

**TOWN OF GRAFTON, VERMONT**

**AUDIT REPORT**

**JUNE 30, 2016**

TOWN OF GRAFTON, VERMONT  
 AUDIT REPORT  
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**Sullivan, Powers & Co., P.C.**  
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Independent Auditor's Report

Selectboard  
Town of Grafton, Vermont  
P.O. Box 180  
Grafton, Vermont 05146

***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 Grafton, Vermont, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Grafton, 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 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 Town of Grafton, Vermont'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 of Grafton, Vermont's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Grafton, Vermont, as of June 30, 2016, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

Accounting principles generally accepted in the United States of America require that the Schedule of Proportionate Share of the Net Pension Liability on Schedule 1 and the Schedule of Contributions on Schedule 2 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.

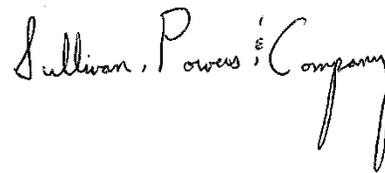
***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Grafton, Vermont's basic financial statements. The combining fund financial statements are presented for 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 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 February 10, 2017 on our consideration of the Town of Grafton, Vermont’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 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 Grafton, Vermont’s internal control over financial reporting and compliance.

February 10, 2017  
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 date and address information.

TOWN OF GRAFTON, VERMONT  
STATEMENT OF NET POSITION  
JUNE 30, 2016

	Governmental Activities
<u>ASSETS</u>	
Cash	\$ 671,751
Investments	1,042,415
Receivables	112,649
Due from Others	3,964
Prepaid Expenses	28,560
Capital Assets:	
Land	196,800
Other Capital Assets, (Net of Accumulated Depreciation)	3,913,361
Total Assets	5,969,500
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Outflows of Resources Related to the Town's Participation in VMERS	40,927
Total Deferred Outflows of Resources	40,927
<u>LIABILITIES</u>	
Accounts Payable	7,231
Accrued Payroll	13,498
Due to Delinquent Tax Collector	7,076
Due to Others	331
Accrued Interest Payable	9,973
Noncurrent Liabilities:	
Due within One Year	53,333
Due in More than One Year	824,150
Total Liabilities	915,592
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Inflows of Resources Related to the Town's Participation in VMERS	1,411
Total Deferred Inflows of Resources	1,411
<u>NET POSITION</u>	
Net Investment in Capital Assets	3,310,161
Restricted for:	
Library Expenses	1,003,396
Cemetery Upkeep Expenses	43,668
Parks Upkeep Expenses	75,302
Records Restoration	17,426
Unrestricted	643,471
Total Net Position	\$ 5,093,424

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

TOWN OF GRAFTON, VERMONT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities	
Functions/Programs:					
Governmental Activities:					
General Government	\$ 591,567	\$ 21,083	\$ 369,126	\$ 0	\$ (201,358)
Cemetery	20,224	0	0	0	(20,224)
Public Works	898,168	0	127,890	140,000	(630,278)
Sanitation	8	0	0	0	(8)
Culture and Recreation	3,806	0	0	0	(3,806)
Public Safety	56,644	0	0	0	(56,644)
Library	75,047	255	10,986	0	(63,806)
Interest on Long-term Debt	19,502	0	0	0	(19,502)
	<u>\$ 1,664,966</u>	<u>\$ 21,338</u>	<u>\$ 508,002</u>	<u>\$ 140,000</u>	<u>(995,626)</u>
Total Governmental Activities					
General Revenues:					
Property Taxes					917,375
Interest and Penalties on Delinquent Taxes					26,973
General State Grants					103,694
Unrestricted Investment Earnings					16,866
Gain on Sale of Town Garage					83,662
Other Revenues					11,644
					<u>1,160,214</u>
Total General Revenues					
Change in Net Position					164,588
Net Position - July 1, 2015					<u>4,928,836</u>
Net Position - June 30, 2016					<u>\$ 5,093,424</u>

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

TOWN OF GRAFTON, VERMONT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

	General Fund	Capital Projects Fund	New Town Garage Fund	Library Fund	Trustees of Public Funds	Total Governmental Funds
<u>ASSETS</u>						
Cash	\$ 565,445	\$ 0	\$ 0	\$ 39,566	\$ 66,740	\$ 671,751
Investments	25,503	0	0	964,682	52,230	1,042,415
Receivables	112,649	0	0	0	0	112,649
Due from Others	3,964	0	0	0	0	3,964
Due from Other Funds	0	154,590	0	0	0	154,590
Prepaid Expenses	28,560	0	0	0	0	28,560
Total Assets	\$ <u>736,121</u>	\$ <u>154,590</u>	\$ <u>0</u>	\$ <u>1,004,248</u>	\$ <u>118,970</u>	\$ <u>2,013,929</u>
<u>LIABILITIES</u>						
Accounts Payable	\$ 7,231	\$ 0	\$ 0	\$ 0	\$ 0	\$ 7,231
Accrued Payroll	12,646	0	0	852	0	13,498
Due to Delinquent Tax Collector	7,076	0	0	0	0	7,076
Due to Others	331	0	0	0	0	331
Due to Other Funds	154,590	0	0	0	0	154,590
Total Liabilities	<u>181,874</u>	<u>0</u>	<u>0</u>	<u>852</u>	<u>0</u>	<u>182,726</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>						
Unavailable Property Taxes, Penalties and Interest	57,855	0	0	0	0	57,855
Unavailable Grants	213	0	0	0	0	213
Total Deferred Inflows of Resources	<u>58,068</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>58,068</u>
<u>FUND BALANCES</u>						
Nonspendable	28,560	0	0	0	88,765	117,325
Restricted	17,426	0	0	1,003,396	30,205	1,051,027
Committed	0	154,590	0	0	0	154,590
Assigned	28,817	0	0	0	0	28,817
Unassigned	421,376	0	0	0	0	421,376
Total Fund Balances	<u>496,179</u>	<u>154,590</u>	<u>0</u>	<u>1,003,396</u>	<u>118,970</u>	<u>1,773,135</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ <u>736,121</u>	\$ <u>154,590</u>	\$ <u>0</u>	\$ <u>1,004,248</u>	\$ <u>118,970</u>	

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Capital Assets Used in Governmental Activities are not Financial Resources and, Therefore, are not Reported in the Funds.	4,110,161
Other Assets are not Available to Pay for Current-Period Expenditures, and, Therefore, are Deferred in the Funds.	58,068
Long-term and Accrued Liabilities, Including Notes Payable, Compensated Absences and the Net Pension Liability, are not Due or Payable in the Current Period and, Therefore, are not Reported in the Funds.	(887,456)
Deferred Outflows and Inflows of Resources Related to the Town's Participation in VMERS are Applicable to Future Periods and, Therefore, are not Reported in the Funds.	<u>39,516</u>
Net Position of Governmental Activities	\$ <u>5,093,424</u>

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

TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Capital Projects Fund	New Town Garage Fund	Library Fund	Trustees of Public Funds Fund	Total Governmental Funds
<b>Revenues:</b>						
Property Taxes	\$ 781,743	\$ 139,000	\$ 0	\$ 2,600	\$ 0	\$ 923,343
Penalties and Interest on Delinquent Taxes	26,973	0	0	0	0	26,973
Intergovernmental Revenues	741,412	0	0	0	0	741,412
Charges for Services	10,550	0	0	255	0	10,805
Licenses and Permits	1,118	0	0	0	0	1,118
Investment Income	1,716	0	0	6,238	8,912	16,866
Donations	0	0	0	10,986	0	10,986
Rental Income - Town Hall	8,500	0	0	0	0	8,500
Other Income	7,769	0	0	3,875	0	11,644
<b>Total Revenues</b>	<b>1,579,781</b>	<b>139,000</b>	<b>0</b>	<b>23,954</b>	<b>8,912</b>	<b>1,751,647</b>
<b>Expenditures:</b>						
General Government	586,968	0	0	0	0	586,968
Cemetery	20,224	0	0	0	0	20,224
Public Works	713,617	7,121	0	0	0	720,738
Sanitation	8	0	0	0	0	8
Culture and Recreation	3,806	0	0	0	0	3,806
Public Safety	41,644	15,000	0	0	0	56,644
Library	0	0	0	75,047	0	75,047
Capital Outlay:						
General Government	28,500	0	0	0	0	28,500
Public Works	170,000	156,069	433,530	0	0	759,599
Debt Service:						
Interest	9,529	0	0	0	0	9,529
<b>Total Expenditures</b>	<b>1,574,296</b>	<b>178,190</b>	<b>433,530</b>	<b>75,047</b>	<b>0</b>	<b>2,261,063</b>
Excess/(Deficiency) of Revenues Over Expenditures	5,485	(39,190)	(433,530)	(51,093)	8,912	(509,416)
<b>Other Financing Sources/(Uses):</b>						
Proceeds from Sale of Town Garage	95,000	0	0	0	0	95,000
Transfers In	4,307	0	253,174	0	0	257,481
Transfers Out	(253,174)	(3,761)	0	0	(546)	(257,481)
<b>Total Other Financing Sources/(Uses)</b>	<b>(153,867)</b>	<b>(3,761)</b>	<b>253,174</b>	<b>0</b>	<b>(546)</b>	<b>95,000</b>
Net Changes in Fund Balances	(148,382)	(42,951)	(180,356)	(51,093)	8,366	(414,416)
Fund Balances - July 1, 2015	644,561	197,541	180,356	1,054,489	110,604	2,187,551
Fund Balances - June 30, 2016	\$ 496,179	\$ 154,590	\$ 0	\$ 1,003,396	\$ 118,970	\$ 1,773,135

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

TOWN OF GRAFTON, VERMONT  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND BALANCES OF  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2016

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

Change in fund balances - total government funds (Exhibit D)	\$	(414,416)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost (\$788,099) of those assets is allocated over their estimated useful lives and reported as depreciation expense (\$178,513). This is the amount by which capital outlays exceeded depreciation in the current period.		609,586
The net effect of various transactions involving capital assets (i.e., sales and losses on disposal of assets) is to reduce net position.		(11,338)
Governmental funds report employer pension contributions as expenditures (\$12,423). However, in the statement of activities, the cost of pension benefits earned net of employee contributions (\$18,000) is reported as pension expense. This amount is the net effect of the differences in the treatment of pension expense.		(5,577)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(5,755)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, while the repayment of certain liabilities consumes current financial resources but has no effect on net position. This amount is the net effect of these differences in the treatment of expenses.		<u>(7,912)</u>
Change in net position of governmental activities (Exhibit B)	\$	<u><u>164,588</u></u>

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

TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Tax Revenues:			
Property Taxes	\$ 785,880	\$ 781,743	\$ (4,137)
State of Vermont Current Use	80,000	101,566	21,566
Total Tax Revenues	<u>865,880</u>	<u>883,309</u>	<u>17,429</u>
Interest and Penalties:			
Interest on Overdue Taxes	5,000	18,647	13,647
8% Penalty on Delinquent Taxes	2,500	8,326	5,826
Total Interest and Penalties	<u>7,500</u>	<u>26,973</u>	<u>19,473</u>
Licenses and Permits:			
Liquor Licenses	350	415	65
Dog Licenses	500	548	48
Total Licenses and Permits	<u>850</u>	<u>963</u>	<u>113</u>
Intergovernmental Revenues:			
State of Vermont - Highways	120,000	121,806	1,806
State of Vermont - In Lieu of Taxes	600	2,128	1,528
State of Vermont - Reappraisal	0	5,304	5,304
State of Vermont - Civil Fines	0	915	915
State of Vermont - Other	0	146,084	146,084
U.S. Government - FEMA	0	9,803	9,803
Total Intergovernmental Revenues	<u>120,600</u>	<u>286,040</u>	<u>165,440</u>
Charges for Services:			
Town Clerk's Fees	5,000	4,782	(218)
Preservation of Records	0	3,318	3,318
Copying Fees	50	50	0
Dump Fees	100	0	(100)
Total Charges for Services	<u>5,150</u>	<u>8,150</u>	<u>3,000</u>
Interest Earned:	<u>1,000</u>	<u>1,414</u>	<u>414</u>

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

TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Miscellaneous Revenues:</b>			
Town Hall Rent	\$ 8,400	\$ 8,500	\$ 100
Permits	600	155	(445)
Sales/Fees	0	2,400	2,400
Proceeds from Sale of Town Garage	0	95,000	95,000
Insurance Proceeds	0	7,000	7,000
Other	0	5,266	5,266
Total Miscellaneous Revenues	9,000	118,321	109,321
<b>Interfund Revenues:</b>			
Cemetery Trust Funds	100	21	(79)
Village Park Trust Funds	100	21	(79)
Wilson Park Trust Funds	50	504	454
Sherwin Cambridge Fund	300	302	2
Transfer from Capital Projects Fund	0	3,761	3,761
Total Interfund Revenues	550	4,609	4,059
Total Revenues	1,010,530	1,329,779	319,249
<b>Expenditures:</b>			
<b>Salaries/Compensation:</b>			
Select Board	5,000	5,000	0
Select Board Town Administrator	34,600	35,819	(1,219)
Flood Zoning Administrator	1,500	863	637
Town Treasurer	15,000	15,627	(627)
Town Clerk	29,436	30,651	(1,215)
Assistant Town Clerk/Treasurer	7,700	7,006	694
Listers	6,000	5,049	951
Auditors	2,000	1,524	476
Trustee of Public Funds	500	500	0
Constables and Insurance	250	250	0
Collector of Delinquent Taxes	2,500	10,137	(7,637)
Health Officer	1,000	1,000	0
Forest Fire Warden	250	250	0
Temp Town Office Help	0	212	(212)
Total Salaries/Compensation	105,736	113,888	(8,152)

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

TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016

	Budget	Actual	Variance Favorable (Unfavorable)
Benefits:			
Social Security (FICA)	\$ 7,500	\$ 8,307	\$ (807)
Medicare	1,800	1,928	(128)
Employee Health Insurance	37,400	29,670	7,730
Employee Dental Insurance	1,300	446	854
Retirement	4,300	4,223	77
Worker's Compensation	800	516	284
Unemployment Insurance	150	142	8
Total Benefits	53,250	45,232	8,018
Town Meetings and Elections:			
Ballot Clerk Compensation	700	675	25
Town Reports	1,100	1,634	(534)
Other Town Meeting/Election Expense	150	288	(138)
Total Town Meetings and Elections	1,950	2,597	(647)
Operating Expenses:			
Office Supplies	2,000	2,313	(313)
Postage	1,450	1,269	181
Telephone	2,500	2,486	14
Copier Expense	1,500	1,773	(273)
Computer Expense	5,000	8,365	(3,365)
Travel - Town Officials	1,500	1,437	63
Dues - Town Officials	150	270	(120)
Conferences	1,500	1,378	122
Dog Expense	120	130	(10)
Preservation of Records	0	4,018	(4,018)
Liability Insurance	2,500	2,365	135
Public Official Insurance	2,800	3,240	(440)
Officers Bond	100	100	0
Kidder Bridge Insurance	70	70	0
Advertising	2,500	984	1,516
Other Professional Services	0	250	(250)
Legal Expense/Tax Appeals	500	0	500
Legal Expense	8,000	273	7,727
Professional Auditor	15,900	14,190	1,710
Other Operating Expenses	1,000	294	706
Total Operating Expenses	49,090	45,205	3,885

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

TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016

	Budget	Actual	Variance Favorable (Unfavorable)
Sanitation:			
Stump Dump	\$ 100	\$ 0	\$ 100
Recycling	0	8	(8)
Total Sanitation	100	8	92
Recreation & Parks:			
Swimming Pool	600	300	300
Town Greens	600	300	300
Village Park	600	300	300
Wilson Park	0	767	(767)
Winnie Park	0	83	(83)
Total Recreation & Parks	1,800	1,750	50
Cemeteries:			
Labor	18,500	16,507	1,993
Benefits - FICA and Worker's Compensation	1,700	2,136	(436)
Supplies	900	521	379
Equipment	800	240	560
Other Expense	3,000	820	2,180
Total Cemeteries	24,900	20,224	4,676
Other Town Expenses:			
VLCT Dues	1,700	1,702	(2)
County Tax	10,000	10,117	(117)
Street & Bridge Lights	1,600	1,245	355
Grafton Public Library	2,600	2,056	544
Planning Commission	1,750	7,072	(5,322)
Windham Regional Commission	1,263	1,263	0
Emergency Management	3,900	347	3,553
Sheriff's Department	4,000	4,608	(608)
Cornet Band	250	250	0
Total Other Town Expenses	27,063	28,660	(1,597)

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

TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016

	Budget	Actual	Variance Favorable (Unfavorable)
Town Hall Expenses:			
Supplies	\$ 500	\$ 337	\$ 163
Insurance	3,400	4,025	(625)
Heat	5,000	4,044	956
Electricity	1,500	1,290	210
Repairs & Maintenance	15,000	18,776	(3,776)
Snow Removal	1,200	320	880
Payphone	300	300	0
Total Town Hall Expenses	26,900	29,092	(2,192)
Debt Service:			
Interest Expense	0	9,529	(9,529)
Other Voted Articles:			
Ambulance Service	9,000	8,760	240
Fireman's Operating Budget	23,000	20,087	2,913
FAST Squad	9,000	7,842	1,158
Humanitarian Articles	9,741	9,741	0
Total Other Voted Articles	50,741	46,430	4,311
Transfer to New Town Garage Fund:	0	186,000	(186,000)
Highway Salaries/Compensation:			
Labor - Regular Hours	135,450	141,784	(6,334)
Labor - Overtime	16,000	7,737	8,263
Labor - Temporary	3,500	8,676	(5,176)
Total Highway Salaries/Compensation	154,950	158,197	(3,247)
Highway Benefits:			
Social Security (FICA)	9,400	8,198	1,202
Medicare	2,200	1,917	283
Health Insurance	62,500	62,119	381
Dental Insurance	1,600	812	788
Retirement - Highway	8,200	8,131	69
Worker's Compensation	10,000	15,904	(5,904)
Unemployment Insurance	500	197	303
Uniforms	5,800	5,918	(118)
Total Highway Benefits	100,200	103,196	(2,996)

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

TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Fuel:			
Truck 1 - 2011 International	\$ 10,000	\$ 2,902	\$ 7,098
Truck 2 - 2007 Sterling	7,500	4,997	2,503
Truck 3 - 2014 Chevy	3,000	1,919	1,081
Truck 4 - 2013 Freightliner	6,000	1,893	4,107
Loader - 2013 CAT	3,800	1,270	2,530
Grader - 2010 CAT	6,000	1,956	4,044
Backhoe - 2012 John Deere	2,000	830	1,170
Chipper	200	0	200
Small Equipment	500	646	(146)
	<u>39,000</u>	<u>16,413</u>	<u>22,587</u>
Total Fuel			
Repairs and Maintenance:			
Truck 1 - 2011 International	4,000	3,921	79
Truck 2 - 2007 Sterling	5,000	4,520	480
Truck 3 - 2014 Chevy	2,500	1,389	1,111
Truck 4 - 2013 Freightliner	3,000	1,783	1,217
Loader - 2013 CAT	2,500	777	1,723
Grader - 2010 CAT	3,000	1,793	1,207
Plows and Sanders	14,000	8,136	5,864
Backhoe - 2012 John Deere	2,000	1,311	689
Chipper	200	0	200
Small Equipment	1,200	1,440	(240)
	<u>37,400</u>	<u>25,070</u>	<u>12,330</u>
Total Repairs and Maintenance			
Contracted Services:			
Mowing Contractors	7,600	7,875	(275)
Tree Removal Contractors	1,000	0	1,000
Retreatment Contractors	105,000	245,000	(140,000)
Bridge Maintenance	6,000	0	6,000
Street Sweeping Contracts	2,800	0	2,800
Beaver Maintenance	1,000	0	1,000
Other Contracted Services	3,000	1,632	1,368
	<u>126,400</u>	<u>254,507</u>	<u>(128,107)</u>
Total Contracted Services			

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

TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016

	Budget	Actual	Variance Favorable (Unfavorable)
Materials and Supplies:			
Culvert Expenses	\$ 5,000	\$ 3,515	\$ 1,485
Cold Patch	2,000	577	1,423
Guardrails	0	9,014	(9,014)
Gravel Crushing and Hauling	30,000	28,495	1,505
Road Repair Material	12,000	14,374	(2,374)
Salt	55,000	48,498	6,502
Sand	60,000	63,918	(3,918)
Chloride	8,000	7,037	963
Road Signs	3,000	729	2,271
Miscellaneous Supplies	2,000	3,751	(1,751)
Total Materials and Supplies	177,000	179,908	(2,908)
Town Garage:			
Supplies and Tools/Inventory	6,000	13,803	(7,803)
Radio	1,200	938	262
Telephone	1,200	1,300	(100)
Insurance	1,400	5,365	(3,965)
Heat	5,500	6,165	(665)
Electricity	2,000	1,756	244
Repairs and Maintenance - Town Shed	3,000	4,242	(1,242)
New Town Garage	100,000	167,174	(67,174)
Pagers for Highway Workers	600	538	62
Fire Alarm System for New Town Shed	200	289	(89)
Total Town Garage	121,100	201,570	(80,470)
Other Expenses:			
Training	250	0	250
Advertising	500	213	287
Liability Insurance - Highway	4,300	4,132	168
Equipment Insurance	6,500	5,862	638
Safety Equipment	1,000	180	820
Commercial Licenses	200	75	125
Miscellaneous Highway Expenses	200	223	(23)
Total Other Expenses	12,950	10,685	2,265
Total Expenditures	1,110,530	1,478,161	(367,631)
Excess/(Deficiency) of Revenues Over Expenditures	\$ (100,000)	(148,382)	\$ (48,382)
Fund Balance - July 1, 2015		644,561	
Fund Balance - June 30, 2016		\$ 496,179	

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

TOWN OF GRAFTON, VERMONT  
 STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 JUNE 30, 2016

	<u>Private Purpose Trust Funds</u>
<u>ASSETS</u>	
Cash	\$ 30,723
Investments	<u>8,658</u>
Total Assets	<u>39,381</u>
<u>LIABILITIES</u>	
Total Liabilities	<u>0</u>
<u>NET POSITION</u>	
Held in Trust for Various Purposes	<u>39,381</u>
Total Net Position	<u><u>\$ 39,381</u></u>

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

TOWN OF GRAFTON, VERMONT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	Private Purpose Trust Funds
<u>ADDITIONS:</u>	
Investment Earnings:	
Net Investment Income	\$ <u>44</u>
Total Additions	<u>44</u>
<u>DEDUCTIONS:</u>	
Care of the Indigent and Needy	<u>306</u>
Total Deductions	<u>306</u>
Change in Net Position	(262)
Net Position - July 1, 2015	<u>39,643</u>
Net Position - June 30, 2016	<u><u>\$ 39,381</u></u>

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

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

The Town of Grafton, Vermont, (herein the "Town") operates under a Selectboard form of government and provides the following services: public safety, highways and streets, solid waste, culture and recreation, public improvements, planning and zoning and general administrative services.

## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **A. The Financial Reporting Entity**

This report includes all of the activity of the Town of Grafton, 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, liabilities, deferred inflows and outflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled.

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

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

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, except for fiduciary activities. Eliminations have been made to minimize the double counting of activities between funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental 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.

Capital Projects Fund – This fund accounts for the capital project activities of the Town.

New Town Garage Fund – This fund accounts for the expenditures related to the construction of the new Town Garage.

Library Fund – This fund accounts for library related expenditures of the Town.

Trustees of Public Funds Fund – The fund accounts for the assets held by the Town in trust for various purposes.

Additionally, the Town reports the following fund type:

Private Purpose Trust Funds – These funds are used to report trust arrangements under which resources are to be used for the benefit of the indigent, elderly, destitute and for payments to the church. Only investment earnings may be used to support these activities.

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

**C. Measurement Focus**

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

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

**D. Basis of Accounting**

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

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

Governmental funds are reported using the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. “Measurable” means the amount of the transaction can be determined, and “available” means the amount is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers all revenues reported in governmental funds to be available if the revenues are collected within sixty (60) days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, certain compensated absences and other long-term liabilities which are recognized when the obligations are expected to be liquidated or are funded with expendable available financial resources.

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

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

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. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and other grant requirements have been met.

**E. Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows and resources, liabilities, deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**F. Assets, Liabilities and Equity**

**1. Cash**

Cash balances of most 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.

**2. Investments**

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

**3. Receivables**

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

**4. Due To/From Other Funds**

Transactions between funds that are representative of lending/borrowing arrangement 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 to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

**5. Pensions**

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

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

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statements element, "deferred outflows of resources", represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. The Town has one type which arises under the accrual basis of accounting that qualifies for reporting in this category. The governmental activities reports deferred outflows of resources from one source; deferred outflows related to the Town's participation in the Vermont Municipal Employees Retirement System. These amounts are deferred and recognized as an outflow of resources in the future periods to which the outflows are related.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, "deferred inflows of resources", represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has two items which arise under the modified accrual basis of accounting and one type which arises under the accrual basis of accounting that qualify for reporting in this category. The governmental activities reports deferred inflows of resources from one source; deferred inflows related to the Town's participation in the Vermont Municipal Employees Retirement System. This amount is deferred and recognized as an inflow of resources in the future periods to which the inflows are related. The governmental funds reports deferred inflows of resources from two sources; unavailable property taxes, penalties and interest and unavailable grants. These amounts are deferred and recognized as inflows of resources in the future periods when the amounts become available.

**7. Capital Assets**

Capital assets are reported at actual cost or estimated historical cost based on appraisals or deflated current replacement cost if purchased or constructed. Contributed assets are recorded at their estimated fair value at the time received. Major outlays for capital assets and improvements are capitalized as constructed. Interest is not capitalized during the construction phase of capital assets used in governmental activities. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. Infrastructure assets are reported starting with fiscal year ended June 30, 2004. The Town has elected to not report major general infrastructure assets retroactively.

TOWN OF GRAFTON, VERMONT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2016

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

The Town does not capitalize their library books because they are considered a collection.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Service Life</u>
Land	\$ 1	N/A
Vehicles and Equipment	\$ 2,500	3-20 Years
Buildings and Building Improvements	\$ 5,000	10-75 Years
Infrastructure	\$ 10,000	8-25 Years

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

**8. Compensated Absences**

It is the Town's policy to permit employees to accumulate earned but unused vacation. The accrual for unused compensated absences time, based on current pay rates, is recorded in the government-wide financial statements. Payments for unused compensated absences are recorded as expenditures in the year they are paid in the governmental funds.

**9. Long-term Liabilities**

Long-term liabilities include notes payable and other obligations such as compensated absences and the Town's net pension liability. Long-term liabilities are reported in the government-wide financial statements. Governmental fund financial statements do not include any long-term liabilities as those funds use the current financial resources measurement focus and only include current liabilities on their balance sheets.

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

**10. Fund Equity**

Fund balances and net position are 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 the government-wide financial statements represent amounts that cannot be appropriated or are legally restricted for a specific purpose by a grant, contract, or other binding agreement. Fund balances of governmental funds are classified as nonspendable (not in spendable form or legally required to remain intact); restricted (constraints on the use of resources are either externally imposed by creditors, grantors, or donors, or imposed by law through enabling legislation); committed (constraints on the use of resources are imposed by formal action of the voters); assigned (reflecting the Town's intended use of the resources); and unassigned.

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

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

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

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

Long-term debt transaction differences arise because governmental funds report proceeds of long-term debt as other financing sources and principal payments as an expenditures, whereas government-wide statements report those transactions as increases and decreases in liabilities, respectively.

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

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

**III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The budgets are approved at the annual Town Meeting in March. Any budget changes require voter approval. There were no budget changes during the year.

**B. Budgeted Deficit**

The Town budgeted a current year's deficiency of revenues over expenditures in the General Fund in the amount of \$100,000 in order to utilize a portion of the previous year's surplus to fund the construction of the new town garage. This is reflected as a budgeted deficiency of revenues over expenditures on Exhibit F.

**C. Excess of Expenditures over Appropriations**

For the year ended June 30, 2016, expenditures in the General Fund exceeded appropriations by \$367,631. These over-expenditures were funded by excess revenues and available fund balance.

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Cash and Investments**

Cash and investments at June 30, 2016 consisted of the following:

Cash:

Deposits with Financial Institutions	\$ 667,975
Deposits held by Investment Company	34,439
Cash on Hand	<u>60</u>
Total Cash	<u>702,474</u>

Investments:

Certificates of Deposits	40,161
Corporate Bonds	126,838
Mutual Funds	837,844
Stock	<u>46,230</u>
Total Investments	<u>1,051,073</u>

Total Cash and Investments	<u>\$1,753,547</u>
----------------------------	--------------------

The Town has several certificates of deposits in place with amounts ranging from \$1,100 to \$25,503 with interest rates ranging from .15% to .35% and terms from six (6) months to one (1) year.

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

**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 corporate bonds, mutual funds, and stocks are not exposed to custodial credit risk because they are in the name of the Town. The following table shows the custodial credit risk of the Town's demand deposits with financial institutions and certificates of deposit.

	<u>Book Balance</u>	<u>Bank Balance</u>
FDIC/SIPC Insured	\$547,279	\$551,194
Uninsured, Collateralized by U.S. Government Agencies Securities Held by the Pledging Financial Institutions Agent	<u>195,296</u>	<u>267,072</u>
	<u>\$742,575</u>	<u>\$818,266</u>

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

The book balance is comprised of the following:

Cash – Deposits with Financial Institutions	\$667,975
Cash – Deposits with Investment Company	34,439
Investments – Certificates of Deposit	<u>40,161</u>
Total	<u>\$742,575</u>

**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 certificates of deposit are not subject to interest rate risk disclosure. Corporate stock is exempt from this analysis.

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Town's investments by maturity. Mutual funds are shown at their weighted average maturity (if available) and the corporate bonds are shown at their actual maturity.

Investment Type	Remaining Maturity				Total
	Less Than 1 Year	1 to 5 Years	5 to 10 Years	Not Available	
Mutual Funds	\$ 0	\$ 0	\$ 0	\$ 837,844	\$ 837,844
Corporate Bonds	50,083	50,496	26,259	0	126,838
Total	\$ 50,083	\$ 50,496	\$ 26,259	\$ 837,844	\$ 964,682

**Credit Risk**

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

	Standard and Poor's Rating as of June 30, 2016 Corporate Bonds
AA	\$ 25,015
A	25,336
BAA	76,487
Total	\$ <u>126,838</u>

**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. The Town has 98% of their stock invested in General Electric, Inc.

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

**B. Receivables**

Receivables at June 30, 2016, as reported in the statement of net position, are as follows:

	Governmental Activities
Delinquent Taxes	\$ 80,902
Penalties and Interest on Delinquent Tax	13,602
Grants Receivable	2,038
Accounts Receivable	16,107
Total	\$ 112,649

Management believes that all receivables are collectible, thus, no allowance for doubtful accounts has been recorded.

**C. Capital Assets**

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 168,300	\$ 28,500	\$ 0	\$ 196,800
Work In Process	684,396	681,165	1,365,561	0
Total Capital Assets, Not Being Depreciated	852,696	709,665	1,365,561	196,800
Capital Assets, Being Depreciated:				
Vehicles & Equipment	853,190	55,558	0	908,748
Buildings and Building Improvements	198,151	1,186,380	62,848	1,321,683
Infrastructure	2,545,094	202,057	0	2,747,151
Totals	3,596,435	1,443,995	62,848	4,977,582
Less Accumulated Depreciation for:				
Vehicles & Equipment	211,050	81,345	0	292,395
Buildings and Building Improvements	88,327	19,883	51,510	56,700
Infrastructure	637,841	77,285	0	715,126
Totals	937,218	178,513	51,510	1,064,221
Total Capital Assets, Being Depreciated	2,659,217	1,265,482	11,338	3,913,361
Governmental Activities Capital Assets, Net	\$ 3,511,913	\$ 1,975,147	\$ 1,376,899	\$ 4,110,161

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Depreciation was charged as follows:

Governmental Activities:		
General Government	\$	2,116
Public Works		<u>176,397</u>
Total Depreciation Expense - Governmental Activities		\$ <u><u>178,513</u></u>

**D. Interfund Balances and Activity**

The due to/from balances as of June 30, 2016 are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	\$ 0	\$ 154,590
Capital Projects Fund	<u>154,590</u>	<u>0</u>
Total	\$ <u><u>154,590</u></u>	\$ <u><u>154,590</u></u>

Interfund transfers during the year ended June 30, 2016 were as follows:

Transfer From	Transfer To	Amount	Purpose
General Fund	New Town Garage Fund	\$ 253,174	To Fund Construction of the New Town Garage
Capital Projects Fund	General Fund	3,761	To Fund Town Hall Repairs
Trustees of Public Funds Fund	General Fund	<u>546</u>	Transfer Investment Earnings
Total		\$ <u><u>257,481</u></u>	

**E. Deferred Outflows of Resources**

Deferred outflows of resources in the Governmental Activities consists of \$2,125 from the difference between the expected and actual experience, \$13,390 from changes in assumptions, \$12,989 from the difference between the projected and actual investment earnings and \$12,423 of required employer pension contributions subsequent to the measurement date, as further described in Note V.A. Total deferred outflows of resources in the Governmental Activities is \$40,927.

TOWN OF GRAFTON, VERMONT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2016

**F. Deferred Inflows of Resources**

Deferred inflows of resources in the Governmental Activities consists of \$1,411 resulting from changes in the Town’s proportional share of contributions related to the Town’s participation in the Vermont Municipal Employee’s Retirement System (VMERS).

Deferred inflows of resources in the General Fund consists of \$57,855 of delinquent property taxes, penalties and interest on those taxes and \$213 of grant revenue not collected within sixty (60) days after year-end as these would not be available to liquidate current liabilities. Total deferred inflows of resources in the General Fund are \$58,068.

**G. Long-term Liabilities**

Notes Payable – The Town has notes payable to finance various capital purchases through local banks.

Compensated Absences – Vacation is accrued on an annual basis. It is the policy of the Town of Grafton to permit employees to accumulate earned but unused vacation benefits through December 31. Employees may elect to carryforward up to fifteen (15) sick days or have them paid out upon termination. Compensated absences are paid by the applicable fund where the employee is charged.

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

Long-term liabilities outstanding as of June 30, 2016 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Note Payable, Merchants Bank, New Town Garage Construction, Principal Payments of \$53,333 Beginning on July 1, 2016 Payable Annually, Interest at 2.35% Payable Semi-Annually Beginning on January 1, 2016, Due July 1, 2030	\$800,000	\$ 0	\$ 0	\$800,000
Total	\$800,000	\$ 0	\$ 0	\$800,000

TOWN OF GRAFTON, VERMONT  
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	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental Activities</b>					
Notes Payable	\$ 800,000	\$ 0	\$ 0	\$ 800,000	\$ 53,333
Compensated Absences Payable	12,310	0	2,061	10,249	0
Net Pension Liability	<u>8,155</u>	<u>59,079</u>	<u>0</u>	<u>67,234</u>	<u>0</u>
Total Governmental Long-term Liabilities	<u>\$ 820,465</u>	<u>\$ 59,079</u>	<u>\$ 2,061</u>	<u>\$ 877,483</u>	<u>\$ 53,333</u>

Debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 53,333	\$ 19,383
2018	53,333	17,995
2019	53,333	16,661
2020	53,333	15,328
2021	53,333	14,035
2022-2026	266,667	49,998
2027-2031	<u>266,668</u>	<u>16,650</u>
Total	<u>\$ 800,000</u>	<u>\$ 150,050</u>

**H. 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.

TOWN OF GRAFTON, VERMONT  
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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 the 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. Because users are interested in information about those minimum fund balance policies and how governments comply with them, governments are required to explain their minimum fund balance policies, if they have them, in notes to the financial statements. 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 fund balances in the following funds are nonspendable as follows:

Major Funds

General Fund:

Nonspendable Prepaid Expenses	\$ <u>28,560</u>
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Trustees of Public Funds Fund:

Nonspendable for Cemetery Upkeep Expenses by Bequest	36,535
Nonspendable for Wilson Park Upkeep Expenses by Bequest	46,230
Nonspendable for Village Park Upkeep Expenses by Bequest	<u>6,000</u>

Total Trustees of Public Funds Fund	<u>88,765</u>
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Total Nonspendable Fund Balances	\$ <u>117,325</u>
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The fund balances in the following funds are restricted as follows:

General Fund:

Restricted for Town Clerk Restoration Expenses by Statute	\$ <u>17,426</u>
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TOWN OF GRAFTON, VERMONT  
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Library Fund:	
Restricted for Library Expenses by Grants, Fees and Donations	<u>\$1,003,396</u>
Trustees of Public Funds Fund:	
Restricted for Cemetery Upkeep Expenses	7,133
Unexpended Earnings on Bequest	<u>23,072</u>
Restricted for Wilson Park by Donor Bequest	<u>23,072</u>
Total Trustees of Public Funds Fund	<u>30,205</u>
Total Restricted Fund Balances	<u>\$1,051,027</u>

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

Capital Projects Fund:	
Committed for Capital Projects by the Voters	<u>\$ 154,590</u>
Total Committed Fund Balance	<u>\$ 154,590</u>

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

General Fund:	
Assigned for Reappraisal Expenses	<u>\$ 28,817</u>
Total Assigned Fund Balance	<u>\$ 28,817</u>

**I. Restricted Net Position**

The restricted net position of the Town as of June 30, 2016 consisted of the following:

Governmental Activities:	
Restricted by Grant Fees and Donations – Library	\$1,003,396
Restricted by Bequest – Cemetery	43,668
Restricted by Statute – Town Clerk Restoration Fund	17,426
Restricted by Bequest – Wilson Park	69,302
Restricted by Bequest – Village Park	<u>6,000</u>
Total Governmental Activities	<u>\$1,139,792</u>

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

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

The net position held in trust for various purposes in the Town's Private Purpose Trust Funds at June 30, 2016 consisted of the following:

Restricted for S.B. Jones Library and Church Fund by Donations	\$ 700
Restricted for Grafton Fund by Donations	7,998
Restricted for Edward Campbell Fund by Bequest	18,618
Restricted for Woolson Fund by Bequest	9,930
Restricted for Dean Baker Fund by Donations	1,100
Restricted for Edward Walker Fund by Donations	<u>1,035</u>
 Total Private Purpose Trust Funds	 <u>\$ 39,381</u>

**V. 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, 2016, the retirement system consisted of 436 participating employers.

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

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

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

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
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**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources**

As of June 30, 2015, the measurement date selected by the State of Vermont, VMERS was funded at 87.42% and had a plan fiduciary net position of \$535,903,742 and a total pension liability of \$612,999,552 resulting in a net pension liability of \$77,095,810. As of June 30, 2016, the Town's proportionate share of this was .0872% resulting in a liability of \$67,234. The net pension liability was measured as of June 30, 2015, 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 entities, actuarially determined. As of June 30, 2015, the Town's proportion of .0872% was a decrease of .0022% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$18,000.

As of June 30, 2016, the Town reported deferred outflows of resources from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 2,125	\$ 0
Changes in assumptions	13,390	0
Difference between projected and actual investment earnings	12,989	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	0	1,411
Town's required employer contributions made subsequent to the measurement date	<u>12,423</u>	<u>0</u>
	<u>\$ 40,927</u>	<u>\$ 1,411</u>

TOWN OF GRAFTON, VERMONT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2016

The deferred outflows of resources resulting from the Town’s required employer contributions made subsequent to the measurement date in the amount of \$12,423 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources will be recognized in pension expense as follows:

Year Ending <u>June 30</u>	
2017	\$ 5,175
2018	5,175
2019	5,175
2020	<u>11,568</u>
Total	<u>\$27,093</u>

**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):** Group B – Average annual compensation during highest three (3) consecutive years.

**Service Retirement Allowance:**

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

Amount – Group B – 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 for Group B. The previous amounts include the portion of the allowance provided by member contributions.

**Early Retirement Allowance:**

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

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

**Vested Retirement Allowance:**

Eligibility – Five (5) years of service.

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

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

Disability Retirement Allowance:

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

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

Death Benefit:

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

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

Optional Benefit and Death after Retirement: For Group B, 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% for Group B.

Member Contributions: Group B – 4.875% effective July 1, 2015 (increased from 4.75%)

Employer Contributions: Group B – 5.50% effective July 1, 2015 (increased from 5.375%)

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

**Significant Actuarial Assumptions and Methods**

Interest Rate: A select-and-ultimate interest rate set, specified as follows. The interest rate set is restarted every year.

Year 1: 6.25%	Year 10: 8.50%
Year 2: 6.75%	Year 11: 8.50%
Year 3: 7.00%	Year 12: 8.50%
Year 4: 7.50%	Year 13: 8.50%
Year 5: 7.75%	Year 14: 8.50%
Year 6: 8.25%	Year 15: 8.50%
Year 7: 8.25%	Year 16: 8.75%
Year 8: 8.25%	Year 17 and later: 9.00%
Year 9: 8.50%	

Salary increases: 5% per year.

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

Deaths:

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

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

Disabled retirees – RP-2000 Disabled Life Tables.

Beneficiaries – 1995 Buck Mortality Tables for males and females.

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

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

Actuarial Cost Method: Entry Age Normal – Level Percentage of Pay.

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% to 3.25% 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.

TOWN OF GRAFTON, VERMONT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2016

Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	8.61%
Fixed Income	1.91%
Alternatives	6.93%
Multi-strategy	4.88%

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%, a decrease from 8.23% in the prior year. 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.

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>
\$134,295	\$67,234	\$11,017

**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. CONTINGENT LIABILITIES**

The Town is a participating member in the Southern Windsor/Windham Counties Solid Waste District. The Town could be subject to a portion of the District's debt if the District experiences financial problems.

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.

TOWN OF GRAFTON, VERMONT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2016

**C. RISK MANAGEMENT**

The Town of Grafton 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 of Grafton 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 of Grafton. 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 of Grafton, Vermont is also a member of the Vermont League of Cities and Towns Unemployment Insurance Trust. The Unemployment Trust is a nonprofit corporation formed to provide unemployment coverage for Vermont municipalities and is owned by the participating members. The agreement does not permit the Unemployment Trust to make additional assessments to its members.

**D. PROPERTY TAXES**

The Town is responsible for assessing and collecting its own property taxes as well as education taxes for the State of Vermont. The tax rate is set by the Selectboard based on the voter approved budget, the estimated grand list and the State education property tax liability. Property taxes are assessed based on property valuations as of April 1 and the approved budgets. Taxes are collected four (4) times per year. During the tax year ended June 30, 2016, taxes became due and payable on August 15, 2015, November 15, 2015, February 15, 2016 and May 15, 2016. The penalty is eight percent (8%). Interest is charged at one percent (1%) per month for the first three months and one and one-half percent (1-1/2%) per month for each month thereafter.

The tax rates for 2016 were as follows:

	<u>Residential</u>	<u>Non-Residential</u>
Education	1.3340	1.3966
Highway	.3207	.3207
Capital Projects	.0876	.0876
Local Agreements	.0146	.0146
Town	<u>.1638</u>	<u>.1638</u>
Total	<u>1.9207</u>	<u>1.9833</u>

TOWN OF GRAFTON, VERMONT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 VMERS DEFINED BENEFIT PLAN  
 JUNE 30, 2016

	2016	2015
Total Plan Net Pension Liability	\$ 77,095,810	\$ 9,126,613
Town's Proportion of the Net Pension Liability	0.0872%	0.0894%
Town's Proportionate Share of the Net Pension Liability	\$ 67,234	\$ 8,155
Town's Covered Employee Payroll	\$ 225,870	\$ 226,797
Town's Proportionate Share of the Net Pension Liability as a Percentage of Town's Covered Employee Payroll	29.7667%	3.5957%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.42%	98.32%

**Notes to Schedule**

Benefit Changes: None.

Changes in Assumptions: The discount rate used to measure the net pension liability was lowered from 8.23% to 7.95%, due to the adoption by the Board of Trustees of a 7.95% expected future rate of return on assets for funding purposes.

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

See Disclaimer in Accompanying Independent Auditor's Report.

TOWN OF GRAFTON, VERMONT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS  
 VMERS DEFINED BENEFIT PLAN  
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution (Actuarially Determined)	\$ 12,423	\$ 12,190
Contributions in Relation to the Actuarially Determined Contributions	<u>12,423</u>	<u>12,190</u>
Contribution Excess/(Deficiency)	<u>\$ 0</u>	<u>\$ 0</u>
Town's Covered Employee Payroll	\$ 225,870	\$ 226,797
Contributions as a Percentage of Town's Covered Employee Payroll	5.500%	5.375%

**Notes to Schedule**

Valuation Date: June 30, 2015

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

See Disclaimer in Accompanying Independent Auditor's Report.

TOWN OF GRAFTON, VERMONT  
 COMBINING STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 PRIVATE PURPOSE TRUST FUNDS  
 JUNE 30, 2016

	S.B. Jones Library and Church Fund	Grafton Fund	Edward Campbell Fund	Woolson Fund	Dean Baker Fund	Edward Walker Fund	Totals
<u>ASSETS</u>							
Cash	\$ 700	\$ 2,998	\$ 16,060	\$ 9,930	\$ 0	\$ 1,035	\$ 30,723
Investments	<u>0</u>	<u>5,000</u>	<u>2,558</u>	<u>0</u>	<u>1,100</u>	<u>0</u>	<u>8,658</u>
Total Assets	<u>\$ 700</u>	<u>\$ 7,998</u>	<u>\$ 18,618</u>	<u>\$ 9,930</u>	<u>\$ 1,100</u>	<u>\$ 1,035</u>	<u>\$ 39,381</u>
<u>LIABILITIES AND NET POSITION</u>							
Liabilities:	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Position:							
Held in Trust for Various Purposes	<u>700</u>	<u>7,998</u>	<u>18,618</u>	<u>9,930</u>	<u>1,100</u>	<u>1,035</u>	<u>39,381</u>
Total Net Position	<u>700</u>	<u>7,998</u>	<u>18,618</u>	<u>9,930</u>	<u>1,100</u>	<u>1,035</u>	<u>39,381</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 700</u>	<u>\$ 7,998</u>	<u>\$ 18,618</u>	<u>\$ 9,930</u>	<u>\$ 1,100</u>	<u>\$ 1,035</u>	<u>\$ 39,381</u>

See Disclaimer in Accompanying Independent Auditor's Report.

TOWN OF GRAFTON, VERMONT  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 PRIVATE PURPOSE TRUST FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2016

	S.B. Jones Library and Church Fund	Grafton Fund	Edward Campbell Fund	Woolson Fund	Dean Baker Fund	Edward Walker Fund	Totals
<u>ADDITIONS</u>							
Investment Earnings:							
Net Investment Income	\$ 0	\$ 19	\$ 19	\$ 6	\$ 0	\$ 0	\$ 44
Total Additions	<u>0</u>	<u>19</u>	<u>19</u>	<u>6</u>	<u>0</u>	<u>0</u>	<u>44</u>
<u>DEDUCTIONS</u>							
Care of the Indigent and Needy	<u>0</u>	<u>0</u>	<u>306</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>306</u>
Total Deductions	<u>0</u>	<u>0</u>	<u>306</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>306</u>
Change In Net Position	0	19	(287)	6	0	0	(262)
Net Position - July 1, 2015	<u>700</u>	<u>7,979</u>	<u>18,905</u>	<u>9,924</u>	<u>1,100</u>	<u>1,035</u>	<u>39,643</u>
Net Position - June 30, 2016	<u>\$ 700</u>	<u>\$ 7,998</u>	<u>\$ 18,618</u>	<u>\$ 9,930</u>	<u>\$ 1,100</u>	<u>\$ 1,035</u>	<u>\$ 39,381</u>

See Disclaimer in Accompanying Independent Auditor's Report.

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Fred Duplessis, CPA  
Richard J. Brigham, CPA  
Chad A. Hewitt, CPA  
Wendy C. Gilwee, CPA  
VT Lic. #92-000180

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 Grafton, Vermont  
P.O. Box 180  
Grafton, Vermont 05146

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 Grafton, Vermont as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Grafton, Vermont's basic financial statements and have issued our report thereon dated February 10, 2017.

***Internal Control Over Financial Reporting***

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town of Grafton, 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 2016-01 and 2016-02 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 deficiency described in the accompanying Schedule of Findings and Deficiencies in Internal Control as Item 2016-03 to be a significant deficiency.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Town of Grafton, 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 Grafton, Vermont in a separate letter dated February 10, 2017.

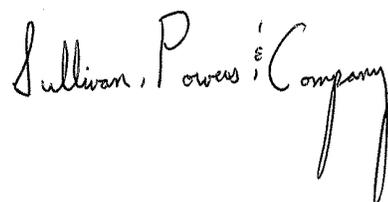
### ***Town of Grafton, Vermont's Response to Deficiencies in Internal Control***

The Town of Grafton, 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 Grafton, 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 Grafton, 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 Grafton, Vermont's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

February 10, 2017  
Montpelier, Vermont  
VT Lic. #92-000180



TOWN OF GRAFTON, VERMONT  
SCHEDULE OF FINDINGS AND DEFICIENCIES  
IN INTERNAL CONTROL  
JUNE 30, 2016

Deficiencies in Internal Control:

Material Weaknesses:

2016-01 Reconciliation of Balance Sheet Accounts

*Criteria:*

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

*Condition:*

A number of the Town's balance sheet accounts were not reconciled to the actual balances at year end which resulted in various adjustments to revenue and expenses.

*Cause:*

Unknown.

*Effect:*

The Town's account balances were incorrect.

*Recommendation:*

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

2016-02 Netting Revenues and Expenditures

*Criteria:*

Internal controls should be in place to ensure that revenues are not netted with the expenditures in order to conform with generally accepted accounting principles.

*Condition:*

The Town netted grant revenue with the related expenditures during the year. This nets out the revenue and expenditures as if they did not exist and results in the understatement of both revenue and expenditures.

*Cause:*

Unknown.

TOWN OF GRAFTON, VERMONT  
 SCHEDULE OF FINDINGS AND DEFICIENCIES  
 IN INTERNAL CONTROL  
 JUNE 30, 2016

*Effect:*

This results in the understatement of revenue and expenditures.

*Recommendation:*

We recommend that the Town implement controls to ensure that they do not net revenue and expenditures. This could be accomplished by a review of the general ledger detail on a monthly basis.

Significant Deficiencies:

2016-03 Property Tax Reconciliation

*Criteria:*

Internal controls should be in place to ensure that the Town is reconciling its property tax billings and collections.

*Condition:*

The Town does not reconcile property taxes on a timely basis. Timely tax reconciliations are the best way to locate and rectify errors in the delinquent tax list, amount of taxes turned over to the delinquent tax collector, abatements or lister's adjustments and revenue.

*Cause:*

Unknown

*Effect:*

The Town was not able to verify that its tax collections were all accounted for.

*Recommendation:*

We recommend that the tax reconciliation's outlined below be completed at least on a quarterly basis if not on a monthly basis.

Billings Reconciliation:

(1)	Annual Tax Billings	XXXX
(2)	Less: Current Taxes Received	<u>(XX)</u>
(3)	Plus/(Less) Abatements/Listers Adjustments	<u>XX</u>
	Amount to go Delinquent	\$ <u>XX</u>

TOWN OF GRAFTON, VERMONT  
 SCHEDULE OF FINDINGS AND DEFICIENCIES  
 IN INTERNAL CONTROL  
 JUNE 30, 2016

Delinquent Tax Reconciliation:

	Beginning Delinquent Tax List	XXXX
	Plus: Amount to go Delinquent	<u>XXXX</u>
	Total Delinquent Taxes to be Collected	XXXX
(2)	Less: Delinquent Taxes Received	(XX)
(3)	Less: Abatements	<u>(XX)</u>
	Delinquent Taxes Per Reconciliation	XXXX
(4)	Less: Delinquent Taxes Per List	<u>(XX)</u>
(5)	Difference	<u>\$ 0</u>

Notes:

- (1) Annually tax billings should be taken from the billings journal. The billings journal should reflect the grand list and any adjustments made to the list after the approval of the grand list and tax rate.
- (2) Current and delinquent taxes should be obtained from the trial balance prepared by the Treasurer's office and not the tax sheets prepared by the tax collector which are forwarded to the Treasurer's office. This procedure ensures that what is collected is being properly reflected in the Town's books.
- (3) Listers adjustments and abatements should be approved by the respective Boards and be maintained in a list. This list plus the trial balance revenue accounts should account for all of the reductions from the delinquent tax list and the current tax list.
- (4) A delinquent tax list must be maintained and photocopied at the end of each reconciliation period so that taxes can be proved at any given time in the future.
- (5) Any difference between the delinquent tax list and the delinquent taxes per reconciliation should be investigated by comparing the tax collector's records of the taxes received to what the Treasurer has recorded as revenue. Most likely, any problems can be located at this time.



P.O. Box 180

**TOWN OF GRAFTON**  
(802)843-2419

Main Street

Sullivan, Powers & Company  
77 Barre Street  
Montpelier, Vermont 05601

February 10, 2017

This letter is to acknowledge the Deficiencies that were found during The Town of Grafton's 2016 yearly audit performed by Sullivan, Powers & Company and as to how the management should be handling the recommendations that were given.

**The reconciliation of the balance sheet accounts:**

Balance sheets were printed, distributed to Select Board members, and filed monthly. The totals on the balance sheet was a concern for us but with a changing in staff for payroll and accounts payable our hope was that corrections would be made and we could get it to balance. That was not possible before the yearly audit. We have since met with NEMRC here at our office for an onsite instructional session to help us better understand the process.

**Netting Revenues and Expenditures:**

Grants were initially received and placed within the department intended for, and expenses were then drawn from that same account. I will now have a category with an account number for that grant, which should be shown and placed as revenue and expenditures for only that grant will be drawn from.

**Property Tax Reconciliation:**

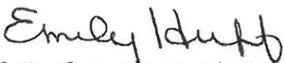
As of this date a three ring binder has been created and property tax reconciliation has been performed for the tax year of 2016-2017. This will be done on monthly bases and filed for viewing during next year's audit.

**Fraud Risk Assessment:**

The Town of Grafton has not performed the Fraud Risk assessment again this year but will hopefully begin to address this issue before the next audit takes place.

We have enjoyed and look forward to working with Sullivan, Powers & Company again.

Sincerely,   
Kimberly Record, Grafton Town Clerk / Treasurer

  
Emily Huff, Grafton Town Administrator