

**TWINFIELD UNION SCHOOL DISTRICT NO. 33
PLAINFIELD & MARSHFIELD, VERMONT**

**FINANCIAL STATEMENTS
JUNE 30, 2014
AND
INDEPENDENT AUDITOR'S REPORTS**

TWINFIELD UNION SCHOOL DISTRICT NO. 33

JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

The Superintendent and Board of Education
Twinfield Union School District No. 33

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 Twinfield Union School District No. 33 (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2014, and the respective changes in financial position, thereof and the 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 Information

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2015, on our consideration of the District's internal control over financial reporting; on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Montpelier, Vermont
February 10, 2015

*Mudgett, Jennett &
Krogh - Warner, P.C.*

**TWINFIELD UNION SCHOOL DISTRICT NO. 33
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

This section of the Twinfield Union School District No. 33 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. The intent of the Management's Discussion and Analysis is to look at the District's financial performance as a whole. With this in mind, please also refer to the District's financial statements, which immediately follow this section.

Financial Statements

The government-wide financial statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. The Statement of Net Position includes all assets of the District, including any capital assets, and all liabilities, including any long-term debt, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Activities focuses on the programs of the District and presents information showing how the District's net position changed during the year.

The fund financial statements present financial position and activities by fund using the modified accrual or accrual basis of accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds primarily focus on near-term inflows and outflows of spendable resources and their balance at the end of the fiscal year. The District's major governmental funds are the General Fund and the Capital Projects Fund.

Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail. At this time, the District does not have any proprietary funds.

Fiduciary funds are used to account for resources held for the benefit of other parties (in trust or agency funds). Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

Government-wide Financial Analysis

The Statement of Net Position shows the total assets, liabilities and net position of the District at June 30, 2014. The summary of the comparative information from the Statement of Net Position at June 30, 2013 and 2014 is indicated below:

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2014</u>
Current Assets	\$ 354,181	\$ 214,373
Capital Assets, net	<u>3,232,921</u>	<u>3,289,574</u>
Total Assets	<u>3,587,102</u>	<u>3,503,947</u>

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2014</u>
Current Liabilities	638,930	441,887
Noncurrent Liabilities	<u>556,773</u>	<u>785,471</u>
Total Liabilities	<u>1,195,703</u>	<u>1,227,358</u>
Net Investment in Capital Assets	2,644,106	2,389,591
Restricted	97,532	32,637
Unrestricted	<u>(350,239)</u>	<u>(145,639)</u>
Total Net Position	<u>\$ 2,391,399</u>	<u>\$ 2,276,589</u>

The Statement of Net Position shows net position of the District as of June 30, 2014 is \$2,276,589, a decrease of \$114,810 or 5% from last year's net position of \$2,391,399. The decrease is primarily attributable to a decrease in cash and increase in liabilities.

Of the June 30, 2014 total assets, 6% or \$214,373 are current assets (accounts receivable), as compared to the prior year when 9.87% or \$354,181 represented current assets.

Noncurrent assets consist of net capital assets (buildings and improvements, vehicles and equipment), and for the period ended June 30, 2014, these are 94% or \$3,289,574 as compared to June 30, 2013 when noncurrent assets represented 90.13% or \$3,232,921. Net capital assets increased due to the increase in capital additions.

Total liabilities of the District are \$1,227,358 as compared to \$1,195,703 for the prior year. Of the June 30, 2014 total liabilities, 36% or \$441,887 are current liabilities (accounts payable, due to fiduciary funds, and the current portions of long-term debt and capital lease). This compares to this same period last year of \$638,930 or 53.44%.

Noncurrent liabilities for the period ended June 30, 2014 are \$785,471 and represent the long-term portion of accrued compensated absences, long-term debt and capital lease as compared to the prior reporting period of \$556,773.

Net position of the District is \$2,276,589 as of June 30, 2014, in comparison to \$2,391,399 in the prior year. \$2,389,591 or 105% represents a net investment in capital assets for the period ended June 30, 2014, as compared to the prior year of \$2,644,106 or 110.57%. \$32,637 represents amounts restricted for various grant programs for the period ended June 30, 2014, as compared to the prior year of \$97,532. (\$145,639) or -6% represents an unrestricted deficit for the period ended June 30, 2014, as compared to an unrestricted deficit of \$350,239 in the prior year. It is intended that the deficit reported as unrestricted net position (\$145,639) will be recovered by savings in the District's budget to achieve future surpluses and options for deficit financing. The comparison between June 30, 2013 and June 30, 2014 for the Statement of Activities is indicated below:

	Governmental Activities			
	2013		2014	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
Expenses				
Education Expense	\$ 7,187,720	96.79%	\$ 7,239,957	92.17%
Grant Programs Expense	-	0.00%	347,066	4.42%
Capital Projects Expense	-	0.00%	3,187	0.04%
Food Service Expense	205,435	2.77%	245,361	3.12%
Interest Expense	33,081	0.44%	19,740	0.25%
Total Expenses	<u>7,426,236</u>	<u>100.00%</u>	<u>7,855,311</u>	<u>100.00%</u>
Program Revenues				
Grants and Contributions	1,962,658	93.02%	2,118,855	94.61%
Charges for Services	83,243	3.95%	106,284	4.75%
Other	64,032	3.03%	14,507	0.64%
Total Program Revenues	<u>2,109,933</u>	<u>100.00%</u>	<u>2,239,646</u>	<u>100.00%</u>
General Revenues				
Education Spending Grant	5,150,541	99.68%	5,497,993	99.95%
Investment Income	16,314	0.32%	2,862	0.05%
Total General Revenues	<u>5,166,855</u>	<u>100.00%</u>	<u>5,500,855</u>	<u>100.00%</u>
Total Revenues	<u>7,276,788</u>		<u>7,740,501</u>	
Change in Net Position	<u>\$ (149,448)</u>		<u>\$ (114,810)</u>	

The Statement of Activities reports total expenses for 2014. Government-wide expenses include all governmental fund expenditures plus depreciation of capital assets, and exclude debt principal payments and capital asset purchases. Program revenues are derived from three sources: grants and contributions, charges for services and revenues from other sources.

For the year ended June 30, 2014, the net program costs of \$5,615,665 were more than general revenues of \$5,500,855 and caused a decrease in net position of \$114,810, compared to the year ended June 30, 2013 where the net program costs of \$5,316,303 were more than general revenues of \$5,166,855 and caused a decrease in net position of \$149,448. General revenues received by the District consisted of the Education Spending Grant and investment income. Revenues received relating to the Education Spending Grant were \$5,497,993 and \$5,150,541 for 2014 and 2013, respectively. Revenues received relating to investment income were \$2,862 and \$16,314 for 2014 and 2013, respectively.

Financial Analysis of the District's Funds

Governmental Funds

The General Fund, the primary operating fund of the District, reported fund expenditures and other financing uses in excess of revenues, which caused a decrease in the fund balance of \$51,245. At June 30, 2014, the District's General Fund had an assigned fund balance of \$29,104 and no unassigned fund balance for a total fund balance of \$29,104.

The Capital Projects Fund, which accounts for the resources used for the acquisition, construction or improvement of major capital facilities and equipment, reported revenues and other financing sources in excess of expenditures, causing an increase in fund balance of \$175,175. At June 30, 2014 the Capital Projects Fund had an unassigned fund balance deficit of \$109,541 and no restricted or committed fund balance, for a total fund balance deficit of \$109,541.

Other Governmental Funds accounts for all of the District's nonmajor funds (Grants Fund, Food Service Fund and Endowment Fund). The Grants Fund, which accounts for the proceeds of specific grant sources that are legally restricted to expenditures for specific purposes, reported fund revenues in excess of expenditures, which caused an increase in the fund balance of \$6,888. At June 30, 2014, the District's Grants Fund had a restricted fund balance of \$32,137. The Food Service Fund, which accounts for the operations of the food service program, reported fund revenues in excess of expenditures, which caused an increase in the fund balance of \$8,270. At June 30, 2014, the District's Other Governmental Funds had a restricted fund balance of \$32,637 and an unassigned fund balance deficit of \$31,698, for a total fund balance of \$939.

Fiduciary Funds

The District reports fiduciary (trust and agency) funds which account for resources held for the benefit of other parties and are excluded from the government-wide financial statements. During 2014, the Trust Funds of the District reported scholarship awards in excess of scholarship donations, which caused a decrease in net position of \$461. As of June 30, 2014, the District's Trust Funds had a total net position of \$17,453. At June 30, 2014, the District also held \$55,356 as an agent for various student activity groups.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the District had invested \$7,006,654 in a broad range of capital assets including buildings, building improvements, and vehicles and equipment. Total depreciation for the year was \$248,783. The net value of capital assets of the District as of June 30, 2014 was \$3,289,574 after deducting accumulated depreciation of \$3,717,080.

Long-term Debt

As of June 30, 2014, the District had an obligation to repay debt of \$707,732. The current portion was \$96,002 and \$611,730 was the long-term portion. The District's bond with Merchants Bank matures in March 2026. The District paid \$71,000 in principal payments and \$16,376 in interest on its long-term debt during the year.

General Fund Budgetary Highlights

The District's budget is prepared according to the requirements of Vermont law. The most significant budgeted fund is the General Fund. The operating budget includes proposed expenditures and estimated revenues. On-behalf payments for licensed educators' retirement, paid by the state, are not budgeted.

For the General Fund, actual revenues were in excess of budgeted revenues by \$242,128. Of this \$242,128 difference, the significant variances of revenues in excess of budget include \$206,187 in state grants and \$39,708 in other income sources. Revenues where the amounts received were less than the anticipated amount include \$22,138 in investment earnings. The District also received an education spending grant of \$5,497,993 from the State of Vermont Education Fund.

Expenditures and other financing uses were budgeted at \$6,529,085 while actual expenditures and other financing uses were \$6,822,458 for an unfavorable difference of \$293,373. The significant variances in actual expenditures in excess of budgeted expenditures include \$74,473 in regular education, \$204,733 in special education and \$38,435 in transportation.

General Fund expenditures were more than revenues by \$8,229, compared to budgeted revenues in excess of expenditures of \$25,000.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the School District's finances, and to reflect the School District's accountability for the monies it receives. Questions about this report or additional related audit financial information should be directed to Christina Kimball, Business Manager, Washington Northeast Supervisory Union, P.O. Box 470, Plainfield, VT 05667.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental <u>Activities</u>
ASSETS:	
Current assets -	
Accounts receivable	\$ <u>214,373</u>
Noncurrent assets -	
Capital assets	7,006,654
less - accumulated depreciation	<u>(3,717,080)</u>
Total noncurrent assets	<u>3,289,574</u>
Total assets	<u>3,503,947</u>
LIABILITIES:	
Current liabilities -	
Bank overdraft	99,163
Accounts payable	30,633
Due to other districts	19,207
Due to fiduciary funds	17,453
Note payable	117,717
Accrued interest on note payable	9,698
Current portion - capital lease	52,014
- long-term debt	<u>96,002</u>
Total current liabilities	<u>441,887</u>
Noncurrent liabilities -	
Accrued compensated absences	33,504
Capital lease	140,237
Long-term debt	<u>611,730</u>
Total noncurrent liabilities	<u>785,471</u>
Total liabilities	<u>1,227,358</u>
NET POSITION:	
Net investment in capital assets	2,389,591
Restricted	32,637
Unrestricted	<u>(145,639)</u>
Total net position	\$ <u>2,276,589</u>

The notes to financial statements are an integral part of this statement.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

		<u>Program Revenues</u>			Net (Expense)
		Grants and	Charges for		Revenue and
	<u>Expenses</u>	<u>Contributions</u>	<u>Services</u>	<u>Other</u>	<u>Change in</u>
FUNCTIONS/PROGRAMS:					<u>Net Position</u>
Governmental activities -					
Education	\$ 7,239,957	\$ 1,581,232	\$ 25,815	\$ 6,522	\$ (5,626,388)
Grant programs	347,066	316,877	29,092	7,985	6,888
Capital projects	3,187	52,314	-	-	49,127
Food service	245,361	168,432	51,377	-	(25,552)
Interest expense	<u>19,740</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,740)</u>
Total governmental activities	\$ <u>7,855,311</u>	\$ <u>2,118,855</u>	\$ <u>106,284</u>	\$ <u>14,507</u>	<u>(5,615,665)</u>
GENERAL REVENUES - EDUCATION SPENDING GRANT					5,497,993
- INVESTMENT INCOME					<u>2,862</u>
					<u>5,500,855</u>
CHANGE IN NET POSITION					(114,810)
NET POSITION, July 1, 2013					<u>2,391,399</u>
NET POSITION, June 30, 2014					\$ <u>2,276,589</u>

The notes to financial statements are an integral part of this statement.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014
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	General Fund	Capital Projects Fund	Other Governmental Funds	Totals Governmental Funds
ASSETS				
Accounts receivable	\$ 190,926	\$ 18,537	\$ 4,910	\$ 214,373
Due from other districts	-	-	1,656	1,656
Due from other funds	<u>115,290</u>	<u>-</u>	<u>-</u>	<u>115,290</u>
Total assets	\$ <u>306,216</u>	\$ <u>18,537</u>	\$ <u>6,566</u>	\$ <u>331,319</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES:				
Bank overdraft	\$ 99,163	\$ -	\$ -	\$ 99,163
Accounts payable	29,671	-	962	30,633
Due to other districts	20,863	-	-	20,863
Note payable	117,717	-	-	117,717
Accrued interest on note payable	9,698	-	-	9,698
Due to other funds	<u>-</u>	<u>128,078</u>	<u>4,665</u>	<u>132,743</u>
Total liabilities	<u>277,112</u>	<u>128,078</u>	<u>5,627</u>	<u>410,817</u>
FUND BALANCES:				
Restricted	-	-	32,637	32,637
Assigned	29,104	-	-	29,104
Unassigned	<u>-</u>	<u>(109,541)</u>	<u>(31,698)</u>	<u>(141,239)</u>
Total fund balances (deficit)	<u>29,104</u>	<u>(109,541)</u>	<u>939</u>	<u>(79,498)</u>
Total liabilities and fund equity	\$ <u>306,216</u>	\$ <u>18,537</u>	\$ <u>6,566</u>	\$ <u>331,319</u>

The notes to financial statements are an integral part of this statement.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014
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**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION:**

Amount reported on Balance Sheet - Governmental Funds - total fund balances (deficit) \$ (79,498)

Amounts reported for governmental activities in the Government-wide Statement
of Net Position are different because -

Capital assets used in governmental funds are not financial resources and are
therefore not reported in the funds

Capital assets	7,006,654
Accumulated depreciation	(3,717,080)

Liabilities not due and payable in the current year are not reported
in the governmental funds

Capital lease	(192,251)
Long-term debt	(707,732)
Compensated absences	<u>(33,504)</u>

Net position of governmental activities - Government-wide Statement of Net Position \$ 2,276,589

The notes to financial statements are an integral part of this statement.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

(Page 1 of 3)

	General <u>Fund</u>	Capital Projects <u>Fund</u>	Other Governmental <u>Funds</u>	Totals Governmental <u>Funds</u>
REVENUES:				
Education spending grant	\$ 5,497,993	\$ -	\$ -	\$ 5,497,993
Intergovernmental - State	1,540,215	19,263	30,285	1,589,763
- Federal	-	-	400,824	400,824
Charges for services	32,148	-	80,468	112,616
Investment earnings	2,862	-	-	2,862
Other income	41,208	8,051	62,185	111,444
Total revenues	<u>7,114,426</u>	<u>27,314</u>	<u>573,762</u>	<u>7,715,502</u>
EXPENDITURES:				
Regular education	3,290,272	-	139,481	3,429,753
Special education	1,373,887	-	82,155	1,456,042
Co-curricular	90,922	-	2,278	93,200
Support services -				
Students	225,976	-	47,257	273,233
Instructional staff	333,999	-	420	334,419
Central administration	365,799	-	3,693	369,492
School administration	395,599	-	-	395,599
Other	915,337	3,188	2,321	920,846
Food service	-	-	245,361	245,361
Community services	-	-	69,461	69,461
Debt service - Principal	9,000	62,000	-	71,000
- Interest	12,979	6,016	-	18,995
Capital lease - Principal	57,523	-	-	57,523
- Interest	745	-	-	745
Capital outlay	50,617	248,675	6,144	305,436
Total expenditures	<u>7,122,655</u>	<u>319,879</u>	<u>598,571</u>	<u>8,041,105</u>
EXCESS OF REVENUES OR (EXPENDITURES)	<u>(8,229)</u>	<u>(292,565)</u>	<u>(24,809)</u>	<u>(325,603)</u>

The notes to financial statements are an integral part of this statement.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

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	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Totals Governmental Funds</u>
OTHER FINANCING SOURCES (USES):				
Loan proceeds	-	165,841	39,967	205,808
Loan forgiveness (RF3-238-4)	-	25,000	-	25,000
Capital lease proceeds	-	233,883	-	233,883
Operating transfers in (out)	<u>(43,016)</u>	<u>43,016</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(43,016)</u>	<u>467,740</u>	<u>39,967</u>	<u>464,691</u>
 NET CHANGE IN FUND BALANCES	 (51,245)	 175,175	 15,158	 139,088
 FUND BALANCES (DEFICIT), July 1, 2013	 <u>80,349</u>	 <u>(284,716)</u>	 <u>(14,219)</u>	 <u>(218,586)</u>
 FUND BALANCES (DEFICIT), June 30, 2014	 \$ <u>29,104</u>	 \$ <u>(109,541)</u>	 \$ <u>939</u>	 \$ <u>(79,498)</u>

The notes to financial statements are an integral part of this statement.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES:**

Net change in fund balances - total governmental funds	\$ 139,088
Amounts reported for governmental activities in the Government-wide Statement of Activities are different because -	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Additions to capital assets	305,436
Depreciation	(248,783)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term liabilities consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.	
Loan proceeds	(205,808)
Capital lease proceeds	(233,883)
Debt service - principal on long-term debt	71,000
Debt service - principal on capital leases	57,523
Changes in other post-employment benefits accumulated by employees will increase or decrease the liability reported in the government-wide statements, but are only recorded as an expenditure when paid in the governmental funds.	
Increase in compensated absences	(11,782)
Decrease in early teacher retirement	<u>12,399</u>
Change in net position of governmental activities - Government-wide Statement of Activities	\$ <u>(114,810)</u>

The notes to financial statements are an integral part of this statement.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Original and Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
Education spending grant	\$ 5,501,286	\$ 5,497,993	\$ (3,293)
Intergovernmental - State	990,815	1,197,002	206,187
Charges for services	10,484	32,148	21,664
Investment earnings	25,000	2,862	(22,138)
Other income	<u>1,500</u>	<u>41,208</u>	<u>39,708</u>
Total revenues	<u>6,529,085</u>	<u>6,771,213</u>	<u>242,128</u>
EXPENDITURES:			
Regular education	2,872,587	2,947,060	(74,473)
Special education	1,169,154	1,373,887	(204,733)
Co-curricular	96,259	90,922	5,337
Guidance	174,185	130,754	43,431
Health	81,069	87,226	(6,157)
Psychological	-	3,278	(3,278)
Occupational therapy	-	4,719	(4,719)
Library	136,481	138,081	(1,600)
Technology	154,463	151,070	3,393
Professional development	32,306	44,849	(12,543)
Board of Education	340,414	361,422	(21,008)
Superintendent's office	-	4,377	(4,377)
Principal's office	370,984	395,599	(24,615)
Fiscal services	162,693	161,642	1,051
Plant operation	645,633	620,797	24,836
Transportation	179,386	217,821	(38,435)
Debt service - Principal	53,764	32,213	21,551
- Interest	<u>34,707</u>	<u>13,725</u>	<u>20,982</u>
Total expenditures	<u>6,504,085</u>	<u>6,779,442</u>	<u>(275,357)</u>
EXCESS OF REVENUES OR (EXPENDITURES)	25,000	(8,229)	(33,229)
OTHER FINANCING SOURCES (USES):			
Operating transfers in (out)	<u>(25,000)</u>	<u>(43,016)</u>	<u>(18,016)</u>
NET CHANGE IN FUND BALANCE	\$ <u>-</u>	\$ <u>(51,245)</u>	\$ <u>(51,245)</u>

The notes to financial statements are an integral part of this statement.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2014

	Trust <u>Funds</u>	Agency <u>Funds</u>
ASSETS:		
Cash	\$ -	\$ 55,356
Due from other funds	<u>17,453</u>	<u>-</u>
Total assets	<u>17,453</u>	<u>55,356</u>
LIABILITIES:		
Due to student organizations	<u>-</u>	<u>55,356</u>
NET POSITION:		
Held in trust for specific purposes	\$ <u>17,453</u>	\$ <u>-</u>

The notes to financial statements are an integral part of this statement.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
STATEMENT OF CHANGE IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Trust Funds</u>
ADDITIONS:	
Donations	\$ 3,839
DEDUCTIONS:	
Scholarships	<u>4,300</u>
CHANGE IN NET POSITION	(461)
NET POSITION, July 1, 2013	<u>17,914</u>
NET POSITION, June 30, 2014	\$ <u>17,453</u>

The notes to financial statements are an integral part of this statement.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. Summary of significant accounting policies:

The Twinfield Union School District No. 33 (the District) is organized according to state law under the governance of the Board of Education (the Board) to provide public school education for the Towns of Marshfield and Plainfield, Vermont. Functions of the Office of the Superintendent and central administration are provided by the Washington Northeast Supervisory Union (WNESU). As currently structured, the WNESU is the administrative oversight district for the Cabot Town School District and this District.

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

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing *Governmental Accounting and Financial Reporting Standards* which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes U.S. GAAP for governmental units.

- B. Government-wide and fund financial statements - The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

In the Government-wide Statement of Net Position, the financial position of the District is consolidated and incorporates capital assets as well as long-term debt and obligations. The Government-wide Statement of Activities reflects both the gross and net costs by category. Direct expenses that are clearly identifiable with the category are offset by program revenues of the category. Program revenues include charges for services provided by a particular function or program and grants that are restricted to meeting the operational or capital requirements of the particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds, if any, are summarized in a single column.

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

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. Summary of significant accounting policies (continued):

C. Basis of presentation (continued) -

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund - The Capital Projects Fund accounts for resources used for the acquisition, construction or improvement of major capital facilities, infrastructure or equipment.

The District also reports Other Governmental Funds, which are nonmajor funds that include the Grants Fund, Food Service Fund, and the Endowment Fund. Additionally, the District reports fiduciary funds which are used to account for assets held in a trustee capacity (trust funds) or as an agent (agency funds) for the benefit of parties outside of the District. The District's fiduciary funds are the Trust Funds and Agency Funds.

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

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

- E. Budgets and budgetary accounting - The District approves a budget for the General Fund and the Grants Fund at an annual School District Meeting of the Towns of Plainfield and Marshfield. The accounting method used for budget presentation is the same method used for the financial presentation of operations under U.S. GAAP. Formal budgetary integration is employed as a management control during the year for the General Fund. The District does not legally adopt budgets for other governmental funds. All budgeted amounts lapse at year end.
- F. Use of estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred outflows/inflows of resources as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. Summary of significant accounting policies (continued):

- G. Risk management - The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and others; environmental liability; and natural disasters. The District manages these risks through commercial insurance packages and participation in public entity risk pools covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. There were no settlements in excess of the insurance coverage in any of the past three fiscal years.
- H. Cash and cash equivalents - The Supervisory Union considers all cash on hand and demand deposits to be cash and cash equivalents.
- I. Prepaid items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.
- J. Capital assets - Capital assets, which include buildings, building improvements, and vehicles and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The District does not retroactively report infrastructure assets. There have been no infrastructure additions since the implementation of GASB Statement No. 34. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest costs are capitalized on projects during the construction period. Normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized. Capital assets are depreciated using the straight-line method over the useful lives shown below:

Buildings	50 years
Building improvements	7 - 25 years
Vehicles and equipment	5 - 25 years

- K. Compensated absences - Sick leave does not vest for any employee. It is accounted for as an expenditure when paid. The District is liable to pay certain employees vested vacation days upon voluntarily terminating employment. Compensated absences of \$33,504 have been recorded as a noncurrent liability in the Government-wide Statement of Net Position but not in the fund financial statements.
- L. Long-term obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. In the fund financial statements, governmental fund types recognize the amount of debt issued as other financing sources and the repayment of debt as debt service expenditures.
- M. Fund equity - In the fund financial statements, governmental funds may report five categories of fund balances: nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance includes amounts associated with inventory, prepaid expenditures, long-term loans or notes receivable, and trust fund principal to be held in perpetuity.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. Summary of significant accounting policies (continued):

M. Fund equity (continued) -

Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed fund balance includes amounts that can be used only for specific purposes determined by the District's highest level of decision making authority, the voters, as a result of articles passed at Annual or Special District Meetings.

Assigned fund balance includes amounts that are intended to be used by the District for specific purposes as authorized by the Board.

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in another classification. Deficits are also classified as unassigned.

The District has not established policies or procedures for committing or assigning fund balance nor a policy specifying the order in which to apply expenditures to fund balance. With the implementation of GASB Statement No. 54, the District's current practice is to apply expenditures to fund balance in the order of restricted, committed, assigned and unassigned unless the Board specifies otherwise.

- N. On-behalf payments - The State of Vermont makes payments on behalf of the District's teachers to the State Teachers' Retirement System of Vermont. The District recognizes these pension contributions as intergovernmental grant revenue and education expenditures in the government-wide financial statements and in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds. The amounts are not budgeted and have been excluded from the budget basis statements; see note 10 for reconciling details.

- O. New accounting standard - The District has implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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

2. Deposits:

Custodial credit risk - deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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 District does not have a policy for custodial credit risk. As of June 30, 2014, the District's depository accounts were fully insured or collateralized.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

3. Capital assets:

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Increase	Decrease	Balance June 30, 2014
Capital assets, depreciated:				
Buildings	\$ 3,273,127	\$ -	\$ -	\$ 3,273,127
Building improvements	1,796,031	87,408	-	1,883,439
Vehicles and equipment	1,757,982	218,028	125,922	1,850,088
Total capital assets, depreciated	<u>6,827,140</u>	<u>305,436</u>	<u>125,922</u>	<u>7,006,654</u>
Less accumulated depreciation:				
Buildings	1,451,310	65,463	-	1,516,773
Building improvements	767,119	79,916	-	847,035
Vehicles and equipment	1,375,790	103,404	125,922	1,353,272
Total accumulated depreciation	<u>3,594,219</u>	<u>248,783</u>	<u>125,922</u>	<u>3,717,080</u>
Capital assets, net	\$ <u>3,232,921</u>	\$ <u>56,653</u>	\$ <u>-</u>	\$ <u>3,289,574</u>

Depreciation expense of \$248,783 in the governmental activities was fully allocated to the education function.

Balances as of July 1, 2013 in the vehicles and equipment categories detailed above have been reduced by \$82,774 to reflect fully depreciated school buses that were disposed of during the year ended June 30, 2013.

4. Interfund transfers:

Interfund transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. A transfer of \$43,016 from the General Fund to the Capital Projects Fund was to fund debt service payments on the District's roof project debt.

5. Interfund receivable and payable balances:

Interfund receivable and payable balances, due to the pooling of cash for cash receipts and disbursements, as of June 30, 2014 are as follows:

	Interfund Receivable	Interfund Payable
Governmental funds -		
General Fund	\$ 115,290	\$ -
Capital Projects Fund	-	128,078
Other Governmental Funds	-	4,665
	<u>115,290</u>	<u>132,743</u>
Fiduciary funds -		
Trust Fund	<u>17,453</u>	<u>-</u>
	\$ <u>132,743</u>	\$ <u>132,743</u>

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

6. Related parties:

The District is billed for its appropriate share of expenditures relating to administrative services provided by the WNESU. The District paid an assessment of \$478,770 to the WNESU for the year ended June 30, 2014.

The District has \$9,496 in accounts receivable from and \$28,703 in accounts payable to the WNESU at June 30, 2014.

7. Debt:

Short-term - During the year the District borrowed \$1,607,717 and repaid \$1,490,000 on a \$1,654,707 line of credit in the form of a 0.95% revenue anticipation note which matured in June 2014. Subsequent to year end the District paid the remaining principal of \$117,717 and related interest expense of \$9,698.

During the year, the District borrowed and repaid \$955,098 on a line of credit in the form of a 0.86% current expense note which matured June 30, 2014. Interest expense related to this note was \$2,619.

Subsequent to year end, the District obtained a revenue anticipation note in the amount of \$1,125,679 with interest of 2.55%, which matures June 30, 2015. As of the date of this report, the District has borrowed this note in full.

Long-term - The District is indebted at year end as follows:

Bond payable, Merchants Bank, General Obligation Bond of \$600,000 for new roof, with annual interest of 1%. Annual principal of \$37,000 is deposited in a sinking fund which is restricted for payment of the bond upon maturity in March 2026.

The net balance has been reflected in the June 30, 2014 balance. \$ 489,000

Note payable, Vermont Agency of Natural Resources - RF3-238-4, interest and fees at 3%. Annual interest and principal payments of \$3,161 beginning October 2014.

Matures October 2033. In September 2014, the District received \$25,000 in loan forgiveness which has been reflected in the June 30, 2014 balance. 47,029

Note payable, Merchants Bank, deficit reduction borrowing, with interest of 3.06%.

Annual principal payments ranging from \$48,252 to \$52,725 beginning June 2015.

Matures June 2017. 153,703

Note payable, Merchants Bank, for the purchase of a new truck, with interest of

2.45%. Annual principal payments of \$9,000. Matures December 2015. 18,000

\$ 707,732

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

7. Debt (continued):

Below is a summary of changes in long-term debt for the year ended June 30, 2014:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable:					
Construction bond	\$ 526,000	\$ -	\$ 37,000	\$ 489,000	\$ 37,000
Notes payable:					
RF3-238-4	19,924	52,105	25,000	47,029	1,750
Deficit reduction	-	153,703	-	153,703	48,252
New truck	<u>27,000</u>	<u>-</u>	<u>9,000</u>	<u>18,000</u>	<u>9,000</u>
	\$ <u>572,924</u>	\$ <u>205,808</u>	\$ <u>71,000</u>	\$ <u>707,732</u>	\$ <u>96,002</u>

The annual debt service requirement to maturity, including interest, as of June 30, 2014 is as follows:

	<u>Principal</u>	<u>Interest</u>
Fiscal year -		
2015	\$ 96,002	\$ 12,169
2016	100,529	10,806
2017	91,582	8,917
2018	38,913	7,248
2019	38,970	7,191
2020-2024	195,774	35,031
2025-2029	131,487	15,318
2030-2034	<u>14,475</u>	<u>1,332</u>
	\$ <u>707,732</u>	\$ <u>98,012</u>

The District's General Obligation Bond of \$600,000 is reported net of \$111,000 deposited in a sinking fund restricted for payment of the bond upon maturity in March 2026. The District is required to make annual payments of \$37,000 to the sinking fund at the Merchants Bank d/b/a Merchants Trust Company. The District reports the annual deposits as debt service expenditures and, after three annual payments, has reported the balance due as \$489,000. The District has not reported the assets held in the sinking fund.

The market value of assets held in the sinking fund at June 30, 2014 is as follows:

Cash - money market account	\$ 75
Certificates of deposit	55,225
U.S. Treasury notes	<u>56,099</u>
	\$ <u>111,399</u>

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

8. Capital leases:

The District has entered into lease agreements as lessee for financing the acquisition of three school buses and for an energy efficient lighting project. These lease agreements qualify as capital leases for accounting purposes and, therefore, the cost and depreciation of these assets are included with other capital assets of the District. The cost of the assets acquired by capital leases is the present value of the future lease payments. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014 are as follows:

Year ending June 30,	
2015	\$ 58,269
2016	49,760
2017	49,760
2018	<u>49,758</u>
Total minimum lease payments	207,547
Less: amount representing interest	<u>(15,296)</u>
Present value of minimum lease payments	\$ <u>192,251</u>

9. Fund balances and deficits:

The General Fund reported an assigned fund balance of \$29,104 at June 30, 2014. This amount has been assigned by the Board for future school operating expenditures.

As of June 30, 2014, the Capital Projects Fund has a deficit of \$109,541. Management intends to recover this deficit through savings in the District's budget to achieve future surpluses and options for deficit financing.

The Other Governmental Funds reported a fund balance of \$939 at June 30, 2014. Of this amount, \$439 is restricted for the local standards board program, \$9,676 is restricted for the community mentoring program, \$15,066 is restricted for the small grants program, \$500 is donor restricted until the use of these funds is determined by the Board, and \$6,956 is restricted for the Twinfield Learning Center. The unassigned deficit of \$31,698 is from the District's food service program. Management intends to recover this deficit in the food service program through savings in the District's budget to achieve future surpluses and options for deficit financing.

10. Budgetary basis of accounting:

These financial statements include totals for General Fund revenues and expenditures on the District's budgetary accounting basis, which vary from the totals of revenues and expenditures recognized on the basis of accounting prescribed by U.S. GAAP, as follows:

	<u>Revenues</u>	<u>Expenditures</u>
U.S. GAAP basis	\$ 7,114,426	\$ 7,122,655
On-behalf payments - STRS	<u>(343,213)</u>	<u>(343,213)</u>
Budget basis	\$ <u>6,771,213</u>	\$ <u>6,779,442</u>

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

11. Pension plans:

State Teachers' Retirement System of Vermont -

Plan description: The District participates in the State Teachers' Retirement System of Vermont (the System), a cost-sharing multiple-employer defined benefit public employee retirement system, administered by the State of Vermont, which makes annual contributions to the System. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The state statutory provisions, found in Title 16, Chapter 55, of the V.S.A., govern eligibility for benefits, service requirements and benefit provisions. The general administration and responsibility for the proper operation of the System is vested in a Board of Trustees consisting of eight members. The System issues annual financial information which is available and may be reviewed at the System's office, 109 State Street, Montpelier, Vermont, 05609-6901 or by calling (802) 828-2305.

Funding policy: Member teachers are required to contribute 5.5% (Group A) or 5.0% (Group C) of their annual covered salary and the state contributes the balance of an actuarially determined rate. The current state rate is 1.89% of annual covered payroll plus a payment to liquidate the unfunded accrued liability. The District estimates the state's fiscal 2014 contribution to the System on behalf of the District's teachers to be \$343,213. The teachers also contributed \$138,025. The contribution requirements of plan members and the state are established and may be amended by the System's Board of Trustees. The District is not required to contribute to the System.

The June 30, 2013 actuarial valuation of the System reports asset actuarial value of \$1,552,924,370 and actuarial accrued liability of \$2,566,834,655, leaving an unfunded accrued liability of \$1,013,910,285.

Vermont Municipal Employees' Retirement System -

Plan description: The District contributes to the Vermont Municipal Employees' Retirement System (VMERS) a cost-sharing multiple-employer public employee retirement system with defined benefit and defined contribution plans, administered by the State of Vermont. VMERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The state statutory provisions, found in Title 24, Chapter 125, of the V.S.A., govern eligibility for benefits, service requirements and benefit provisions. The general administration and responsibility for the proper operation of VMERS is vested in the Board of Trustees consisting of five members. VMERS issues annual financial information which is available and may be reviewed at the VMERS' office, 109 State Street, Montpelier, Vermont, 05609-6901 or by calling (802) 828-2305.

Funding policy: Defined Benefit Plan members are required to contribute 2.5% (Group A), 4.625% (Group B), 9.50% (Group C) or 11.125% (Group D) of their annual covered salary, and the District is required to contribute 4% (Group A), 5.125% (Group B), 6.75% (Group C) or 9.625% (Group D) of the employees' compensation. The contribution requirements of plan members and the District are established and may be amended by the Board of Trustees. The District's contributions to VMERS for the years ended June 30, 2014, 2013, and 2012 were \$36,782, \$34,033 and \$35,505, respectively, which were equal to the required contributions for each year.

The July 1, 2013 actuarial valuation of VMERS reports asset actuarial value of \$446,235,922 and actuarial accrued liability of \$528,426,358, leaving an unfunded accrued liability of \$82,190,436.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

12. Commitment:

In May 2013 the District entered into a three-year technical support contract beginning July 1, 2013 with the option to extend for one year. Annual fees for FY15 and FY16 are \$76,217 and \$79,266, respectively.

**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***

The Board of Education
Twinfield Union School District No. 33

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 Twinfield Union School District No. 33 (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 10, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control 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 entity'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 Responses, as items 2014-001 and 2014-002, 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 Responses as item 2014-003 to be a significant deficiency.

Other Deficiency in Internal Control Over Financial Reporting

We noted a deficiency, described as item 2014-004 in the accompanying Schedule of Findings and Responses, which we did not consider to be a material weakness or significant deficiency in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

The District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Montpelier, Vermont
February 10, 2015

*Mudgett, Jennett, &
Krogh-Wasner, P.C.*

TWINFIELD UNION SCHOOL DISTRICT NO. 33
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

2014-001 General ledger - excluded activity:

Condition - The District did not record in its general ledger certain changes in governmental liabilities including a \$12,399 payment for early teacher retirement, \$27,105 net increase in an RF3-238-4 note, \$153,703 borrowing of a deficit reduction note, \$9,000 payment on a truck note, \$176,360 net increase in capital leases, and an \$11,782 increase in compensated absences. The District also did not record capital asset additions of \$96,740 and depreciation expense of \$248,783. Audit adjustments were proposed to record this activity.

Criteria - Accounting principles generally accepted in the United States of America require the District to account for all transactions and balances of assets, liabilities, revenues and expenses of the District. That would include accounts that are only reported in the government-wide financial statements.

Cause - The District did not realize that it needed to make additional entries to the District's general ledger to reconcile capital asset and long-term debt activity for the year ended June 30, 2014. Additionally, the District did not maintain the necessary capital asset and depreciation schedules during the fiscal year nor did it perform an inventory of assets being used by the District to update the capital asset and depreciation schedule during the year ended June 30, 2014.

Effect - The accounting records have not been maintained in a complete form during the year. General ledger controls have not been extended to all transactions and balances which increases the risk of errors or omissions.

Recommendation - We recommend that the District maintain complete general ledger records of all transactions and balances. We also recommend that long-term debt activity, capital asset and depreciation activity be kept up to date during the fiscal year and used to maintain up to date general ledger records. We also recommend that the system of internal control be applied to all transactions and accounts of the District. This should include any capital assets, and long-term liabilities of the District.

Management's response - We will review the current system of internal controls for this recommendation to determine any changes which need to be made to assure that such is adequately being addressed. We will implement any changes needed in internal control so that such is applied to all transactions and accounts of the District, including capital assets, long-term liabilities and teachers' retirement. We will review the balances for any reconciliation needed and enter any needed adjustments on the general ledger.

2014-002 General Obligation Bond reporting:

Condition - The District reported a net liability for its construction bond at June 30, 2014.

The District's General Obligation Bond of \$600,000 is reported net of \$111,000 deposited in a sinking fund restricted for payment of the bond upon maturity in March 2026. The District is required to make annual payments of \$37,000 to the sinking fund at the Merchants Bank d/b/a Merchants Trust Company. The District reports the annual deposits as debt service expenditures and, after three annual payments, has reported the balance due as \$489,000. The District has not reported the assets held in the sinking fund.

**TWINFIELD UNION SCHOOL DISTRICT NO. 33
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014**

2014-002 General Obligation Bond reporting (continued):

Criteria - Accounting principles generally accepted in the United States of America require the District to report this construction bond as a \$600,000 liability in the Government-wide Statement of Net Position and report the assets held in the sinking fund as restricted assets. Those assets were valued at \$111,399 at June 30, 2014. The most efficient way to report the restricted assets would be in a debt service fund with transfers to the fund each year in lieu of debt service.

Cause - The terms of this construction bond differ from most other long-term debt where regular debt service payments immediately reduce the principal balance of the debt. The District did not realize this difference and has been reporting this construction bond as if the annual transfer payments were debt service that immediately reduced the principal balance of the bond.

Effect - The principal balance of the construction bond reported in the government-wide statements is understated and the assets held in the sinking fund for payment at maturity are also understated by approximately the same amount.

Recommendation - We recommend that the District establish a debt service fund to record the accumulation of assets for payment of the bond at maturity in 2026 and record annual transfers to the fund in lieu of debt service. The assets held in the fund should be reported at fair value which will require recording interest earned and any fluctuation in market value of the assets.

Management's response - We will establish a debt service fund to record the accumulation of assets for the payment of the bond at maturity in 2026. We will record the annual principal transfers from the general fund to the debt service fund.

2014-003 Food service activity:

Condition - During audit testing, it was found that the District had old, uncollected accounts receivable for food service sales and had not established an allowance account to reduce the net asset value of these accounts receivable. The uncollectible accounts were estimated at approximately \$8,500. An audit adjustment was proposed to establish the allowance account.

The District had not reconciled food service activity in its general ledger with supporting food service reports. An audit adjustment was proposed to record additional activity.

Criteria - Accounting principles generally accepted in the United States of America require assets to be reported at their net realizable value, which would require the District to establish an allowance account to offset any accounts receivable which are not considered collectible by management. Additionally, the District is required to report all food service sales and other activity in its general ledger for complete financial reporting.

Cause - The District did not perform the necessary reconciliations between its general ledger and supporting food service reports. Additionally, the District did not review food service accounts receivable balances to determine uncollectible amounts and had not taken formal action to write off uncollectible amounts.

**TWINFIELD UNION SCHOOL DISTRICT NO. 33
SCHEDULE OF FINDINGS AND RESPONSES
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2014-003 Food service activity (continued):

Effect - The District's general ledger did not include all food service activity. Additionally, the District's general ledger did not include an allowance account for uncollectible accounts receivable.

Recommendation - We recommend that the District perform the necessary reconciliations of food service activity so that an up to date general ledger can be maintained. We also recommend that the District evaluate its food service accounts receivable, on at least an annual basis, to estimate an amount that is potentially uncollectible and take formal action to write off uncollectible amounts.

Management's response - We will develop and implement a procedure for recording uncollectible amounts due from parents and students. We will create an allowance account in the general ledger. A review of the food service accounts will be completed monthly to determine any uncollectible accounts receivable.

2014-004 Fund balances:

Condition - The District does not have a formal policy that addresses the levels of authority required to spend restricted, committed, or assigned funds held in the District's governmental funds. The financial statements have been adjusted to present fund balance in accordance with the required five categories defined within accounting principles generally accepted in the United States of America.

Criteria - Accounting principles generally accepted in the United States of America define five categories of fund balance and require the District to have a policy that stipulates how fund balances in the governmental funds can be spent. This understanding is essential for the assignment and future use of fund balances.

Cause - The District has recorded fund balance amounts in the general ledger but has not categorized how these fund balances can be spent in accordance with accounting principles generally accepted in the United States of America.

Effect - The District's general ledger does not categorize fund balance amounts which could lead to incorrect use of the District's fund balances.

Recommendation - We recommend that the District develop a formal written fund balance policy that addresses fund balance classifications and rules for the use of restricted, committed, or assigned funds in accordance with accounting principles generally accepted in the United States of America.

Management's response - As of September 9, 2014, the District adopted a fund balance policy that addresses fund balance classifications and rules for the use of restricted, committed, or assigned funds.