

NORTH HERO SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2019

NORTH HERO SCHOOL DISTRICT
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the North Hero School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the North Hero School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the North Hero School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the North Hero School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the North Hero School District as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

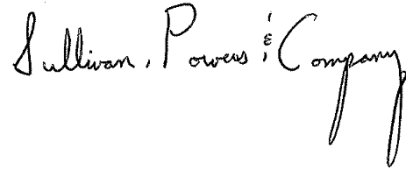
Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information for the General Fund in Schedule 1, the Schedules of Proportionate Share of the Net Pension Liability on Schedules 2 and 4 and the Schedule of 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 Reporting Required by “Government Auditing Standards”

In accordance with “Government Auditing Standards”, we have also issued our report dated September 8, 2020 on our consideration of the North Hero School District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with “Government Auditing Standards” in considering the North Hero School District’s internal control over financial reporting and compliance.

September 8, 2020
Montpelier, Vermont
VT Lic. #92-000180

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

NORTH HERO SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
<u>ASSETS</u>	
Cash	\$ 317,847
Due from the State of Vermont (Net of Allowance for Uncollectibles)	39,713
Receivables	927
Capital Assets:	
Capital Assets, (Net of Accumulated Depreciation)	173,927
Total Assets	532,414
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Outflows of Resources Related to the School District's Participation in VMERS	2,635
Total Deferred Outflows of Resources	2,635
<u>LIABILITIES</u>	
Accounts Payable	1,253
Accrued Payroll and Benefits Payable	19,046
Due to the Grand Isle Supervisory Union	72,636
Noncurrent Liability:	
Due in More than One Year	15,544
Total Liabilities	108,479
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Inflows of Resources Related to the School District's Participation in VMERS	5,719
Total Deferred Inflows of Resources	5,719
<u>NET POSITION</u>	
Net Investment in Capital Assets	173,927
Unrestricted	246,924
Total Net Position	\$ 420,851

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

NORTH HERO SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

		Program Revenues		Net (Expenses) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Functions/Programs:				
Primary Government:				
Governmental Activities:				
Education	\$ <u>1,477,183</u>	\$ <u>118,222</u>	\$ <u>1,521,885</u>	\$ <u>162,924</u>
Total Governmental Activities	\$ <u><u>1,477,183</u></u>	\$ <u><u>118,222</u></u>	\$ <u><u>1,521,885</u></u>	<u>162,924</u>
General Revenues:				
Unrestricted Interest Income				<u>3,220</u>
Total General Revenues				<u>3,220</u>
Change in Net Position				166,144
Net Position - July 1, 2018				<u>254,707</u>
Net Position - June 30, 2019				\$ <u><u>420,851</u></u>

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

NORTH HERO SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	<u>General Fund</u>
<u>ASSETS</u>	
Cash	\$ 317,847
Receivables	927
Due from the State of Vermont (Net of Allowance for Uncollectibles)	<u>39,713</u>
Total Assets	<u>\$ 358,487</u>
<u>LIABILITIES</u>	
Accounts Payable	\$ 1,253
Accrued Payroll and Benefits Payable	19,046
Due to the Grand Isle Supervisory Union	<u>72,636</u>
Total Liabilities	<u>92,935</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Unavailable Grants	<u>40,162</u>
Total Deferred Inflows of Resources	<u>40,162</u>
<u>FUND BALANCES</u>	
Committed	100,000
Unassigned	<u>125,390</u>
Total Fund Balances	225,390
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.	173,927
Long-term and Accrued Liabilities, Including Compensated Absences and the Net Pension Liability, are not Due or Payable in the Current Period and, Therefore, are not Reported in the Funds.	(21,263)
Other Assets are not Available to Pay for Current Period Expenditures, and, Therefore, are Deferred in the Funds.	40,162
Deferred Outflows and Inflows of Resources Relating to the School District's Participation in VMERS are Applicable to Future Periods and, Therefore, are not Reported in the Funds.	<u>2,635</u>
Net Position of Governmental Activities	<u>\$ 420,851</u>

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

NORTH HERO SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Total Governmental Funds
Revenues:	
Regular Instructional:	
General State Support Grants	\$ 1,394,150
Other State Revenue	76,079
Other Local Revenue	2,542
Tuition	17,988
Special Education Support:	
State Revenue	31,810
Food Service Revenue	8,767
GISU - Food Service Reimbursement	20,472
Rental Income	70,995
Interest	2,383
Donations	3,220
Intergovernmental Pension Contribution	53,175
	1,681,581
Total Revenues	
Expenditures:	
Instructional	842,474
SWP Expenses	6,620
Universal Pre-Kindergarten	42,816
Special Education	232,723
Administrative Assessment	99,673
Student Body Activities	1,943
Summer Program	355
Guidance Services	12,016
Health Services	8,040
Library Services	12,640
Board of Education	5,798
Kings Trust Expenses	4,967
Principal	93,195
Building Operations	99,573
Transportation Service	48,561
SRSA Grant Expenses	2,990
Food Service	38,478
Capital Outlay	64,966
	1,617,828
Total Expenditures	
Net Change in Fund Balance	63,753
Fund Balances - July 1, 2018	161,637
Fund Balances - June 30, 2019	\$ 225,390

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

NORTH HERO SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2019

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)	\$	63,753
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets (\$64,966) is allocated over their estimated useful lives and reported as depreciation expense (\$7,114). This is the amount by which capital outlays exceeded depreciation in the current period.		57,852
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		14,921
Governmental funds report employer pension contributions as expenditures (\$0). However, in the statement of activities, the cost of pensions benefits earned net of employee contributions (\$506) is reported as pension expense. The amount is the net effect of the differences in the treatment of pension expense.		506
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>29,112</u>
Change in net position of governmental activities (Exhibit B)	\$	<u><u>166,144</u></u>

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

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. The Financial Reporting Entity

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

B. Basis of Presentation

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

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

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

Fund Financial Statements: The fund financial statements provide information about the School District's funds. The emphasis of fund financial statements is on major funds, each displayed in a separate column.

The School District reports on the following major governmental fund:

General Fund – This is the School District's only operating fund. It accounts for all financial resources of the general government.

C. Measurement Focus

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

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.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

D. Basis of Accounting

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

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

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

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

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

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.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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

1. Cash

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

2. Receivables

Receivables are shown net of an allowance for uncollectible accounts for the estimated losses that will be incurred in the collection of the receivables. The estimated losses are based on the judgment of management and a review of the current status of existing receivables.

3. Internal Balances

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

4. Deferred Outflows/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 or when the amounts become available.

5. Capital Assets

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

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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

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

	<u>Estimated Service Life</u>
Land	N/A
Buildings and Building Improvements	30 Years
Furniture and Equipment	5-20 Years

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

6. Compensated Absences

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

7. Long-term Liabilities

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

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

8. Fund Equity

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

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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

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

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

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

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

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and investments as of June 30, 2019 consist of the following:

Cash:

Deposits with Financial Institutions	\$ <u>317,847</u>
Total Cash	\$ <u>317,847</u>

NORTH HERO SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2019

Custodial Credit Risk

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

	<u>Book Balance</u>	<u>Bank Balance</u>
Insured by FDIC	\$ 250,000	\$ 250,000
Uninsured/Collateralized by U.S. Government Agency Securities Held by the Pledging Financial Institution's Agent in the School District's Name	<u>67,847</u>	<u>86,866</u>
Total	<u>\$ 317,847</u>	<u>\$ 336,866</u>

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

Concentration of Credit Risk

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

Interest Rate Risk

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

Credit Risk

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

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

B. Due from the State of Vermont

The Due from the State of Vermont as of June 30, 2019 is as follows:

State of Vermont Special Education Reimbursement – 2017	\$ 24,665
State of Vermont Special Education Reimbursement – 2018	25,241
State of Vermont Special Education Reimbursement – 2019	14,472
Allowance for Uncollectible Accounts	<u>(24,665)</u>
 Total	 <u>\$ 39,713</u>

C. Capital Assets

Capital asset activity for the year ended June 30, 2019 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	\$ 29,900	\$ 0	\$ 0	\$ 29,900
Total Capital Assets, Not Being Depreciated	<u>29,900</u>	<u>0</u>	<u>0</u>	<u>29,900</u>
Capital Assets, Being Depreciated:				
Buildings	66,000	0	0	66,000
Building Improvements	773,457	64,966	0	838,423
Furniture and Equipment	34,333	0	0	34,333
Totals	<u>873,790</u>	<u>64,966</u>	<u>0</u>	<u>938,756</u>
Less Accumulated Depreciation for:				
Buildings	66,000	0	0	66,000
Building Improvements	705,960	5,644	0	711,604
Furniture and Equipment	15,655	1,470	0	17,125
Totals	<u>787,615</u>	<u>7,114</u>	<u>0</u>	<u>794,729</u>
Net Capital Assets, Being Depreciated	<u>86,175</u>	<u>57,852</u>	<u>0</u>	<u>144,027</u>
Governmental Activities Capital Assets, Net	<u>\$ 116,075</u>	<u>\$ 57,852</u>	<u>\$ 0</u>	<u>\$ 173,927</u>

Total depreciation expense of \$7,114 was charged to education.

D. Deferred Outflows of Resources

Deferred outflows of resources in the Governmental Activities consists of \$730 from the difference between the expected and actual experience, \$931 from changes in assumptions and \$974 from the difference between the projected and actual investment earnings related to the School's participation in the Vermont Municipal Employee's Retirement System (VMERS). Total deferred outflows of resources in the Governmental Activities is \$2,635.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

E. Deferred Inflows of Resources

Deferred inflows of resources in the Governmental Activities consists of \$134 from the difference between the expected and actual experience and \$5,585 from changes in proportion and differences between employer contributions and proportionate share of contributions resulting from changes in the Schools proportional share of contributions related to the School’s participation in the Vermont Municipal Employee’s Retirement System (VMERS). Total deferred inflows of resources in the Governmental Activities is \$5,719.

Deferred inflows of resources in the General Fund consists of \$40,162 of grant receivables that were not collected within sixty (60) days after year-end as these would not be available to liquidate current liabilities.

F. Due to the Grand Isle Supervisory Union

The net due to the Grand Isle Supervisory Union as of June 30, 2019 is comprised of the following:

Food Service Expenses	\$(29,239)
HSA Insurance Expenses	15,256
Additional LEA Assessments	<u>86,619</u>
	<u>\$ 72,636</u>

G. Long-term Liabilities

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

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

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Compensated Absences	\$ 36,253	\$ 0	\$ 29,112	\$ 7,141	\$ 0
Net Pension Liability	<u>16,158</u>	<u>0</u>	<u>7,755</u>	<u>8,403</u>	<u>0</u>
 Total Long-term Liabilities	 <u>\$ 52,411</u>	 <u>\$ 0</u>	 <u>\$ 36,867</u>	 <u>\$ 15,544</u>	 <u>\$ 0</u>

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

H. Fund Balances/Net Position

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

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

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

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

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

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

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

Major Funds

General Fund:

Committed for Capital Repairs and Replacements by the Voters \$ 100,000

Total Committed Fund Balances \$ 100,000

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019, the retirement system consisted of 402 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, 2018, the measurement date selected by the State of Vermont, VMERS was funded at 82.60% and had a plan fiduciary net position of \$667,848,905 and a total pension liability of \$808,524,797 resulting in a net position liability of \$140,675,892. As of June 30, 2019, the School District's proportionate share of this was .0060% resulting in a net pension liability of \$8,403. The net pension liability was measured as of June 30, 2018, 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. The School District's proportion of .0060% was a decrease of .0073% from its proportion measured as of the prior year.

NORTH HERO SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2019

For the year ended June 30, 2019, the School District recognized pension expense of \$(505). As of June 30, 2019, 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	\$ 730	\$ 134
Changes in assumptions	931	0
Difference between projected and actual investment earnings	974	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>0</u>	<u>5,585</u>
	<u>\$ 2,635</u>	<u>\$ 5,719</u>

There were no required employer contributions made subsequent to the measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	
2020	\$ (22)
2021	(852)
2022	(1,282)
2023	<u>(928)</u>
Total	<u>\$ (3,084)</u>

Summary of System Provisions

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

Creditable Service – Service as a member plus purchased service.

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

Service Retirement Allowance:

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

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

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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

Early Retirement Allowance:

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

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

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 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.

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

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

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

Member Contributions – Group A – 2.5%.

Employer Contributions:

Group A – 4.125% effective July 1, 2018; 4.250% effective July 1, 2019; 4.500% effective July 1, 2020; 4.750% effective July 1, 2021 and thereafter.

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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

Significant Actuarial Assumptions and Methods

Investment rate of return: 7.5%, net of pension plan investment expenses, including inflation.

Salary increases: 5.0% per year.

Mortality:

Death in Active Service – Groups A - 98% of RP-2014 blended 60% blue collar employee, 40% healthy employee with generational projection using scale SAA-2017.

Healthy Post-retirement – Groups A - 98% of RP-2014 blended 60% blue collar employee, 40% healthy employee with generational projection using scale SSA-2017.

Disabled Post-retirement – All Groups - RP-2014 Disabled Mortality Table with generational projection using Scale SSA-2017

Spouse's Age: Females three years younger than males

Cost-of-Living Adjustments: Assumed to occur on January 1 following one year of retirement at a rate of 1.15% per annum for Group A members (beginning at Normal Retirement eligibility age for members who elect reduced early retirement, at age 62 for members of Groups A. The January 1, 2019 COLA is assumed to be 0.75% for all groups.

Actuarial Cost Method: Entry Age Actuarial Cost Method. Entry Age is the age at date of employment or, if date is unknown, current age minus years of service. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salary, with Normal Cost determined using the plan of benefits applicable to each participant.

Actuarial Value of Assets: 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: 2.50%

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, is summarized in the following table:

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long - Term Expected Real Rate of Return</u>
Equity	18%	6.10%
Non-US Equity	16%	7.45%
Global Equity	9%	6.74%
Fixed Income	26%	2.25%
Real Estate	8%	5.11%
Private Markets	15%	7.60%
Hedge Funds	8%	3.86%

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. In accordance with paragraph 29 of GASB 68, professional judgement was applied to determine that the System’s projected fiduciary net position exceeds projected benefit payments for current active and inactive members for all years. The analysis was based on the expectation that employers will continue to contribute at the rates set by the Board, which exceed the actuarially determined contribution, which is comprised on an employer normal cost payment and a payment to reduce the unfunded liability to zero by June 30, 2038. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower (6.50%) or one percent higher (8.50%) than the current rate:

<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
\$14,233	\$8,403	\$3,662

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, 2019, the retirement system consisted of 225 participating employers.

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

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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:

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% x AFC 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
Disability Benefits	Unreduced, accrued benefit with minimum of 25% AFC	Unreduced, accrued benefit with minimum of 25% of AFC	Unreduced, accrued benefit with minimum of 25% of AFC
Death-in-Service	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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

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

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

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:

Member Contributions Rates: Group A: 5.5% of earnable compensation. Contributions stop after 25 years of creditable service.

The School District's Group C members contributed \$19,408.

The District's current year payroll for all employees totaled \$495,404 while its current year's covered payroll for the State Teachers' Retirement Plan equaled \$337,616 resulting in an estimated \$53,175 of on-behalf payments. This amount is included as Revenue and Expenses in Exhibits B and D.

Net Pension Liability

At June 30, 2019, the School District's proportionate share of the net pension liability was \$731,539 which is .04842% of the total plan net pension liability.

Significant Actuarial Assumptions and Methods

The total pension liability as of June 30, 2019 was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions

Investment Rate of Return: 7.50%

Salary Increases: Ranging from 3.75% to 9.09% representative values of the assumed annual rates of future salary increase are as follows:

NORTH HERO SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2019

Age	Annual Rate of Salary Increase
20	9.09%
25	7.78%
30	6.47%
35	5.60%
40	4.92%
45	4.43%
50	4.09%
55	3.85%
60	3.75%

Mortality:

Pre-retirement – 98% of RP-2006 White Collar Employee with generational projection using Scale SSA-2017

Healthy Post-retirement – 98% of RP-2006 White Collar Annuitant with generational projection using Scale SSA-2017

Disabled Post-retirement – RP-2006 Disabled Mortality Table with generational projection using Scale SSA-2017

Inflation: 2.5%

Spouse’s Age: Females three years younger than males

Cost of Living Adjustments: Assumed to occur on January 1 following one year of retirement at the rate of 2.55% per annum for Group A members and 1.30% for 2019 Group C members.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2018 is summarized in the following table:

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
US Equity	18.00%	6.10%
Non-US Equity	16.00%	7.45%
Global Equity	9.00%	6.74%
Fixed Income	26.00%	2.25%
Real Estate	8.00%	5.11%
Private Markets	15.00%	7.60%
Hedge Funds	8.00%	3.86%

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. In accordance with paragraph 29 of GASB 68, professional judgement was applied to determine that the System’s projected fiduciary net position exceeds projected benefit payments for current active and inactive members for all years. The analysis was based on the expectation that employers will continue to contribute at the rates set by the Board, which exceed the actuarially determined contributions, which is comprised on an employer normal cost payment and a payment to reduce the unfunded liability to zero by June 30, 2038. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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. Starting July 1, 2015, the State started assessing an annual charge for teacher’s health care for all new teachers hired after that date and every year thereafter who were not previously part of the VSTRS. The rate for fiscal year 2019 was \$1,275 per teacher. The total amount paid by the School District for the year ended June 30, 2019 was \$7,166. In addition, the State is assessing a contribution for all teachers paid with Federal Funds. The contribution rate for the year ended June 30, 2019 is 15.75%. The total amount paid by the School District for the year ended June 30, 2019 was \$(-0-). Since the State does not consider the School District to contribute directly to VSTRS, no net pension liability is recorded by the School District. 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.

B. 403(b) Pension Plan

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

NORTH HERO SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

C. Risk Management

The North Hero School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District maintains insurance coverage through the Vermont School Boards Insurance Trust, Inc. covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the School District. Settled claims have not exceeded this coverage in any of the past three fiscal years. The School District must remain a member for a minimum of one year and may withdraw from the Fund after that time by giving sixty days notice. Fund underwriting and rate setting policies have been established after consultation with actuaries. Fund members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Fund were to be exhausted, members would be responsible for the Fund's liabilities.

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

The School District is also insured through the Vermont School Board Insurance Trust for unemployment coverage. The agreement does not permit the Trust to make additional assessments to its members.

D. Building Lease

On August 1, 2015, the School District entered into a lease agreement with the Town of North Hero, Vermont. The School District will lease building space for five (5) years with payments due semi-annually. Building lease revenue during the period from the Town of North Hero, Vermont was \$70,995.

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

2020	\$ <u>70,995</u>
	\$ <u>70,995</u>

E. Related Parties

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

F. Subsequent Events

Effective July 1, 2019, the Grand Isle School District, the Isle La Motte School District and the North Hero School District merged to form the Champlain Islands Unified Union School District. Residents of Grand Isle, Isle La Motte and North Hero approved the merger on November 8, 2016.

NORTH HERO SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budget</u>	<u>Actual</u>	Variance Favorable/ (Unfavorable)
Revenues:			
Regular Instructional:			
General State Support Grants	\$ 1,383,706	\$ 1,394,150	\$ 10,444
Other State Revenue	92,000	76,079	(15,921)
Other Local Revenue	0	2,542	2,542
Tuition	0	17,988	17,988
Special Education Support:			
State Revenue	33,442	31,810	(1,632)
Food Service Revenue	0	8,767	8,767
GISU - Food Service Reimbursement	0	20,472	20,472
Rental Income	68,800	70,995	2,195
Donations	500	3,220	2,720
Interest	150	2,383	2,233
Total Revenues	<u>1,578,598</u>	<u>1,628,406</u>	<u>49,808</u>
Expenditures:			
Instructional	923,053	789,299	133,754
SWP Expenses	0	6,620	(6,620)
Universal Pre-Kindergarten	42,963	42,816	147
Special Education	223,394	232,723	(9,329)
Administrative Assessment	99,673	99,673	0
Student Body Activities	1,700	1,943	(243)
Summer Program	1,507	355	1,152
Guidance Services	10,765	12,016	(1,251)
Health Services	7,889	8,040	(151)
Library Services	15,546	12,640	2,906
Board of Education	7,892	5,798	2,094
Kings Trust Expenses	0	4,967	(4,967)
Principal	106,632	93,195	13,437
Building Operations	77,023	164,539	(87,516)
Transportation Service	48,561	48,561	0
SRSA Grant Expenses	0	2,990	(2,990)
Food Service	12,000	38,478	(26,478)
Total Expenses	<u>1,578,598</u>	<u>1,564,653</u>	<u>13,945</u>
Excess of Revenues Over Expenditures	<u>\$ 0</u>	63,753	<u>\$ 63,753</u>
Fund Balance - July 1, 2018		<u>161,637</u>	
Fund Balance - June 30, 2019		<u>\$ 225,390</u>	

See Disclaimer in Accompanying Independent Auditor's Report.

NORTH HERO SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 VERMONT MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
 JUNE 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Plan Net Pension Liability	\$ 140,675,892	\$ 121,155,552	\$ 128,696,167	\$ 77,095,810	\$ 9,126,613
School District's Proportion of the Net Pension Liability	0.0060%	0.0133%	0.0157%	0.0164%	0.0176%
School District's Proportionate Share of the Net Pension Liability	\$ 8,403	\$ 16,158	\$ 20,151	\$ 12,616	\$ 1,608
School District's Covered Employee Payroll	\$ 0	\$ 26,157	\$ 54,450	\$ 59,494	\$ 57,185
Proportionate Share of the Net Pension Liability as a Percentage of Covered - Employee Payroll	0.0000%	61.7731%	37.0083%	21.2055%	2.8119%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.60%	83.64%	80.95%	87.42%	98.32%

Notes to Schedule

Benefit Changes: None.

Changes in Assumptions and Methods: None

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

NORTH HERO SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS
 VERMONT MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution (Actuarially Determined)	\$ 0	\$ 1,046	\$ 2,178	\$ 2,380	2,287
Contributions in Relation to the Actuarially Determined Contributions	<u>0</u>	<u>1,046</u>	<u>2,178</u>	<u>2,380</u>	<u>2,287</u>
Contribution Excess/(Deficiency)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>0</u>
Covered - Employee Payroll	\$ 0	\$ 26,157	\$ 54,450	\$ 59,494	57,185
Contributions as a Percentage of Covered - Employee Payroll	N/A	4.000%	4.000%	4.000%	4.000%

Notes to Schedule

Valuation Date: June 30, 2018

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

NORTH HERO SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 VERMONT STATE TEACHERS' RETIREMENT SYSTEM
 JUNE 30, 2019

	2019	2018	2017	2016	2015
Total Plan Net Pension Liability	\$ 1,510,705,745	\$ 1,482,403,515	\$ 1,309,523,451	\$ 1,186,516,454	\$ 958,436,990
School District's Proportion of the Net Pension Liability	0.0484%	0.0481%	0.0628%	0.0666%	0.0641%
School District's Proportionate Share of the Net Pension Liability	\$ 731,539	\$ 713,168	\$ 822,598	\$ 789,743	\$ 614,380
School District's Covered Employee Payroll	\$ 337,616	\$ 327,361	\$ 323,712	\$ 406,925	\$ 402,618
Proportionate Share of the Net Pension Liability as a Percentage of Covered - Employee Payroll	216.6778%	217.8537%	254.1142%	194.0758%	152.5963%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	54.81%	53.98%	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 five years are shown.

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"

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the North Hero School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the North Hero School District's basic financial statements, and have issued our report thereon dated September 8, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North Hero School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Hero School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Hero School District's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the North Hero School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Deficiencies in Internal Control as Item 2019-01 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Deficiencies in Internal Control as Item 2019-02 to be a significant deficiency.

Compliance and Other Matters

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

We also noted certain other matters that we reported in a separate letter to the management of the North Hero School District dated September 8, 2020.

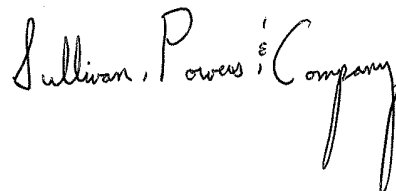
North Hero School District's Response to Deficiencies in Internal Control

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the North Hero School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with "Government Auditing Standards" in considering the North Hero School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

September 8, 2020
Montpelier, Vermont
VT Lic. #92-000180



NORTH HERO SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND DEFICIENCIES IN
INTERNAL CONTROL
JUNE 30, 2019

Deficiencies in Internal Control:

Material Weaknesses:

2019-01 Special Education Report

Criteria:

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

Condition:

The School District does not have adequate controls in place to provide for a complete and accurate submission of the final SEER.

Cause:

Unknown.

Effect:

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

Recommendation:

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

Significant Deficiencies:

2019-02 Timely Reconciliation of Balance Sheet Accounts

Criteria:

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

NORTH HERO SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND DEFICIENCIES IN
INTERNAL CONTROL
JUNE 30, 2019

Condition:

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

Cause:

Unknown.

Effect:

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

Recommendation:

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

North Hero FY19 Audit Response- 02/18/20

2019-01 Special Education Report

Criteria:

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

Condition:

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

Cause:

Unknown.

Effect:

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

Recommendation:

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

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

2019-02 Timely Reconciliation of Balance Sheet Accounts

Criteria:

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

Condition:

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

Cause:

Unknown

Effect:

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

Recommendation:

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

Management Response: Balance Sheet reconciliation files have been created for the Supervisory Union and all school districts. Reconciliations began in FY19 and will be completed on a monthly basis with appropriate supporting documentation.