

TOWN OF SOUTH HERO, VERMONT

AUDIT REPORT

JUNE 30, 2017

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Independent Auditor's Report

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Selectboard
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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 of the Town of South Hero, Vermont as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of South Hero, Vermont'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 the modified cash basis of accounting as described in Note I; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 of 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 Town'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 Town'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.

Basis for Qualified Opinions

As described in Note III.C. to the financial statements, the Town of South Hero, Vermont adopted certain provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" but did not adopt certain provisions related to the clarified definitions of Special Revenue Funds affecting the General Fund and aggregate remaining fund information. As a result, there are some Special Revenue Funds that should be reported as part of the General Fund.

Qualified Opinions

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions" paragraph, the financial statements referred to previously present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of South Hero, Vermont as of June 30, 2017, and the changes in financial position thereof for the year then ended in conformity with the modified cash basis of accounting, as described in Note I.D.

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Highway Fund of the Town of South Hero, Vermont as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting as described in Note I.D.

Change in Basis of Accounting

As described in Note III.C. to the financial statements, in previous years, the Town prepared its financial statements using generally accepted accounting principles. This year, the Town prepared its financial statements using the modified cash basis of accounting. Our opinion is not modified with respect to this matter.

Basis of Accounting

We draw attention to Note I of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information for the General Fund and Highway Fund on Schedules 1 and 2, respectively, the Schedule of Proportionate Share of the Net Pension Liability on Schedule 3 and the Schedule of Contributions on Schedule 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

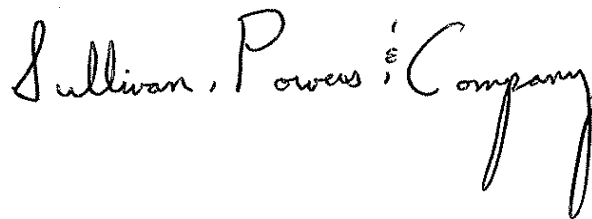
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of South Hero, Vermont's basic financial statements. The combining fund financial statements are presented for the purposes of additional analysis and are not a required part of the basic financial statements. These schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no 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 February 7, 2018 on our consideration of the Town of South Hero, Vermont's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Town of South Hero, Vermont's internal control over financial reporting and compliance.

February 7, 2018
Montpelier, Vermont
VT Lic. #92-000180

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

TOWN OF SOUTH HERO, VERMONT
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2017

<u>ASSETS</u>	<u>Governmental Activities</u>
Cash	\$ 926,683
Investments	13,326
Due From School District	<u>58,065</u>
Total Assets	<u>998,074</u>
<u>LIABILITIES</u>	
Liabilities	<u>0</u>
<u>NET POSITION</u>	
Restricted:	
Highway and Streets	562,199
Library	19,210
Cemetery	50,933
Other	12,422
Unrestricted	<u>353,310</u>
Total Net Position	<u><u>\$ 998,074</u></u>

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

TOWN OF SOUTH HERO, VERMONT
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2017

	Program Receipts				Net (Disbursements) Receipts and Changes in Net Position
Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants/Loans and Contributions	Governmental Activities	
Functions/Programs:					
Governmental Activities:					
General Government	\$ 596,614	\$ 46,133	\$ 15,987	\$ 0	\$ (534,494)
Highways and Streets	357,383	0	77,513	0	(279,870)
Public Safety	243,073	8,440	0	0	(234,633)
Culture and Recreation	90,667	6,948	0	0	(83,719)
Cemetery	13,186	3,100	0	0	(10,086)
Sanitation	41,475	38,601	0	0	(2,874)
Capital Outlay:					
Highways and Streets	575,011	0	0	205,071	(369,940)
Public Safety	13,492	0	0	0	(13,492)
Debt Service	33,474	0	0	0	(33,474)
Total	\$ 1,964,375	\$ 103,222	\$ 93,500	\$ 205,071	(1,562,582)
General Receipts:					
Property Taxes					1,287,944
Interest and Penalties on Delinquent Taxes					10,559
Unrestricted Investment Earnings					2,104
General State Grants					91,262
Donations					1,900
Other Revenues					10,257
Total General Receipts					1,404,026
Change in Net Position					(158,556)
Net Position - July 1, 2016, As Restated					1,156,630
Net Position - June 30, 2017					\$ 998,074

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

TOWN OF SOUTH HERO, VERMONT
STATEMENT OF MODIFIED CASH BASIS ASSETS, LIABILITIES AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General Fund</u>	<u>Highway Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash	\$ 595,349	\$ 0	\$ 331,334	\$ 926,683
Investments	0	0	13,326	13,326
Due From School District	58,065	0	0	58,065
Due From Other Funds	<u>0</u>	<u>450,489</u>	<u>267,388</u>	<u>717,877</u>
Total Assets	<u>\$ 653,414</u>	<u>\$ 450,489</u>	<u>\$ 612,048</u>	<u>\$ 1,715,951</u>
<u>LIABILITIES</u>				
Due To Other Funds	<u>\$ 649,399</u>	<u>\$ 0</u>	<u>\$ 68,478</u>	<u>\$ 717,877</u>
Total Liabilities	<u>649,399</u>	<u>0</u>	<u>68,478</u>	<u>717,877</u>
<u>FUND BALANCES</u>				
Nonspendable	0	0	19,210	19,210
Restricted	0	450,489	175,065	625,554
Committed	0	0	213,169	213,169
Assigned	0	0	100,372	100,372
Unassigned	<u>4,015</u>	<u>0</u>	<u>35,754</u>	<u>39,769</u>
Total Fund Balances	<u>4,015</u>	<u>450,489</u>	<u>543,570</u>	<u>998,074</u>
Total Liabilities and Fund Balances	<u>\$ 653,414</u>	<u>\$ 450,489</u>	<u>\$ 612,048</u>	<u>\$ 1,715,951</u>

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

TOWN OF SOUTH HERO, VERMONT
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN MODIFIED CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Highway Fund	Non-Major Governmental Funds	Total Governmental Funds
Cash Receipts:				
Property Taxes	\$ 770,464	\$ 479,980	\$ 37,500	\$ 1,287,944
Penalties and Interest on Delinquent Taxes	10,559	0	0	10,559
Intergovernmental	96,828	77,513	215,492	389,833
Permits, Licenses and Fees	53,071	0	50,141	103,212
Investment Income	77	49	1,978	2,104
Donations	1,800	0	100	1,900
Other	4,761	5,506	0	10,267
Total Cash Receipts	937,560	563,048	305,211	1,805,819
Cash Disbursements:				
General Government	557,818	0	38,796	596,614
Highways and Streets	0	357,383	0	357,383
Public Safety	233,073	0	10,000	243,073
Culture & Recreation	90,667	0	0	90,667
Cemetery	0	0	13,186	13,186
Sanitation	3,339	0	38,136	41,475
Capital Outlay:				
Highways and Streets	0	223,689	351,322	575,011
Public Safety	13,492	0	0	13,492
Debt Service:				
Principal	32,036	0	0	32,036
Interest	1,438	0	0	1,438
Total Cash Disbursements	931,863	581,072	451,440	1,964,375
Excess/(Deficiency) of Cash Receipts Over Cash Disbursements	5,697	(18,024)	(146,229)	(158,556)
Other Financing Sources/(Uses):				
Transfers In	60,000	90,000	80,500	230,500
Transfers Out	(80,500)	0	(150,000)	(230,500)
Total Other Financing Sources/(Uses)	(20,500)	90,000	(69,500)	0
Net Change in Fund Balances	(14,803)	71,976	(215,729)	(158,556)
Fund Balances - July 1, 2016, As Restated	18,818	378,513	759,299	1,156,630
Fund Balances - June 30, 2017	\$ 4,015	\$ 450,489	\$ 543,570	\$ 998,074

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

TOWN OF SOUTH HERO, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

The Town of South Hero, Vermont, (herein the "Town") operates under a Selectboard form of government and provides the following services as authorized by State statutes: public safety, highways and streets, cemetery, health and social services, public improvements, planning and zoning, and general administrative services.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note I.D., these financial statements are presented on the modified cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. 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 activity of the Town of South Hero, Vermont. The financial 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 of 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 Town.

B. Basis of Presentation

The accounts of the Town are organized and operated on the basis of fund accounting. A fund is an independent fiscal and accounting entity with a separate set of self-balancing accounts which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, receipts, and disbursements. 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 Town 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 Town as a whole. The focus of the fund financial statements is on reporting on the operating results and financial position of the most significant funds of the Town.

TOWN OF SOUTH HERO, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government, the Town. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of activities between funds. Governmental activities generally are financed through property taxes, intergovernmental receipts, and other nonexchange transactions.

The statement of activities presents a comparison between direct disbursements and program receipts for each function of the Town's governmental activities. Direct disbursements 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. Receipts that are not classified as program receipts, including all property taxes, are presented as general receipts.

Under the terms of grant agreements, the Town 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 Town's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining funds are aggregated and reported as nonmajor funds.

The Town reports on the following major governmental funds:

General Fund – This is the Town's main operating fund. It accounts for all financial resources of the Town except those accounted for in another fund.

Highway Fund – This fund accounts for the maintenance and operation of the Town highways.

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 within the limitations of the modified cash basis of accounting. Equity (i.e., modified cash basis net position) is segregated into restricted and unrestricted net position. Operating statements present increases (i.e., receipts) and decreases (i.e., disbursements) in modified cash basis net position.

TOWN OF SOUTH HERO, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Governmental fund financial statements are reported using the current financial resources measurement focus within the limitations of the modified cash basis of accounting. Their reported fund balances (modified cash basis fund balances) 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., receipts and other financing sources) and decreases (i.e., disbursements and other financing uses) in modified cash basis fund balances.

D. Basis of Accounting

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

The Town's policy is to prepare its financial statements generally on the basis of cash receipts and disbursements; consequently, certain revenue and related assets are recognized when received rather than when earned, and certain expenditures and related liabilities are recognized when paid rather than when the obligation is incurred. The exception to this is that the Town records amounts due from the School District for the overpayment of education taxes as assets.

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

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

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

1. Cash

Cash balances of Town funds are deposited with and invested by the Town Treasurer. The Town considers all short-term investments of ninety (90) days or less to be cash equivalents.

Excess cash of individual funds are shown as due from other funds and excess cash withdrawals are shown as due to other funds.

2. Investments

The Town invests in investments as allowed by State Statute. Investments are reported at fair value.

TOWN OF SOUTH HERO, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

3. 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 in governmental fund financial statements 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 Selectboard's intended use of the resources); and unassigned.

4. Interfund Receivables/Payables

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 to/from other funds". All other outstanding balances between funds are reported as "due from/to other funds."

5. 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 that time. The Town did not have any items that qualified for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, "deferred inflows of resources" represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town did not have any items that qualified for reporting in this category.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The budget for the General Fund is approved at the annual Town Meeting in March. Any budget changes require voter approval. There were no budget changes during the year.

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2017, expenditures in the General Fund and Highway Fund exceeded appropriations by \$45,788 and \$71,052, respectively. These over-expenditures were funded by excess revenues and available fund balance.

TOWN OF SOUTH HERO, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

C. Restatement of Net Position

In previous years, the Town prepared its financial statements using generally accepted accounting principles. This year, however, the Town prepared its financial statements using the modified cash basis of accounting. Management believes the modified cash basis provides the information needed by the primary users of the financial statements. As a result, beginning net position for the Governmental Activities has been restated from \$2,865,399 to \$1,156,630 and the beginning fund balance for the General Fund have been restated from \$63,093 to \$18,818. The effect on the Statement of Activities and the Statement of Revenues, Expenditures and Changes in Modified Cash Basis Fund Balances for the year ended June 30, 2016 has not been determined.

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

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

Cash:		
Deposits with Financial Institutions		\$926,683
Investments:		
Mutual Funds – Mixed Holdings		<u>13,326</u>
Total Cash and Investments		<u>\$940,009</u>

Custodial Credit Risk

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

	<u>Book Balance</u>	<u>Bank Balance</u>
FDIC Insured	\$558,056	\$558,056
Uninsured, Uncollateralized	<u>368,627</u>	<u>429,964</u>
Total	<u>\$926,683</u>	<u>\$988,020</u>

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

TOWN OF SOUTH HERO, VERMONT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

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 Town does not have any policy to limit the exposure to interest rate risk. The Town's mutual funds are not subject to interest rate risk disclosure.

Credit Risk

Generally, credit risk is the risk an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Town does not have any policy to limit the exposure to credit risk. The Town's mutual funds are open-ended and are, therefore, not subject to credit risk disclosure.

Concentration of Credit Risk

Concentration of credit risk is the risk that a large percentage of the Town's investments are held within one security. The Town does not have any limitations on the amount that can be invested in any one issuer. There are no investments in any one issuer that represent more than 5% of total investments.

B. Interfund Balances and Activity

Interfund balances as of June 30, 2017 are as follows:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 0	\$649,399
Highway Fund	450,489	0
Non-Major Governmental Funds	<u>267,388</u>	<u>68,478</u>
Total	<u>\$717,877</u>	<u>\$717,877</u>

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

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Fire Department Equipment Replacement Fund	\$ 50,000	Fund Capital Reserve
General Fund	Rescue Department Equipment Replacement Fund	30,500	Annual Funding
Judicial Fines Fund	General Fund	60,000	Tax Subsidy
Highway Equipment Replacement Fund	Highway Fund	<u>90,000</u>	Fund Capital Purchases
Total Transfers		<u>\$230,500</u>	

TOWN OF SOUTH HERO, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

C. Fund Balances

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

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 Selectboard'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. The Town did not adopt all the provisions of GASB Statement No. 54 and, as a result, has reported the Judicial Fines Fund and the Landfill Fund as Special Revenue Funds rather than being combined with the General Fund.

Amounts constrained to stabilization (rainy-day funds) 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. Governments are required to disclose in the notes key information about their stabilization arrangements, including the authority by which they were established, provisions for additions to stabilization amount and circumstances under which those amounts may be spent. The Town does not have any stabilization arrangements.

Some governments create stabilization-like arrangements by establishing formal minimum fund balance policies. The Town 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 Town's policy to first consider restricted amounts to have been spent, followed by committed, assigned, and finally unassigned amounts.

The purpose for each major special revenue fund, including which specific revenues and other resources are authorized to be reported in each, are described in the following section.

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

Permanent Fund

Nonspendable Cemetery Fund by Bequest	<u>\$19,210</u>
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TOWN OF SOUTH HERO, VERMONT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

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

Major Funds

Highway Fund:

Restricted for Highway Expenditures by Statute (Source of Revenue is Highway Property Taxes and State Highway Aid)	<u>\$450,489</u>
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Non-Major Funds

Special Revenue Funds:

Restricted for Cemetery Expenditures by Bequest (Source of Revenue is Donations)	7,368
Restricted for Planning Expenditures by Grant Agreement (Source of Revenue is Grant Revenue)	594
Restricted for Listers Education by Statute (Source of Revenue is State Payments)	2,960
Restricted for Broadband Expenditures by Grant Agreement (Source of Revenue is Grant Revenue)	<u>1,500</u>

Total Special Revenue Funds	<u>12,422</u>
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Capital Project Funds:

Restricted for Highway Equipment by Statute (Source of Revenue is Highway Property Taxes)	109
Restricted for South Street Expenditures by Grant Agreement (Source of Revenue is Grant Revenue)	<u>111,601</u>

Total Capital Projects Fund	<u>111,710</u>
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Permanent Fund:

Restricted for Cemetery Expenditures by Bequest	<u>50,933</u>
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Total Restricted Fund Balances	<u>\$625,554</u>
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The fund balances in the following funds are committed as follows:

Non-Major Funds

Capital Project Funds:

Committed for Fire Department Equipment by the Voters	\$192,641
Committed for Rescue Department Equipment by the Voters	<u>20,528</u>

Total Committed Fund Balances	<u>\$213,169</u>
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TOWN OF SOUTH HERO, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

Non-Major Funds

Special Revenue Funds:

Assigned for Fishing Pier Expenses	\$ 1,239
Assigned for Reappraisal Expenses	<u>99,133</u>
Total Assigned Fund Balances	<u>\$100,372</u>

The unassigned deficit of \$8,478 in the Park and Ride Grant Fund will be funded by future transfers from the General Fund.

D. Net Position

The restricted net position in the Governmental Activities consists of the nonspendable and restricted fund balances of \$644,764.

IV. OTHER INFORMATION

A. PENSION PLAN

Defined Benefit Plan

Plan Description

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

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

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

TOWN OF SOUTH HERO, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

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

As of June 30, 2016, the measurement date selected by the State of Vermont, VMERS was funded at 80.95% and had a plan fiduciary net position of \$547,015,114 and a total pension liability of \$675,711,281 resulting in a net position liability of \$128,696,167. As of June 30, 2017, the Town's proportionate share of this was 0.0565% resulting in a net pension liability of \$72,661. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating municipalities, actuarially determined. As of June 30, 2016, the Town's proportion of 0.0565% was an decrease of 0.0115 from its proportion measured as of June 30, 2015.

Summary of System Provisions

Membership: Full time employees of participating municipalities. The Town elected coverage under Group B provisions.

Creditable Service: Service as a member plus purchased service.

Average Final Compensation (AFC): Average annual compensation during highest three (3) consecutive years.

Service Retirement Allowance:

Eligibility – The earlier of age 62 with five (5) years of service or age 55 with thirty (30) years of service.

Amount – 1.7% of AFC times service as a Group B member plus percentage earned as a Group A member times AFC.

Maximum benefit is 60% of AFC. 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.

Amount – Normal allowance based on service and AFC at early retirement, reduced by 6% for each year commencement precedes normal retirement age.

Vested Retirement Allowance:

Eligibility – Five (5) years of service.

TOWN OF SOUTH HERO, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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 – 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: 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 3%.

Member Contributions: 4.875%

Employer Contributions: 5.50%

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

Significant Actuarial Assumptions and Methods

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

Interest Rate: 7.95% per annum.

Salary increases: 5% per year.

Deaths: RP-2000 Tables for Employees and Healthy Annuitants projected 10 years from the valuation date with Scale BB with a 60% Blue collar and 40% White collar adjustment. The post-retirement mortality assumption was chosen to recognize improved longevity experience after the valuation date.

Spouse’s Age: Husbands are assumed to be three years older than their wives.

TOWN OF SOUTH HERO, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Cost-of-Living Adjustments to Benefits of Terminated Vested and Retired Participants: Assumed to occur at the rate of 1.8% per annum.

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

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

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

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

Long-term Expected Rate of Return:

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

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

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

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

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

TOWN OF SOUTH HERO, VERMONT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

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

<u>1% Decrease (6.95%)</u>	<u>Discount Rate (7.95%)</u>	<u>1% Increase (8.95%)</u>
\$120,625	\$72,661	\$32,502

Defined Contribution Plan

Employees in Group DC, a defined contribution plan, contribute 5% of their gross salary and the Town contributes 5.125%.

The Town pays all costs accrued each year for the plan. The premise of Plan DC is to allow employees to have a choice in investing their retirement assets. Each employee will receive the value of their account upon retirement.

Total covered payroll for Group DC was \$108,496. Pension expense for the years ended June 30, 2017, 2016 and 2015 were \$5,560, \$4,672 and \$4,175, respectively.

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.

B. PROPERTY TAXES

The Town is responsible for assessing and collecting its own property taxes, as well as education property taxes for the State of Vermont. Property taxes are assessed based on property valuations as of April 1, the voter approved budgets and the State education property tax liability. Property taxes are collected three (3) times per year. During the tax year ended June 30, 2017, taxes became due and payable on September 29, 2016, January 31, 2017 and April 27, 2017. The Town assesses an 8% penalty on delinquent taxes and interest is assessed at 1% per month. Unpaid taxes become an enforceable lien on the property and such properties are subject to tax sale. The tax rates for 2017 were as follows:

	<u>Residential</u>	<u>Non-Residential</u>
Education	1.5230	1.5215
Cemetery	.0031	.0031
Library	.0153	.0153
Rescue	.0095	.0095
Local Agreement	.0007	.0007
Highway	.1005	.1005
Municipal	<u>.1725</u>	<u>.1725</u>
Total	<u>1.8246</u>	<u>1.8231</u>

TOWN OF SOUTH HERO, VERMONT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

C. RISK MANAGEMENT

The Town 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 Town maintains insurance coverage through the Vermont League of Cities and Towns Property and Casualty Intermunicipal Fund, Inc. covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this coverage in any of the past three fiscal years. The Town 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 ratesetting 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.

The Town is also a member of the Vermont League of Cities and Towns Employment Resource and Benefits Trust. The Trust is a nonprofit corporation formed to provide unemployment coverage and other employment benefits for Vermont municipalities and is owned by the participating members. The agreement does not permit the Trust to make additional assessments to its members. The Town has only elected unemployment coverage with the Trust.

D. CONTINGENT LIABILITIES

The Town participates in a number of federally assisted and state grant programs that are subject to audits by the grantors or their representatives. Accordingly, compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

E. CAPITAL LEASE

The Town enters into lease agreements as the lessee for the purpose of financing the acquisition of major pieces of equipment. These lease agreements qualify as capital lease obligations for accounting purposes (even though they may include clauses that allow for cancellation of the lease in the event the Town does not appropriate funds in future years) and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date of the leases.

The lease activity is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Lease Payable, Municipal Services Group Inc., Pumper Truck, Annual Principal and Interest Payments of \$33,474, Interest at 4.49%, Due and Paid.	\$ 32,036	\$ 0	\$ 32,036	\$ 0
Total	<u>\$ 32,036</u>	<u>\$ 0</u>	<u>\$ 32,036</u>	<u>\$ 0</u>

TOWN OF SOUTH HERO, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

F. RELATED PARTY TRANSACTIONS

The Town Treasurer is the wife of the Road Foreman.

G. SUBSEQUENT EVENTS

On July 20, 2017, the Town contracted with MKN, LLC for the purchase of land and a fire department facility, per Town specifications, at a purchase price not to exceed \$1,290,687.

On August 2, 2017, the Vermont Municipal Bond Bank approved a bond in the amount of \$1,300,000 to finance the purchase of the fire department facility. Annual principal payments of \$130,000 and interest at 2.64% are due and payable beginning November 1, 2018.

TOWN OF SOUTH HERO, VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN MODIFIED CASH BASIS FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Cash Receipts:			
Property Taxes	\$ 788,545	\$ 770,464	\$ (18,081)
Interest on Delinquent Taxes	6,000	10,559	4,559
Current Use	70,000	65,208	(4,792)
Payment in Lieu of Taxes	0	26,054	26,054
Town Clerk's Fees	20,000	23,616	3,616
Records Restoration	3,450	4,905	1,455
Photocopy	300	375	75
Permits	15,000	13,488	(1,512)
Dog Licenses	1,450	1,994	544
Beverage Licenses	580	695	115
Legal Advertisements	1,200	1,050	(150)
Recreation Income	0	6,948	6,948
Donations	0	1,800	1,800
Investment Income	50	77	27
Municipal Planning Grant	0	4,340	4,340
Equalization Grant	0	1,226	1,226
Insurance Proceeds	0	557	557
Transfer from Judicial Fines Fund	60,000	60,000	0
Miscellaneous	0	4,204	4,204
	<u>966,575</u>	<u>997,560</u>	<u>30,985</u>
Cash Disbursements:			
Town Officers Salaries:			
Selectmen	5,300	4,900	400
Town Clerk and Treasurer	38,388	41,928	(3,540)
Assistant Town Clerk and Treasurer	27,726	25,645	2,081
Listers	14,000	10,075	3,925
Board's Secretary	2,400	0	2,400
Administrative Officer	35,000	36,394	(1,394)
Mowing Town Properties	0	3,560	(3,560)
	<u>122,814</u>	<u>122,502</u>	<u>312</u>

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

TOWN OF SOUTH HERO, VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN MODIFIED CASH BASIS FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
General Town Expense:			
Election Expense	\$ 3,200	\$ 1,270	\$ 1,930
Legal Advertisements	1,500	735	765
Legal Fees - General	10,000	14,382	(4,382)
Legal Fees - Board of Abatement	1,500	91	1,409
Legal Fees - Planning Commission	500	0	500
Postage	5,000	2,057	2,943
Vermont League of Cities and Towns	2,744	2,744	0
Island Arts	1,950	1,950	0
Northwest Regional Planning and Development	1,631	1,658	(27)
Visiting Nurses Association	8,645	8,645	0
Economic Development	1,500	1,500	0
Green-Up Vermont	0	2,107	(2,107)
Insurance	9,106	24,223	(15,117)
Printing and Copier Lease	3,000	3,844	(844)
Town Report	3,000	3,621	(621)
Office Equipment	600	163	437
Supplies	4,500	5,280	(780)
School and Ministerial Lots	115,067	115,067	0
County Tax	136,877	137,398	(521)
Social Security and Medicare	11,500	11,291	209
Unemployment Compensation	1,692	268	1,424
Land Record Books	1,500	600	900
Office Furniture and Equipment	500	0	500
Health and Dental Insurance	46,600	35,962	10,638
Dog Tags	1,500	518	982
Law Enforcement	118,976	118,638	338
Mapping - Listers	4,000	2,280	1,720
I-Car Fire Works	500	0	500
Computer Programming	200	231	(31)
C.A.R.I.N.G	1,500	0	1,500
Small Gifts and Recognitions	0	53	(53)
Court Diversion	250	0	250
Granny's Attic Maintenance	2,000	0	2,000
Bi-Centennial Memorial Building	2,000	2,000	0
Telephone and Internet	2,600	2,944	(344)
Champlain Valley Agency on Aging	1,000	0	1,000
Workers Compensation	1,310	2,315	(1,005)
Delinquent Tax Collector	0	1,648	(1,648)
Micro Film Records	750	480	270
Bond Work	0	518	(518)
Champlain Island Parent Child	1,000	1,000	0
Retirement	5,500	5,426	74
Zoning	4,000	17,830	(13,830)
Generator Fuel	3,000	561	2,439
Town Audit	5,400	5,200	200
Life Insurance	950	771	179
AOL Service Fee	0	549	(549)
Bank Service Charge	0	29	(29)
Miscellaneous	682	328	354
Total General Town Expense	529,230	538,175	(8,945)

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

TOWN OF SOUTH HERO, VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN MODIFIED CASH BASIS FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Town Office Building:			
Fuel	\$ 2,500	\$ 2,566	\$ (66)
Electricity	3,600	3,318	282
Repairs and Supplies	1,000	2,563	(1,563)
Water Rent	540	570	(30)
Maintenance and Contracted Services	<u>4,500</u>	<u>2,332</u>	<u>2,168</u>
Total Town Office Building	<u>12,140</u>	<u>11,349</u>	<u>791</u>
Town Officer Expense:			
Meeting/Workshop	200	120	80
Mileage	1,500	1,090	410
Health Officer	750	0	750
Planning Commission	300	0	300
Board of Adjustment	300	2,309	(2,009)
Dues	100	150	(50)
Selectmen Budget	<u>2,000</u>	<u>0</u>	<u>2,000</u>
Total Town Officer Expense	<u>5,150</u>	<u>3,669</u>	<u>1,481</u>
Administrative Officer Expense:			
Equipment	1,000	658	342
Computer Service	<u>0</u>	<u>103</u>	<u>(103)</u>
Total Administrative Officer Expense	<u>1,000</u>	<u>761</u>	<u>239</u>
Family Recreation Activities			
Community Programs	8,100	16,192	(8,092)
Recreation Paths	2,000	0	2,000
White's Beach	<u>900</u>	<u>1,140</u>	<u>(240)</u>
Total Family Recreation Activities	<u>11,000</u>	<u>17,332</u>	<u>(6,332)</u>
South Hero Library Appropriation	<u>73,335</u>	<u>73,335</u>	<u>0</u>

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

TOWN OF SOUTH HERO, VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN MODIFIED CASH BASIS FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Solid Waste:			
Monitoring	\$ 600	\$ 1,475	\$ (875)
Solid Waste	1,632	1,632	0
Green-Up	0	232	(232)
Total Solid Waste	<u>2,232</u>	<u>3,339</u>	<u>(1,107)</u>
Fire Department:			
Building Fuel	7,500	5,030	2,470
Electricity	3,300	3,071	229
Building Supplies and Repairs	4,000	4,684	(684)
Insurance	16,500	9,295	7,205
Equipment	10,000	16,455	(6,455)
Transfer to Rescue Department Equipment Replacement Fund	25,000	17,095	7,905
Workers Compensation	1,200	1,472	(272)
Telephone and Internet	1,700	2,115	(415)
Vehicle Fuel	4,000	2,533	1,467
Truck Repair and Maintenance	5,000	1,337	3,663
Pumper Truck Lease	33,474	33,474	0
Transfer to Fire Department Equipment Replacement Fund	0	50,000	(50,000)
Training	3,000	3,381	(381)
Dry Hydrant	2,000	3,800	(1,800)
Total Fire Department	<u>116,674</u>	<u>153,742</u>	<u>(37,068)</u>
Rescue Department:			
Oxygen	400	503	(103)
Supplies	6,000	3,933	2,067
Vehicle Fuel	2,400	1,404	996
Utilities	0	2,547	(2,547)
Phone	1,200	547	653
Communications	500	6,789	(6,289)
Ambulance Maintenance	1,500	1,201	299
Mutual Aid and Medical Support	1,000	600	400
Education and Training	2,000	650	1,350
Operating Expenses	0	1,169	(1,169)
Transfer To Equipment Replacement Fund	30,500	30,500	0
Ambulance Deposit	0	13,492	(13,492)
Workers' Compensation	7,850	0	7,850
Utilities	3,150	0	3,150
Total Rescue Department	<u>56,500</u>	<u>63,335</u>	<u>(6,835)</u>

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

TOWN OF SOUTH HERO, VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN MODIFIED CASH BASIS FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
GIC Emergency Communication	\$ <u>36,500</u>	\$ <u>24,824</u>	\$ <u>11,676</u>
Total Cash Disbursements	<u>966,575</u>	<u>1,012,363</u>	<u>(45,788)</u>
Excess/(Deficiency) of Cash Receipts Over Cash Disbursements	\$ <u><u>0</u></u>	(14,803)	\$ <u><u>(14,803)</u></u>
Fund Balance - July 1, 2016, As Restated		<u>18,818</u>	
Fund Balance - June 30, 2017		\$ <u><u>4,015</u></u>	

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

TOWN OF SOUTH HERO, VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN MODIFIED CASH BASIS FUND BALANCE
BUDGET AND ACTUAL
HIGHWAY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget	Actual	Variance Favorable/ (Unfavorable)
Cash Receipts:			
Property Taxes	\$ 479,980	\$ 479,980	\$ 0
State Aid	30,000	77,513	47,513
Investment Income	40	49	9
Transfer From Equipment Replacement Fund	0	90,000	90,000
Miscellaneous Reimbursements	0	5,506	5,506
	<u>510,020</u>	<u>653,048</u>	<u>143,028</u>
Cash Disbursements:			
Labor	133,000	143,007	(10,007)
Gravel and Stone	34,000	34,298	(298)
Equipment Rental	970	0	970
Small Hand Tools	970	991	(21)
Fuel and Oil	24,250	14,756	9,494
Materials and Supplies	10,000	14,411	(4,411)
Repair and Maintenance	15,000	10,760	4,240
Resurfacing	110,000	1,915	108,085
New Road Construction	10,000	14,269	(4,269)
Contracted Services	500	0	500
Cold Patch and Crack Filling	500	770	(270)
Road Commissioner	1,200	1,200	0
Culverts	1,500	1,489	11
Chloride	12,000	8,634	3,366
Heating Oil	5,000	3,563	1,437
Salt	19,000	12,932	6,068
Grader Blades	500	0	500
Signs	1,500	0	1,500
Truck Plow Parts	2,000	785	1,215
Equipment Purchases	2,000	958	1,042
Social Security	10,175	11,032	(857)
Equipment Insurance	10,903	110	10,793
Telephone	800	2,458	(1,658)
Truck	35,000	223,689	(188,689)
Winter Sand	7,500	13,875	(6,375)
Town Garage Improvement	1,000	3,387	(2,387)
Electricity	2,500	2,248	252
Septic System	1,500	0	1,500
Workman's Compensation	7,848	10,165	(2,317)
Tires	4,000	2,677	1,323
Health and Dental	33,789	32,053	1,736

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

TOWN OF SOUTH HERO, VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN MODIFIED CASH BASIS FUND BALANCE
BUDGET AND ACTUAL
HIGHWAY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget	Actual	Variance Favorable/ (Unfavorable)
Cash Disbursements/(Cont'd):			
Retirement	\$ 7,315	\$ 7,743	\$ (428)
Tree Warden	2,500	3,250	(750)
Dumpster Expenses	1,300	2,148	(848)
Miscellaneous	0	1,499	(1,499)
Total Cash Disbursements	510,020	581,072	(71,052)
Excess of Cash Receipts Over Cash Disbursements	\$ 0	71,976	\$ 71,976
Fund Balance - July 1, 2016		378,513	
Fund Balance - June 30, 2017		\$ 450,489	

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

TOWN OF SOUTH HERO, VERMONT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 VMERS DEFINED BENEFIT PLAN
 JUNE 30, 2017

	2017	2016	2015
Total Plan Net Pension Liability	\$ 128,696,167	\$ 77,095,810	\$ 9,126,613
Town's Proportion of the Net Pension Liability	0.0565%	0.0680%	0.0643%
Town's Proportionate Share of the Net Pension Liability	\$ 72,661	\$ 52,417	\$ 5,867
Town's Covered Employee Payroll	\$ 157,125	\$ 162,491	\$ 177,000 *
Town's Proportionate Share of the Net Pension Liability as a Percentage of Town's Covered Employee Payroll	46.2441%	32.2587%	3.3150%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.95%	87.42%	98.32%

Notes to Schedule

Benefit Changes: None.

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

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

* Total covered payroll for fiscal year 2015 was rounded to the nearest thousand dollars.

TOWN OF SOUTH HERO, VERMONT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS
 VMERS DEFINED BENEFIT PLAN
 FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution (Actuarially Determined)	\$ 8,642	\$ 8,937	\$ 5,000 *
Contributions in Relation to the Actuarially Determined Contributions	<u>8,642</u>	<u>8,937</u>	<u>5,000 *</u>
Contribution Excess/(Deficiency)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Town's Covered Employee Payroll	\$ 157,125	\$ 162,491	\$ 177,000
Contributions as a Percentage of Town's Covered Employee Payroll	5.500%	5.500%	2.825%

Notes to Schedule

Valuation Date: June 30, 2016

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

* Fiscal year 2015 required and actual contributions were rounded to the nearest thousand dollars.

TOWN OF SOUTH HERO, VERMONT
 COMBINING SCHEDULE OF MODIFIED CASH
 BASIS ASSETS, LIABILITIES AND FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2017

	Special Revenue Funds	Capital Projects Funds	Permanent Fund Cemetery Trust Fund	Total
<u>ASSETS</u>				
Cash	\$ 1,239	\$ 273,278	\$ 56,817	\$ 331,334
Investments	0	0	13,326	13,326
Due From Other Funds	<u>155,787</u>	<u>111,601</u>	<u>0</u>	<u>267,388</u>
Total Assets	<u>\$ 157,026</u>	<u>\$ 384,879</u>	<u>\$ 70,143</u>	<u>\$ 612,048</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Due to Other Funds	<u>\$ 8,478</u>	<u>\$ 60,000</u>	<u>\$ 0</u>	<u>\$ 68,478</u>
Fund Balances:				
Nonspendable	0	0	19,210	19,210
Restricted	12,422	111,710	50,933	175,065
Committed	0	213,169	0	213,169
Assigned	100,372	0	0	100,372
Unassigned	<u>35,754</u>	<u>0</u>	<u>0</u>	<u>35,754</u>
Total Fund Balances	<u>148,548</u>	<u>324,879</u>	<u>70,143</u>	<u>543,570</u>
Total Liabilities and Fund Balances	<u>\$ 157,026</u>	<u>\$ 384,879</u>	<u>\$ 70,143</u>	<u>\$ 612,048</u>

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TOWN OF SOUTH HERO, VERMONT
 COMBINING SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
 CHANGES IN MODIFIED CASH BASIS FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	Special Revenue Funds	Capital Projects Funds	Permanent Fund Cemetery Trust Fund	Total
Cash Receipts:				
Property Taxes	\$ 37,500	\$ 0	\$ 0	\$ 37,500
Intergovernmental	10,421	205,071	0	215,492
Donations	100	0	0	100
Investment Income	128	477	1,373	1,978
Permits, Licenses & Fees	50,141	0	0	50,141
	<u>98,290</u>	<u>205,548</u>	<u>1,373</u>	<u>305,211</u>
Total Cash Receipts				
Cash Disbursements:				
General Government	38,796	0	0	38,796
Public Safety	0	10,000	0	10,000
Cemetery	13,186	0	0	13,186
Sanitation	38,136	0	0	38,136
Capital Outlay:				
Highways and Streets	0	351,322	0	351,322
	<u>90,118</u>	<u>361,322</u>	<u>0</u>	<u>451,440</u>
Total Cash Disbursements				
Excess/(Deficiency) of Cash Receipts Over Cash Disbursements				
	<u>8,172</u>	<u>(155,774)</u>	<u>1,373</u>	<u>(146,229)</u>
Other Financing Sources/(Uses):				
Transfers In	0	80,500	0	80,500
Transfer Out	(60,000)	(90,000)	0	(150,000)
	<u>(60,000)</u>	<u>(9,500)</u>	<u>0</u>	<u>(69,500)</u>
Total Other Financing Sources/(Uses)				
Net Change in Fund Balances	(51,828)	(165,274)	1,373	(215,729)
Fund Balances - July 1, 2016	<u>200,376</u>	<u>490,153</u>	<u>68,770</u>	<u>759,299</u>
Fund Balances - June 30, 2017	<u>\$ 148,548</u>	<u>\$ 324,879</u>	<u>\$ 70,143</u>	<u>\$ 543,570</u>

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TOWN OF SOUTH HERO, VERMONT
 COMBINING SCHEDULE OF MODIFIED CASH BASIS ASSETS,
 LIABILITIES AND FUND BALANCES
 NON-MAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2017

	Cemetery Fund	Landfill Fund	Judicial Fines Fund	Planning Fund	Fishing Pier Fund	Reappraisal Fund	Listers Education Fund	Broadband Grant Fund	Park and Ride Grant Fund	Total
ASSETS										
Cash	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,239	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,239
Due From Other Funds	<u>7,368</u>	<u>20,094</u>	<u>24,138</u>	<u>594</u>	<u>0</u>	<u>99,133</u>	<u>2,960</u>	<u>1,500</u>	<u>0</u>	<u>155,787</u>
Total Assets	<u>\$ 7,368</u>	<u>\$ 20,094</u>	<u>\$ 24,138</u>	<u>\$ 594</u>	<u>\$ 1,239</u>	<u>\$ 99,133</u>	<u>\$ 2,960</u>	<u>\$ 1,500</u>	<u>\$ 0</u>	<u>\$ 157,026</u>
LIABILITIES AND FUND BALANCES										
LIABILITIES										
Due to Other Funds	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,478</u>	<u>\$ 8,478</u>
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,478</u>	<u>\$ 8,478</u>
Fund Balances/(Deficit):										
Restricted	7,368	0	0	594	0	0	2,960	1,500	0	12,422
Assigned	0	0	0	0	1,239	99,133	0	0	0	100,372
Unassigned/(Deficit)	<u>0</u>	<u>20,094</u>	<u>24,138</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(8,478)</u>	<u>35,754</u>
Total Fund Balances/ (Deficit)	<u>7,368</u>	<u>20,094</u>	<u>24,138</u>	<u>594</u>	<u>1,239</u>	<u>99,133</u>	<u>2,960</u>	<u>1,500</u>	<u>(8,478)</u>	<u>148,548</u>
Total Liabilities and Fund Balances	<u>\$ 7,368</u>	<u>\$ 20,094</u>	<u>\$ 24,138</u>	<u>\$ 594</u>	<u>\$ 1,239</u>	<u>\$ 99,133</u>	<u>\$ 2,960</u>	<u>\$ 1,500</u>	<u>\$ 0</u>	<u>\$ 157,026</u>

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TOWN OF SOUTH HERO, VERMONT
 COMBINING SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
 CHANGES IN MODIFIED CASH BASIS FUND BALANCES
 NON-MAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	Cemetery Fund	Landfill Fund	Judicial Fines Fund	Planning Fund	Fishing Pier Fund	Reappraisal Fund	Listers Education Fund	Broadband Grant Fund	Park and Ride Grant Fund	Total
Cash Receipts:										
Property Taxes	\$ 15,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 22,500	\$ 0	\$ 0	\$ 0	\$ 37,500
Intergovernmental	0	0	0	0	0	10,421	0	0	0	10,421
Donations	100	0	0	0	0	0	0	0	0	100
Investment Income	109	2	8	0	0	9	0	0	0	128
Permits, Licenses & Fees	<u>3,100</u>	<u>38,601</u>	<u>8,440</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>50,141</u>
Total Cash Receipts	<u>18,309</u>	<u>38,603</u>	<u>8,448</u>	<u>0</u>	<u>0</u>	<u>32,930</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>98,290</u>
Cash Disbursements:										
General Government	0	0	0	0	0	22,500	0	0	16,296	38,796
Cemetery	13,186	0	0	0	0	0	0	0	0	13,186
Sanitation	<u>0</u>	<u>38,136</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>38,136</u>
Total Cash Disbursements	<u>13,186</u>	<u>38,136</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>22,500</u>	<u>0</u>	<u>0</u>	<u>16,296</u>	<u>90,118</u>
Excess/(Deficiency) of Cash Receipts Over Cash Disbursements	<u>5,123</u>	<u>467</u>	<u>8,448</u>	<u>0</u>	<u>0</u>	<u>10,430</u>	<u>0</u>	<u>0</u>	<u>(16,296)</u>	<u>8,172</u>
Other Financing Sources/(Uses):										
Transfers Out	<u>0</u>	<u>0</u>	<u>(60,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(60,000)</u>
Total Other Financing Sources/(Uses)	<u>0</u>	<u>0</u>	<u>(60,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(60,000)</u>
Net Change in Fund Balances	5,123	467	(51,552)	0	0	10,430	0	0	(16,296)	(51,828)
Fund Balances - July 1, 2016	<u>2,245</u>	<u>19,627</u>	<u>75,690</u>	<u>594</u>	<u>1,239</u>	<u>88,703</u>	<u>2,960</u>	<u>1,500</u>	<u>7,818</u>	<u>200,376</u>
Fund Balances/(Deficit) - June 30, 2017	<u>\$ 7,368</u>	<u>\$ 20,094</u>	<u>\$ 24,138</u>	<u>\$ 594</u>	<u>\$ 1,239</u>	<u>\$ 99,133</u>	<u>\$ 2,960</u>	<u>\$ 1,500</u>	<u>\$ (8,478)</u>	<u>\$ 148,548</u>

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TOWN OF SOUTH HERO, VERMONT
 COMBINING SCHEDULE OF MODIFIED CASH BASIS ASSETS,
 LIABILITIES AND FUND BALANCES
 NON-MAJOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2017

	<u>Highway Equipment Replacement Fund</u>	<u>Fire Department Equipment Replacement Fund</u>	<u>Rescue Department Equipment Replacement Fund</u>	<u>South Street Fund</u>	<u>Total</u>
<u>ASSETS</u>					
Cash	\$ 60,109	\$ 192,641	\$ 20,528	\$ 0	\$ 273,278
Due From Other Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>111,601</u>	<u>111,601</u>
Total Assets	<u>\$ 60,109</u>	<u>\$ 192,641</u>	<u>\$ 20,528</u>	<u>\$ 111,601</u>	<u>\$ 384,879</u>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES</u>					
Due to Other Funds	<u>\$ 60,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 60,000</u>
Total Liabilities	<u>60,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>60,000</u>
Fund Balances:					
Restricted	109	0	0	111,601	111,710
Committed	<u>0</u>	<u>192,641</u>	<u>20,528</u>	<u>0</u>	<u>213,169</u>
Total Fund Balances	<u>109</u>	<u>192,641</u>	<u>20,528</u>	<u>111,601</u>	<u>324,879</u>
Total Liabilities and Fund Balances	<u>\$ 60,109</u>	<u>\$ 192,641</u>	<u>\$ 20,528</u>	<u>\$ 111,601</u>	<u>\$ 384,879</u>

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TOWN OF SOUTH HERO, VERMONT
 COMBINING SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
 CHANGES IN MODIFIED CASH BASIS FUND BALANCES
 NON-MAJOR CAPITAL PROJECTS FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	Highway Equipment Replacement Fund	Fire Department Equipment Replacement Fund	Rescue Department Equipment Replacement Fund	South Street Fund	Total
Cash Receipts:					
Intergovernmental	\$ 0	\$ 0	\$ 0	\$ 205,071	\$ 205,071
Investment Income	<u>109</u>	<u>313</u>	<u>28</u>	<u>27</u>	<u>477</u>
Total Cash Receipts	<u>109</u>	<u>313</u>	<u>28</u>	<u>205,098</u>	<u>205,548</u>
Cash Disbursements:					
Public Safety	0	0	10,000	0	10,000
Capital Outlay:					
Highways and Streets	<u>0</u>	<u>0</u>	<u>0</u>	<u>351,322</u>	<u>351,322</u>
Total Cash Disbursements	<u>0</u>	<u>0</u>	<u>10,000</u>	<u>351,322</u>	<u>361,322</u>
Excess/(Deficiency) of Cash Receipts Over Cash Disbursements	<u>109</u>	<u>313</u>	<u>(9,972)</u>	<u>(146,224)</u>	<u>(155,774)</u>
Other Financing Sources/(Uses):					
Transfers In	0	50,000	30,500	0	80,500
Transfers Out	<u>(90,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(90,000)</u>
Total Other Financing Sources/(Uses)	<u>(90,000)</u>	<u>50,000</u>	<u>30,500</u>	<u>0</u>	<u>(9,500)</u>
Net Change in Fund Balances	(89,891)	50,313	20,528	(146,224)	(165,274)
Fund Balances - July 1, 2016	<u>90,000</u>	<u>142,328</u>	<u>0</u>	<u>257,825</u>	<u>490,153</u>
Fund Balances - June 30, 2017	<u>\$ 109</u>	<u>\$ 192,641</u>	<u>\$ 20,528</u>	<u>\$ 111,601</u>	<u>\$ 324,879</u>

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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"

Selectboard
Town of South Hero, Vermont
P.O. Box 175
South Hero, Vermont 05486

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 the Town of South Hero, Vermont, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of South Hero, Vermont's basic financial statements, and have issued our report thereon dated February 7, 2018. The report on the financial statements of the General Fund and aggregate remaining fund information was qualified because the Town did not adopt all provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of South Hero, Vermont'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 Town of South Hero, Vermont's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of South Hero, Vermont'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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as described in the accompanying Schedule of Findings and Deficiencies in Internal Control, we identified certain deficiencies that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town of South Hero, Vermont's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Deficiencies in Internal Control as Items 2017-1 through 2017-4 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Deficiencies in Internal Control as Items 2017-5 and 2017-6 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of South Hero, Vermont'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".

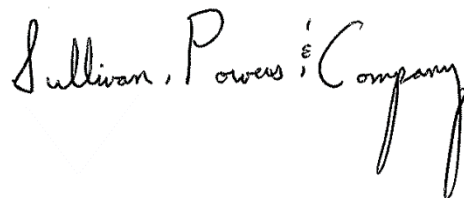
We also noted certain other matters that we reported to the management of the Town of South Hero, Vermont in a separate letter dated February 7, 2018.

Town of South Hero, Vermont's Response to Deficiencies in Internal Control

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



February 7, 2018
Montpelier, Vermont
VT Lic. #92-000180

TOWN OF SOUTH HERO, VERMONT
SCHEDULE OF FINDINGS AND DEFICIENCIES
IN INTERNAL CONTROL
JUNE 30, 2017

Deficiencies in Internal Control:

Material Weaknesses:

2017-1 Incomplete Accounting System

Criteria:

The general ledger is a primary control device in any double entry accounting system. If properly and regularly maintained, the account balances will facilitate prompt and complete financial reporting at the end of any operating period. The individual accounts, particularly the asset and liability accounts, will provide control for reconciliation with other data from internal or external sources.

Condition:

The accounting system currently utilized by the Town does not have the capacity to maintain a double entry accounting model that can provide meaningful and productive financial information to the intended users in a timely manner. Additionally, the software is no longer supported by an external organization that could offer technical support.

Cause:

Unknown

Effect:

The absence of an effective double entry accounting system could lead to material misstatements that will not be prevented, or detected and corrected, on a timely basis. Furthermore, it imposes difficulties when extracting relevant financial information for management, the Selectboard or other intended users.

Recommendation:

We recommend that the Town investigate the implementation of other accounting software that possesses the technical requirements to maintain an effective double entry accounting system that will be supported externally for the foreseeable future.

2017-2 Balance Sheet and Income Statement Reconciliation

Criteria:

Internal controls should be in place to provide for the reconciliation of the modified cash basis balance sheet to the income statement on a regular basis in order to detect and correct errors or omissions in account balances.

TOWN OF SOUTH HERO, VERMONT
SCHEDULE OF FINDINGS AND DEFICIENCIES
IN INTERNAL CONTROL
JUNE 30, 2017

Condition:

The modified cash basis balance sheet was not reconciled to the income statement during or at year end which resulted in various adjustments to revenue and expense accounts.

Cause:

Unknown.

Effect:

The Town's account balances were incorrect.

Recommendation:

We recommend that all balance sheet accounts be reconciled to the income statement in order to detect and correct errors and omissions.

2017-3 Segregation of Duties – Cash

Criteria:

An important factor in developing good internal control procedures is to divide responsibilities so that no individual can both perpetrate and conceal errors or irregularities. One of the most common division of duties is the division between the check signing and bank reconciliation functions.

Condition:

In the Town, the same person that reconciles the bank accounts also collects cash, makes deposits and has check signing authority. Each of those duties are considered incompatible functions for accounting control purposes.

Cause:

Unknown.

Effect:

The Town has inadvertently made its assets susceptible to misappropriation.

Recommendation:

We recommend that someone other than a check signer prepare or review in detail the reconciliations of the bank accounts monthly.

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2017-4 School District Taxes

Criteria:

Internal controls should be in place to ensure the amount paid to the School District for education taxes agrees to the final Act 68 cash flow statement as calculated by the State of Vermont.

Condition:

The Town inadvertently paid the School District education taxes based on the prior year final Act 68 cash flow statement resulting in an overpayment of \$58,065.

Cause:

Unknown.

Effect:

The Town's General Fund fund balance was understated.

Recommendation:

We recommend that the Town implement controls to verify that education taxes paid to the School District are correct.

Significant Deficiencies:

2017-5 Authorization of General Journal Entries

Criteria:

Internal controls should be in place that require appropriate individuals to approve all adjustments to the books of original entry.

Condition:

Internal controls over recording of journal entries are inadequately designed. Journal entries prepared by the Town Treasurer are not reviewed by another individual nor is adequate supporting documentation retained.

Cause:

Unknown.

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Effect:

This one deficiency in internal control structure could allow other working control policies to be circumvented.

Recommendation:

We recommend that the Town consistently ensure that all journal entries are properly supported with documentation as to how and where the amount was derived. We also recommend that all journal entries be reviewed by an appropriate official so as not to circumvent the original approval process.

2017-6 Accounting and Procedures Manual

Criteria:

An accounting and procedures manual should be in place. This manual should define duties and responsibilities for current personnel so as to prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. It will also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees.

Condition:

The Town does not have an accounting and procedures manual in place.

Cause:

Unknown.

Effect:

The Town staff does not have a manual to turn to when questions arise about the scope of their duties and responsibilities.

Recommendation:

We recommend that the Town develop this document for all accounting procedures as soon as possible. Each individual should document their duties and how to perform them. The manual should include examples of forms with descriptions of their use. Once developed, only changes in procedures or forms will require changes in the manual.

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We believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

We also recommend that the Town make sure that there are no jobs related to accounting and finance that only one person knows how to perform. The procedures manual would also be useful in determining whether this situation exists.

TOWN OF SOUTH HERO
PO BOX 175
333 ROUTE 2
SOUTH HERO, VERMONT 05486

January 31, 2018

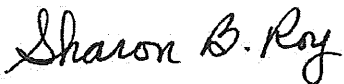
Sullivan, Powers & Company
PO Box 947
Montpelier, VT 05602

Dear Mr. Duplessis,

First I would like to thank you for the job you did for the Town on the Audit. It was a pleasure working with you and your staff. As I have stated before we have always learned something new and how to do things better from an audit.

Thank you for pointing out and explaining the many weaknesses that the Town of South Hero has. I agree with your Deficiencies in Internal Control and will be working with the new Town Treasurer and Select Board to address these issues.

Sincerely,



Sharon B. Roy, Clerk/Treasurer