

ADDISON NORTHEAST SUPERVISORY UNION

FINANCIAL & COMPLIANCE REPORTS

JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Executive Committee of

Addison Northeast Supervisory Union

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information Addison Northeast Supervisory Union as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Addison Northeast Supervisory Union'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 involves 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 entity'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 entity'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 above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Addison Northeast Supervisory Union, 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 the management's discussion and analysis and budgetary comparison information on pages 3–6 and 28–31 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 Addison Northeast Supervisory Union's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2018 on our consideration of Addison Northeast Supervisory Union'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 Addison Northeast Supervisory Union's internal control over financial reporting and compliance.



Jeffrey R. Bradley CPA, P.C.
VT License No. 92-0000515
Essex Junction, Vermont
January 15, 2018

ADDISON NORTHEAST SUPERVISORY UNION

Management's Discussion and Analysis

The following discussion and analysis of the Addison Northeast Supervisory Union's (the Union) financial performance provides an overview of the Union's financial activities as of and for the fiscal year ended June 30, 2017. The analysis focuses on the Union's financial performance as a whole. Please read it in conjunction with the transmittal letter at the front of this report and the Union's financial statements, which follow this section.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Union's basic financial statements. The Union'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.

The Union's financial statements consist of two kinds of statements that present different views of the Union's financial activities.

- The Statement of Net Position and Statement of Activities provide information on a government-wide basis. The statements present an aggregate view of the Union's finances. The government-wide financial statements provide both long-term and short-term information about the Union's overall financial status.
- The fund financial statements focus on the individual parts of the Union, reporting Union operations with more information and detail than the government-wide statements.
- Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year, or government to government) and enhance the Union's accountability. The notes to the financial statements explain some of the information in the statements and provide additional disclosures so that statement users have a complete picture of the Union's financial activities and position. The required supplementary information further explains and supports the financial statements.

Governmental Fund Financial Statements

Traditional users of government financial statements will find the fund financial presentation more familiar. The focus is on the Union's only significant fund, the General Fund. The All of the Union's other funds are considered non-major funds. They are summarized into one total, but the details of each fund are also shown.

Financial Analysis of the Union as a Whole

The Union presents its financial statements under the reporting model required by the Governmental Accounting Standards Board (GASB). The government-wide financial statements (pages 7 & 8) report information about the Union as a whole using accounting methods similar to those used by private-sector companies. An important question one could ask about the Union's finances is, "Is the Union as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which are the government-wide statements, report information about the Union as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Union adopts an annual appropriated budget for its general fund, a budgetary comparison statement has been provided for those funds to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 9-12 of this report.

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 on pages 13-17 of this report. Other information - The combining statements referred to earlier in connection with non-major governmental funds can be found immediately following the footnotes.

FINANCIAL HIGHLIGHTS

- The School District's net assets (assets minus liabilities) from governmental activities decreased as a result of this year's operations due primarily to service fees.
- Capital assets increased \$144,384 or 44% of the Union's investment in capital assets.
- At the close of the current fiscal year, the School District's governmental funds reported total ending fund balances of \$1,009,632 [a decrease of (\$205,127 (-17%))].
- Key factors in the General Fund unfavorable outcome are primarily due to greater than anticipated administrative & student transportation costs. Overall, the unfavorable budget variance of (\$82,898) decreased the Union's general fund balance carry-forward to \$365,997 as of June 30, 2017. The Supervisory Union budgeted to spend \$305,948 of its general fund balance carry forward to fund current spending.

A large portion of the Union's net assets (\$226,343) reflects investments in capital assets (e.g., land, buildings, structures, systems, machinery, equipment, infrastructure, and intangible assets), net of any related debt used to acquire those assets that is still outstanding. The School District uses assets to provide services to citizens; consequently, these assets are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. A larger portion of the School District's net assets (\$588,272) represents resources that are subject to internal and external restrictions on how they can be used.

Government-wide total unrestricted net position decreased (\$117,458) during the fiscal year.

Governmental Activities - The most significant revenues of the governmental activities are: member district assessments (74%); Federal, State and Local grant revenue (13%); Food service program grant & sales receipts (10%) and miscellaneous receipts account for the remaining 3%.

Instructional and support service costs are the most significant (63%), followed by administration (15%), food service (10%), and plant operations and transportation (12%).

Governmental revenues increased 0.67% in the current year. Governmental activities expenses also increased (1.5%) in the current year. The most significant changes in program expenses were as follows:

- Increases primarily due to special education costs.
- There were not any other programs with significant or unusual changes.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

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

Management's Discussion and Analysis (continued)

- 58% of the total ending fund balances (\$588,732) constituted restricted fund balances, which are considered unavailable for appropriation for general operations. Prior year restricted fund balance totaled \$538,818.
- At the close of the current fiscal year, the School District's general fund reported ending fund balances of \$365,997 a decrease of (\$388,847) (-52%). The general fund was budgeted to incur a deficit of (\$305,948) during the current fiscal year.

CAPITAL ASSETS

	Balance - July 1, 2016	Net Activity	Depreciation	Beginning Accumulated Depreciation	Net Asset Value - June 30, 2017
Equipment & Furnishings	\$327,303	\$144,384	(\$84,093)	(\$161,250)	\$226,343

- The Supervisory Union is precluded by Vermont State Statute from incurring long term debt obligations related to land or building acquisition.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Expenditures in the General Fund are budgeted to increase 4% from \$7,993,701 to \$8,319,987 as compared to fiscal year 2017. The \$326,286 increase is due to additional special education salaries and benefits. The School District has added no major new major programs or initiatives to the fiscal year 2018 budget. If these estimates are realized, the School District's budgetary general fund balance is expected to decrease \$448,895 by the close of fiscal year 2018.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the School District's finances for all those interested in governmental finance. Questions concerning any information in the report or requests for additional information should be addressed to Addison Northeast Supervisory Union, 72 Munsill Avenue, Suite 601, Bristol, VT 05443.

As required by *Governmental Accounting Standards*, the District was required to recognize its proportionate share of the total expenditures of the Vermont Teachers' Retirement System as an on-behalf payment for a total of \$480,728.

On September 20, 2016, the Vermont Agency of Education approved the formation of a Regional Education District (RED) that will effectively replace the operations of Addison Northeast Supervisory Union effective July 1, 2018.

Therefore, the Union will then merge with the other member town school districts of Bristol, Lincoln, Monkton, New Haven and Starksboro to form a new unified District and will cease operations as independent entities. The voters of the member towns of the Supervisory Union ratified the RED's formation on November 8, 2016.

COMPARATIVE FINANCIAL INFORMATION

The following schedules detail the changes in the Statement of Net Position and Statement of Activities for the fiscal years ended June 30, 2017 and 2016:

STATEMENT OF NET POSITION

	2017	2016
Current Assets	\$ 1,438,460	\$ 1,893,515
Capital Assets	226,343	166,053
Total Assets	1,664,803	2,059,568
Current Liabilities	\$ 428,828	\$ 678,756
Total Liabilities	428,828	678,756
Nonspendable General Fixed Assets	226,343	166,053
Other Net Position	1,009,632	1,214,759
Total Net Position	1,235,975	1,380,812
Total Liabilities & Net Position	\$ 1,664,803	\$ 2,059,568

STATEMENT OF ACTIVITIES

	2017	2016
<i>Program Revenues:</i>		
Operating Grants & Charges for Services	\$ 11,845,170	\$ 11,183,226
<i>General Revenues:</i>		
Interest Earnings	8,338	8,556
Miscellaneous	102,888	66,303
Total General Revenues	111,226	74,859
Total Revenues	11,956,396	11,258,085
<i>Programs:</i>		
Instructional & Curriculum Development	2,326,078	1,548,089
Special Education & Support Services	4,865,017	4,527,942
Guidance Services	339,271	292,868
Health Services	49,593	39,944
School Based Clinician	57,159	59,696
Superintendents Office	417,631	415,420
Subgrants	445,743	427,890
Administration	1,223,906	1,420,866
Plant Operations	85,277	93,771
Transportation	1,072,644	854,790
Food Service	1,134,821	1,097,717
Depreciation	84,093	42,328
Total Expenses	12,101,233	10,821,321
Change in Net Position	(144,837)	436,764
Net Position - Beginning	1,380,812	944,048
Net Position - Ending	\$ 1,235,975	\$ 1,380,812

Addison Northeast Supervisory Union
Statement of Net Position
June 30, 2017 and 2016

	2017	2016
ASSETS		
<i>Current Assets:</i>		
Cash and Investments	\$ 984,396	\$ 1,750,998
Accounts Receivable	190,374	110,865
Inventory	29,644	11,290
Due from Other Governments	234,046	20,361
Total Current Assets	1,438,460	1,893,515
<i>Noncurrent Assets:</i>		
Property, Plant & Equipment, net of applicable depreciation	226,343	166,053
TOTAL ASSETS	\$ 1,664,803	\$ 2,059,568
LIABILITIES & NET POSITION		
<i>Current Liabilities:</i>		
Accounts Payable	\$ 102,568	\$ 138,450
Accrued Payroll & Benefits	288,633	340,593
Deferred Revenue	37,627	199,713
Total Current Liabilities	428,828	678,756
<i>Net Position:</i>		
Nonspendable General Fixed Assets	226,343	166,053
Restricted For Specific Purposes	766,032	675,941
Unassigned	243,600	538,818
Total Net Position	1,235,975	1,380,812
TOTAL LIABILITIES & NET POSITION	\$ 1,664,803	\$ 2,059,568

The accompanying notes are an integral part of these financial statements.

Addison Northeast Supervisory Union
Statement of Activities
For the Fiscal Years Ended June 30, 2017 and 2016

<i>Functions/Programs:</i>	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants & Contributions	<i>Primary Government</i>		
				Governmental Activities	June 30, 2017 Total	June 30, 2016 Total
Instructional & Related Support	\$ 1,901,224	\$ 907,850	\$ 993,374	\$ -	\$ -	\$ 3,162
Cocurricular	200,727	200,727	-	-	-	-
Special Education & Support Services	4,865,017	3,814,176	1,050,841	-	-	66,878
Guidance Services	339,271	339,271	-	-	-	7,132
Health Services	49,593	49,593	-	-	-	56
School Based Clinician	57,159	57,159	-	-	-	304
Curriculum Development	224,127	224,127	-	-	-	(3,471)
Superintendent's Office	417,631	417,631	-	-	-	109
Administration	119,172	57,195	5,000	(56,977)	(56,977)	7,878
Fiscal & Technology Services	1,104,734	1,104,734	-	-	-	227,571
Plant Operations	85,277	85,277	-	-	-	106,229
Transportation	1,072,644	975,567	-	(97,077)	(97,077)	11,969
Food Service	1,134,821	635,955	480,950	(17,915)	(17,915)	(23,585)
Subgrants to Member Districts	445,743	-	445,743	-	-	-
Depreciation	84,093	-	-	(84,093)	(84,093)	(42,328)
Total Governmental Activities	12,101,233	8,869,262	2,975,908	(256,063)	(256,063)	361,905
<i>General Revenues:</i>						
Investment Income				8,338	8,338	8,556
Other				102,888	102,888	66,303
Total General Revenues				111,226	111,226	74,859
Change in Net Position				(144,837)	(144,837)	436,764
Net Position - Beginning				1,380,812	1,380,812	944,048
Net Position - Ending				\$ 1,235,975	\$ 1,235,975	\$ 1,380,812

The accompanying notes are an integral part of these financial statements.

Addison Northeast Supervisory Union
Combined Balance Sheet - Governmental Fund Types
June 30, 2017 and 2016

	<i>Governmental Fund Types</i>			
	General Fund	Other Governmental Funds	Totals June 30, 2017	Totals June 30, 2016
ASSETS				
<i>Current Assets:</i>				
Cash and Investments	\$ 932,777	\$ 51,619	\$ 984,396	\$ 1,750,998
Accounts Receivable	57,544	132,830	190,374	110,865
Inventory & Prepaid Expenses	-	29,644	29,644	11,290
Due From Other Governments	234,046	-	234,046	20,361
Due from Other Funds	-	569,930	569,930	148,916
TOTAL ASSETS	\$ 1,224,367	\$ 784,024	\$ 2,008,391	\$ 2,042,431
LIABILITIES AND FUND BALANCES				
<i>Current Liabilities:</i>				
Accounts Payable	\$ 62,704	\$ 39,864	\$ 102,568	\$ 138,450
Accrued Payroll & Benefits	225,736	62,897	288,633	340,593
Deferred Revenue	-	37,627	37,627	199,713
Due to Other Funds	569,930	-	569,930	148,916
Total Liabilities	858,370	140,388	998,758	827,672
<i>Fund Balances:</i>				
Restricted For Specific Purposes	448,895	317,137	766,032	440,257
Committed for Special Programs	-	326,499	326,499	235,684
Unassigned	(82,898)	-	(82,898)	538,818
Total Fund Balances	365,997	643,636	1,009,632	1,214,759
TOTAL LIABILITIES & FUND BALANCES	\$ 1,224,367	\$ 784,024	\$ 2,008,391	\$ 2,042,431

The accompanying notes are an integral part of these financial statements.

**Addison Northeast Supervisory Union
Reconciliation of the Governmental Funds Balance Sheet
To the Government-Wide Statement of Net Position
June 30, 2017**

Total Fund Balances - Governmental Funds Balance Sheet \$ 1,009,633

Amounts reported for Governmental Activities in the Statement of Net Position are different due to the following:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet 226,343

Net Position - Government-Wide Financial Statements \$ 1,235,975

Addison Northeast Supervisory Union
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund Types
For the Fiscal Year Ended June 30, 2017 and 2016

	<i>Governmental Fund Types</i>		Totals June 30, 2017	Totals June 30, 2016
	General Fund	Other Governmental Funds		
<i>Revenues:</i>				
Assessments	\$ 7,553,018	\$ 513,235	\$ 8,066,253	7,828,410
Grants - Federal	5,000	1,050,841	1,055,841	1,286,298
Grants - State	-	168,325	168,325	175,338
Grants - Other	-	96,935	96,935	80,779
EPSDT & Medicaid Billings	-	235,684	235,684	255,077
Service Fees to Local Educational Agencies	7,141	-	7,141	26,430
Food Program Sales and Assessments	-	635,955	635,955	599,309
Food Program - Federal Grant Support	-	480,950	480,950	450,858
On-behalf Teachers' Retirement Contribution	1,106,498	-	1,106,498	480,728
Investment Income	7,961	377	8,338	8,556
Miscellaneous	72,717	21,760	94,478	66,303
Total Revenues	8,752,336	3,204,062	11,956,397	11,258,085
<i>Expenditures:</i>				
Instructional & Related Support	1,436,935	464,289	1,901,224	1,408,345
Cocurricular	18,196	182,531	200,727	-
Special Education	3,710,416	607,308	4,317,724	3,519,138
Guidance Services	298,389	40,882	339,271	292,868
Health Services	49,593	-	49,593	39,944
School Based Clinician	57,159	-	57,159	59,696
Curriculum & Instructional Development	159,787	64,340	224,127	139,744
Student Support Services	523,741	23,552	547,293	1,008,804
Administration	84,224	34,948	119,172	291,254
Office of the Superintendent	417,631	-	417,631	415,420
Fiscal & Technology Services	1,249,118	-	1,249,118	1,238,388
Plant Operations	85,277	-	85,277	93,771
Transportation	1,038,710	33,934	1,072,644	854,790
Subgrants to Member Districts	-	445,743	445,743	427,890

The accompanying notes are an integral part of these financial statements.

Addison Northeast Supervisory Union
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund Types
For the Fiscal Year Ended June 30, 2017 and 2016

	<u>Governmental Fund Types</u>		Totals June 30, 2017	Totals June 30, 2016
	General Fund	Other Governmental Funds		
Food Service	-	1,134,821	1,134,821	1,097,717
Total Expenditures	9,129,177	3,032,347	12,161,524	10,887,769
Excess (Deficiency) of Revenues over Expenditures	(376,841)	171,714	(205,127)	370,316
<i>Other Financing Sources (Uses):</i>				
Operating Transfers In (Out)	(12,005)	12,005	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures Other Financing Sources (Uses)	(388,847)	183,720	(205,127)	370,316
Fund Balances - Beginning	754,843	459,916	1,214,759	844,443
Fund Balances - Ending	\$ 365,997	\$ 643,636	\$ 1,009,632	\$ 1,214,759

**Reconciliation of the Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types to the Statement of Activities**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - Governmental Funds Financial Statements	\$ (205,127)
In the Statement of Activities, the cost of fixed assets is allocated over their estimated useful lives and reported as depreciation expense annually.	60,290
<i>Change in Net Position - Statement of Activities</i>	<u>\$ (144,837)</u>

The accompanying notes are an integral part of these financial statements.

Addison Northeast Supervisory Union NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Summary of significant accounting policies - The Addison Northeast Supervisory Union (the Supervisory Union) provides educational services to the citizens of member school Supervisory Unions and the financial statements of the Supervisory Union have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units.

Reporting entity - The Supervisory Union is a primary unit of government under reporting criteria established by the Governmental Accounting Standards Board (GASB). Those criteria include a separately elected governing body, separate legal standing, and fiscal independence from other state and local governmental entities. Based on these criteria, there are no other entities which are component units of the Supervisory Union.

Government-wide and fund financial statements - The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the Supervisory Union. The effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues.

In the Government-wide Statement of Net Position, the financial position of the Supervisory Union is consolidated and incorporates capital assets as well as certain long-term debt and obligations. The Government-wide Statement of Activities reflects both the gross and net costs by category. Direct expenses that are clearly identifiable with the category are offset by program revenues of the category. Program revenues include charges for services provided by a particular function or program and grants that are restricted to meeting the operational or capital requirements of the particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Separate financial statements are provided for governmental funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds, if any, are summarized in a single column.

Basis of presentation - The accounts of the Supervisory Union are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred outflows/inflows of resources, fund balances or net position, revenues, and expenditures or expenses, as appropriate.

The Supervisory Union reports the following major governmental funds: *General Fund* is the general operating fund of the Supervisory Union. It is used to account for all financial resources, except those required to be accounted for in another fund. *Other Governmental Funds* used to account for the assets and activity of monies left to the Supervisory Union through trust and grant agreements, or capital project expenditures incurred for specific Supervisory Union infrastructure projects.

Measurement focus and basis of accounting - Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become both measurable and available. "Measurable" means the amount of the transaction that can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures generally are recorded when the fund liability is incurred, if measurable, as under accrual accounting. However, debt service expenditures are recorded only when payment is made.

Addison Northeast Supervisory Union NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Summary of significant accounting policies (continued)

Budgets and budgetary accounting - The Supervisory Union approves a budget for the General Fund at an annual Supervisory Union Meeting. The accounting method used for budgetary presentation is the same method used for the financial presentation of operations under U.S. GAAP. Formal budgetary integration is employed as a management control during the year for the General Fund. The Supervisory Union does not legally adopt budgets for other governmental funds. All budgeted amounts lapse at year end.

Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred outflows/inflows of resources as well as disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

Risk management - The Supervisory Union 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 others; environmental liability; and natural disasters. The Supervisory Union manages these risks of loss through participation in public entity risk pools (Vermont School Boards' Insurance Trust). Management believes such coverage is sufficient to preclude any significant uninsured losses to the Supervisory Union. There were no settlements in excess of the insurance coverage in any of the past three fiscal years.

Cash, cash equivalents and investments - The Supervisory Union considers all cash on hand, demand deposits, and short-term investments with original maturities of three months or less to be cash equivalents.

Capital assets - Capital assets, which include land, buildings, equipment, vehicles and infrastructure, are reported in the applicable governmental activities columns in the government-wide and in the proprietary fund financial statements. Capital assets are defined by the Supervisory Union as assets with an initial useful life of one year or greater and an initial individual cost equal to or greater than \$3,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Net interest costs are capitalized on projects during the construction period. Normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized. Equipment and furnishings (5 - 20 years)

Compensated absences - Employees are entitled to certain compensated absences based on their length of employment. Sick leave accumulates and is paid upon illness during employment and the cumulative liability is not included in these financial statements. Vacation accrues for annual use.

Fund Balances/Net Position - In the fund financial statements, governmental funds may report five categories of fund balances: non-spendable, restricted, committed, assigned and unassigned. *Non-spendable* fund balance includes amounts associated with inventory, prepaid expenditures, long-term loans or notes receivable, and trust fund principal to be held in perpetuity. *Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. *Committed* fund balance includes amounts that can be used only for specific purposes determined by the Supervisory Union's highest level of decision making authority, the voters, as a result of articles passed at Annual or Special Meetings. *Assigned* fund balance includes amounts that are intended to be used by the Supervisory Union for specific purposes, as authorized by the Board of Directors. *Unassigned* fund balance is the Fund and includes all spendable amounts not contained in another classification. Deficits are also classified

**Addison Northeast Supervisory Union
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - Summary of significant accounting policies (continued)

as unassigned. The Supervisory Union's policy is to apply expenditures to fund balance in the order of restricted, committed, assigned and unassigned. The Supervisory Union maintains separate governmental funds to account for donor specified amounts (restricted), voter approved amounts (committed), and amounts set aside by management. Any residual fund balance amounts are reported as unassigned fund balance in the General Fund.

Accrued Liabilities, Long-Term Obligations and Deferred Outflows - In addition to assets and liabilities, deferred outflows of resources (previously reported as assets) and deferred inflows of resources (previously reported as liabilities), if applicable, will be reported as separate sections in the statement of net position and the governmental funds balance sheet. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources in the current period. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources in the current period. The District does not currently report any deferred outflows of resources. The District reports deferred revenue as deferred inflows of resources.

The General Fund does not include on-behalf payments as a revenue or expenditure amounts to assess budgetary compliance, therefore they are not included in budgetary comparison schedules.

NOTE 2 - Deposits and investments

As of June 30, 2017, the Supervisory Union's deposit accounts were fully insured or collateralized. Custodial credit risk deposits and investments - Custodial credit risk is the risk that in the event of a financial institution failure, the Supervisory Union will not be able to recover its deposits or investments or will not be able to recover collateral securities that are in the possession of an outside party. The Supervisory Union addresses this risk by requiring each institution to provide deposit insurance and/or proof of collateralization. The Treasurer is required to determine the types of collateralization after consultation with the Board. *Credit risk* is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. The Supervisory Union addresses credit risk by limiting the types of investments the Treasurer can make to bank deposit accounts, collateralized repurchase agreements and U.S. Treasury obligations. *Concentration of credit risk* is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2017, the Supervisory Union does not hold more than 5% of its investments in any one issuer.

NOTE 3 - Inter-fund receivable and payable balances

Inter-fund receivable and payables, due to the pooling of cash for cash receipts and disbursements, as it shall not necessarily be bound solely and constitutes the transfer of resources from the fund that receives the resources to the fund that utilizes them. Transfers from Other Governmental Funds to the General Fund were to cover expenses that had been incurred on their behalf.

	General Fund	Other Governmental/Trust Funds
Federal Sub-grants	(\$53,083)	\$53,083
State & Local Sub-grants & Awards	(25,228)	25,228
Early Education - Local	(89,830)	89,830
ANESU Food Cooperative	(2,435)	2,435
Medicaid & EPSDT Funds	(399,354)	399,354
Totals	(\$569,930)	\$569,930

**Addison Northeast Supervisory Union
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - Fixed Assets and Depreciation

The following is a schedule detailing the Supervisory Union’s investment in capital assets:

	Balance - July 1, 2016	Net Activity	Depreciation	Beginning Accumulated Depreciation	Net Asset Value - June 30, 2017
Equipment & Furnishings	\$327,303	\$144,384	(\$84,093)	(\$161,250)	\$226,343

Note 5 - Deferred (Unearned) Revenue

The following is a schedule of grant and fee revenues received, but not spent at June 30, 2017:

Grantor	Amount
Title I-A	\$5,926
Title II-A	23,234
IDEA-B	626
Local Wellness Plan Implementation	1,600
NE Dairy & Food Council	1,396
Local Standards Board	59
Expanded Learning Program	2,286
VT Education Health Initiative	2,500
TOTAL	\$37,627

NOTE 6 - Defined Contribution Pension plan

Vermont Teachers' Retirement System - The District contributes to the Vermont Teachers’ Employees’ Retirement System (VSTRS), a cost-sharing multiple-employer public employee retirement system (PERS) with defined contribution plans administered by the State of Vermont. VMERS provides retirement, disability and death benefits to plan members and beneficiaries. Teachers become members of VSTRS upon employment, and vest in the system after 10 years of service. Group A - for public school teachers employed within the State of Vermont prior to July 1, 1981 and who elected to remain in Group A. Group C is 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. Group C members contribute 5% of salary (6% if member less than 5 years as of July 1, 2014). 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).

Covered payroll under this plan equaled \$2,331,276, and total wages paid by the Supervisory Union during the fiscal year was \$5,077,850. In addition, an on-behalf benefit of \$1,106,593 was recorded the Union’s proportionate share of VSTRS’s total pension expenditure as required by GASB 68.

Support Staff Retirement Plan

The District provides for its support staff employees working at least 1,000 hours annually a retirement benefit of 5% of gross wages in matching contributions. The District paid \$65,622 for this benefit for the fiscal year ended June 30, 2017. Vesting occurs upon reaching 2 years of creditable service for defined contribution plans.

Addison Northeast Supervisory Union
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - Commitments & Contingencies

The Supervisory Union is exposed to various risks of loss related to torts; theft, damage and destruction of its assets; injuries. Any claims under these policies have not exceeded coverage in any of the immediately preceding three fiscal years. If the insurance funds noted above should ever become insolvent, the Supervisory Union could be liable for a proportionate share of the Fund's liabilities.

The Supervisory Union receives grant support from various State, Local and Federal sources. These programs are subject to financial and compliance audits by these grantors. Management believes that any possible disallowed costs, if any, would be immaterial to these financial statements.

Note 8 - Leases of Space and Equipment

On July 14, 2011, the Supervisory Union entered into a 10 year agreement to lease space in Bristol, Vermont to house its personnel and equipment. The base rental for the current fiscal year is \$42,500 plus the costs of insurance, property taxes and common area charges on an allocable basis with other tenants. The base rental will be adjusted on each July 1st anniversary of the lease by the Consumer Price Index (CPI) for the prior year. Either party may terminate the lease in a 30 day period.

Note 9 - Concentration of Support

The Supervisory Union's General Fund receives approximately 74% of its revenue from its member districts' assessments. Additionally, the Supervisory Union receives State, Local and Federal grants for special education, transportation, after school programs and other programs.

Note 10 - Merger with its Member Districts

On September 20, 2016, the Vermont Agency of Education approved the formation of a Regional Education District (RED) that will effectively replace the operations of Addison Northeast Supervisory Union and its member districts effective July 1, 2018.

Therefore, the Union will then merge with its member town school districts of Bristol, Lincoln, Monkton, New Haven and Starksboro to form a new unified District and will cease operations as independent entities. The voters of the member towns of the Supervisory Union ratified the RED's formation on November 8, 2016.

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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

To the Executive Committee of

Addison Northeast Supervisory Union

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Addison Northeast Supervisory Union, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Addison Northeast Supervisory Union's basic financial statements, and have issued our report thereon dated January 15, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Addison Northeast Supervisory Union'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 Addison Northeast Supervisory Union's internal control. Accordingly, we do not express an opinion on the effectiveness of the Addison Northeast Supervisory Union'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 entity'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. 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 Addison Northeast Supervisory Union'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Jeffrey R. Bradley CPA, P.C." The signature is written in a cursive, professional style.

Jeffrey R. Bradley CPA, P.C.

Essex Junction, Vermont

January 15, 2018

Jeffrey R. Bradley CPA, P.C.

~ Member ~

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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**

To the Executive Committee of Addison Northeast Supervisory Union

Report on Compliance for Each Major Federal Program

We have audited the Addison Northeast Supervisory Union's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Addison Northeast Supervisory Union's major federal programs for the year ended June 30, 2017. Addison Northeast Supervisory Union's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Addison Northeast Supervisory Union's major federal programs based on our audit of the types of compliance requirements referred to above. 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 above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Addison Northeast Supervisory Union'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 each major federal program. However, our audit does not provide a legal determination of the Addison Northeast Supervisory Union's compliance.

Opinion on Each Major Federal Program

In our opinion, the Addison Northeast Supervisory Union, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule

of findings and questioned costs as items 2017-001 through 2017-005. Our opinion on each major federal program is not modified with respect to these matters.

Addison Northeast Supervisory Union's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Addison Northeast Supervisory Union's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Addison Northeast Supervisory Union, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Addison Northeast Supervisory Union's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on 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 Addison Northeast Supervisory Union'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.



Jeffrey R. Bradley CPA, P.C.
VT License No. 92-0000515
Essex Junction, Vermont
January 15, 2018

**Addison Northeast Supervisory Union
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017**

Name of Agency or Department	CFDA Number	Name of Program	Name of Grant	Grant ID Number	Award Amount	Award Expended	Subgranted to Member Districts	Total Awards Expended
<i>Department of Education</i>								
	84.010	Title I - Grants to LEAs	Title I	4250-S001-17-01	\$ 348,750	27,049	\$ 271,318	\$ 298,367
	84.367	Improving Teacher Quality State Grants	Title II	4651-S001-17-01	168,344	99,327	8,333	107,660
	84.287	21st Century Community Learning Centers	21st Century Grant	4611-S001-17-01	210,642	210,642	-	210,642
			Subtotal		<u>727,736</u>	<u>337,017</u>	<u>279,652</u>	<u>616,669</u>
	84.027	Special Education - Grants to States	IDEA-B Basic	4226-S001-17-01	445,813	392,872	-	392,872
	84.027	Special Education - Grants to States	IDEA-B Proportionate Share	4223-S001-17-01	6,906	4,804	-	4,804
	84.173	Special Education - Grants to States	IDEA-B Pre-school	4228-S001-17-01	8,500	7,194	-	7,194
			Total IDEA-B Cluster		<u>461,219</u>	<u>404,870</u>	<u>-</u>	<u>404,870</u>
	84.412	Discretionary/Competitive Grants	Race To The Top Early Learning Challenge MTSS	4504-S001-17-01	5,000	1,758	-	1,758
			Total Department of Education		<u>1,188,955</u>	<u>741,887</u>	<u>279,652</u>	<u>1,021,539</u>
<i>Department of Agriculture</i>								
	10.553	Federal School Breakfast Program	School Breakfast Program	4452-S001-17-01	96,926	96,926	-	96,926
	10.555	Federal School Lunch Program	School Lunch Program	4450-S001-17-01	225,838	225,838	-	225,838
	10.558	Child and Adult Care Food Program	Child Care and Adult Food Program	4454-S001-17-01	56,735	56,735	-	56,735
	10.559	Federal Summer Lunch Program	Summer Lunch Program	4455-S001-17-01	45,870	45,870	-	45,870
	10.574	Team Nutrition Training Grants	Team Up for School Nutrition	4460-S001-17-01	1,034	516	-	516
	10.582	Fresh Fruit and Vegetable Program	Fresh Fruit and Vegetable Program	4449-S001-17-01	26,388	26,388	-	26,388
			Subtotal		<u>452,791</u>	<u>452,273</u>	<u>-</u>	<u>452,273</u>
		<i>Non-Cash Assistance:</i>						
	10.565	Commodity Supplemental Food Program	USDA Commodities	4453-S001-17-01	55,582	55,582	-	55,582
			Total Department of Agriculture		<u>508,373</u>	<u>507,855</u>	<u>-</u>	<u>507,855</u>
			Total Federal Awards		<u>\$ 1,697,328</u>	<u>\$ 1,249,743</u>	<u>\$ 279,652</u>	<u>\$ 1,529,395</u>
<i>Subgranted Funds:</i>					Title I	Title II	IDEA-B Basic	Totals
		Bristol Town School District			\$ 158,363	\$ 8,333		\$ 166,696
		Starksboro Town School District			65,965	-	-	65,965
		Lincoln Town School District			16,698	-	-	16,698
		New Haven Town School District			30,292	-	-	30,292
		Totals			<u>271,318</u>	<u>8,333</u>	<u>-</u>	<u>279,652</u>

**ADDISON NORTHEAST SUPERVISORY UNION
NOTES FOR SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Summary of significant accounting policies:

Single Audit Reporting Entity: For purposes of complying with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the Supervisory Union includes all funds and programs that are considered part of the primary governmental unit, as described in the basic financial statements as of the fiscal year ended above.

Basis of Presentation:

The information in the accompanying Schedule is presented in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Federal award – Pursuant to the preceding, a federal award is defined as federal financial assistance and cost-reimbursement contracts that non-Federal entities received directly from Federal awarding agencies or indirectly from pass-through entities. The Supervisory Union receives federal awards which are passed through various State of Vermont Departments and Agencies.

Federal financial assistance – As noted in the above referenced authoritative guidance, is defined as assistance provided by a federal agency, directly or indirectly, in the form of grants, contracts, cooperative agreements, loan guarantees, property, interest subsidies, insurance or direct appropriations.

Major or non-major programs – OMB regulation establishes risk based criteria for determining major programs and selecting those programs to be tested for compliance with related program requirements. The major programs selected were the following programs:

- 84.010 Title I - Grants to Local Educational Agencies
- 84.367 - Improving Teacher Quality State Grants
- 84.287 - 21st Century Community Learning Centers

Basis of Accounting:

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Supervisory Union's financial statements. The Supervisory Union uses the *modified accrual* basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

Program Costs/Matching Contributions:

The amounts shown as current year expenses represent only the Supervisory Union's Federal grant portion of the program costs. Entire program costs, including the Supervisory Union's portion, may be more than shown.

Non-cash Awards:

The amount of commodities and surplus property reported on the schedule is its value of distributed by the Supervisory Union during the current year and priced as prescribed by the US Department of Agriculture.

Schoolwide Programs:

The Supervisory Union operates a "schoolwide program" in 4 elementary buildings. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the Supervisory Union in its schoolwide program: Title I (84.010) - (\$271,318.)

Federal Indirect Rate:

The Supervisory Union has not elected to use the 10% *de minimis* indirect cost rate.

ADDISON NORTHEAST SUPERVISORY UNION SCHEDULE OF FINDINGS AND QUESTIONED COSTS Fiscal Year Ended June 30, 2017

A. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unqualified opinion on the financial statements of Addison Northeast Supervisory Union.

2. Addison Northeast Supervisory Union, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

However, certain deficiencies in internal control and compliance concerning relating to the audit of the financial statements of Addison Northeast Supervisory Union were noted in the fiscal year ended June 30, 2017 compliance audit that we do not consider to be material weaknesses or significant deficiencies.

3. The programs tested as major programs were:

- 84.010 Title I - Grants to Local Educational Agencies
- 84.367 - Improving Teacher Quality State Grants;
- 84.287 - 21st Century Community Learning Centers

4. The threshold for distinguishing Types A and B programs was \$750,000.

5. Addison Northeast Supervisory Union did not qualify as a low-risk auditee.

FEDERAL AWARDS FINDINGS:

Finding 2017-001 - Equipment and Real Property Management

Criteria: Any entity that receives Federal funds to purchase property, plant and equipment is required to conduct a physical inventory at least once every two years. The entity must also be maintaining a list of equipment that was purchased with Federal awards.

Condition: There were incomplete procedures in place to ensure that the Supervisory Union conducts a physical inventory of its property, plant and equipment that was purchased with Federal awards.

Cause: The Supervisory Union has prepared the schedule accurately, but it lacks the required criteria: source of funds; acquisition date; Federal percentage of participation at purchase; use and condition; details as to how and when disposed and treated as program income in the year of disposition.

Effect: The Supervisory Union is not in complete compliance with the equipment and real property management compliance requirement of its grants.

Recommendation: We recommend that the Supervisory Union Management ensure that its list of property, plant and equipment purchased with Federal awards is complete and in compliance with 2 CFR 200.313. Condition was corrected prior to the end of the fiscal year.

Finding 2017-002 - Sub-grant Agreements for Sub-recipients

Condition: The Supervisory Union's sub-grant agreements for the Title I and Title II grants on file for fiscal year 2016-17 fiscal year were executed after the Supervisory Union as required by 2 CFR 200.331.

Criteria: Sub-grant agreements must be executed prior to the grant period of the related agreement, and amended if the sub-grant award during the year should change during the period of performance.

Effect: The grantee could potentially require the Supervisory Union to return these funds.

Recommendation: We recommend the Supervisory Union ensure that sub-grant agreements with member schools are executed prior to funds are sub-granted.

Response: The CFG Grant Coordinator and Management will ensure that the agreement will be executed to the member school district prior to the commencement of the grant period.

Finding 2017-003 - Approval of Contracts and Expenditures

Condition: It was noted in several instances in which there was no indication of approval by the responsible party on contracts, vendor invoices and purchase requisitions. The Supervisory Union must also ensure that its local procedures are adhered to, and must be consistent with Federal requirements (2 CFR 200.300 through 200.309).

Criteria: The Supervisory Union records must contain signatures as evidence of review and approval of all purchase orders, vendor invoices and service contracts in accordance with the Supervisory Union's approved procedures.

Effect: An improper expense could be charged to a program.

Recommendation: We recommend that the CFG Grant Coordinator and Management review items for accuracy to the grant agreement and ensure that all purchase orders, vendor invoices and purchase requisitions include the related contract in the approved vendor package.

Response: Beginning in fiscal year 2018, all items in voucher packages will indicate approval of the appropriate parties, and include copies of the original vendor contract in the paid invoice files.

Finding 2017-004 - Program Income

Condition: It was noted that local program income associated with the 21st Century Learning Centers was not utilized prior to the requisition of Federal Funds.

Criteria: The Supervisory Union must utilize local program receipts before Federal funds.

Effect: Excess expenditures could be charged to a Federal program.

Recommendation: We recommend that Management, as applicable, reduce the Federal requisition by local funds quarterly.

**ADDISON NORTHEAST SUPERVISORY UNION SUMMARY SCHEDULE OF PRIOR AUDIT
FINDINGS Year Ended June 30, 2017**

Finding 2017-004 – Program Income (continued)

Response: Beginning in fiscal year 2018, Supervisory Union management will ensure that the program income reduces the Federal requisition of funds from any Federal source. Condition was corrected prior to the end of the fiscal year.

Finding 2017-005 – Allowable Costs and Cost Principles

Condition: It was noted that 9 grant charges were charged to the Title II, 21st Century Community Learning Centers and its Schoolwide Plan that were deemed disallowed by the Vermont Agency of Education during a routine monitoring in the fiscal year. Disallowed costs were corrected prior to the end of the fiscal year.

Criteria: The Supervisory Union must ensure that each grant charge meets the approved grant strategies before charging Federal funds, and that the correct grant is charged for the invoice.

Effect: Excess expenditures could have been charged to a Federal program.

Recommendation: We recommend that the Business Manager, Accountant and Grant Coordinator, as applicable, ensure that the approved grant strategies are consulted prior to a charge to Federal awards.

Response: Beginning in fiscal year 2018, Supervisory Union management will ensure that Management ensure that the procedures concerning Federal awards are consistent with approved grant strategies.

Addison Northeast Supervisory Union
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund and Budgeted Other Governmental Funds
For the Fiscal Year Ended June 30, 2017

	<i>General Fund</i>			<i>Other Governmental Funds</i> <i>(ANESU Food Service Cooperative)</i>		
	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<i>Revenues:</i>					
Interest	\$ 2,400	\$ 7,961	\$ 5,561	\$ -	\$ 377	\$ 377
Assessments	7,108,671	7,553,018	444,347	-	10	10
Service Fees	222,724	7,141	(215,584)	643,658	635,955	(7,703)
Miscellaneous	41,460	72,717	31,257	-	875	875
Federal & State Grants	312,498	5,000	(307,498)	463,384	505,838	42,454
Total Revenues	<u>7,687,753</u>	<u>7,645,838</u>	<u>(41,915)</u>	<u>1,107,042</u>	<u>1,143,055</u>	<u>36,013</u>
<i>Expenditures:</i>						
Instructional Support	387,495	330,437	57,058	-	-	-
Special Education	3,298,779	3,710,416	(411,637)	-	-	-
Cocurricular	56,282	18,196	38,086	-	-	-
Guidance Services	380,575	298,389	82,186	-	-	-
Health Services	42,153	49,593	(7,441)	-	-	-
School Based Clinician	111,336	57,159	54,177	-	-	-
Curriculum & Instructional Development	380,955	159,787	221,168	-	-	-
Student Support Services	525,286	523,741	1,545	-	-	-
Student Transportation	991,088	1,038,710	(47,622)	-	-	-
Administration	75,261	84,224	(8,964)	-	-	-
Office of the Superintendent	444,670	417,631	27,038	-	-	-
Fiscal & Technology Services	1,201,994	1,249,118	(47,124)	-	-	-
Plant Operations	97,829	85,277	12,552	-	-	-
Food Service	-	-	-	1,107,042	1,100,189	6,853
Total Expenditures	<u>7,993,701</u>	<u>8,022,679</u>	<u>(28,977)</u>	<u>1,107,042</u>	<u>1,100,189</u>	<u>6,853</u>
<i>Other Financial Sources (Uses):</i>						
Operating Transfer In/(Out)	-	(12,005)	(12,005)	-	-	-
Excess (Deficiency) of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	<u>\$ (305,948)</u>	<u>\$ (388,847)</u>	<u>\$ (82,898)</u>	<u>-</u>	<u>\$ 42,866</u>	<u>\$ 42,866</u>

ADDISON NORTHEAST SUPERVISORY UNION
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE A - Employers' Allocation of Pension Amounts as of June 30, 2015

	Employer Contributions	Employer Proportion	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Deferred Outflows	Total Deferred Inflows	Net Pension Liability 1% Decrease (6.95% Discount Rate)	Net Pension Liability 1% Increase (8.95% Discount Rate)
6/30/2015	\$ 139,862	0.19183%	\$ 5,447,277	\$ 3,171,192	\$ 2,276,085	\$ 926,942	\$ -	\$ 2,890,218	\$ 1,760,883

SCHEDULE B - Employers' Allocation of Pension Amounts as of June 30, 2016

	Employer Contributions	Employer Proportion	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Deferred Outflows	Total Deferred Inflows	Net Pension Liability 1% Decrease (6.95% Discount Rate)	Net Pension Liability 1% Increase (8.95% Discount Rate)
6/30/2016	\$ 242,414	0.33105%	\$ 9,701,272	\$ 5,366,047	\$ 4,335,225	\$ 2,139,933	\$ (17,836)	\$ 5,424,803	\$ 3,420,784

SCHEDULE C - Employer's Allocation of Recognition of Deferred Outflows/Inflows as of June 30, 2016

	Employer Proportion	Net Pension Liability	Difference between Expected and Actual Experience	Changes in Assumptions	Changes in Benefits	Difference Between Projected and Actual Investment Earnings	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions
6/30/2016	0.33105%	\$ 4,335,225	\$ 42,080	\$ 95,159	\$ -	\$ 419,054	\$ 1,583,639

ADDISON NORTHEAST SUPERVISORY UNION
REQUIRED SUPPLEMENTARY INFORMATION

Changes in Assumptions	Changes in Benefits	Difference Between Projected and Actual Investment Earnings	Changes in Proportionate Share and Difference between Employer Contribution and Proportionate Share of Contribution	Total Deferred Inflows	Proportionate Share of Pension Plan Expense	Net Amortization of Deferred Amounts from Changes in Proportionate Share and Difference Between Employer Contributions and Proportionate Share of Contribution	Total
\$ (17,936)	\$ -	\$ -	\$ -	\$ (17,936)	\$ 449,896	\$ 656,602	\$ 1,106,498

SCHEDULE D - Employer's Allocation of Recognition of Deferred Outflows/Inflows as of June 30, 2016

2017	\$ 807,423
2018	\$ 700,485
2019	\$ 541,578
2020	\$ 72,510
Thereafter	\$ -

For the measurement period ended June 30,

	<u>2016</u>	<u>2015</u>
Town's proportionate share of the net pension liability (asset)	0.3311%	0.19183%
Proportionate share of the net pension liability (asset)	\$ 4,335,225	\$ 2,276,085
Covered-employee payroll	\$ 2,144,558	\$ 1,069,858
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	202.15%	212.75%
Plan fiduciary net position as a percentage of the total pension liability	123.78%	139.33%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Significant Actuarial Assumptions and Methods:

The total pension liability as of June 30, 2017 was determined by rolling forward the total pension liability as of June 30, 2015 to June 30, 2016 using the actuarial assumptions outlined below.

Except for the expected rate of return on assets, these assumptions were selected on the basis of the experience study that was performed for the five-year period ending June 30, 2014. The 7.95% expected rate of return on assets was adopted by the Board at a meeting on July 27, 2015.

Interest Rate: 7.95% per annum. Through June 30, 2016, a select-and-ultimate interest rate set was used.

Salary Increases: Representative values of the assumed annual rates of future salary increases were projected to the estimate.

Deaths After Retirement: the RP-2000 Disabled Life Table with projection to 2029 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).

Inactive Members: A liability equal to 350% of accumulated contributions of inactive members is included in the valuation liabilities.

Actuarial Cost Method: The individual entry age normal actuarial cost method was used. For actuarial valuations prior to June 30, 2006, the entry age normal method with frozen initial liability was used.

Long-term expected rate of return:

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>Expected Real Rate of Return</u>
Equity	32.00%	8.61%
Fixed Income	35.00%	1.91%
Alternatives	17.00%	6.93%
Multi-strategy	16.00%	4.88%