

TOWN OF GRAFTON, VERMONT

AUDIT REPORT

JUNE 30, 2017

TOWN OF GRAFTON, VERMONT
 AUDIT REPORT
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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, 2017, 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, 2017, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the 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.

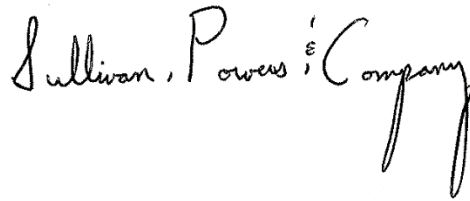
Other Information

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 December 12, 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.

December 12, 2017
Montpelier, Vermont
VT Lic. #92-000180

A handwritten signature in black ink that reads "Sullivan, Powers & Company". The signature is written in a cursive style with a large, stylized 'S' at the beginning and a long, sweeping tail at the end.

TOWN OF GRAFTON, VERMONT
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
<u>ASSETS</u>	
Cash	\$ 836,620
Investments	1,083,113
Receivables	55,892
Capital Assets:	
Land	206,200
Other Capital Assets, (Net of Accumulated Depreciation)	3,836,637
Total Assets	6,018,462
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Outflows of Resources Related to the Town's Participation in VMERS	66,542
Total Deferred Outflows of Resources	66,542
<u>LIABILITIES</u>	
Accounts Payable	12,328
Accrued Payroll	17,637
Due to Delinquent Tax Collector	3,550
Due to Others	5
Accrued Interest Payable	9,257
Noncurrent Liabilities:	
Due within One Year	53,333
Due in More than One Year	813,859
Total Liabilities	909,969
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Inflows of Resources Related to the Town's Participation in VMERS	2,816
Total Deferred Inflows of Resources	2,816
<u>NET POSITION</u>	
Net Investment in Capital Assets	3,296,170
Restricted for:	
Library Expenses	1,065,398
Cemetery Upkeep Expenses	40,431
Parks Upkeep Expenses	75,940
Records Restoration	16,384
Unrestricted	677,896
Total Net Position	\$ 5,172,219

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

TOWN OF GRAFTON, VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

		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	\$ 271,081	\$ 21,997	\$ 13,120	\$ 44,537	\$ (191,427)
Cemetery	22,848	3,495	0	0	(19,353)
Public Works	938,681	0	121,784	0	(816,897)
Culture and Recreation	6,647	0	0	0	(6,647)
Public Safety	69,860	0	3,709	0	(66,151)
Library	68,030	237	0	0	(67,793)
Interest on Long-term Debt	17,504	0	0	0	(17,504)
	<u>\$ 1,394,651</u>	<u>\$ 25,729</u>	<u>\$ 138,613</u>	<u>\$ 44,537</u>	<u>(1,185,772)</u>
General Revenues:					
Property Taxes					1,001,583
Interest and Penalties on Delinquent Taxes					22,911
General State Grants					110,963
Unrestricted Investment Earnings					105,305
Donations					13,463
Other Revenues					10,342
					<u>1,264,567</u>
Change in Net Position					78,795
Net Position - July 1, 2016					<u>5,093,424</u>
Net Position - June 30, 2017					<u>\$ 5,172,219</u>

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

TOWN OF GRAFTON, VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Capital Projects Fund	Library Fund	Trustees of Public Funds Fund	Total Governmental Funds
ASSETS					
Cash	\$ 736,818	\$ 0	\$ 29,388	\$ 70,414	\$ 836,620
Investments	0	0	1,037,156	45,957	1,083,113
Receivables	55,892	0	0	0	55,892
Due from Other Funds	0	180,145	0	0	180,145
Total Assets	<u>\$ 792,710</u>	<u>\$ 180,145</u>	<u>\$ 1,066,544</u>	<u>\$ 116,371</u>	<u>\$ 2,155,770</u>
LIABILITIES					
Accounts Payable	\$ 12,328	\$ 0	\$ 0	\$ 0	\$ 12,328
Accrued Payroll	16,491	0	1,146	0	17,637
Due to Delinquent Tax Collector	3,550	0	0	0	3,550
Due to Others	5	0	0	0	5
Due to Other Funds	180,145	0	0	0	180,145
Total Liabilities	<u>212,519</u>	<u>0</u>	<u>1,146</u>	<u>0</u>	<u>213,665</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Property Taxes, Penalties and Interest	31,095	0	0	0	31,095
Unavailable Grants	8,020	0	0	0	8,020
Total Deferred Inflows of Resources	<u>39,115</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>39,115</u>
FUND BALANCES					
Nonspendable	0	0	0	88,765	88,765
Restricted	16,384	0	1,065,398	27,606	1,109,388
Committed	130,548	180,145	0	0	310,693
Assigned	34,130	0	0	0	34,130
Unassigned	360,014	0	0	0	360,014
Total Fund Balances	<u>541,076</u>	<u>180,145</u>	<u>1,065,398</u>	<u>116,371</u>	<u>1,902,990</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 792,710</u>	<u>\$ 180,145</u>	<u>\$ 1,066,544</u>	<u>\$ 116,371</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.	4,042,837
Other Assets are not Available to Pay for Current-Period Expenditures, and, Therefore, are Deferred in the Funds.	39,115
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.	(876,449)
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>63,726</u>
Net Position of Governmental Activities	<u>\$ 5,172,219</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, 2017

	General Fund	Capital Projects Fund	Library Fund	Trustees of Public Funds Fund	Total Governmental Funds
Revenues:					
Property Taxes	\$ 992,783	\$ 141,000	\$ 2,600	\$ 0	\$ 1,136,383
Penalties and Interest on Delinquent Taxes	22,911	0	0	0	22,911
Intergovernmental Revenues	179,497	0	0	0	179,497
Charges for Services	10,385	0	237	1,375	11,997
Licenses and Permits	1,548	0	0	0	1,548
Investment Income	1,657	0	108,217	(2,726)	107,148
Donations	0	0	13,463	0	13,463
Rental Income - Town Hall	8,833	0	0	0	8,833
Other Income	5,104	0	5,515	0	10,619
Total Revenues	<u>1,222,718</u>	<u>141,000</u>	<u>130,032</u>	<u>(1,351)</u>	<u>1,492,399</u>
Expenditures:					
General Government	264,429	0	0	0	264,429
Cemetery	22,348	0	0	500	22,848
Public Works	749,332	0	0	0	749,332
Culture and Recreation	6,647	0	0	0	6,647
Public Safety	54,860	15,000	0	0	69,860
Library	0	0	68,030	0	68,030
Capital Outlay:					
General Government	9,400	0	0	0	9,400
Public Works	0	100,445	0	0	100,445
Debt Service:					
Principal	53,333	0	0	0	53,333
Interest	18,220	0	0	0	18,220
Total Expenditures	<u>1,178,569</u>	<u>115,445</u>	<u>68,030</u>	<u>500</u>	<u>1,362,544</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>44,149</u>	<u>25,555</u>	<u>62,002</u>	<u>(1,851)</u>	<u>129,855</u>
Other Financing Sources/(Uses):					
Transfers In	748	0	0	0	748
Transfers Out	0	0	0	(748)	(748)
Total Other Financing Sources/(Uses)	<u>748</u>	<u>0</u>	<u>0</u>	<u>(748)</u>	<u>0</u>
Net Changes in Fund Balances	44,897	25,555	62,002	(2,599)	129,855
Fund Balances - July 1, 2016	<u>496,179</u>	<u>154,590</u>	<u>1,003,396</u>	<u>118,970</u>	<u>1,773,135</u>
Fund Balances - June 30, 2017	<u>\$ 541,076</u>	<u>\$ 180,145</u>	<u>\$ 1,065,398</u>	<u>\$ 116,371</u>	<u>\$ 1,902,990</u>

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, 2017

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

Change in fund balances - total government funds (Exhibit D)	\$	129,855
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost (\$109,845) of those assets is allocated over their estimated useful lives and reported as depreciation expense (\$177,169). This is the amount by which capital outlays exceeded depreciation in the current period.		(67,324)
The issuance of long-term debt (\$-0-) (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt (\$53,333) consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of the differences in the treatment of long-term debt and related items.		53,333
Governmental funds report employer pension contributions as expenditures (\$13,379). However, in the statement of activities, the cost of pension benefits earned net of employee contributions (\$27,128) is reported as pension expense. This amount is the net effect of the differences in the treatment of pension expense.		(13,749)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(18,953)
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>(4,367)</u>
Change in net position of governmental activities (Exhibit B)	\$	<u><u>78,795</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, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Tax Revenues:			
Property Taxes	\$ 870,231	\$ 884,743	\$ 14,512
State of Vermont Current Use	90,000	108,040	18,040
Total Tax Revenues	960,231	992,783	32,552
Interest and Penalties:			
Interest on Overdue Taxes	5,000	13,384	8,384
8% Penalty on Delinquent Taxes	2,500	9,527	7,027
Total Interest and Penalties	7,500	22,911	15,411
Licenses and Permits:			
Liquor Licenses	350	415	65
Dog Licenses	500	288	(212)
Total Licenses and Permits	850	703	(147)
Intergovernmental Revenues:			
State of Vermont - Highways	120,000	121,784	1,784
State of Vermont - In Lieu of Taxes	600	2,923	2,323
State of Vermont - Reappraisal	0	5,313	5,313
State of Vermont - Civil Fines	0	1,231	1,231
U.S. Government - FEMA	0	33,403	33,403
CDBG Grant	0	11,134	11,134
Emergency Grant	0	3,709	3,709
Total Intergovernmental Revenues	120,600	179,497	58,897
Charges for Services:			
Town Clerk's Fees	5,000	5,824	824
Preservation of Records	0	4,483	4,483
Copying Fees	50	78	28
Total Charges for Services	5,050	10,385	5,335
Interest Earned	1,000	1,657	657

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, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Miscellaneous Revenues:			
Town Hall Rent	\$ 8,400	\$ 8,833	\$ 433
Permits	600	845	245
Other	0	4,827	4,827
Total Miscellaneous Revenues	9,000	14,505	5,505
Interfund Revenues:			
Cemetery Trust Funds	100	0	(100)
Village Park Trust Funds	100	0	(100)
Wilson Park Trust Funds	50	748	698
Sherwin Cambridge Fund	300	277	(23)
Total Interfund Revenues	550	1,025	475
Total Revenues	1,104,781	1,223,466	118,685
Expenditures:			
Salaries/Compensation:			
Select Board	5,000	5,000	0
Select Board Town Administrator	36,500	34,121	2,379
Flood Zoning Administrator	1,500	1,588	(88)
Town Treasurer	15,000	15,000	0
Town Clerk	29,500	30,791	(1,291)
Assistant Town Clerk/Treasurer	5,500	4,901	599
Listers	6,000	6,984	(984)
Auditors	2,000	2,778	(778)
Trustee of Public Funds	500	500	0
Constables and Insurance	250	250	0
Collector of Delinquent Taxes	2,500	9,309	(6,809)
Health Officer	1,000	1,250	(250)
Forest Fire Warden	250	250	0
Total Salaries/Compensation	105,500	112,722	(7,222)

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, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Benefits:			
Social Security (FICA)	\$ 9,000	\$ 9,349	\$ (349)
Medicare	2,500	2,281	219
Employee Health Insurance	37,400	25,186	12,214
Employee Dental Insurance	1,000	859	141
Retirement	4,300	4,685	(385)
Worker's Compensation	1,000	2,909	(1,909)
Unemployment Insurance	150	129	21
Total Benefits	55,350	45,398	9,952
Town Meetings and Elections:			
Ballot Clerk Compensation	700	1,027	(327)
Town Reports	1,100	959	141
Other Town Meeting/Election Expense	200	309	(109)
Total Town Meetings and Elections	2,000	2,295	(295)
Operating Expenses:			
Office Supplies	2,000	2,908	(908)
Postage	1,450	1,185	265
Telephone	2,500	2,472	28
Copier Expense	1,600	2,048	(448)
Computer Expense	5,000	7,203	(2,203)
Travel - Town Officials	2,700	1,818	882
Dues - Town Officials	150	340	(190)
Conferences	1,750	1,687	63
Dog Expense	120	423	(303)
Preservation of Records	0	5,524	(5,524)
Liability Insurance	3,000	1,504	1,496
Public Official Insurance	2,800	4,415	(1,615)
Officers Bond	100	100	0
Kidder Bridge Insurance	70	80	(10)
Advertising	1,700	1,500	200
Other Professional Services	250	450	(200)
Legal Expense/Tax Appeals	500	0	500
Legal Expense	7,000	6,230	770
Professional Auditor	22,000	16,639	5,361
Other Operating Expenses	1,000	4,049	(3,049)
Total Operating Expenses	55,690	60,575	(4,885)

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, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Recreation & Parks:			
Swimming Pool	\$ 500	\$ 282	\$ 218
Town Greens	500	745	(245)
Village Park	500	445	55
Wilson Park	0	988	(988)
Winnie Park	500	177	323
Water Testing	0	91	(91)
Total Recreation & Parks	2,000	2,728	(728)
Cemeteries:			
Labor	20,000	18,423	1,577
Benefits - FICA and Worker's Compensation	2,000	1,995	5
Supplies	900	265	635
Equipment	800	240	560
Other Expense	3,000	1,425	1,575
Total Cemeteries	26,700	22,348	4,352
Other Town Expenses:			
VLCT Dues	1,700	1,697	3
County Tax	11,000	10,238	762
Street & Bridge Lights	1,600	1,512	88
Grafton Public Library	2,600	3,919	(1,319)
Planning Commission	2,250	833	1,417
Windham Regional Commission	1,300	1,263	37
Emergency Management	3,900	2,325	1,575
Sheriff's Department	4,750	4,704	46
Cornet Band	250	250	0
Industrial Wind Project	0	175	(175)
Total Other Town Expenses	29,350	26,916	2,434

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, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Town Hall Expenses:			
Supplies	\$ 500	\$ 944	\$ (444)
Insurance	4,000	4,544	(544)
Heat	5,000	1,986	3,014
Electricity	1,500	1,522	(22)
Repairs & Maintenance	10,000	6,784	3,216
Snow Removal	1,000	1,500	(500)
Payphone	300	450	(150)
Total Town Hall Expenses	22,300	17,730	4,570
Debt Service:			
Principal Expense	54,000	53,333	667
Interest Expense	10,000	18,220	(8,220)
Total Debt Service	64,000	71,553	(7,553)
Other Voted Articles:			
Ambulance Service	9,000	8,760	240
Fireman's Operating Budget	26,000	28,913	(2,913)
FAST Squad	9,000	10,158	(1,158)
Humanitarian Articles	9,741	9,741	0
Total Other Voted Articles	53,741	57,572	(3,831)
Highway Salaries/Compensation:			
Labor - Regular Hours	141,000	145,023	(4,023)
Labor - Overtime	16,000	16,517	(517)
Labor - Temporary	3,500	3,690	(190)
Total Highway Salaries/Compensation	160,500	165,230	(4,730)
Highway Benefits:			
Social Security (FICA)	9,400	10,283	(883)
Medicare	2,200	2,405	(205)
Health Insurance	65,500	64,520	980
Dental Insurance	1,600	1,374	226
Retirement - Highway	8,200	8,868	(668)
Worker's Compensation	12,500	13,112	(612)
Unemployment Insurance	500	186	314
Uniforms	5,800	6,451	(651)
Total Highway Benefits	105,700	107,199	(1,499)

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, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Fuel:			
Truck 1 - 2011 International	\$ 8,000	\$ 3,746	\$ 4,254
Truck 2 - 2007 Sterling	7,500	5,478	2,022
Truck 3 - 2014 Chevy	2,300	1,782	518
Truck 4 - 2013 Freightliner	5,000	3,055	1,945
Loader - 2013 CAT	3,800	1,188	2,612
Grader - 2010 CAT	6,000	1,469	4,531
Backhoe - 2012 John Deere	2,000	426	1,574
Chipper	100	21	79
Small Equipment	1,250	1,101	149
	<u>35,950</u>	<u>18,266</u>	<u>17,684</u>
Total Fuel			
Repairs and Maintenance:			
Truck 1 - 2011 International	5,500	3,918	1,582
Truck 2 - 2007 Sterling	3,000	3,493	(493)
Truck 3 - 2014 Chevy	3,000	686	2,314
Truck 4 - 2013 Freightliner	2,500	4,943	(2,443)
Loader - 2013 CAT	2,500	664	1,836
Grader - 2010 CAT	3,000	2,475	525
Plows and Sanders	14,000	13,822	178
Backhoe - 2012 John Deere	2,000	2,382	(382)
Chipper	200	96	104
Small Equipment	1,200	641	559
	<u>36,900</u>	<u>33,120</u>	<u>3,780</u>
Total Repairs and Maintenance			
Contracted Services:			
Mowing Contractors	7,900	6,720	1,180
Tree Removal Contractors	1,000	0	1,000
Retreatment Contractors	105,000	106,943	(1,943)
Bridge Maintenance	6,000	61	5,939
Street Sweeping Contracts	2,600	1,255	1,345
Line Painting	0	143	(143)
Small Equipment Rental	1,000	2,658	(1,658)
Generator Contract	800	356	444
Other Contracted Services	2,000	30	1,970
	<u>126,300</u>	<u>118,166</u>	<u>8,134</u>
Total Contracted Services			
FEMA Buyout - Trayhan Property	0	45,157	(45,157)
Re-Use Grant - Winnie Park	0	8,911	(8,911)

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, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Materials and Supplies:			
Culvert Expenses	\$ 5,000	\$ 7,503	\$ (2,503)
Cold Patch	2,000	368	1,632
Gravel Crushing and Hauling	30,000	30,209	(209)
Road Repair Material	12,000	17,714	(5,714)
Salt	60,000	96,672	(36,672)
Sand	60,000	49,168	10,832
Chloride	10,000	8,530	1,470
Road Signs	2,000	1,766	234
Miscellaneous Supplies	2,000	1,407	593
Total Materials and Supplies	183,000	213,337	(30,337)
Town Garage:			
Supplies and Tools/Inventory	6,000	2,926	3,074
Radio	1,200	739	461
Telephone	1,500	1,235	265
Insurance	6,000	5,273	727
Heat	5,500	5,503	(3)
Electricity	2,000	1,812	188
Repairs and Maintenance - Town Shed	4,000	13,594	(9,594)
New Town Garage	0	4,011	(4,011)
Pagers for Highway Workers	600	750	(150)
Fire Alarm System for New Town Shed	250	410	(160)
Total Town Garage	27,050	36,253	(9,203)
Other Expenses:			
Training	250	225	25
Advertising	500	648	(148)
Liability Insurance - Highway	4,300	4,512	(212)
Equipment Insurance	6,500	6,542	(42)
Safety Equipment	1,000	959	41
Commercial Licenses	200	178	22
Miscellaneous Highway Expenses	0	29	(29)
Total Other Expenses	12,750	13,093	(343)
Total Expenditures	1,104,781	1,178,569	(73,788)
Excess of Revenues Over Expenditures	\$ 0	44,897	\$ 44,897
Fund Balance - July 1, 2016		496,179	
Fund Balance - June 30, 2017		\$ 541,076	

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

TOWN OF GRAFTON, VERMONT
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2017

	<u>Private Purpose Trust Funds</u>
<u>ASSETS</u>	
Cash	\$ 30,393
Investments	<u>8,657</u>
Total Assets	<u>39,050</u>
<u>LIABILITIES</u>	
Total Liabilities	<u>0</u>
<u>NET POSITION</u>	
Held in Trust for Various Purposes	<u>39,050</u>
Total Net Position	<u><u>\$ 39,050</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, 2017

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Investment Earnings:	
Net Investment Income	\$ <u>47</u>
Total Additions	<u>47</u>
<u>DEDUCTIONS:</u>	
Care of the Indigent and Needy	<u>378</u>
Total Deductions	<u>378</u>
Change in Net Position	(331)
Net Position - July 1, 2016	<u>39,381</u>
Net Position - June 30, 2017	<u><u>\$ 39,050</u></u>

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

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

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, 2017

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government, the Town. These statements include the financial activities of the overall government, 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.

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, 2017

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, 2017

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 of 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, 2017

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. These amounts are deferred and recognized as an outflow of resources in the future periods to which the outflows are related.

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

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 acquisition value at the time received. Major outlays for capital assets and improvements are capitalized as constructed. Interest is not capitalized during the construction phase of capital assets used in governmental activities. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. 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, 2017

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

The 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:

	Capitalization Threshold	Estimated Service Life
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, 2017

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, 2017

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. Excess of Expenditures over Appropriations

For the year ended June 30, 2017, expenditures in the General Fund exceeded appropriations by \$73,788. These over-expenditures were funded by excess revenues.

IV. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

Cash and investments at June 30, 2017 consisted of the following:

Cash:

Deposits with Financial Institutions	\$ 844,626
Deposits held by Investment Company	22,261
Cash on Hand	<u>126</u>

Total Cash 867,013

Investments:

Certificates of Deposits	14,657
Corporate Bonds	125,501
Mutual Funds	911,655
Stock	<u>39,957</u>

Total Investments 1,091,770

Total Cash and Investments \$1,958,783

The Town has several certificates of deposits with amounts ranging from \$1,100 to \$6,000 with interest rates at .35% and terms for one (1) year.

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

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	\$511,552	\$516,529
Uninsured, Collateralized by U.S. Government Agencies Securities Held by the Pledging Financial Institutions Agent	<u>369,992</u>	<u>427,848</u>
	<u>\$881,544</u>	<u>\$944,377</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	\$844,626
Cash – Deposits with Investment Company	22,261
Investments – Certificates of Deposit	<u>14,657</u>
Total	<u>\$881,544</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.

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

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	Not Available	
Mutual Funds	\$ 0	\$ 0	\$ 911,655	\$ 911,655
Corporate Bonds	50,149	75,352	0	125,501
Total	\$ 50,149	\$ 75,352	\$ 911,655	\$ 1,037,156

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, 2017 Corporate Bonds
A	\$ 75,132
BAA	50,369
Total	\$ 125,501

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 97% of their stock invested in General Electric, Inc.

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

B. Receivables

Receivables at June 30, 2017, as reported in the statement of net position, are as follows:

		Governmental Activities	
Delinquent Taxes	\$	39,912	
Penalties and Interest on Delinquent Tax		6,831	
Grants Receivable		9,149	
 Total	 \$	 55,892	

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, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 196,800	\$ 9,400	\$ 0	\$ 206,200
Total Capital Assets, Not Being Depreciated	196,800	9,400	0	206,200
Capital Assets, Being Depreciated:				
Vehicles & Equipment	908,748	120,445	114,095	915,098
Buildings and Building Improvements	1,321,683	0	0	1,321,683
Infrastructure	2,747,151	0	0	2,747,151
Totals	4,977,582	120,445	114,095	4,983,932
Less Accumulated Depreciation for:				
Vehicles & Equipment	292,395	79,565	94,095	277,865
Buildings and Building Improvements	56,700	25,538	0	82,238
Infrastructure	715,126	72,066	0	787,192
Totals	1,064,221	177,169	94,095	1,147,295
Total Capital Assets, Being Depreciated	3,913,361	(56,724)	20,000	3,836,637
Governmental Activities Capital Assets, Net	\$ 4,110,161	\$ (47,324)	\$ 20,000	\$ 4,042,837

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

Depreciation was charged as follows:

Governmental Activities:		
General Government	\$	2,116
Public Works		<u>175,053</u>
Total Depreciation Expense - Governmental Activities		\$ <u><u>177,169</u></u>

D. Interfund Balances and Activity

The due to/from balances as of June 30, 2017 are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	\$ 0	\$ 180,145
Capital Projects Fund	<u>180,145</u>	<u>0</u>
Total	\$ <u><u>180,145</u></u>	\$ <u><u>180,145</u></u>

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

Transfer From	Transfer To	Amount	Purpose
Trustees of Public Funds Fund	General Fund	\$ <u>748</u>	Transfer Investment Earnings
Total		\$ <u><u>748</u></u>	

E. Deferred Outflows of Resources

Deferred outflows of resources in the Governmental Activities consists of \$2,160 from the difference between the expected and actual experience, \$16,894 from changes in assumptions, \$34,109 from the difference between the projected and actual investment earnings and \$13,379 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 \$66,542.

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

F. Deferred Inflows of Resources

Deferred inflows of resources in the Governmental Activities consists of \$2,816 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 \$31,095 of delinquent property taxes, penalties and interest on those taxes and \$8,020 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 \$39,115.

G. Long-term Liabilities

Notes Payable – The Town has a note payable to finance capital purchases through a local bank.

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, 2017 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	\$ 53,333	\$746,667
Total	\$800,000	\$ 0	\$ 53,333	\$746,667

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

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities					
Notes Payable	\$ 800,000	\$ 0	\$ 53,333	\$ 746,667	\$ 53,333
Compensated Absences Payable	10,249	5,083	0	15,332	0
Net Pension Liability	<u>67,234</u>	<u>37,959</u>	<u>0</u>	<u>105,193</u>	<u>0</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 877,483</u>	<u>\$ 43,042</u>	<u>\$ 53,333</u>	<u>\$ 867,192</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>
2018	\$ 53,333	\$ 17,995
2019	53,333	16,661
2020	53,333	15,328
2021	53,333	14,035
2022	53,333	12,661
2023-2027	266,667	43,332
2028-2032	<u>213,335</u>	<u>10,656</u>
Total	<u>\$ 746,667</u>	<u>\$ 130,668</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
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

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 88,765

Total Nonspendable Fund Balances \$ 88,765

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

General Fund:

Restricted for Town Clerk Restoration Expenses by Statute	\$ <u>16,384</u>
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TOWN OF GRAFTON, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Library Fund:	
Restricted for Library Expenses by Grants, Fees and Donations	<u>\$1,065,398</u>
Trustees of Public Funds Fund:	
Restricted for Cemetery Upkeep Expenses	3,896
Unexpended Earnings on Bequest	<u>23,710</u>
Restricted for Wilson Park by Donor Bequest	<u>27,606</u>
Total Trustees of Public Funds Fund	<u>27,606</u>
Total Restricted Fund Balances	<u>\$1,109,388</u>

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

General Fund:	
Committed for Purchase of Roadside Mower by the Voters	<u>\$ 130,548</u>
Capital Projects Fund:	
Committed for Capital Projects by the Voters	<u>180,145</u>
Total Committed Fund Balance	<u>\$ 310,693</u>

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

General Fund:	
Assigned for Reappraisal Expenses	<u>\$ 34,130</u>
Total Assigned Fund Balance	<u>\$ 34,130</u>

I. Restricted Net Position

The restricted net position of the Town as of June 30, 2017 consisted of the following:

Governmental Activities:	
Restricted by Grant Fees and Donations – Library	\$1,065,398
Restricted by Bequest – Cemetery	40,431
Restricted by Statute – Town Clerk Restoration Fund	16,384
Restricted by Bequest – Wilson Park	69,940
Restricted by Bequest – Village Park	<u>6,000</u>
Total Governmental Activities	<u>\$1,198,153</u>

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

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, 2017 consisted of the following:

Restricted for S.B. Jones Library and Church Fund by Donations	\$ 701
Restricted for Grafton Fund by Donations	8,017
Restricted for Edward Campbell Fund by Bequest	18,261
Restricted for Woolson Fund by Bequest	9,936
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>\$ 39,050</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, 2017, the retirement system consisted of 441 participating employers.

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

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

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

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources

As of June 30, 2016, the measurement date selected by the State of Vermont, VMERS was funded at 80.95% and had a plan fiduciary net position of \$547,015,114 and a total pension liability of \$675,711,281 resulting in a net pension liability of \$128,696,167. As of June 30, 2017, the Town's proportionate share of this was .0817% resulting in a liability of \$105,193. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. As of June 30, 2016, the Town's proportion of .0817% was a decrease of .0055% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$27,128.

As of June 30, 2017, 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	\$ 2,160	\$ 0
Changes in assumptions	16,894	0
Difference between projected and actual investment earnings	34,109	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	0	2,816
Town's required employer contributions made subsequent to the measurement date	<u>13,379</u>	<u>0</u>
	<u>\$ 66,542</u>	<u>\$ 2,816</u>

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

The deferred outflows of resources resulting from the Town's required employer contributions made subsequent to the measurement date in the amount of \$13,379 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>	
2018	\$12,818
2019	12,818
2020	18,826
2021	<u>5,885</u>
Total	<u>\$50,347</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): Average annual compensation during highest three (3) consecutive years.

Service Retirement Allowance:

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

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

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

Early Retirement Allowance:

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

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

Vested Retirement Allowance:

Eligibility – Five (5) years of service.

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

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

Disability Retirement Allowance:

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

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

Death Benefit:

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

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

Optional Benefit and Death after Retirement: Lifetime allowance or actuarially equivalent 50% or 100% joint and survivor allowance with refund of contribution guarantee.

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

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

Member Contributions: 4.875%

Employer Contributions: 5.50%

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

Significant Actuarial Assumptions and Methods

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

Interest Rate: 7.95% per annum.

Salary increases: 5% per year.

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

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

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.

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

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

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

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

Long-term Expected Rate of Return:

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

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

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

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

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

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

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>
\$174,631	\$105,193	\$47,053

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.

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.

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

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, 2017, taxes became due and payable on August 15, 2016, November 15, 2016, February 15, 2017 and May 15, 2017. 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 2017 were as follows:

	<u>Residential</u>	<u>Non-Residential</u>
Education	1.2081	1.3155
Highway	.3300	.3300
Capital Projects	.0900	.0900
Local Agreements	.0154	.0154
Town	<u>.2000</u>	<u>.2000</u>
Total	<u>1.8435</u>	<u>1.9509</u>

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

	2017	2016	2015
Total Plan Net Pension Liability	\$ 128,696,167	\$ 77,095,810	\$ 9,126,613
Town's Proportion of the Net Pension Liability	0.0817%	0.0872%	0.0894%
Town's Proportionate Share of the Net Pension Liability	\$ 105,193	\$ 67,234	\$ 8,155
Town's Covered Employee Payroll	\$ 243,246	\$ 225,870	\$ 226,797
Town's Proportionate Share of the Net Pension Liability as a Percentage of Town's Covered Employee Payroll	43.2455%	29.7667%	3.5957%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.95%	87.42%	98.32%

Notes to Schedule

Benefit Changes: None.

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

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution (Actuarially Determined)	\$ 13,379	\$ 12,423	\$ 12,190
Contributions in Relation to the Actuarially Determined Contributions	<u>13,379</u>	<u>12,423</u>	<u>12,190</u>
Contribution Excess/(Deficiency)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Town's Covered Employee Payroll	\$ 243,246	\$ 225,870	\$ 226,797
Contributions as a Percentage of Town's Covered Employee Payroll	5.500%	5.500%	5.375%

Notes to Schedule

Valuation Date: June 30, 2016

Fiscal year 2015 was the first year of implementation, therefore, only three 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, 2017

	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	\$ 701	\$ 3,017	\$ 15,704	\$ 9,936	\$ 0	\$ 1,035	\$ 30,393
Investments	<u>0</u>	<u>5,000</u>	<u>2,557</u>	<u>0</u>	<u>1,100</u>	<u>0</u>	<u>8,657</u>
Total Assets	<u>\$ 701</u>	<u>\$ 8,017</u>	<u>\$ 18,261</u>	<u>\$ 9,936</u>	<u>\$ 1,100</u>	<u>\$ 1,035</u>	<u>\$ 39,050</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>701</u>	<u>8,017</u>	<u>18,261</u>	<u>9,936</u>	<u>1,100</u>	<u>1,035</u>	<u>39,050</u>
Total Net Position	<u>701</u>	<u>8,017</u>	<u>18,261</u>	<u>9,936</u>	<u>1,100</u>	<u>1,035</u>	<u>39,050</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 701</u>	<u>\$ 8,017</u>	<u>\$ 18,261</u>	<u>\$ 9,936</u>	<u>\$ 1,100</u>	<u>\$ 1,035</u>	<u>\$ 39,050</u>

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TOWN OF GRAFTON, VERMONT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 PRIVATE PURPOSE TRUST FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	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	\$ 1	\$ 19	\$ 18	\$ 6	\$ 3	\$ 0	\$ 47
Total Additions	<u>1</u>	<u>19</u>	<u>18</u>	<u>6</u>	<u>3</u>	<u>0</u>	<u>47</u>
<u>DEDUCTIONS</u>							
Care of the Indigent and Needy	<u>0</u>	<u>0</u>	<u>375</u>	<u>0</u>	<u>3</u>	<u>0</u>	<u>378</u>
Total Deductions	<u>0</u>	<u>0</u>	<u>375</u>	<u>0</u>	<u>3</u>	<u>0</u>	<u>378</u>
Change In Net Position	1	19	(357)	6	0	0	(331)
Net Position - July 1, 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>
Net Position - June 30, 2017	<u>\$ 701</u>	<u>\$ 8,017</u>	<u>\$ 18,261</u>	<u>\$ 9,936</u>	<u>\$ 1,100</u>	<u>\$ 1,035</u>	<u>\$ 39,050</u>

See Disclaimer in Accompanying Independent Auditor's Report.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Government Auditing Standards"

Selectboard
Town of 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, 2017, 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 December 12, 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 significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town of 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 2017-01 and 2017-02 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 deficiencies described in the accompanying Schedule of Findings and Deficiencies in Internal Control as Items 2017-03 and 2017-04 to be significant deficiencies.

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 December 12, 2017.

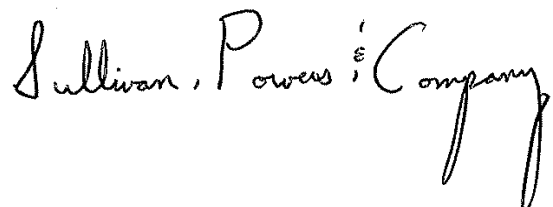
Town of Grafton, Vermont's Response to Deficiencies in Internal Control

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.

December 12, 2017
Montpelier, Vermont
VT Lic. #92-000180

A handwritten signature in black ink that reads "Sullivan, Powers & Company". The signature is written in a cursive style with a large, stylized initial 'S' and a long, sweeping underline.

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

Deficiencies in Internal Control:

Material Weaknesses:

2017-01 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.

2017-02 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
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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:

2017-03 Authorization of General Journal Entries

Criteria:

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

Condition:

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

Cause:

Unknown.

Effect:

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

Recommendation:

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

TOWN OF GRAFTON, VERMONT
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2017-04 Payroll Withholdings

Criteria:

Internal controls should be in place that requires Town personnel to accurately process and disburse the employee and employer portion of Federal, state and FICA tax to the Internal Revenue Service in a timely manner.

Condition:

Internal controls relating to the disbursement of payroll taxes to the Internal Revenue Service are inadequately designed.

Cause:

Unknown

Effect:

The Town has inadvertently made itself susceptible to fines and penalties imposed by the Internal Revenue Service for a delay in processing payroll related withholdings.

Recommendation:

We recommend that the Town implement procedures to ensure the accurate and timely disbursement of the employee and employer share of Federal, state and FICA tax to the Internal Revenue Service.



P.O. Box 180

TOWN OF GRAFTON
(802)843-2419

Main Street

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

December 8, 2017

This letter is to acknowledge the Deficiencies that were found during The Town of Grafton's 2017 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 have been a concern for all of us with the changing in staff for payroll and accounts payable. Our hope was that corrections would be made and we would be able to balance the statements to the general ledge. That did not happen due to several overpayments and untimely payments on our 941's. We have since moved all accounting from the Town Administrator back to the Treasurers department. Earlier this month we have met with NEMRC 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 such as the FEMA buyout. I will begin to use an account number in revenue for grants, and another one for "expenditures" of grants to be drawn from.

Authorization of General Journal Entries:

I have been keeping a three ring binder of my Journal Entries on a monthly basis and initialed only by the Town Auditors. I will now be sure to have a printed record of each and every journal entry that I make and have a Select Board member or Town Auditor initial weekly if possible.

Payroll Withholdings:

We have implemented a procedure in the Treasure's office beginning November 2017 to ensure accurate and timely disbursement of employee and employer's share of Federal, State and FICA tax to the Internal Revenue Service. This was made possible, with the help of an onsite visit with NEMRC.

Fraud Risk Assessment:

The Town of Grafton has not performed a Fraud Risk assessment this year but Michelle and I have attended a conference on just this matter and will ask the Select Board to begin to address this issue before the next audit takes place.

Respectfully submitted,


Kimberly Record, Grafton Town Clerk/Treasurer