

COLCHESTER SCHOOL DISTRICT
AUDIT REPORT AND REPORTS ON COMPLIANCE AND
INTERNAL CONTROL

JUNE 30, 2017

COLCHESTER SCHOOL DISTRICT
AUDIT REPORT
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Independent Auditor's Report

School Board
Colchester School District
125 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, 2017 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Information

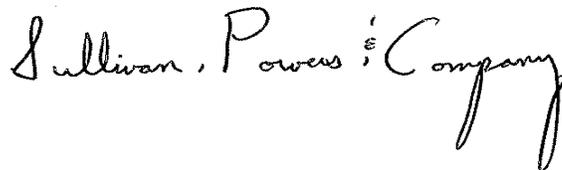
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Colchester School District’s basic financial statements. The accompanying financial information listed as Schedules 5 and 6 in the Table of Contents are presented for purposes of additional 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” 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 February 16, 2018 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.

February 16, 2018
Montpelier, Vermont
VT Lic. #92-000180



COLCHESTER SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017. 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") 2017.
- Total net position decreased \$531,804 which represents a 4.1% decrease from FY 2016.
- The School District spent \$41,648,725 (including general fund, grants, and enterprise funds) compared to overall revenue of \$41,116,921.
- Revenues exceeded expenditures in the General Fund by \$149,331 or about 0.37%.
- When comparing the budgeted revenue of \$36,090,915 and budgeted expenditures of \$36,890,915 approved by the voters on March 1, 2016, the School District received \$36,620,527 (101.47%) and spent \$36,631,709 (99.30%). Expenditures exceeded revenues by \$11,182.
- Capital assets, net of accumulated depreciation, increased by \$244,857 during the period July 1, 2016 through June 30, 2017.
- Through "normal" debt retirement, the School District reduced its outstanding long-term debt by \$155,000. There is one (1) obligation owed by the School District;
 - 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 2017: \$5,000,000

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, deferred outflows of resources, liabilities and deferred inflows of resources.

The statement of net position presents information on all the School District's assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 and Changes in 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$12,350,148 as of June 30, 2017.

By far, the largest portion of the School District's net position (73.18%) 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, 2017 and 2016.

Summarized Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 5,106,938	\$ 6,074,029	\$ (2,256)	\$ (16,371)	\$ 5,104,682	\$ 6,057,658
Capital Assets	<u>13,853,919</u>	<u>13,605,237</u>	<u>183,765</u>	<u>187,590</u>	<u>14,037,684</u>	<u>13,792,827</u>
Total Assets	<u>18,960,857</u>	<u>19,679,266</u>	<u>181,509</u>	<u>171,219</u>	<u>19,142,366</u>	<u>19,850,485</u>
Deferred Outflows of Resources	<u>1,180,510</u>	<u>714,403</u>	<u>81,123</u>	<u>53,194</u>	<u>1,261,633</u>	<u>767,597</u>
Current Liabilities	917,623	1,220,247	37,076	34,150	954,699	1,254,397
Noncurrent Liabilities	<u>6,918,068</u>	<u>6,354,327</u>	<u>128,781</u>	<u>86,629</u>	<u>7,046,849</u>	<u>6,440,956</u>
Total Liabilities	<u>7,835,691</u>	<u>7,574,574</u>	<u>165,857</u>	<u>120,779</u>	<u>8,001,548</u>	<u>7,695,353</u>
Deferred Inflows of Resources	<u>48,940</u>	<u>37,951</u>	<u>3,363</u>	<u>2,826</u>	<u>52,303</u>	<u>40,777</u>
Net Position						
Invested in Capital Assets,						
Net of Related Debt	8,853,919	9,106,268	183,765	187,590	9,037,684	9,293,858
Restricted	122,983	89,312	0	0	122,983	89,312
Unrestricted/(Deficit)	<u>3,279,834</u>	<u>3,585,564</u>	<u>(90,353)</u>	<u>(86,782)</u>	<u>3,189,481</u>	<u>3,498,782</u>
Total Net Position	<u>\$ 12,256,736</u>	<u>\$ 12,781,144</u>	<u>\$ 93,412</u>	<u>\$ 100,808</u>	<u>\$ 12,350,148</u>	<u>\$ 12,881,952</u>

Changes in net position: The School District's total revenues for the fiscal year ended June 30, 2017 were \$41,116,921. The total expenses were \$41,648,725. The following table presents a summary of the changes in net position for the fiscal year ended June 30, 2017 and 2016.

Summarized Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Charges for services	\$ 634,002	\$ 856,610	\$ 604,934	\$ 617,378	\$ 1,238,936	\$ 1,473,988
Operating Grants and Contributions	39,254,856	37,410,022	466,389	471,535	39,721,245	37,881,557
Capital Grants and Contributions	100,000	75,000	0	0	100,000	75,000
Investment Earnings	56,650	60,475	90	70	56,740	60,545
Total Revenues	40,045,508	38,402,107	1,071,413	1,088,983	41,116,921	39,491,090
Expenses						
Education	40,519,916	38,188,731	0	0	40,519,916	38,188,731
Food Service	0	0	1,128,809	1,115,787	1,128,809	1,115,787
Total Expenses	40,519,916	38,188,731	1,128,809	1,115,787	41,648,725	39,304,518
Increase/(Decrease) in Net Position Before Transfers	(474,408)	213,376	(57,396)	(26,804)	(531,804)	186,572
Transfers	(50,000)	(50,000)	50,000	50,000	0	0
Change in Net Position	(524,408)	163,376	(7,396)	23,196	(531,804)	186,572
Net Position - Beginning of Year	12,781,144	12,617,768	100,808	77,612	12,881,952	12,695,380
Net Position - End of Year	\$ 12,256,736	\$ 12,781,144	\$ 93,412	\$ 100,808	\$ 12,350,148	\$ 12,881,952

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 \$4,220,383, a decrease of \$656,700. The School District has nonspendable funds of \$531,330 for prepaid expenses such as insurance premiums that are required before the end of each fiscal year. Restricted funds consist of \$122,983 for impact fees. The remaining fund balance of \$3,566,070 or 84.5% is unrestricted and available for spending. The School District has committed or assigned \$1,770,795 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, 2017, the School District's total capital assets were \$30,962,167 including land, school buildings, furniture and equipment. This amount represents an increase of \$1,086,262 from the previous year. Total accumulated depreciation as of June 30, 2017 was \$16,924,483 and total depreciation expense for the year ending June 30, 2017 was \$1,299,705 resulting in total net capital assets of \$14,037,684 as of June 30, 2017.

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 2017.

	Principal Balance <u>June 30, 2016</u>	Principal <u>Additions</u>	Principal <u>Payment</u>	Principal Balance <u>June 30, 2017</u>
Municipal Bond Bank	\$ 155,000	\$ 0	\$ 155,000	\$ 0
Municipal Bond Bank	\$ 5,000,000	\$ 0	\$ 0	\$5,000,000

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

GENERAL FUND BUDGETARY HIGHLIGHTS

- When comparing the budgeted revenue of \$36,090,915 and budgeted expenditures of \$36,890,915, approved by the voters on March 1, 2016, the School District received \$36,620,527 (101.47%) and spent \$36,631,709 (99.30%). Expenses exceeded revenue by \$11,182. 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 1.47% or \$529,612. The following items were the driving factors.

- Special education expenditure reimbursement was over budget by \$487,282 or 16.8%. This figure includes extraordinary and state placed revenue.
- Regular and special education tuition was below budget by \$169,513, in aggregate. This is attributed to less tuition students attending Colchester than projected.

The District finished the year spending 99.30% of its planned expenditures. Budget exceeded spending for the year by \$259,206. The following items are worth noting.

- Teacher and administrator compensation came in as expected and in line with the budget.
- Support staff came in over budget by \$119,750 or 2.4% primarily due to the need for more paraeducators than budgeted. Regular and special education needed additional resources throughout the year.
- Repairs and maintenance were over budget by \$32,574 or 4.6%. The primary driver was the district's continued upgrade to electrical capacity and availability at all buildings. Other factors were ordinary repairs and maintenance that were required at all buildings that cannot always be anticipated.
- Substitutes were under budget by \$48,386 or 11.9%. There was less of a need for substitutes during the year than anticipated. This is a challenging area to budget for as staff sick leaves vary from year to year.
- Interest was under budget by \$65,653 or 24.1% due to budgeting for an increase in interest rates for the year but rates remained flat.
- Other professional services was over budget by \$145,710 or 15.8%. This was the result of conservatively estimating the large number of preschool students that would qualify under Act 166 requiring payment by districts to qualified preschools.
- Transportation finished under budget by \$88,703 or 7.0% as a result of less special education transportation than expected and a lower contractual increase

MAINTENANCE OF THE FACILITIES

- Completed the theater renovation project at CHS.
- Replaced one section of the roof at CMS.
- Rewired all of CMS to provide better connectivity.
- Refinished the gym floors at CMS and CHS. This will help to extend the overall useful life of the floors.
- Replaced gym floor at MBS.
- Resealed the parking lots at PPS and UMS.
- 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.
- Upgraded and redeployed wireless access points and switches in all buildings to improve the performance 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

- **Education Spending:** The cost of education continues to increase significantly while student population declines statewide. 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 significant property tax relief. These factors will put a continued strain on school budgets and funding. The school district has significantly less students than it did 10 years ago, however, enrollment has leveled out over the last three years. The school district continues to have one of the lowest per pupil spending amounts in Chittenden County due to its steady enrollment and controlled spending.
- **Budget Increases:** The School District's budgets have increased an average of 3.65% 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.
- **State/Federal Requirements:**
 - **Accountability and School Improvement:** In 2015, **No Child Left Behind** ("NCLB") was replaced by the **Every Student Succeeds Act** ("ESSA"). ESSA keeps the biggest pieces of NCLB in place. One major difference is that states will be responsible for measuring students' academic progress. States will also now decide what happens when schools are not improving rather than the federal government. As a result, changes to the law will provide states with greater flexibility to design their own accountability system and methods of evaluation. It is too early to know what the cost factors will be for districts as the Vermont ESSA Plan is currently awaiting approval from the federal government.
 - **Consolidated Federal Grants:** Federal funding has not increased significantly over the past few years and in some cases has decreased despite the continued rise in the cost of education. Further, greater restrictions are placed on funds received thus limiting district flexibility.
 - **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 are now 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. Further, districts are also responsible for paying an annual charge for Teacher Health Care for all teachers who become members of VSTRS on or after July 1, 2015.

- **Contracts:** Compensation increases for teachers, administrators and support staff averaged between 3.00% and 3.35% for fiscal 2017. Similar increases, on average, are stipulated in all existing contracts through fiscal 2018. Support staff and teacher master agreements expire at the end of fiscal 2018 and 2019, respectively. The current administrator contract expires at the end of fiscal 2018.

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.

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, 2017

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash	\$ 4,283,340	\$ 63,799	\$ 4,347,139
Receivables (Net of Allowance for Uncollectibles)	63,025	28,753	91,778
Due from the Town of Colchester	122,983	0	122,983
Inventories	0	11,452	11,452
Prepaid Expenses	531,330	0	531,330
Internal Balances	106,260	(106,260)	0
Capital Assets:			
Land	43,810	0	43,810
Land Improvements	270,000	0	270,000
Other Capital Assets (Net of Accumulated Depreciation)	13,540,109	183,765	13,723,874
Total Assets	<u>18,960,857</u>	<u>181,509</u>	<u>19,142,366</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Outflows of Resources Related to the School District's Participation in VMERS	1,180,510	81,123	1,261,633
Total Deferred Outflows of Resources	<u>1,180,510</u>	<u>81,123</u>	<u>1,261,633</u>
<u>LIABILITIES</u>			
Accounts Payable	177,699	9,706	187,405
Accrued Payroll and Benefits Payable	121,538	174	121,712
Due to State of Vermont	64,283	0	64,283
Unearned Revenue	523,035	27,196	550,231
Accrued Interest Payable	31,068	0	31,068
Noncurrent Liabilities:			
Due within One Year	294,118	0	294,118
Due in More than One Year	6,623,950	128,781	6,752,731
Total Liabilities	<u>7,835,691</u>	<u>165,857</u>	<u>8,001,548</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred Inflows of Resources Related to the School District's Participation in VMERS	48,940	3,363	52,303
Total Deferred Inflows of Resources	<u>48,940</u>	<u>3,363</u>	<u>52,303</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	8,853,919	183,765	9,037,684
Restricted For:			
Impact Fee Eligible Expenses	122,983	0	122,983
Unrestricted/(Deficit)	3,279,834	(90,353)	3,189,481
Total Net Position	<u>\$ 12,256,736</u>	<u>\$ 93,412</u>	<u>\$ 12,350,148</u>

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

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

	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs:							
Primary Government:							
Governmental Activities:							
Education	\$ 40,519,916	\$ 634,002	\$ 39,254,856	\$ 100,000	\$ (531,058)	\$ 0	\$ (531,058)
Total Governmental Activities	40,519,916	634,002	39,254,856	100,000	(531,058)	0	(531,058)
Business-Type Activities:							
Food Service	1,128,809	604,934	466,389	0	0	(57,486)	(57,486)
Total Business-Type Activities	1,128,809	604,934	466,389	0	0	(57,486)	(57,486)
Total Primary Government	\$ 41,648,725	\$ 1,238,936	\$ 39,721,245	\$ 100,000	(531,058)	(57,486)	(588,544)
General Revenues:							
Unrestricted Interest Income					56,629	0	56,629
Restricted Interest Income					21	90	111
Transfers:					(50,000)	50,000	0
Total General Revenues and Transfers					6,650	50,090	56,740
Change in Net Position					(524,408)	(7,396)	(531,804)
Net Position - July 1, 2016					12,781,144	100,808	12,881,952
Net Position - June 30, 2017					\$ 12,256,736	\$ 93,412	\$ 12,350,148

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

COLCHESTER SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 4,283,340	\$ 0	\$ 4,283,340
Miscellaneous Receivables	4,458	0	4,458
Due from Other Funds	0	658,295	658,295
Due from the State of Vermont	58,567	0	58,567
Due from the Town of Colchester	122,983	0	122,983
Prepaid Expenses	<u>531,330</u>	<u>0</u>	<u>531,330</u>
 Total Assets	 <u>\$ 5,000,678</u>	 <u>\$ 658,295</u>	 <u>\$ 5,658,973</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts Payable	\$ 177,699	\$ 0	\$ 177,699
Accrued Payroll Liabilities	121,538	0	121,538
Due to Other Funds	552,035	0	552,035
Due to State of Vermont	64,283	0	64,283
Unearned Revenue	<u>523,035</u>	<u>0</u>	<u>523,035</u>
 Total Liabilities	 <u>1,438,590</u>	 <u>0</u>	 <u>1,438,590</u>
Fund Balances:			
Nonspendable	531,330	0	531,330
Restricted	122,983	0	122,983
Committed	0	658,295	658,295
Assigned	1,112,500	0	1,112,500
Unassigned	<u>1,795,275</u>	<u>0</u>	<u>1,795,275</u>
 Total Fund Balances	 <u>3,562,088</u>	 <u>658,295</u>	 <u>4,220,383</u>
 Total Liabilities and Fund Balances	 <u>\$ 5,000,678</u>	 <u>\$ 658,295</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. 13,853,919

Deferred Outflows and Inflows of Resources Relating to the School District's Participation in VMERS are Applicable to Future Periods and, therefore, are Not Reported in the Funds. (742,460)

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. (5,075,106)

Net Position of Governmental Activities \$ 12,256,736

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, 2017

	General Fund	Capital Projects Fund	Total
Revenues:			
Regular Instructional:			
General State Support Grants	\$ 29,902,119	\$ 0	\$ 29,902,119
Other State Revenue	860,199	0	860,199
Federal Grants	702,281	0	702,281
Tuition	589,230	0	589,230
Other Local Revenue	401,319	0	401,319
Local Grants	505,505	0	505,505
Interest	56,629	21	56,650
Special Education Support:			
State Revenue	4,405,671	0	4,405,671
Federal Revenue	721,518	0	721,518
Tuition	44,771	0	44,771
Intergovernmental Pension Contribution	1,856,245	0	1,856,245
Total Revenues	40,045,487	21	40,045,508
Expenditures:			
Regular Instructional:			
Direct Instructional	17,098,137	0	17,098,137
Vocational Tuition	818,104	0	818,104
Student Support Services	2,090,427	0	2,090,427
Staff Support Services	1,394,813	0	1,394,813
General Administration	632,098	0	632,098
School Administration	2,000,234	0	2,000,234
Fiscal Services	1,569,068	0	1,569,068
Operation and Maintenance of Plant	3,235,351	100,000	3,335,351
Transportation Services	926,073	0	926,073
Special Education Support:			
Direct Instructional	6,843,984	0	6,843,984
Student Support Services	1,202,552	0	1,202,552
Staff Support Services	52,586	0	52,586
General Administration	425,424	0	425,424
Transportation Services	305,213	0	305,213
Capital Outlay	940,746	656,052	1,596,798
Debt Service:			
Principal	155,000	0	155,000
Interest	206,346	0	206,346
Total Expenditures	39,896,156	756,052	40,652,208
Excess/(Deficiency) of Revenues Over Expenditures	149,331	(756,031)	(606,700)
Other Financing Sources/(Uses):			
Transfers In/Out	(79,847)	29,847	(50,000)
Total Other Financing Sources/(Uses)	(79,847)	29,847	(50,000)
Net Change in Fund Balance	69,484	(726,184)	(656,700)
Fund Balance - July 1, 2016	3,492,604	1,384,479	4,877,083
Fund Balance - June 30, 2017	\$ 3,562,088	\$ 658,295	\$ 4,220,383

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, 2017

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

Net change in fund balances - total government funds (Exhibit D)	\$ (656,700)
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 (\$1,596,798) exceeded depreciation (\$1,280,140) in the current period.	316,658
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, donations and disposals) is to decrease net position	(67,976)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net amount by which repayments in the current period (\$155,000) exceeded proceeds (\$0).	155,000
Governmental funds report employer pension contributions as expenditures (\$232,709). However, in the statement of activities, the cost of pension benefits earned net of employee contributions (\$488,186) is reported as pension expense. The amount is the net effect of the differences in the treatment of pension expense.	(255,477)
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>(15,913)</u>
Change in net position of governmental activities (Exhibit B)	<u>\$ (524,408)</u>

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

COLCHESTER SCHOOL DISTRICT
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Food Service Fund
<u>ASSETS</u>	
Current Assets:	
Cash	\$ 63,799
Miscellaneous Receivables	3,366
Due from State of Vermont	25,387
Inventory	11,452
Total Current Assets	104,004
Noncurrent Assets:	
Capital Assets:	
Equipment	489,469
Accumulated Depreciation	(305,704)
Total Noncurrent Assets	183,765
Total Assets	287,769
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Outflows of Resources Related to the School District's Participation in VMERS	81,123
Total Deferred Outflows of Resources	81,123
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	9,706
Accrued Payroll and Benefits Payable	174
Due to Other Funds	106,260
Unearned Revenue	27,196
Total Current Liabilities	143,336
Noncurrent Liabilities:	
Net Pension Liability	128,781
Total Noncurrent Liabilities	128,781
Total Liabilities	272,117
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Inflows of Resources Related to the School District's Participation in VMERS	3,363
Total Deferred Inflows of Resources	3,363
<u>NET POSITION</u>	
Net Investment in Capital Assets	183,765
Unrestricted/(Deficit)	(90,353)
Total Net Position	\$ 93,412

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, 2017

	Food Service Fund
OPERATING REVENUES:	
State and Federal Grants	\$ 407,843
Food Service Sales	604,934
Commodities	55,633
Miscellaneous Income	2,913
Total Operating Revenues	1,071,323
OPERATING EXPENSES:	
Wages and Benefits	618,603
Food	397,205
Supplies	23,744
Commodities	55,939
Professional Services	4,404
Miscellaneous	9,177
Depreciation	19,565
Total Operating Expenses	1,128,637
Operating Income/(Loss)	(57,314)
NONOPERATING REVENUES/(EXPENSES):	
Interest Income	90
Loss on Disposal of Equipment	(172)
Total Nonoperating Revenues/(Expenses)	(82)
OTHER FINANCING SOURCES:	
Transfers In	50,000
Total Other Financing Sources	50,000
Change in Net Position	(7,396)
Net Position - July 1, 2016	100,808
Net Position - June 30, 2017	\$ 93,412

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, 2017

	<u>Food Service Fund</u>
Cash Flows From Operating Activities:	
Receipts from Food Sales	\$ 601,588
Receipts from State and Federal Grants	382,150
Receipts from Miscellaneous Income	28
Payments to Suppliers of Goods and Services	(423,965)
Payments for Wages and Benefits	<u>(604,411)</u>
Net Cash Provided/(Used) by Operating Activities	<u>(44,610)</u>
Cash Flows From Noncapital Financing Activities:	
Change in Due to Other Funds	15,906
Transfer from General Fund	<u>50,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>65,906</u>
Cash Flows From Capital and Related Financing Activities:	
Purchase of Equipment	<u>(15,912)</u>
Net Cash Provided/(Used) by Capital and Related Financing Activities	<u>(15,912)</u>
Cash Flows From Investing Activities:	
Receipt of Interest	<u>90</u>
Net Cash Provided by Investing Activities	<u>90</u>
Net Increase in Cash	5,474
Cash - July 1, 2016	<u>58,325</u>
Cash - June 30, 2017	<u>\$ 63,799</u>
Adjustments to Reconcile Operating Income to Net Cash Provided/(Used) by Operating Activities:	
Operating Income/(Loss)	\$ (57,314)
Depreciation	19,565
Net Change in Commodities Inventory	306
Increase in Miscellaneous Receivables	(2,885)
Increase in Due from State of Vermont	(25,387)
Increase in Inventory	(299)
Increase in Deferred Outflows of Resources Related to the School District's Participation in VMERS	(27,929)
Decrease in Prepaid Expenses	3,717
Increase in Accounts Payable	7,147
Decrease in Accrued Payroll	(568)
Decrease in Unearned Revenue - Food Sales	(3,346)
Decrease in Unearned Revenue - State Grants	(306)
Increase in Pension Liability	42,152
Increase in Deferred Inflows of Resources Related to the School District's Participation in VMERS	<u>537</u>
Net Cash Provided/(Used) by Operating Activities	<u>\$ (44,610)</u>

The School District received \$55,633 and consumed \$55,939 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, 2017

	<u>Private Purpose Trust Funds</u>	<u>Agency Fund - Student Activities Fund</u>
<u>ASSETS</u>		
Cash	\$ 10,185	\$ 117,568
Investments	<u>226,594</u>	<u>17,026</u>
Total Assets	<u>236,779</u>	<u>134,594</u>
<u>LIABILITIES</u>		
Due to Student Organizations	<u>0</u>	<u>134,594</u>
Total Liabilities	<u>0</u>	<u>134,594</u>
<u>NET POSITION</u>		
Held in Trust for Various Purposes	<u>236,779</u>	<u>0</u>
Total Net Position	<u>\$ 236,779</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, 2017

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Contributions	\$ 15,750
Net Investment Income	<u>15,617</u>
Total Additions	<u>31,367</u>
<u>DEDUCTIONS:</u>	
Scholarships and Awards	13,900
Investment Expenses	<u>175</u>
Total Deductions	<u>14,075</u>
Change In Net Position	17,292
Net Position - July 1, 2016	<u>219,487</u>
Net Position - June 30, 2017	<u><u>\$ 236,779</u></u>

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

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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 impose specific financial burdens on the primary government. The primary government is financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or imposed specific financial burdens on the primary government regardless whether the organization has a separately elected governing board; a governing board appointed by a higher level of government; or a jointly appointed board. Based on these criteria, there are no other entities that should be combined with the financial statements of the School District.

B. Basis of Presentation

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

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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.

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.

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

Additionally, the School District reports the following fund types:

Private Purpose Trust Funds – These funds are used to report trust arrangements under which resources are to be used for the benefit of students enrolling in higher education 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 and deferred inflows and outflows of resources associated with the operation of these funds (whether current or noncurrent) are included on the balance sheet (or statement of net position). Fund equity (i.e., net total position) is segregated into investment in capital assets, net of related debt, restricted net position, and unrestricted net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

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

D. Basis of Accounting

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

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

The government-wide and proprietary and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the School District gives (or receives) value without directly receiving (or giving) equal value in exchange, include 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.

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, \$47,363 and \$47,675 of grant revenue was recorded as revenue at June 30, 2017 and 2016, respectively, that was not received within the period of availability. The effect at June 30, 2017 is that fund balance is overstated by \$47,363 and revenue and the net change in fund balance is understated by \$312. Management has determined that these amounts are 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, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

F. 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, 2017, 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.

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

6. Pensions

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

7. Deferred Outflows/Inflows of Resources

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

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

8. 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.

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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.

9. 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.

10. Long-term Liabilities

Long-term liabilities include bonds and notes payable, compensated absences and the net pension liability. 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 liabilities on their balance sheets.

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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11. 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.

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.

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

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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 1st. 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 \$800,000 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 \$90,353, unrestricted deficit in the Food Service Fund will be funded with future food sales, reduction in expenses and support from the General Fund.

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

IV. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

Cash and investments are comprised of the following:

Cash:

Deposits with Financial Institutions	\$4,474,292
Petty Cash	<u>600</u>
Total Cash	<u>4,474,892</u>

Investments:

Certificates of Deposit	144,738
Mutual Funds	<u>98,882</u>
Total Investments	<u>243,620</u>

Total Cash and Investments	<u>\$4,718,512</u>
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Custodial Credit Risk

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

	Book Balance	Bank Balance
Insured (FDIC)	\$ 403,423	\$ 403,423
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	4,215,607	4,927,100
Petty Cash	<u>600</u>	<u>N/A</u>
Total	<u>\$ 4,619,630</u>	<u>\$ 5,330,523</u>

COLCHESTER SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

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 in any one issuer, other than mutual funds, that represent more than 5% of the total investments.

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.

	<u>Remaining Maturity</u>	
Investment Type	Less than 1 Year	Total
Certificates of Deposit	\$ 144,738	\$ 144,738

The School District has six (6) certificates of deposit ranging from \$5,000 to \$93,719 with interest rates ranging from .25% to .50%. All of the certificates of deposit mature during fiscal year 2018.

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's mutual funds are open-ended and, therefore, are also excluded from the credit risk analysis. The School District does not have any policy to limit the exposure to credit risk.

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

B. Receivables

Receivables at June 30, 2017, 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	\$ 47,363	\$ 0	\$ 47,363
State Grants Receivable	11,204	25,387	36,591
Miscellaneous	<u>4,458</u>	<u>3,366</u>	<u>7,824</u>
Total	<u>\$ 63,025</u>	<u>\$ 28,753</u>	<u>\$ 91,778</u>

C. Due from the Town of Colchester

The Due from the Town of Colchester consists of the following at June 30, 2017:

Impact Fees	<u>\$122,983</u>
Total	<u>\$122,983</u>

D. Prepaid Expenses

Prepaid expenses consist of the following at June 30, 2017:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Health Insurance	\$ 367,254	\$ 0	\$ 367,254
Dental, Life and Long Term Disability Insurance	32,011	0	32,011
Professional Development	7,500	0	7,500
Software Support	82,730	0	82,730
Summer Services - Student	33,337	0	33,337
Building and Equipment Rental	5,988	0	5,988
Miscellaneous	<u>2,510</u>	<u>0</u>	<u>2,510</u>
Total	<u>\$ 531,330</u>	<u>\$ 0</u>	<u>\$ 531,330</u>

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

E. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 43,810	\$ 0	\$ 0	\$ 43,810
Land Improvements	270,000	0	0	270,000
Construction in Progress	73,187	0	73,187	0
Total Capital Assets, Not Being Depreciated	<u>386,997</u>	<u>0</u>	<u>73,187</u>	<u>313,810</u>
Capital Assets, Being Depreciated:				
Outdoor Assets	1,372,835	30,532	0	1,403,367
Buildings and Building Improvements	20,759,938	893,268	73,383	21,579,823
Equipment and Furniture	4,802,993	637,476	377,820	5,062,649
Books	1,560,319	0	741	1,559,578
Vehicles	513,953	108,709	69,191	553,471
Totals	<u>29,010,038</u>	<u>1,669,985</u>	<u>521,135</u>	<u>30,158,888</u>
Less Accumulated Depreciation for:				
Outdoor Assets	876,837	78,960	0	955,797
Buildings and Building Improvements	10,550,885	613,758	56,218	11,108,425
Equipment and Furniture	2,717,527	504,654	336,813	2,885,368
Books	1,321,601	47,244	741	1,368,104
Vehicles	324,948	35,524	59,387	301,085
Totals	<u>15,791,798</u>	<u>1,280,140</u>	<u>453,159</u>	<u>16,618,779</u>
Net Capital Assets, Being Depreciated	<u>13,218,240</u>	<u>389,845</u>	<u>67,976</u>	<u>13,540,109</u>
Governmental Activities Capital Assets, Net	<u>\$ 13,605,237</u>	<u>\$ 389,845</u>	<u>\$ 141,163</u>	<u>\$ 13,853,919</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital Assets, Being Depreciated:				
Equipment	\$ 467,746	\$ 15,912	\$ 5,313	\$ 478,345
Vehicle	11,124	0	0	11,124
Totals	<u>478,870</u>	<u>15,912</u>	<u>5,313</u>	<u>489,469</u>
Less Accumulated Depreciation for:				
Equipment	282,937	17,711	5,141	295,507
Vehicle	8,343	1,854	0	10,197
Totals	<u>291,280</u>	<u>19,565</u>	<u>5,141</u>	<u>305,704</u>
Net Capital Assets, Being Depreciated	<u>187,590</u>	<u>(3,653)</u>	<u>172</u>	<u>183,765</u>
Business-Type Activities Capital Assets, Net	<u>\$ 187,590</u>	<u>\$ (3,653)</u>	<u>\$ 172</u>	<u>\$ 183,765</u>

COLCHESTER SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

Depreciation was charged as follows:

Governmental Activities:		Business - Type Activities:	
Education	\$ <u>1,280,140</u>	Food Service	\$ <u>19,565</u>
Total Depreciation Expense - Governmental Activities	\$ <u>1,280,140</u>	Total Depreciation Expense - Business-Type Activities	\$ <u>19,565</u>

F. Interfund Balances and Transfers

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

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 0	\$552,035
Capital Projects Fund	658,295	0
Food Service Fund	<u>0</u>	<u>106,260</u>
Totals	<u>\$658,295</u>	<u>\$658,295</u>

Interfund transfers during the year ended June 30, 2017 were as follows:

<u>Transfer From</u>	<u>Amount</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	<u>\$29,847</u>	Capital Projects Fund	<u>\$29,847</u>	Capital Reserves
General Fund	<u>\$50,000</u>	Food Service	<u>\$50,000</u>	General Support

G. Deferred Outflows of Resources

Deferred outflows of resources in the governmental activities consists of \$38,498 from the difference between the expected and actual experience, \$300,963 from changes in assumptions, \$607,651 from the difference between the projected and actual investment earnings and \$690 from changes in the School District's proportional share of contributions related to the School District's participation in the Vermont Municipal Employee's Retirement System (VMERS) and \$232,708 of required employer pension contributions subsequent to the measurement date. Total deferred outflows of resources in the governmental activities is \$1,180,510.

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Deferred outflows of resources in the business-type activities consists of \$2,645 from the difference between the expected and actual experience, \$20,682 from changes in assumptions, \$41,757 from the difference between the projected and actual investment earnings and \$47 from changes in the School District's proportional share of contributions related to the School District's participation in the Vermont Municipal Employee's Retirement System (VMERS) and \$15,992 of required employer pension contributions subsequent to the measurement date. Total deferred outflows of resources in the governmental activities is \$81,123.

H. Unearned Revenue

Unearned revenue consists of grants received in excess of eligible expenses and prepayment for meals.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Unearned Grant Revenue:			
Medicaid	\$ 488,267	\$ 0	\$ 488,267
EPSDT	17,229	0	17,229
Title II	3,870	0	3,870
IDEA-B	8,271	0	8,271
Miscellaneous/Small Grants	5,398	0	5,398
Student /Adult Meal Payments	0	25,239	25,239
USDA Commodities	<u>0</u>	<u>1,957</u>	<u>1,957</u>
 Total	 <u>\$ 523,035</u>	 <u>\$ 27,196</u>	 <u>\$ 550,231</u>

I. Deferred Inflows of Resources

Deferred inflows of resources in the Governmental Activities consists of \$48,940 resulting from the difference between the change in proportion and differences between employer contributions and proportionate share of contributions related to the School District's participation in the Vermont Municipal Employee's Retirement System (VMERS), as further described in Note V.A.

Deferred inflows of resources in the Business-type Activities and the Food Service Fund consists of \$3,363 resulting from the difference between the change in proportion and differences between employer contributions and proportionate share of contributions related to the School District's participation in the Vermont Municipal Employee's Retirement System (VMERS), as further described in Note V.A.

COLCHESTER SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

J. 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.

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.

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

Long-term liabilities outstanding as of June 30, 2017 were as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
<u>Governmental Activities:</u>				
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	\$5,000,000	\$ 0	\$ 0	\$5,000,000

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
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 and Paid December, 2016	\$ <u>155,000</u>	\$ <u>0</u>	\$ <u>155,000</u>	\$ <u>0</u>
Total Long-Term Debt - Governmental Activities	\$ <u>5,155,000</u>	\$ <u>0</u>	\$ <u>155,000</u>	\$ <u>5,000,000</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>
Governmental Activities:					
General Obligation Bonds Payable	\$ 5,155,000	\$ 0	\$ 155,000	\$ 5,000,000	\$ 294,118
Compensated Absences	35,892	8,146	0	44,038	0
Net Pension Liability	<u>1,163,435</u>	<u>710,595</u>	<u>0</u>	<u>1,874,030</u>	<u>0</u>
Total Governmental Activities Long-Term Liabilities	\$ <u>6,354,327</u>	\$ <u>718,741</u>	\$ <u>155,000</u>	\$ <u>6,918,068</u>	\$ <u>294,118</u>
Business-type Activities:					
Net Pension Liability	\$ <u>86,629</u>	\$ <u>42,152</u>	\$ <u>0</u>	\$ <u>128,781</u>	\$ <u>0</u>
Total Business-type Activities Long-Term Liabilities	\$ <u>86,629</u>	\$ <u>42,152</u>	\$ <u>0</u>	\$ <u>128,781</u>	\$ <u>0</u>

Debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 294,118	\$ 168,898
2019	294,118	173,308
2020	294,118	166,217
2021	294,118	157,620
2022	294,118	148,685
2023-2027	1,470,588	560,713
2028-2032	1,470,588	243,894
2033-2035	<u>588,234</u>	<u>11,582</u>
Total	\$ <u>5,000,000</u>	\$ <u>1,630,917</u>

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

K. Short-Term Debt

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

Beginning Balance	\$ 0
Proceeds of Tax Anticipation Note	1,950,000
Repayment of Tax Anticipation Note	<u>(1,950,000)</u>
Ending Balance	\$ <u>0</u>

Total interest expense for all debt during the year included in direct educational expenses on Exhibit B is \$206,346.

Subsequent to year end, the School District borrowed \$2,897,000 on a current expense note from the People's United Bank with interest at 1.85% and due on June 29, 2018.

L. Fund Balances/Net Position

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

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

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

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

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

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

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Restricted Net Position

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

Restricted for Bond Payments by Impact Fees	\$ <u>122,983</u>
Total Restricted Net Position	\$ <u>122,983</u>

Nonspendable Fund Balances

The fund balance in the following fund is nonspendable as follows:

Nonspendable General Fund Prepaid Expenses	\$ <u>531,330</u>
Total Nonspendable Fund Balance	\$ <u>531,330</u>

Restricted Fund Balances

The fund balance in the following fund is restricted as follows:

Restricted for Bond Payments by Impact Fees	\$ <u>122,983</u>
Total Restricted Fund Balance	\$ <u>122,983</u>

Committed Fund Balances

The fund balance in the following fund is committed as follows:

Major Fund

Capital Projects Fund:

Committed for Future Capital Projects	\$ <u>658,295</u>
Total Committed Fund Balance	\$ <u>658,295</u>

COLCHESTER SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

Assigned Fund Balances

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

General Fund:

Assigned to Reduce Property Taxes in Fiscal Year 2018	\$ 600,000
Assigned for Special Education	150,393
Assigned for E-Rate	296,148
Assigned for Technical Education	29,796
Assigned for Miscellaneous	12,053
Assigned for Wellness	1,748
Assigned for Education Programs	7,204
Assigned for Parking Permits	840
Assigned for PSAT and AP Testing Program	3,122
Assigned for Athletic Programs	<u>11,196</u>
Total General Fund	<u>1,112,500</u>
Total Assigned Fund Balances	<u>\$1,112,500</u>

M. Net Position Held in Trust for Various Purposes.

The net position held in trust for various purposes as of June 30, 2017 consisted of the following:

Private Purpose Trust Funds

Restricted for Scholarships by Donors:

General Trust Fund	\$ 51
Coates Fund	108,567
Colchester Community Fund	94,160
Woodmen Fund	15,574
Faller Fund	6,928
Mallory Fund	6,491
Kohlasch Fund	8

Restricted for Library Women Studies:

Kelly Foundation Fund	<u>5,000</u>
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Total	<u>\$236,779</u>
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COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

V. OTHER INFORMATION

A. PENSION PLANS

Defined Benefit Plans

Plan Description - VMERS

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

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

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

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

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

As of June 30, 2016, the measurement date selected by the State of Vermont, VMERS was funded at 80.95% and had a plan fiduciary net position of \$547,051,114 and a total pension liability of \$675,711,281 resulting in a net pension liability of \$128,696,167. As of June 30, 2017, the School District's proportionate share of this was 1.5562% resulting in a liability of \$2,002,811. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. As of June 30, 2016, the measurement date, the School District's proportion of 1.5562% was a decrease of .0652% from its proportion measured as of June 30, 2015.

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

For the year ended June 30, 2017, the School District recognized pension expense of \$518,937.

As of June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 41,143	\$ 0
Changes in assumptions	321,645	0
Difference between projected and actual investment earnings	649,408	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	737	52,303
School District's required employer contributions made subsequent to the measurement date	<u>248,700</u>	<u>0</u>
	<u>\$ 1,261,633</u>	<u>\$ 52,303</u>

The deferred outflows of resources resulting from the School District's required employer contributions made subsequent to the measurement date in the amount of \$248,700 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ending <u>June 30</u>	
2018	\$246,486
2019	246,486
2020	355,610
2021	<u>112,048</u>
Total	<u>\$960,630</u>

Summary of System Provisions

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

Creditable Service – Service as a member plus purchased service.

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Average Final Compensation (AFC) – Group A – Average annual compensation during highest five (5) consecutive years. Group C – Average annual compensation during highest three (3) consecutive years.

Service Retirement Allowance:

Eligibility – Group A – the earlier of age 65 with five (5) years of service or age 55 with 35 years of services. Group C – Age 55 with five (5) years of service.

Amount – Group A – 1.4% of AFC times service. Group C – 2.5% of AFC times service as a Group C member plus percentage earned as a Group A or B member times AFC.

Maximum benefit is 60% of AFC for Group A. Maximum benefit is 50% of AFC for Group C. The previous amounts include the portion of the allowance provided by member contributions.

Early Retirement Allowance:

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

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

Vested Retirement Allowance:

Eligibility – Five (5) years of service.

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

Disability Retirement Allowance:

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

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

Death Benefit:

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

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

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

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

Post-Retirement Adjustments - Allowance in payment for at least one year increased on each January 1 by one-half of the percentage increase in Consumer Price Index but not more than 2% for Group A and 3% for Group C.

Member Contributions – Group A – 2.5% effective July 1, 2000 (reduced from 3.0%) - Group C –10.0% from January 1, 2016 (changed from 8.75%).

Employer Contributions:

Group A – 4.0%.

Group C – 7.25% from January 1, 2016 (changed from 7.52%)

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

Significant Actuarial Assumptions and Methods

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

Interest Rate: 7.95% per annum.

Salary increases - 5% per year.

Deaths:

Active Participants – 50% of the probabilities in the 1995 Buck Mortality Tables for males and females.

Non-disabled retirees and terminated vested participants – The 1995 Buck Mortality Tables with no set-back for males and one-year set-back for females.

Disabled retirees – RP-2000 Disabled Life Tables.

Beneficiaries – 1995 Buck Mortality Tables for males and females.

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

Cost-of-Living Adjustments to Benefits of Terminated Vested and Retired Participants - Assumed to occur at the rate of 1.5% per annum for Group A members and 1.8% per annum for Group C members.

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

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

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

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

Long-term Expected Rate of Return

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

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

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

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

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

COLCHESTER SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

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

<u>1% Decrease (6.95%)</u>	<u>Discount Rate (7.95%)</u>	<u>1% Increase (8.95%)</u>
\$3,324,866	\$2,002,811	\$895,862

Additional Information

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

Plan Description - VSTRS

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

The plan was created in 1947, and is governed by Title 16, V.S. A. Chapter 55.

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

The Pension Plan is divided into the following membership groups:

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

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

COLCHESTER SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

Summary of System Provisions

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

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

COLCHESTER SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

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

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

Contributions

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

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

The School District's Group C members contributed \$837,471.

The District's current year payroll for all employees totaled \$23,183,407 while its current year's covered payroll for the State Teacher's Retirement Plan equaled \$16,015,919 resulting in an estimated \$1,856,245 of on-behalf payments. This amount is included as Revenue and Expenses in Exhibits B and D.

Significant Actuarial Assumptions Methods

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

COLCHESTER SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

Interest Rate: 7.95% per annum.

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

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

Deaths After Retirement:

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

Inflation:

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

Spouse's Age:

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

Cost of Living Adjustments:

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

COLCHESTER SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

Long-term Expected Rate of Return

The long-term expected rate of return on System investments was determined using best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variable and the asset classes. These best estimate ranges were combined to produce forecasts of the short, intermediate, and longer term horizons by weighting the expected future nominal rates of return by the target asset allocation percentage. The various time horizons in the forecast are intended to capture more recent economic and capital market conditions as well as other plausible environments that could develop in the future over economic cycles. To reflect this in the rate-of-return assumption, a select and ultimate assumption setting approach, which is cited in the Section 3.8.4 of actuarial standards of practice No. 17 as an alternative to a single assumed rate of return was employed.

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

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

Special Funding Situation

The State of Vermont is the nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the School District. Therefore, the School District is considered to be in a special funding situation as defined in GASB No. 68 and the State of Vermont is treated as a nonemployer contributing entity to VSTRS. Effective July 1, 2015, the State is assessing a \$1,097 annual charge for teacher's health care for all new teachers hired during the year who were not previously part of the VSTRS. The total amount paid by the School District for the year ended June 30, 2017 was \$28,522. In addition, effective July 1, 2015, the State is assessing a 11.59% contribution for all teachers paid with Federal Funds. The total amount paid by the School District for the year ended June 30, 2017 was \$56,413. Since the State does not consider the School District to contribute directly to VSTRS, no net pension liability is recorded by the School District. However, the notes to the financial statements of the School District must disclose the portion of the State's share of the collective net pension liability that is associated with the School District.

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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 \$2,261 in unemployment claims during fiscal year 2017.

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 2017 fiscal year was \$856,394. The School District entered into a new five (5) year agreement with Student Transport of Vermont, Inc. d/b/a Mountain Transit beginning July 1, 2017. Terms of the agreement are:

2017-2018

(19) Basic Type I HTS service: \$243.00 per day per bus or \$821,826.00 annually.
(3) Type 2 vans for midday EEE/Preschool: \$120.00 per day per bus or \$64,080.00 annually. (1) Bridging program: \$250.00 per day or \$35,500.00 annually. (5) Daily Vocational runs: \$90.00 per day per run or \$80,100.00 annually.

2018-2019

(19) Basic Type I HTS service: \$268.52 per day per bus or \$908,118.00 annually.
(3) Type 2 vans for midday EEE/Preschool: \$123.60 per day bus or \$66,002.00 annually. (1) Bridging program: \$257.50 per day or \$36,565.00 annually. (5) Daily Vocational runs: \$92.70 per day per run or \$82,503.00 annually.

COLCHESTER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

2019-2020

(19) Basic Type I HTS service: \$296.71 per day per bus or \$1,003,470.00 annually. (3) Type 2 vans for midday EEE/Preschool: \$127.31 per day per bus or \$67,982.00 annually. (1) Bridging program: \$265.23 per day or \$37,662.00 annually. (5) Daily Vocational runs: \$95.48 per day per run or \$84,978.00 annually.

2020-2021

(19) Basic Type I HTS service: \$327.86 per day per bus or \$1,108,834.00 annually. (3) Type 2 vans for midday EEE/Preschool: \$131.13 per day per bus or \$70,022.00 annually. (1) Bridging program: \$273.18 per day or \$38,792.00 annually. (5) Daily Vocational runs: \$98.35 per day per run or \$87,527.00 annually.

2021-2022

(19) Basic Type I HTS service: \$362.29 per day per bus or \$1,225,262.00 annually. (3) Type 2 vans for midday EEE/Preschool: \$135.06 per day per bus or \$72,123.00 annually. (1) Bridging program: \$281.38 per day or \$39,956.00 annually. (5) Daily Vocational runs: \$101.30 per day per run or \$90,153.00 annually.

The School District leases space at 308 Blakely Road. The School District entered into a new agreement effective July 1, 2016 through June 30, 2019. The monthly payment is \$4,700. Total lease payments for the 2017 fiscal year were \$56,400.

Future minimum rental payments are as follows:

2018	\$56,400
2019	\$56,400

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, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue:			
Regular Instructional:			
General State Support Grants	\$ 29,902,119	\$ 29,902,119	\$ 0
Other State Revenue	719,798	824,017	104,219
Tuition	800,000	585,716	(214,284)
Other Local Revenue	90,000	156,660	66,660
Special Education Support:			
State Revenue	3,841,840	4,329,122	487,282
Federal Grants	672,158	721,518	49,360
Tuition	0	44,771	44,771
Interest	65,000	56,604	(8,396)
Total Revenue	36,090,915	36,620,527	529,612
Expenditures:			
Regular Instructional:			
Direct Instructional	15,350,118	15,775,308	(425,190)
Vocational Tuition	880,600	818,104	62,496
Student Support Services	1,695,034	1,611,599	83,435
Staff Support Services	1,146,117	1,036,513	109,604
General Administration	658,922	644,980	13,942
School Administration	1,935,713	1,873,155	62,558
Fiscal Services	1,733,030	1,595,678	137,352
Operation and Maintenance of Plant	3,422,779	3,450,713	(27,934)
Transportation Services	1,074,000	914,849	159,151
Special Education Support:			
Direct Instructional	6,685,159	6,530,960	154,199
Student Support Services	1,141,926	1,123,968	17,958
Staff Support Services	83,253	52,586	30,667
School Administration	418,173	423,663	(5,490)
Transportation Services	319,091	363,719	(44,628)
Debt Service	347,000	336,067	10,933
Transfer to Food Service Fund	0	50,000	(50,000)
Transfer to Capital Reserve Fund	0	29,847	(29,847)
Total Expenditures	36,890,915	36,631,709	259,206
Excess/(Deficiency) of Revenue Over Expenditures	\$ (800,000)	(11,182)	\$ 788,818

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

Unbudgeted State Revenue	36,182
Unbudgeted Local Revenue	244,659
Unbudgeted Tuition	3,514
Unbudgeted Interest	25
Unbudgeted Federal Grants	702,281
Unbudgeted Special Education Payments	76,549
Unbudgeted Local Grants	505,505
Unbudgeted Intergovernmental Pension Contribution	1,856,245
Unbudgeted Regular Education Expenses	(1,484,166)
Unbudgeted Intergovernmental Pension Expense	(1,856,245)
Unbudgeted Special Education Expenses	(3,883)

Net Change in Fund Balance (GAAP Basis) - Exhibit D	\$ 69,484
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See Disclaimer in Accompanying Independent Auditor's Report.

COLCHESTER SCHOOL DISTRICT
VERMONT MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Plan Net Pension Liability	\$ 128,696,167	\$ 77,095,810	\$ 9,126,613
School District's Proportion of the Net Pension Liability	1.5562%	1.6214%	1.7582%
School District's Proportionate Share of the Net Pension Liability	\$ 2,002,811	\$ 1,250,064	\$ 160,465
School District's Covered Employee Payroll	\$ 6,118,552	\$ 5,815,528	\$ 5,580,213
Proportionate Share of the Net Pension Liability as a Percentage of Covered - Employee Payroll	32.7334%	21.4953%	2.8756%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.95%	87.42%	98.32%

Notes to Schedule

Benefit Changes: None.

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

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

COLCHESTER SCHOOL DISTRICT
VERMONT MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution (Actuarially Determined)	\$ 248,700	\$ 236,523	\$ 226,653
Contributions in Relation to the Actuarially Determined Contributions	<u>248,700</u>	<u>236,523</u>	<u>226,653</u>
Contribution Excess/(Deficiency)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered - Employee Payroll	\$ 6,118,552	\$ 5,815,528	\$ 5,580,213
Contributions as a Percentage of Covered - Employee Payroll	4.065%	4.067%	4.062%

Notes to Schedule

Valuation Date: June 30, 2016

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

COLCHESTER SCHOOL DISTRICT
VERMONT STATE TEACHERS RETIREMENT SYSTEM
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2017

	2017	2016	2015
Total Plan Net Pension Liability	\$ 1,309,523,451	\$ 1,186,516,454	\$ 958,436,990
School District's Proportion of the Net Pension Liability	2.3405%	2.4310%	2.3720%
School District's Proportionate Share of the Net Pension Liability	\$ 30,648,706	\$ 28,844,215	\$ 22,734,447
School District's Covered Employee Payroll	\$ 16,015,919	\$ 15,114,701	\$ 14,504,054
Proportionate Share of the Net Pension Liability as a Percentage of Covered - Employee Payroll	191.3640%	190.8355%	156.7455%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	55.31%	58.22%	64.02%

Notes to Schedule

Benefit Changes: None.

Changes in Assumptions: None.

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

See Disclaimer in Accompanying Independent Auditor's Report.

COLCHESTER SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 PRIVATE PURPOSE TRUST FUND
 JUNE 30, 2017

	General Trust Fund	Coates Fund	Colchester Community Fund	Woodmen Fund	Kelly Foundation Fund	Faller Fund	Mallory Fund	Kohlasch Fund	Total
<u>ASSETS</u>									
Cash	\$ 51	\$ 9,685	\$ 441	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8	\$ 10,185
Investments in Certificates of Deposit	0	0	93,719	15,574	5,000	6,928	6,491	0	127,712
Investments in Mutual Funds	0	98,882	0	0	0	0	0	0	98,882
TOTAL ASSETS	<u>\$ 51</u>	<u>\$ 108,567</u>	<u>\$ 94,160</u>	<u>\$ 15,574</u>	<u>\$ 5,000</u>	<u>\$ 6,928</u>	<u>\$ 6,491</u>	<u>\$ 8</u>	<u>\$ 236,779</u>
<u>LIABILITIES AND NET POSITION</u>									
Liabilities:	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0	\$ 0
Net Position:									
Restricted	51	108,567	94,160	15,574	5,000	6,928	6,491	8	236,779
Total Net Position	<u>51</u>	<u>108,567</u>	<u>94,160</u>	<u>15,574</u>	<u>5,000</u>	<u>6,928</u>	<u>6,491</u>	<u>8</u>	<u>236,779</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 51</u>	<u>\$ 108,567</u>	<u>\$ 94,160</u>	<u>\$ 15,574</u>	<u>\$ 5,000</u>	<u>\$ 6,928</u>	<u>\$ 6,491</u>	<u>\$ 8</u>	<u>\$ 236,779</u>

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, 2017

	General Trust Fund	Coates Fund	Colchester Community Fund	Woodmen Fund	Kelly Foundation Fund	Faller Fund	Mallory Fund	Kohlasch Fund	Total
Additions:									
Contributions	\$ 4,350	\$ 4,000	\$ 7,400	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 15,750
Investment Earnings/(Loss)	<u>3</u>	<u>15,001</u>	<u>461</u>	<u>78</u>	<u>0</u>	<u>37</u>	<u>35</u>	<u>2</u>	<u>15,617</u>
Total Additions	<u>4,353</u>	<u>19,001</u>	<u>7,861</u>	<u>78</u>	<u>0</u>	<u>37</u>	<u>35</u>	<u>2</u>	<u>31,367</u>
Deductions:									
Investment Expense	0	175	0	0	0	0	0	0	175
Scholarships and Awards	<u>4,850</u>	<u>3,000</u>	<u>4,700</u>	<u>0</u>	<u>0</u>	<u>500</u>	<u>500</u>	<u>350</u>	<u>13,900</u>
Total Deductions	<u>4,850</u>	<u>3,175</u>	<u>4,700</u>	<u>0</u>	<u>0</u>	<u>500</u>	<u>500</u>	<u>350</u>	<u>14,075</u>
Change in Net Position	(497)	15,826	3,161	78	0	(463)	(465)	(348)	17,292
Net Position - July 1, 2016	<u>548</u>	<u>92,741</u>	<u>90,999</u>	<u>15,496</u>	<u>5,000</u>	<u>7,391</u>	<u>6,956</u>	<u>356</u>	<u>219,487</u>
Net Position - June 30, 2017	<u>\$ 51</u>	<u>\$ 108,567</u>	<u>\$ 94,160</u>	<u>\$ 15,574</u>	<u>\$ 5,000</u>	<u>\$ 6,928</u>	<u>\$ 6,491</u>	<u>\$ 8</u>	<u>\$ 236,779</u>

See Disclaimer in Accompanying Independent Auditor's Report.

COLCHESTER SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Grant Title Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Passed Through to Subrecipients	Expenditures
<u>U.S. Department of Education</u>					
Passed through Vermont Agency of Education					
Special Education Cluster					
Special Education - Grants to States	84.027	4226-T050-1701	775,262	\$ 0	\$ 714,652
Special Education - Preschool Grants	84.173	4228-T050-1701	6,866	0	6,866
Total Special Education Cluster				0	721,518
Title I Grants to Local Education Agencies	84.010	CFP-T050-1701	590,000	0	563,119
Supporting Effective Instruction State Grant	84.367	CFP-T050-1701	131,792	0	118,644
English Language Acquisition Grants	84.365	4375-T050-1701	12,445	0	10,842
Total Passed through Vermont Agency of Education				0	1,414,123
Passed through Vermont State Department of Children and Families					
Race to the top - Early Learning Challenge Grants	84.412	553617	2,550	0	94
Total Passed through Vermont State Department of Children and Families				0	94
Passed through Vermont Student Assistance Corporation					
VSAC Vermont State Gaining Early Awareness and Readiness for Undergraduate	84.334	None	4,000	0	1,877
Total Passed through Vermont Student Assistance Corporation				0	1,877
Total U.S. Department of Education				0	1,416,094
<u>U.S. Department of Health and Human Services</u>					
Passed through Vermont State Department of Health					
MCH Services Block Grant to the States	93.994	03420-6961S	17,000	0	7,705
Total U.S. Department of Health and Human Services				0	7,705
<u>U.S. Department of Agriculture</u>					
Child Nutrition Cluster					
National Hot Lunch	10.555	4450-T050-1701	N/A	0	287,700
School Breakfast Program	10.553	4452-T050-1701	N/A	0	100,977
Total Child Nutrition Cluster				0	388,677
Commodities	10.565	4453-T050-1701	N/A	0	53,676
Commodities	10.565	4453-T050-1601	N/A	0	2,264
Total U.S. Department of Agriculture				0	444,617
Total Federal Awards				\$ 0	\$ 1,868,416

Basis of Presentation:

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

Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting and was prepared using significant accounting policies outlined in Note 1 to the financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. The Colchester School District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

See Accompanying Independent Auditor's Report.

Sullivan, Powers & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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
125 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, 2017 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 February 16, 2018.

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 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. 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.

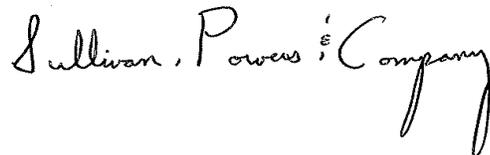
Compliance and Other Matters

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.

February 16, 2018
Montpelier, Vermont
VT Lic. #92-000180



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 the Uniform Guidance

School Board
Colchester School District
125 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) "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, 2017. 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 the audit requirements of Title 2 U.S. Code of Federal regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to 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, 2017.

Report on Internal Control Over Compliance

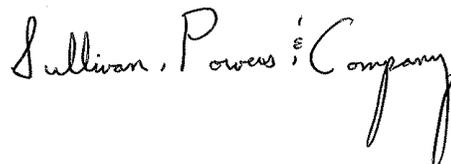
Management of the Colchester School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to previously. In planning and performing our audit of compliance, we considered the Colchester School District's 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

February 16, 2018
Montpelier, Vermont
VT Lic. #92-000180



COLCHESTER SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
AND DEFICIENCIES IN INTERNAL CONTROL
JUNE 30, 2017

There were no prior year findings.

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

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 the Uniform Guidance.

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 \$750,000.

The auditee does qualify as a low risk auditee.