursive, with "Sullivan" on top, "Powers" in the middle, and "Company" on the bottom right.

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

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## Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

School Board  
Colchester School District  
Laker Lane, P.O. Box 27  
Colchester, Vermont 05446-0027

### **Report on Compliance for Each Major Federal Program**

We have audited the Colchester School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) "Circular A-133 Compliance Supplement" that could have a direct and material effect on the Colchester School District's major federal programs for the year ended June 30, 2014. The Colchester School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Deficiencies in Internal Control.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Colchester School District's major federal programs based on our audit of the types of compliance requirements referred to previously. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States; and OMB Circular A-133 "Audits of States, Local Governments and Non-Profit Organizations". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to previously could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Colchester School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of the Colchester School District's compliance.

## Opinion on Each Major Federal Program

In our opinion, the Colchester School District complied, in all material respects, with the types of compliance requirements referred to previously that could have a direct and material effect on its major federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

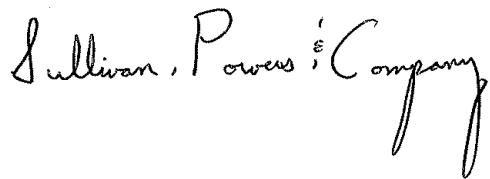
Management of the Colchester School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to previously. In planning and performing our audit of compliance, we considered the Colchester School District's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal programs and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Colchester School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

January 30, 2015  
Montpelier, Vermont  
VT Lic. #92-000180



**COLCHESTER SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
AND DEFICIENCIES IN INTERNAL CONTROL  
JUNE 30, 2014**

There were no prior year findings.

COLCHESTER SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND DEFICIENCIES IN INTERNAL CONTROL  
JUNE 30, 2014

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of Auditor's Report Issued:  
Unmodified.

Internal Control Over Financial Reporting:  
Material Weaknesses:

No.

Significant Deficiencies identified not considered to be material weaknesses:  
No.

Noncompliance material to financial statements:  
None noted.

**Federal Awards**

Internal Control Over Major Programs:  
Material Weaknesses identified:  
No.

Significant Deficiencies identified not considered to be material weaknesses:  
No.

Type of auditor's report issued on compliance for major programs:  
Unmodified for all major programs.

There are no audit findings that are required to be reported in accordance with OMB Circular A-133, Section 510(a).

Major Programs:

<u>CFDA #</u>	<u>Program</u>	<u>Federal Agency</u>
Special Education Cluster (IDEA):		
84.027	IDEA-B Flow Through	U.S. Department of Education
84.173	IDEA-B Preschool Incentive	U.S. Department of Education

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

The auditee does qualify as a low risk auditee.