

TOWN OF GRAFTON, VERMONT

AUDIT REPORT

JUNE 30, 2018

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, 2018, 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, 2018, 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

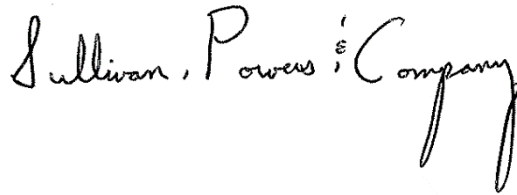
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Grafton, Vermont's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic 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.

Town of Grafton, Vermont

Other Reporting Required by “Government Auditing Standards”

In accordance with “Government Auditing Standards”, we have also issued our report dated March 7, 2019 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.

March 7, 2019
Montpelier, Vermont
VT Lic. #92-000180

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

TOWN OF GRAFTON, VERMONT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
<u>ASSETS</u>	
Cash	\$ 756,602
Investments	1,055,919
Receivables	100,467
Prepaid Expenses	31,883
Capital Assets:	
Land	206,200
Construction in Progress	6,213
Other Capital Assets, (Net of Accumulated Depreciation)	3,864,073
Total Assets	6,021,357
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Outflows of Resources Related to the Town's Participation in VMERS	51,979
Total Deferred Outflows of Resources	51,979
 <u>LIABILITIES</u>	
Accounts Payable	17,966
Accrued Payroll	13,686
Due to Delinquent Tax Collector	5,991
Due to Others	553
Due to State of Vermont	4,408
Noncurrent Liabilities:	
Due in More than One Year	756,283
Total Liabilities	798,887
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Inflows of Resources Related to the Town's Participation in VMERS	4,248
Total Deferred Inflows of Resources	4,248
 <u>NET POSITION</u>	
Net Investment in Capital Assets	3,436,486
Restricted for:	
Library Expenses	1,095,808
Cemetery Upkeep Expenses	48,220
Parks Upkeep Expenses	14,426
Records Restoration	50,753
Unrestricted	624,508
Total Net Position	\$ 5,270,201

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

TOWN OF GRAFTON, VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		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	\$ 302,010	\$ 20,631	\$ 32,197	\$ 18,746	\$ (230,436)
Cemetery	26,241	1,529	0	0	(24,712)
Public Works	1,042,389	0	338,673	0	(703,716)
Culture and Recreation	4,323	0	0	0	(4,323)
Public Safety	68,067	689	0	0	(67,378)
Library	72,565	0	3,993	0	(68,572)
Interest on Long-term Debt	15,744	0	0	0	(15,744)
	<u>\$ 1,531,339</u>	<u>\$ 22,849</u>	<u>\$ 374,863</u>	<u>\$ 18,746</u>	<u>(1,114,881)</u>
Total Governmental Activities					
General Revenues:					
Property Taxes					997,580
Interest and Penalties on Delinquent Taxes					15,387
General State Grants					112,712
Unrestricted Investment Earnings					62,913
Donations					15,487
Other Revenues					8,784
					<u>1,212,863</u>
Total General Revenues					
Change in Net Position					97,982
Net Position - July 1, 2017					<u>5,172,219</u>
Net Position - June 30, 2018					<u>\$ 5,270,201</u>

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

TOWN OF GRAFTON, VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Fund	Capital Projects Fund	Library Fund	Trustees of Public Funds Fund	Total Governmental Funds
<u>ASSETS</u>					
Cash	\$ 616,666	\$ 0	\$ 67,463	\$ 72,473	\$ 756,602
Investments	0	0	1,029,419	26,500	1,055,919
Receivables	100,467	0	0	0	100,467
Due from Other Funds	0	251,195	0	0	251,195
Prepaid Expenses	31,883	0	0	0	31,883
Total Assets	\$ 749,016	\$ 251,195	\$ 1,096,882	\$ 98,973	\$ 2,196,066
<u>LIABILITIES</u>					
Accounts Payable	\$ 17,966	\$ 0	\$ 0	0	\$ 17,966
Accrued Payroll	12,612	0	1,074	0	13,686
Due to Delinquent Tax Collector	5,991	0	0	0	5,991
Due to Others	553	0	0	0	553
Due to State of Vermont	4,408	0	0	0	4,408
Due to Other Funds	251,195	0	0	0	251,195
Total Liabilities	292,725	0	1,074	0	293,799
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Unavailable Property Taxes, Penalties and Interest	48,845	0	0	0	48,845
Unavailable Grants	11,463	0	0	0	11,463
Total Deferred Inflows of Resources	60,308	0	0	0	60,308
<u>FUND BALANCES</u>					
Nonspendable	31,883	0	0	87,267	119,150
Restricted	14,426	0	1,095,808	11,706	1,121,940
Committed	0	251,195	0	0	251,195
Assigned	264,232	0	0	0	264,232
Unassigned	85,442	0	0	0	85,442
Total Fund Balances	395,983	251,195	1,095,808	98,973	1,841,959
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 749,016	\$ 251,195	\$ 1,096,882	\$ 98,973	

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.	4,076,486
Other Assets are not Available to Pay for Current-Period Expenditures, and, Therefore, are Deferred in the Funds.	60,308
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.	(756,283)
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.	47,731
Net Position of Governmental Activities	\$ 5,270,201

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, 2018

	General Fund	Capital Projects Fund	Library Fund	Trustees of Public Funds Fund	Total Governmental Funds
Revenues:					
Property Taxes	\$ 944,082	\$ 149,000	\$ 0	\$ 0	\$ 1,093,082
Penalties and Interest on Delinquent Taxes	13,770	0	0	0	13,770
Intergovernmental Revenues	386,064	0	3,750	0	389,814
Charges for Services	10,276	0	243	1,529	12,048
Licenses and Permits	2,197	0	0	0	2,197
Investment Income/(Loss)	1,193	0	80,280	(18,560)	62,913
Donations	1,875	0	15,487	0	17,362
Rental Income - Town Hall	8,158	0	0	0	8,158
Other Income	8,169	0	615	0	8,784
Total Revenues	<u>1,375,784</u>	<u>149,000</u>	<u>100,375</u>	<u>(17,031)</u>	<u>1,608,128</u>
Expenditures:					
General Government	297,950	0	0	0	297,950
Cemeteries	26,241	0	0	0	26,241
Public Works	851,677	0	0	0	851,677
Culture and Recreation	3,995	0	0	0	3,995
Public Safety	53,067	15,000	0	0	68,067
Library	0	0	72,565	0	72,565
Capital Outlay:					
General Government	6,213	0	0	0	6,213
Public Works	137,998	62,950	0	0	200,948
Culture and Recreation	9,835	0	0	0	9,835
Debt Service:					
Principal	106,667	0	0	0	106,667
Interest	25,001	0	0	0	25,001
Total Expenditures	<u>1,518,644</u>	<u>77,950</u>	<u>72,565</u>	<u>0</u>	<u>1,669,159</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>(142,860)</u>	<u>71,050</u>	<u>27,810</u>	<u>(17,031)</u>	<u>(61,031)</u>
Other Financing Sources/(Uses):					
Transfers In	367	0	2,600	0	2,967
Transfers Out	(2,600)	0	0	(367)	(2,967)
Total Other Financing Sources/(Uses)	<u>(2,233)</u>	<u>0</u>	<u>2,600</u>	<u>(367)</u>	<u>0</u>
Net Changes in Fund Balances	<u>(145,093)</u>	<u>71,050</u>	<u>30,410</u>	<u>(17,398)</u>	<u>(61,031)</u>
Fund Balances - July 1, 2017	<u>541,076</u>	<u>180,145</u>	<u>1,065,398</u>	<u>116,371</u>	<u>1,902,990</u>
Fund Balances - June 30, 2018	<u>\$ 395,983</u>	<u>\$ 251,195</u>	<u>\$ 1,095,808</u>	<u>\$ 98,973</u>	<u>\$ 1,841,959</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, 2018

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

Change in fund balances - total government funds (Exhibit D)	\$	(61,031)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost (\$216,996) of those assets is allocated over their estimated useful lives and reported as depreciation expense (\$183,347). This is the amount by which capital outlays exceeded depreciation in the current period.		33,649
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 (\$106,667) 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.		106,667
Governmental funds report employer pension contributions as expenditures (\$13,131). However, in the statement of activities, the cost of pension benefits earned net of employee contributions (\$23,186) is reported as pension expense. This amount is the net effect of the differences in the treatment of pension expense.		(10,055)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		21,193
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.		7,559
Change in net position of governmental activities (Exhibit B)	\$	97,982

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, 2018

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Tax Revenues:			
Property Taxes	\$ 857,231	\$ 832,447	\$ (24,784)
State of Vermont Current Use	101,000	111,635	10,635
Total Tax Revenues	<u>958,231</u>	<u>944,082</u>	<u>(14,149)</u>
Interest and Penalties:			
Interest on Overdue Taxes	5,000	9,639	4,639
8% Penalty on Delinquent Taxes	2,500	4,131	1,631
Total Interest and Penalties	<u>7,500</u>	<u>13,770</u>	<u>6,270</u>
Licenses and Permits:			
Liquor Licenses	300	415	115
Dog Licenses	500	1,197	697
Total Licenses and Permits	<u>800</u>	<u>1,612</u>	<u>812</u>
Intergovernmental Revenues:			
State of Vermont - Highways	120,000	121,666	1,666
State of Vermont - In Lieu of Taxes	1,000	1,077	77
State of Vermont - Reappraisal	0	5,321	5,321
State of Vermont - Civil Fines	900	689	(211)
Vt Agency of Transportation Grant	0	175,000	175,000
U.S. Government - FEMA	0	34,896	34,896
Re-Use Grant/Donation	0	18,746	18,746
Total Intergovernmental Revenues	<u>121,900</u>	<u>357,395</u>	<u>235,495</u>
Charges for Services:			
Town Clerk's Fees	4,000	5,281	1,281
Preservation of Records	2,500	4,872	2,372
Copying Fees	50	123	73
Total Charges for Services	<u>6,550</u>	<u>10,276</u>	<u>3,726</u>
Interest Earned	<u>1,000</u>	<u>1,193</u>	<u>193</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, 2018

	Budget	Actual	Variance Favorable (Unfavorable)
Miscellaneous Revenues:			
Rental - Town Hall	\$ 8,800	\$ 8,158	\$ (642)
Permits	500	585	85
Grants in Aid	0	16,400	16,400
Better Backroads Grant	0	14,144	14,144
Other	0	8,229	8,229
Total Miscellaneous Revenues	9,300	47,516	38,216
Interfund Revenues:			
Cemetery Trust Funds	100	0	(100)
Village Park Trust Funds	100	21	(79)
Wilson Park Trust Funds	50	0	(50)
Sherwin Cambridge Fund	300	286	(14)
Total Interfund Revenues	550	307	(243)
Total Revenues	1,105,831	1,376,151	270,320
Expenditures:			
Salaries/Compensation:			
Select Board	5,000	5,000	0
Select Board Town Administrator	35,700	31,859	3,841
Administrative Officer	1,000	1,325	(325)
Town Treasurer	16,000	15,000	1,000
Town Clerk	29,500	30,765	(1,265)
Assistant Town Clerk/Treasurer	7,000	8,195	(1,195)
Listers	6,000	6,522	(522)
Auditors	2,000	2,706	(706)
Trustee of Public Funds	500	500	0
Constables	250	250	0
Collector of Delinquent Taxes	2,500	4,129	(1,629)
Health Officer	1,000	750	250
Forest Fire Warden	250	250	0
Temp. Town Office Help	0	2,583	(2,583)
Total Salaries/Compensation	106,700	109,834	(3,134)

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, 2018

	Budget	Actual	Variance Favorable (Unfavorable)
Benefits:			
Social Security (FICA)	\$ 9,600	\$ 7,521	\$ 2,079
Medicare	3,000	1,750	1,250
Employee Health Insurance	28,000	28,967	(967)
Employee Dental Insurance	1,000	486	514
Retirement	4,300	4,010	290
Worker's Compensation	1,000	1,052	(52)
Experience Modification	0	2,437	(2,437)
Penalties	0	2,186	(2,186)
Unemployment Insurance	150	156	(6)
Total Benefits	47,050	48,565	(1,515)
Town Meetings and Elections:			
Ballot Clerk Compensation	700	368	332
Town Reports	1,100	868	232
Other Town Meeting/Election Expense	150	0	150
Total Town Meetings and Elections	1,950	1,236	714
Operating Expenses:			
Office Supplies	2,400	1,772	628
Postage	1,400	1,258	142
Telephone	2,500	2,491	9
Copier Expense	1,800	2,322	(522)
Computer Expense	5,000	6,709	(1,709)
Travel - Town Officials	1,800	1,908	(108)
Dues - Town Officials	270	5	265
Conferences	1,500	3,415	(1,915)
Dog Expense	500	832	(332)
Preservation of Records	0	6,830	(6,830)
Fire Alarm Systems T.H.	0	220	(220)
Liability Insurance	2,400	1,126	1,274
Public Official Insurance	2,800	4,270	(1,470)
Officers Bond	100	100	0
Kidder Bridge Insurance	70	90	(20)
Advertising	1,700	444	1,256
Other Professional Services	300	1,975	(1,675)
Legal Expense/Tax Appeals	500	0	500
Legal Expense	10,000	1,020	8,980
Professional Auditor	15,000	14,400	600
Re-Use Grant Expense	0	9,835	(9,835)
Other Operating Expenses	1,000	456	544
Total Operating Expenses	51,040	61,478	(10,438)

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, 2018

	Budget	Actual	Variance Favorable (Unfavorable)
Recreation & Parks:			
Swimming Pool	\$ 500	\$ 237	\$ 263
Town Greens	500	237	263
Village Park	500	444	56
Wilson Park	0	339	(339)
Winnie Park	300	373	(73)
Park Forester	1,000	1,480	(480)
Parker Hill	0	500	(500)
Pool Water Testing	600	135	465
Total Recreation & Parks	3,400	3,745	(345)
Cemeteries:			
Labor	20,000	22,801	(2,801)
Benefits - FICA and Worker's Compensation	2,000	1,427	573
Supplies	900	461	439
Equipment	800	326	474
Other Expense	3,000	1,226	1,774
Total Cemeteries	26,700	26,241	459
Other Town Expenses:			
VLCT Dues	1,750	1,754	(4)
County Tax	11,000	9,285	1,715
Street & Bridge Lights	1,600	1,474	126
Grafton Public Library	2,600	2,600	0
Planning Commission	1,800	1,675	125
Windham Regional Commission	1,300	1,508	(208)
Emergency Management	3,900	2,653	1,247
Sheriff's Department	4,900	5,304	(404)
Cornet Band	250	250	0
Hydrant	0	2,310	(2,310)
Fact TV 8	0	950	(950)
Miscellaneous Expense	0	216	(216)
Total Other Town Expenses	29,100	29,979	(879)

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, 2018

	Budget	Actual	Variance Favorable (Unfavorable)
Town Hall Expenses:			
Supplies	\$ 500	\$ 402	\$ 98
Insurance	4,000	3,935	65
Heat	5,000	2,567	2,433
Electricity	1,500	1,327	173
Repairs & Maintenance	10,000	7,922	2,078
Snow Removal	1,000	1,800	(800)
Town Hall Restoration	0	6,213	(6,213)
Payphone	300	0	300
	<u>22,300</u>	<u>24,166</u>	<u>(1,866)</u>
Total Town Hall Expenses			
Debt Service:			
Principal Expense	54,000	106,667	(52,667)
Interest Expense	8,500	25,001	(16,501)
	<u>62,500</u>	<u>131,668</u>	<u>(69,168)</u>
Total Debt Service			
Other Voted Articles:			
Ambulance Service	9,000	8,760	240
Fire Department	26,000	26,100	(100)
Rescue Squad	9,000	9,000	0
Humanitarian Articles	9,741	9,741	0
	<u>53,741</u>	<u>53,601</u>	<u>140</u>
Total Other Voted Articles			
Highway Salaries/Compensation:			
Labor - Regular Hours	150,000	150,029	(29)
Labor - Overtime	16,000	16,158	(158)
Labor - Temporary	5,000	3,978	1,022
	<u>171,000</u>	<u>170,165</u>	<u>835</u>
Total Highway Salaries/Compensation			
Highway Benefits:			
Social Security (FICA)	11,000	8,343	2,657
Medicare	2,500	1,951	549
Health Insurance	71,500	69,363	2,137
Dental Insurance	1,600	828	772
Retirement - Highway	9,400	9,121	279
Worker's Compensation	17,000	13,298	3,702
Unemployment Insurance	400	220	180
Uniforms	6,000	7,266	(1,266)
	<u>119,400</u>	<u>110,390</u>	<u>9,010</u>
Total Highway Benefits			

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, 2018

	Budget	Actual	Variance Favorable (Unfavorable)
Fuel:			
Truck 1 - Western Star	\$ 3,500	\$ 6,905	\$ (3,405)
Truck 2 - 2016 Western Star	5,500	8,145	(2,645)
Truck 3 - 2014 Chevy	1,500	2,710	(1,210)
Truck 4 - 2013 Freightliner	2,000	4,352	(2,352)
Loader - 2013 CAT	1,500	1,570	(70)
Grader - 2010 CAT	2,600	2,220	380
Backhoe - 2012 John Deere	1,200	581	619
Chipper	200	0	200
DEF for Equipment	0	560	(560)
Mower/Blower	0	1,290	(1,290)
Other Equipment	1,400	0	1,400
Total Fuel	19,400	28,333	(8,933)
Repairs and Maintenance:			
Truck 1 - Western Star	5,500	3,141	2,359
Truck 2 - 2016 Western Star	3,000	3,899	(899)
Truck 3 - 2014 Chevy	3,000	2,090	910
Truck 4 - 2013 Freightliner	2,500	3,977	(1,477)
Loader - 2013 CAT	1,500	190	1,310
Grader - 2010 CAT	2,500	4,789	(2,289)
Plows and Sanders	14,000	20,888	(6,888)
Backhoe - 2012 John Deere	2,000	2,152	(152)
Chipper	200	0	200
Mower/Blower	0	133,276	(133,276)
Small Equipment Repairs	1,200	284	916
Total Repairs and Maintenance	35,400	174,686	(139,286)
Contracted Services:			
Mowing Contractors	10,000	0	10,000
Tree Removal Contractors	1,000	900	100
Retreatment Contractors	105,000	267,759	(162,759)
Bridge Maintenance	6,000	0	6,000
Street Sweeping Contracts	2,000	4,241	(2,241)
Small Equipment Rental	2,000	0	2,000
Generator Contract	800	374	426
Other Contracted Services	1,500	315	1,185
Total Contracted Services	128,300	273,589	(145,289)
FEMA Buyout	0	44,840	(44,840)

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, 2018

	Budget	Actual	Variance Favorable (Unfavorable)
Materials and Supplies:			
Culvert Expenses	\$ 5,000	\$ 3,634	\$ 1,366
Cold Patch	1,000	1,227	(227)
Gravel Crushing and Hauling	35,000	28,633	6,367
Road Repair Material	12,000	10,074	1,926
Salt	60,000	60,262	(262)
Sand	60,000	55,992	4,008
Storm Water Grants/BBR	0	2,016	(2,016)
Chloride	8,000	10,844	(2,844)
Road Signs	2,000	270	1,730
Clean Water Act/ Grants	0	15,487	(15,487)
Miscellaneous Supplies	2,000	2,904	(904)
Total Materials and Supplies	185,000	191,343	(6,343)
Town Garage:			
Supplies and Tools/Inventory	6,000	6,426	(426)
Radio	1,000	700	300
Telephone	1,300	1,249	51
Insurance	8,000	4,676	3,324
Heat	6,500	6,905	(405)
Electricity	2,000	1,641	359
Repairs and Maintenance - Town Shed	4,000	4,137	(137)
Pagers for Highway Workers	600	683	(83)
Fire Alarm System for New Town Shed	300	220	80
Total Town Garage	29,700	26,637	3,063
Other Expenses:			
Training	250	255	(5)
Advertising	500	0	500
Liability Insurance - Highway	5,000	3,273	1,727
Equipment Insurance	6,000	6,205	(205)
Safety Equipment	1,000	773	227
Commercial Licenses	200	95	105
Miscellaneous Highway Expenses	200	147	53
Total Other Expenses	13,150	10,748	2,402
Total Expenditures	1,105,831	1,521,244	(415,413)
Excess/(Deficiency) of Revenues Over Expenditures	\$ 0	(145,093)	\$ (145,093)
Fund Balance - July 1, 2017		541,076	
Fund Balance - June 30, 2018		\$ 395,983	

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

TOWN OF GRAFTON, VERMONT
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2018

	<u>Private Purpose Trust Funds</u>
<u>ASSETS</u>	
Cash	\$ 30,432
Investments	<u>8,657</u>
Total Assets	<u>39,089</u>
<u>LIABILITIES</u>	
Total Liabilities	<u>0</u>
<u>NET POSITION</u>	
Held in Trust for Various Purposes	<u>39,089</u>
Total Net Position	<u><u>\$ 39,089</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, 2018

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Investment Earnings:	
Net Investment Income	\$ <u>43</u>
Total Additions	<u>43</u>
<u>DEDUCTIONS:</u>	
Care of the Indigent and Needy	<u>4</u>
Total Deductions	<u>4</u>
Change in Net Position	39
Net Position - July 1, 2017	<u>39,050</u>
Net Position - June 30, 2018	\$ <u><u>39,089</u></u>

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

TOWN OF GRAFTON, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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, 2018, expenditures in the General Fund exceeded appropriations by \$415,413. 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, 2018 consisted of the following:

Cash:

Deposits with Financial Institutions	\$ 732,434
Deposits held by Investment Company	54,473
Cash on Hand	<u>127</u>

Total Cash 787,034

Investments:

Certificates of Deposits	14,657
Corporate Bonds	73,267
Mutual Funds	956,152
Stock	<u>20,500</u>

Total Investments 1,064,576

Total Cash and Investments \$1,851,610

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, 2018

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		
Uninsured – Collateralized by U.S. Government Agencies Securities Held by the Pledging Financial Institutions Agent	\$595,604	\$598,565
	<u>205,960</u>	<u>240,951</u>
	<u>\$801,564</u>	<u>\$839,516</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	\$732,434
Cash – Deposits with Investment Company	54,473
Investments – Certificates of Deposit	<u>14,657</u>
Total	<u>\$801,564</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, 2018

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
	1 to 5 Years	5 to 10 Years	Not Available	
Mutual Funds	\$ 0	\$ 0	\$ 956,152	\$ 956,152
Corporate Bonds	49,055	24,212	0	73,267
Total	\$ 49,055	\$ 24,212	\$ 956,152	\$ 1,029,419

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, 2018 Corporate Bonds	
A	\$ 73,267
Total	\$ 73,267

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 96% of their stock invested in General Electric, Inc.

Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application." The hierarchy is based on the valuation inputs used to measure fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

TOWN OF GRAFTON, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Level 1 – Unadjusted quoted prices for identical instruments in active markets

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.

The Town has the following fair value measurements as of June 30, 2018:

Description	Total	Fair Value Measurements Using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Corporate Bonds	\$ 73,267	\$ 73,267	\$ 0	\$ 0
Mutual Funds	956,152	956,152	0	0
Stock	20,500	20,500	0	0
Total	\$ 1,049,919	\$ 1,049,919	\$ 0	\$ 0

B. Receivables

Receivables at June 30, 2018, as reported in the statement of net position, are as follows:

	Governmental Activities
Delinquent Taxes	\$ 65,097
Penalties and Interest on Delinquent Tax	11,288
Grants Receivable	19,041
Accounts Receivable	5,041
Total	\$ 100,467

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

TOWN OF GRAFTON, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

C. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 206,200	\$ 0	\$ 0	\$ 206,200
	<u>0</u>	<u>6,213</u>	<u>0</u>	<u>6,213</u>
Total Capital Assets, Not Being Depreciated	<u>206,200</u>	<u>6,213</u>	<u>0</u>	<u>212,413</u>
Capital Assets, Being Depreciated:				
Vehicles & Equipment	915,098	200,948	0	1,116,046
Buildings and Building Improvements	1,321,683	9,835	0	1,331,518
Infrastructure	<u>2,747,151</u>	<u>0</u>	<u>0</u>	<u>2,747,151</u>
Totals	<u>4,983,932</u>	<u>210,783</u>	<u>0</u>	<u>5,194,715</u>
Less Accumulated Depreciation for:				
Vehicles & Equipment	277,865	92,160	0	370,025
Buildings and Building Improvements	82,238	25,866	0	108,104
Infrastructure	<u>787,192</u>	<u>65,321</u>	<u>0</u>	<u>852,513</u>
Totals	<u>1,147,295</u>	<u>183,347</u>	<u>0</u>	<u>1,330,642</u>
Total Capital Assets, Being Depreciated	<u>3,836,637</u>	<u>27,436</u>	<u>0</u>	<u>3,864,073</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,042,837</u>	<u>\$ 33,649</u>	<u>\$ 0</u>	<u>\$ 4,076,486</u>

Depreciation was charged as follows:

Governmental Activities:		
General Government		\$ 2,116
Public Works		180,903
Culture and Recreation		<u>328</u>
Total Depreciation Expense - Governmental Activities		<u>\$ 183,347</u>

D. Interfund Balances and Activity

The due to/from balances as of June 30, 2018 are as follows:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 0	\$ 251,195
Capital Projects Fund	<u>251,195</u>	<u>0</u>
Total	<u>\$ 251,195</u>	<u>\$ 251,195</u>

TOWN OF GRAFTON, VERMONT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

Interfund transfers during the year ended June 30, 2018 were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Library Fund	\$ 2,600	Annual Funding
Trustees of Public Funds Fund	General Fund	<u>367</u>	Transfer Investment Earnings
Total		<u>\$ 2,967</u>	

E. Deferred Outflows of Resources

Deferred outflows of resources in the Governmental Activities consists of \$1,444 from the difference between the expected and actual experience, \$20,779 from changes in assumptions, \$16,531 from the difference between the projected and actual investment earnings, \$94 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) and \$13,131 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 \$51,979.

F. Deferred Inflows of Resources

Deferred inflows of resources in the Governmental Activities consists of \$2,457 from the difference between the expected and actual experience and \$1,791 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). Total deferred inflows of resources in the Governmental Activities is \$4,248.

Deferred inflows of resources in the General Fund consists of \$48,845 of delinquent property taxes, penalties and interest on those taxes and \$11,463 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 \$60,308.

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.

TOWN OF GRAFTON, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Long-term liabilities outstanding as of June 30, 2018 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 Payable Annually, Interest at 2.35% Payable Semi-Annually, Due July 1, 2030. During the Year, the Town Made Two (2) Principal Payments.	\$746,667	\$ 0	\$106,667	\$640,000
Total	<u>\$746,667</u>	<u>\$ 0</u>	<u>\$106,667</u>	<u>\$640,000</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Notes Payable	\$ 746,667	\$ 0	\$ 106,667	\$ 640,000	\$ 0
Compensated Absences Payable	15,332	1,698	0	17,030	0
Net Pension Liability	<u>105,193</u>	<u>0</u>	<u>5,940</u>	<u>99,253</u>	<u>0</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 867,192</u>	<u>\$ 1,698</u>	<u>\$ 112,607</u>	<u>\$ 756,283</u>	<u>\$ 0</u>

Debt service requirements to maturity are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 0	\$ 8,066
2020	53,333	15,328
2021	53,333	14,035
2022	53,334	12,661
2023	53,333	11,328
2024-2028	266,667	36,666
2029-2031	<u>160,000</u>	<u>5,994</u>
Total	<u>\$ 640,000</u>	<u>\$ 104,078</u>

TOWN OF GRAFTON, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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.

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>31,883</u>
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TOWN OF GRAFTON, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Trustees of Public Funds Fund:	
Nonspendable for Cemetery Upkeep Expenses by Bequest	\$ <u>36,535</u>
Nonspendable for Wilson Park Upkeep Expenses by Bequest	46,230
Loss on Market Value of Stock	<u>(1,498)</u>
Balance of Nonspendable for Wilson Park	<u>44,732</u>
Nonspendable for Village Park Upkeep Expenses by Bequest	<u>6,000</u>
Total Trustees of Public Funds Fund	<u>87,267</u>
Total Nonspendable Fund Balances	<u>\$ 119,150</u>

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

General Fund:	
Restricted for Town Clerk Restoration Expenses by Statute	\$ <u>14,426</u>

Library Fund:	
Restricted for Library Expenses by Grants, Fees and Donations	<u>1,095,808</u>

Trustees of Public Funds Fund:	
Restricted for Cemetery Upkeep Expenses	
Unexpended Earnings on Bequest	11,685
Restricted for Village Park by Donor Bequest	<u>21</u>
Total Trustees of Public Funds Fund	<u>11,706</u>
Total Restricted Fund Balances	<u>\$1,121,940</u>

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

Capital Projects Fund:	
Committed for Capital Projects by the Voters	\$ <u>251,195</u>
Total Committed Fund Balance	<u>\$ 251,195</u>

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

General Fund:	
Assigned for Reappraisal Expenses	\$ 39,451
Assigned for Hydrant Maintenance Expenses	25,622
Assigned for Solid Waste Management Expenses	5,372
Assigned for Town Hall Restoration Expenses	93,787
Assigned for Walker Bridge Project Expenses	<u>100,000</u>
Total Assigned Fund Balance	<u>\$ 264,232</u>

TOWN OF GRAFTON, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

I. Restricted Net Position

The restricted net position of the Town as of June 30, 2018 consisted of the following:

Governmental Activities:

Restricted by Grants, Fees and Donations – Library	\$1,095,808
Restricted by Bequest – Cemetery	48,220
Restricted by Statute – Town Clerk Restoration Fund	14,426
Restricted by Bequest – Wilson Park	44,732
Restricted by Bequest – Village Park	<u>6,021</u>

Total Governmental Activities \$1,209,207

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, 2018 consisted of the following:

Restricted for S.B. Jones Library and Church Fund by Donations	\$ 701
Restricted for Grafton Fund by Donations	8,036
Restricted for Edward Campbell Fund by Bequest	18,268
Restricted for Woolson Fund by Bequest	9,949
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 \$ 39,089

V. OTHER INFORMATION

A. PENSION PLAN

Defined Benefit Plan

The Vermont Municipal Employees’ Retirement System (VMERS)

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, 2018, the retirement system consisted of 423 participating employers.

TOWN OF GRAFTON, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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

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

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

Pension Liability, Pension Expense and Deferred Outflows of Resources

As of June 30, 2017, the measurement date selected by the State of Vermont, VMERS was funded at 83.64% and had a plan fiduciary net position of \$619,510,342 and a total pension liability of \$740,665,894 resulting in a net position liability of \$121,155,552. As of June 30, 2018, the Town's proportionate share of this was 0.0819% resulting in a net pension liability of \$99,253. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating municipalities, actuarially determined. As of June 30, 2018, the Town's proportion of 0.0819% was an increase of 0.0002 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the Town recognized pension expense of \$23,186.

As of June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources from the following sources:

TOWN OF GRAFTON, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 1,444	\$	2,457
Changes in assumptions	20,779		0
Difference between projected and actual investment earnings	16,531		0
Changes in proportion and differences between employer contributions and proportionate share of contributions	94		1,791
Town's required employer contributions made subsequent to the measurement date	<u>13,131</u>		<u>0</u>
	<u>\$ 51,979</u>	\$	<u>4,248</u>

The deferred outflows of resources resulting from the Town's required employer contributions made subsequent to the measurement date in the amount of \$13,131 will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ending <u>June 30</u>	
2019	\$12,095
2020	18,115
2021	5,143
2022	<u>(753)</u>
Total	<u>\$34,600</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.

TOWN OF GRAFTON, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 and 50%. 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”.

Disability Retirement Allowance:

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

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.

TOWN OF GRAFTON, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Member Contributions – Group B – 4.875%.

Employer Contributions – Group B – 5.50%.

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

Significant Actuarial Assumptions and Methods

Investment Rate of Return: 7.50%, net of pension plan investment expenses, including inflation, a decrease from 7.95% in the prior year.

Salary increases: 5% per year.

Mortality – The mortality tables were updated for the current year from variations of RP-2000 with static projection to variations of RP-2014 with generational improvement:

Death in Active Service: Group B – 98% of RP-2014 blended 60% Blue Collar Employee, 40% Healthy Employee with generational projection using Scale SSA-2017.

Healthy Post-Retirement: Group B – 98% of RP-2014 blended 60% Blue Collar Annuitant, 40% Healthy Annuitant with generational projection using Scale SSA-2017.

Disabled Post-Retirement: Group B – RP-2014 Disabled Mortality Table with generational projection using Scale SSA-2017.

Spouse's Age: Females three years younger than males.

Cost-of-Living Adjustments: Assumed to occur on January 1 following one year of retirement at the rate of 1.30% per annum for Group B members, a decrease from 1.8% in the prior year (beginning at normal retirement eligibility age for members who elect reduced early retirement, at age 62 for members of Group B who receive a disability retirement benefit). The January 1, 2018 COLA is assumed to be 0.75% for all groups.

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

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

Inflation: 2.50%, a decrease from 3% in the prior year.

TOWN OF GRAFTON, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Long-term Expected Rate of Return:

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
US Equity	16%	6.07%
Non-US Equity	16%	7.42%
Global Equity	9%	6.85%
Real Estate	8%	4.62%
Private Markets	15%	7.80%
Hedge Funds	8%	3.95%
Risk Parity	4%	4.84%

Discount Rate – The discount rate used to measure the total pension liability was 7.50%, a decrease from 7.95% in the prior year. In accordance with paragraph 29 of GASB 68, professional judgement was applied to determine that the System's projected fiduciary net position exceeds projected benefit payments for current active and inactive members for all years. The analysis was based on the expectation that employers will continue to contribute at the rates set by the Board, which exceed the actuarially determined contribution, which is comprised on an employer normal cost payment and a payment to reduce the unfunded liability to zero by June 30, 2038. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
\$177,210	\$99,253	\$34,601

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.

TOWN OF GRAFTON, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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.

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

D. 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, 2018, taxes became due and payable on August 15, 2017, November 15, 2017, February 15, 2018 and May 15, 2018. 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.

TOWN OF GRAFTON, VERMONT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

The tax rates for 2018 were as follows:

	<u>Residential</u>	<u>Non-Residential</u>
Education	1.1855	1.2988
Highway	.3337	.3337
Capital Projects	.0937	.0937
Local Agreements	.0143	.0143
Town	<u>.1948</u>	<u>.1948</u>
Total	<u>1.8220</u>	<u>1.9353</u>

TOWN OF GRAFTON, VERMONT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 VMERS DEFINED BENEFIT PLAN
 JUNE 30, 2018

	2018	2017	2016	2015
Total Plan Net Pension Liability	\$ 121,155,552	\$ 128,696,167	\$ 77,095,810	\$ 9,126,613
Town's Proportion of the Net Pension Liability	0.0819%	0.0817%	0.0872%	0.0894%
Town's Proportionate Share of the Net Pension Liability	\$ 99,253	\$ 105,193	\$ 67,234	\$ 8,155
Town's Covered Employee Payroll	\$ 238,744	\$ 243,246	\$ 225,870	\$ 226,797
Town's Proportionate Share of the Net Pension Liability as a Percentage of Town's Covered Employee Payroll	41.5730%	43.2455%	29.7667%	3.5957%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.64%	80.95%	87.42%	98.32%

Notes to Schedule

Benefit Changes: None.

Changes in Assumptions and Methods: The following changes were effective for the June 30, 2017 valuation date:

- Assumed inflation was lowered from 3.0% to 2.5%.
- The investment return assumption was lowered from 7.95% to 7.50%.
- Assumed COLA increases were lowered from 1.50% to 1.15% for Group A members and from 1.80% to 1.3% for Group B, C and D members.
- The mortality tables were updated from variations of RP-2000 with static projection to variations of RP-2014 with generational improvement.

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

TOWN OF GRAFTON, VERMONT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS
 VMERS DEFINED BENEFIT PLAN
 FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution (Actuarially Determined)	\$ 13,131	\$ 13,379	\$ 12,423	\$ 12,190
Contributions in Relation to the Actuarially Determined Contributions	<u>13,131</u>	<u>13,379</u>	<u>12,423</u>	<u>12,190</u>
Contribution Excess/(Deficiency)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Town's Covered Employee Payroll	\$ 238,744	\$ 243,246	\$ 225,870	\$ 226,797
Contributions as a Percentage of Town's Covered Employee Payroll	5.500%	5.500%	5.500%	5.375%

Notes to Schedule

Valuation Date: June 30, 2017

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

TOWN OF GRAFTON, VERMONT
 COMBINING STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 PRIVATE PURPOSE TRUST FUNDS
 JUNE 30, 2018

	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	\$ 3,036	\$ 15,711	\$ 9,949	\$ 0	\$ 1,035	\$ 30,432
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>\$ 8,036</u>	<u>\$ 18,268</u>	<u>\$ 9,949</u>	<u>\$ 1,100</u>	<u>\$ 1,035</u>	<u>\$ 39,089</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>8,036</u>	<u>18,268</u>	<u>9,949</u>	<u>1,100</u>	<u>1,035</u>	<u>39,089</u>
Total Net Position	<u>701</u>	<u>8,036</u>	<u>18,268</u>	<u>9,949</u>	<u>1,100</u>	<u>1,035</u>	<u>39,089</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 701</u>	<u>\$ 8,036</u>	<u>\$ 18,268</u>	<u>\$ 9,949</u>	<u>\$ 1,100</u>	<u>\$ 1,035</u>	<u>\$ 39,089</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, 2018

	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	\$ 7	\$ 13	\$ 4	\$ 0	\$ 43
Total Additions	<u>0</u>	<u>19</u>	<u>7</u>	<u>13</u>	<u>4</u>	<u>0</u>	<u>43</u>
<u>DEDUCTIONS</u>							
Care of the Indigent and Needy	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4</u>	<u>0</u>	<u>4</u>
Total Deductions	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4</u>	<u>0</u>	<u>4</u>
Change In Net Position	0	19	7	13	0	0	39
Net Position - July 1, 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>
Net Position - June 30, 2018	<u>\$ 701</u>	<u>\$ 8,036</u>	<u>\$ 18,268</u>	<u>\$ 9,949</u>	<u>\$ 1,100</u>	<u>\$ 1,035</u>	<u>\$ 39,089</u>

See Disclaimer in Accompanying Independent Auditor's Report.

Sullivan, Powers & Co., P.C.

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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, 2018, 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 March 7, 2019.

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 2018-01 through 2018-03 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 2018-04 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 March 7, 2019.

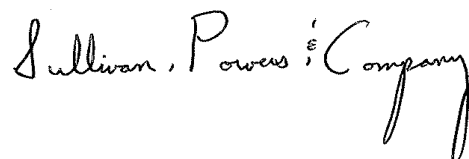
Town of Grafton, Vermont's Response to Deficiencies in Internal Control

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.

March 7, 2019
Montpelier, Vermont
VT Lic. #92-000180



TOWN OF GRAFTON, VERMONT
SCHEDULE OF FINDINGS AND DEFICIENCIES
IN INTERNAL CONTROL
JUNE 30, 2018

Deficiencies in Internal Control:

Material Weaknesses:

2018-01 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.

2018-02 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, 2018

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.

2018-03 Fund Balance Entries

Criteria:

Internal controls should be in place to ensure that all revenue and expenses are recorded correctly. Fund balances should only be posted to in the event of a correction of an error or change in accounting principle.

Condition:

The Town posted current year activity to fund balance rather than to separate revenue and expense accounts.

Cause:

Unknown.

Effect:

Adjustments were required to correct the fund balance, revenue and expenses.

Recommendation:

We recommend that the Town implement controls to ensure that all revenue and expenses are recorded correctly.

Significant Deficiencies:

2018-04 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.

TOWN OF GRAFTON, VERMONT
SCHEDULE OF FINDINGS AND DEFICIENCIES
IN INTERNAL CONTROL
JUNE 30, 2018

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.

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

March 7, 2019

This letter is to acknowledge the Deficiencies that were found during The Town of Grafton's 2018 yearly audit performed by Sullivan, Powers & Company and as to how the management should handle the recommendations that were given.

The reconciliation of the balance sheet accounts:

Balance sheets were printed, distributed to Select Board members, and filed monthly. All statements were opened and initialed by town auditors on a monthly basis. The Town accounts have been reconciling with the bank up until the last two months of the fiscal year when a deposit was made in May and the bank kept rejecting a check that they thought to be a counter check with no account number. After numerous tries and conversations with the bank, I had to physically mail the check for verification. It was then credited but not until the fiscal year ended.

The bank balance and the general ledger balance had balanced all year except for a difference of \$108.71 which was remaining from previous employees who had been performing the A/P and payroll. Not knowing if this was one of the errors that remained, I was waiting until a complete professional audit was complete.

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 had begun to use an account number in revenue for grants, and another one for "expenditures" of grants to be drawn from, but this did not occur until after the 2017 audit was complete and we were already into the 2018 fiscal year.

Fund Balance Entries:

An understanding of the importance of not posting to the fund balance has been explained.

Authorization of General Journal Entries:

I had been keeping a copy of my Journal Entries on a monthly basis and initialed only by Town Auditors or a Select Board member. They were combined with the bank statements rather than in a binder of their own. A journal entry had been made to the Fund balance which had been initialed for authority, but it was an incorrect entry.

Respectfully submitted,

Kimberly Record, Grafton Town Clerk/Treasurer