

WINDHAM SCHOOL DISTRICT

**Financial Statements and
Required Report as of
June 30, 2016
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

January 30, 2017

To the Board of Directors of
Windham School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Windham School District (District) as of and for the year ended June 30, 2016, 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.

(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Windham School District as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of pension liability and schedule of contributions – pension plan, 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 January 30, 2017, on our consideration of the Windham School District'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 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.

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WINDHAM SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEAR ENDED JUNE 30, 2016

This section of the Windham School District annual financial report presents its discussion and analysis of financial performance for the fiscal year ended June 30, 2016. Please read it in conjunction with the financial statements, which immediately follow this section. For the fiscal year ended June 30, 2016 balances by function were unavailable from the prior year, as a result the discussion and analysis is based on total balances from prior year to current year. Going forward year end balances will be broken out by function.

FINANCIAL HIGHLIGHTS

- The District ended June 30, 2016 with a \$17,155 net favorable budget variance.
- General State Support Grant comprises 79% of total revenue.
- Instruction and Special Education comprises 67% of total expenses.
- Administration and building maintenance costs make up 28% of total expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the operation in more detail than the entity-wide statements.
- The governmental fund statements tell how basic services, such as instruction and support functions, were financed in the short-term, as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, including the employees of the District.

The financial statements also include notes that provide additional information about the financial statements and the balances reported. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Table A-1 shows how the various parts of this annual report are arranged and related to one another.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Table A-1 Organization of the District's Annual Financial Report

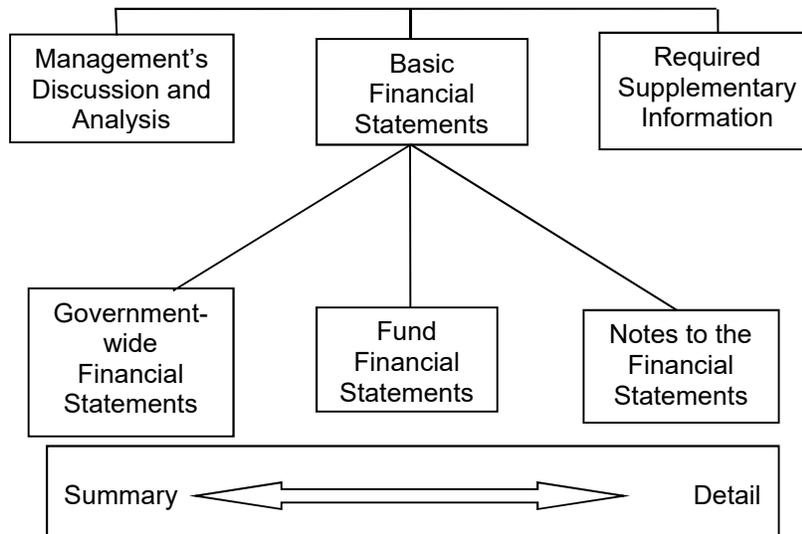


Table A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities that they cover and the types of information that they contain. The remainder of this overview section highlights the structure and contents of each statement.

Table A-2 Major Features of the Government-wide and Fund Financial Statements

	Government-Wide	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The day-to-day operating activities of the District, such as instruction and special education.	Instances in which the School District administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required financial statements	<ul style="list-style-type: none"> Statement of net position Statement of activities 	<ul style="list-style-type: none"> Balance sheet Statement of revenue, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> Statement of fiduciary net position Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/deferred inflows-outflows of resources/liability information	All assets, deferred inflows/outflows of resources and liabilities, both financial and capital, short-term and long-term.	Assets, deferred inflows/outflows of deferred resources, and liabilities that come due during the year or soon after; no capital assets or long-term liabilities included.	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can.
Type of inflow/outflow information	All revenue and expenses during the year, regardless of when cash is received or paid.	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All additions and deductions during the year, regardless of when cash is received or paid.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets/deferred outflows of resources and liabilities/deferred inflows of resources. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net position* and how they have changed. Net position – the difference between the District's assets/deferred outflows of resources and liabilities/deferred inflows of resources – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- For assessment of the overall health of the District, additional nonfinancial factors, such as changes in the property tax bases and the condition of buildings and other facilities, should be considered.

Net position of the governmental activities differ from the governmental fund balance because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources, (dollars), are expended to purchase or build such assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. Principal and interest payments are considered expenditures when paid. Depreciation is not calculated. Capital assets and long-term debt are accounted for in account groups and do not affect the fund balances.

Government-wide statements use an economic resources measurement focus and full accrual basis of accounting that involves the following steps to prepare the statement of net position:

- Capitalize current outlays for capital assets.
- Report long-term debt as a liability.
- Depreciate capital assets and allocate the depreciation to the proper function.
- Calculate revenue and expenditures using the economic resources measurement focus and the full accrual basis of accounting.
- Allocate net position balances as follows:
 - Net investment in capital assets.
 - Restricted net position are those with constraints placed on use by external sources or imposed by law.
 - Unrestricted net position are those that do not meet any of the above restrictions.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District has on type of Fund:

- **Governmental Funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The governmental fund statements focus primarily on current financial resources and often have a budgetary orientation. Governmental funds include the general fund and fresh fruit & vegetable program fund (a Special Revenue Fund). Required financial statements are the balance sheet and the statement of revenue, expenditures, and change in fund balance.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's net position and government wide activities as of June 30, 2016, are detailed in Tables A-3 and A-4.

Table A-3 Condensed Statements of Net Position - Governmental Activities

	Fiscal Year 2016	Fiscal Year 2015	Percent Change
Assets:			
Cash and other current assets	\$ 108,044	\$ 50,722	113.01%
Capital assets, net	211,396	227,819	-7.21%
Total assets	319,440	278,541	14.68%
Liabilities:			
Current liabilities	44,464	24,515	81.37%
Long-term liabilities	5,850	10,850	-46.08%
Total liabilities	50,314	35,365	42.27%
Net position:			
Investment in capital assets	206,396	217,819	-5.24%
Unrestricted	57,629	25,357	127.27%
Total net position	\$ 264,025	\$ 243,176	8.57%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Changes in Net Position

The District's fiscal year 2016 revenue totaled \$397,495 (see Table A-4). The general state support grant and operating grants accounted for most of the District's revenue (see Table A-5). The remainder came from other miscellaneous sources.

The total cost of all programs and services, totaled \$376,646 for 2016. The majority of this amount is used to support instruction, including special education (see Table A-6).

Table A-4 Changes in Net Position from Operating Results - Governmental Activities

	Fiscal Year 2016	Fiscal Year 2015	Percent Change
Revenue:			
Operating grants	\$ 397,433	\$ 350,082	13.53%
General revenues	62	72	-13.89%
Total revenue	<u>397,495</u>	<u>350,154</u>	<u>13.52%</u>
Expenses:			
Administration	70,532	70,623	-0.13%
Regular instruction	246,128	193,292	27.33%
Building maintenance	33,658	39,249	-14.24%
Transportation	26,328	33,448	-21.29%
Total expenses	<u>376,646</u>	<u>336,612</u>	<u>11.89%</u>
Change in net position	<u>\$ 20,849</u>	<u>\$ 13,542</u>	<u>53.96%</u>

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Table A-5 Sources of Revenue for 2016

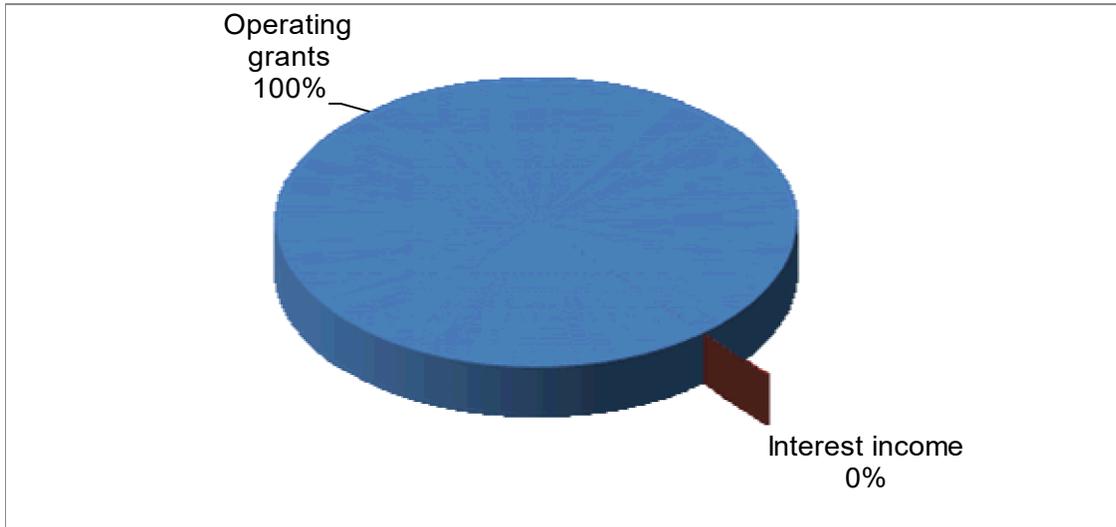
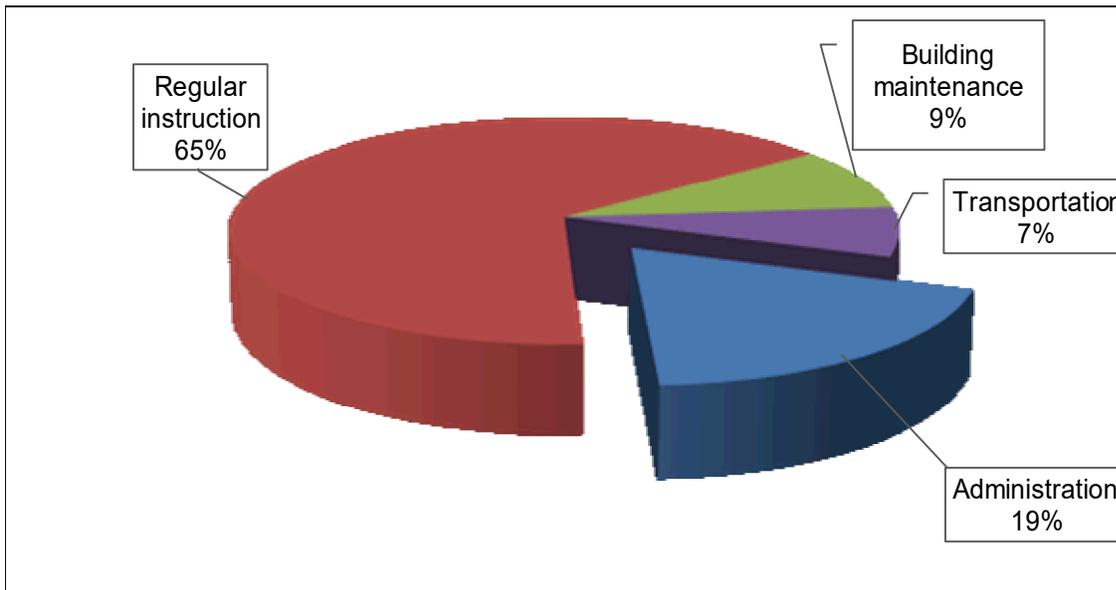


Table A-6 Sources of Expenses for 2016



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Governmental Activities

Revenue for the District's governmental activities totaled \$397,495 while total expenses equaled \$376,646 resulting in a increase in net position of \$20,849. The District's financial condition can be credited to:

- Continued leadership by the Board of School Directors
- Community support of the District
- Fiscal management by administration

Table A-7 presents the costs of all of the District activities. The tables also shows each activity's net cost (total cost less fees generated by the activities and aid provided for specific programs). The net costs shows the financial burden placed on the District's member districts by each of these functions.

Table A-7 Net Cost of Governmental Activities

Table A-7 Net Cost of Governmental Activities

	<u>Total Cost Of Services 2016</u>	<u>Total Cost Of Services 2015</u>	<u>Percent Change</u>	<u>Net Cost Of Services 2016</u>	<u>Net Cost Of Services 2015</u>	<u>Percent Change</u>
Functions:						
Administration	\$ 70,532	\$ 70,623	0%	\$ -	\$ (70,623)	-100%
Regular instruction	246,128	221,711	11%	28,962	(193,292)	-115%
Building maintenance	33,658	39,249	-14%	-	(39,249)	-100%
Transportation	<u>26,328</u>	<u>33,448</u>	-21%	<u>(8,175)</u>	<u>(33,448)</u>	-76%
Total	<u>\$ 376,646</u>	<u>\$ 365,031</u>	3%	<u>\$ 20,787</u>	<u>\$ (336,612)</u>	-106%

- The cost of all governmental activities this year was \$376,646.
- The federal and state governments subsidized certain programs with grants and contributions in the amount of \$397,433.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Variances between years for the governmental fund financial statements are not the same as variances between years for the government-wide financial statements. The District's governmental funds are presented on the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of presentation, governmental funds do not include long-term liabilities for the funds' projects and capital assets purchased by the funds. Governmental funds will include proceeds from the issuance of debt, the current payments for capital assets, and the current payments for debt.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

Governmental Fund Highlights

The following is a brief description of the activity in the governmental funds for 2015:

General Fund - The general fund ended the year with \$16,777 in fund balance.

Capital Projects Fund – The capital projects fund ended the year with \$46,050 in fund balance.

General Fund Budgetary Highlights

This section presents an analysis of significant variances between original and final budget amounts and between final budget amounts and actual results for the general fund.

Results vs. Budget

The general fund is the only fund which a budget is submitted for the approval of the resident voters and legally adopted.

Table A-8 Budget Analysis

The general fund is the only fund for which a budget is legally adopted.

	<i>Original/Final Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
REVENUES:			
General state support grant	\$ 298,928	\$ 297,284	\$ (1,644)
Interest income	-	46	46
State and federal aid	63,210	76,751	13,541
School lunch	194	293	99
	<u>362,332</u>	<u>374,374</u>	<u>12,042</u>
Total revenue			
EXPENDITURES:			
Administration	66,969	70,691	(3,722)
Regular instruction	195,026	190,794	4,232
Building maintenance	40,705	29,543	11,162
Transportation	14,123	16,318	(2,195)
Special education	25,053	29,931	(4,878)
Transfers to capital reserve	15,000	15,000	-
Debt service - principal & interest	5,456	4,942	514
	<u>362,332</u>	<u>357,219</u>	<u>5,113</u>
Total expenditures			
CHANGE IN FUND BALANCE	-	17,155	17,155
FUND BALANCE - beginning of year	<u>(34)</u>	<u>(378)</u>	<u>(344)</u>
FUND BALANCE - end of year	<u>\$ (34)</u>	<u>\$ 16,777</u>	<u>\$ 16,811</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

Capital Assets

At the end of 2016, the District had a net investment in capital assets of \$211,396.

Table A-9 Capital Assets (net of depreciation)

<u>Category</u>	<u>Fiscal Year 2016</u>	<u>Fiscal Year 2015</u>	<u>Percent Change</u>
Land	\$ 25,597	\$ 25,597	0.00%
Buildings and improvements	173,054	175,653	-1.48%
Equipment	12,745	26,569	-52.03%
Total	<u>\$ 211,396</u>	<u>\$ 227,819</u>	<u>-7.21%</u>

Long-Term Liabilities

At year-end, the District had \$10,850 of long-term liabilities. The long-term liability balance consisted of \$5,850 in compensated absences due to employees at termination and \$5,000 in bond payable that have a final maturity in 2017. More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

FACTORS BEARING ON THE FUTURE OF THE DISTRICT

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

Declining public school enrollment is an issue for the State of Vermont from which the Windham District is not immune. Declining enrollment may cause financial strain on the District as Education Spending Revenue is determined, in part, by student population.

The District also faces challenges and uncertainties related to the adoption of ACT 46. A consultant has been retained by Windham Central Supervisory Union to help explore options for the member districts. It is not clear at this time what a future configuration might be.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of the finances of the District and to demonstrate the District's accountability with the funds it receives. If you have any questions about this report or need additional financial information, please contact:

Windham School District
Laurie Garland, Interim Chief Financial Officer
1219 Vermont Route 30
Townshend, VT 05353

WINDHAM SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2016

ASSETS

CURRENT ASSETS:

Cash	\$	100,858
Accounts receivable		4,754
Due from other governments		<u>2,432</u>

Total current assets 108,044

NONCURRENT ASSETS:

Capital assets, net		<u>211,396</u>
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TOTAL ASSETS 319,440

LIABILITIES

CURRENT LIABILITIES:

Accounts payable		23,625
Accrued payroll and benefits		20,839
Bonds payable due within one year		5,000
Accrued interest payable		<u>101</u>

Total current liabilities 49,565

LONG-TERM LIABILITIES:

Compensated absences payable		<u>5,850</u>
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Total long-term liabilities 5,850

TOTAL LIABILITIES 55,415

NET POSITION

Net investment in capital assets		206,396
Unrestricted		<u>57,629</u>

TOTAL NET POSITION \$ 264,025

The accompanying notes are an integral part of these statements.

WINDHAM SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

	<u>Expenses</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Change in Net Position</u>
FUNCTIONS/PROGRAMS:			
Regular instruction	\$ 246,128	\$ 275,090	\$ 28,962
Administration	70,532	70,532	-
Building maintenance	33,658	33,658	-
Transportation	<u>26,328</u>	<u>18,153</u>	<u>(8,175)</u>
TOTAL FUNCTIONS/PROGRAMS	<u>\$ 376,646</u>	<u>\$ 397,433</u>	<u>20,787</u>
GENERAL REVENUE:			
Interest income			<u>62</u>
TOTAL GENERAL REVENUE			<u>62</u>
CHANGE IN NET POSITION			20,849
TOTAL NET POSITION - beginning of year			<u>243,176</u>
TOTAL NET POSITION - end of year			<u>\$ 264,025</u>

The accompanying notes are an integral part of these statements.

WINDHAM SCHOOL DISTRICT

**BALANCE SHEET - GOVERNMENTAL FUNDS AND RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO GOVERNMENT-WIDE NET POSITION
JUNE 30, 2016**

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 54,808	\$ 46,050	\$ 100,858
Accounts receivable	4,754	-	4,754
Due from other government	<u>2,432</u>	<u>-</u>	<u>2,432</u>
TOTAL ASSETS	<u>\$ 61,994</u>	<u>\$ 46,050</u>	<u>\$ 108,044</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES:			
Accounts payable	\$ 24,378	\$ -	\$ 24,378
Accrued liabilities	<u>20,839</u>	<u>-</u>	<u>20,839</u>
TOTAL LIABILITIES	<u>45,217</u>	<u>-</u>	<u>45,217</u>
FUND BALANCE			
Assigned	-	46,050	46,050
Unassigned	<u>16,777</u>	<u>-</u>	<u>16,777</u>
TOTAL FUND BALANCE	<u>16,777</u>	<u>46,050</u>	<u>62,827</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 61,994</u>	<u>\$ 46,050</u>	<u>\$ 108,044</u>

Reconciliation of the balance sheet to the statement of net position:

Amounts reported for governmental activities in the statement of net position are different because:

Total governmental fund balances per above	\$ 62,827
Capital assets, net of depreciation used in governmental activities are not financial resources and, therefore, are not in the funds	211,396
Other assets are not available to pay for current-period expenditures and, therefore, are reported as accounts payable	753
Long-term liabilities, including compensated absences, and accrued interest on debt are not due and payable in the current period and, therefore, are not reported in the funds	<u>(10,951)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 264,025</u>

WINDHAM SCHOOL DISTRICT

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Capital Reserve Fund</u>	<u>Total Governmental Funds</u>
REVENUES:			
General state support grant	\$ 297,284	\$ -	\$ 297,284
Interest income	46	16	62
Federal aid	16,204	-	16,204
State aid	60,840	-	60,840
	<u>374,374</u>	<u>16</u>	<u>374,390</u>
EXPENDITURES:			
Administration	70,691	-	70,691
Regular instruction	190,794	-	190,794
Building maintenance	29,543	-	29,543
Transportation	16,318	-	16,318
Special education	29,931	-	29,931
Debt service - principal & interest	4,942	-	4,942
	<u>342,219</u>	<u>-</u>	<u>342,219</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>32,155</u>	<u>16</u>	<u>32,171</u>
OTHER SOURCES AND (USES):			
Operating transfers in	-	15,000	15,000
Operating transfers (out)	(15,000)	-	(15,000)
	<u>(15,000)</u>	<u>15,000</u>	<u>-</u>
CHANGE IN FUND BALANCE	17,155	15,016	32,171
FUND BALANCE - beginning of year	<u>(378)</u>	<u>31,034</u>	<u>30,656</u>
FUND BALANCE - end of year	<u>\$ 16,777</u>	<u>\$ 46,050</u>	<u>\$ 62,827</u>

The accompanying notes are an integral part of these statements.

WINDHAM SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Net changes in fund balance - Total governmental funds	\$	32,171
Capital outlays, net of disposals, are expenditures in governmental funds, but are capitalized in the statement of net position		3,550
Depreciation is not recorded as an expenditure in the governmental funds, but is recorded in the statement of activities		(19,973)
Repayments of long-term debt are recorded as expenditures in the governmental funds, but are recorded as payments of liabilities in the statement of net position		5,000
Pension expense related to the change in the net pension liability that is the responsibility of the State of Vermont under the special funding provision of GASB Statement No. 68		(23,105)
Support from the State of Vermont related to the change in the net pension liability under the special funding provision of GASB Statement No. 68		23,105
Accrued interest expense does not require the expenditure of current resources and, therefore, are not reported as expenditures in the governmental funds		<u>101</u>
Change in net position - Governmental activities	\$	<u>20,849</u>

WINDHAM SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

1. NATURE OF OPERATIONS

Windham School District (District) provides public education for the Town of Windham, Vermont. Functions of the Office of the Superintendent are provided to the District by the Windham Central Supervisory Union (WCSU) of which the District is a member.

2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Significant accounting principles and policies utilized by the District are described below:

Reporting Entity

The District is an independent district organized under the laws of the State of Vermont and is governed by an elected board of school directors.

The reporting entity of the District is based upon criteria set forth by generally accepted accounting principles. 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 exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability.

2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The District's financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund level financial statements which provide more detailed information.

Government-wide Statements

The statement of net position and the statement of activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, state aid, intergovernmental revenue, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

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

Fund Financial Statements

The District uses funds to maintain its accounting records. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The fund financial statements provide information about the District's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The accounts of the District are organized into funds or account groups, 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/deferred outflows, liabilities/deferred inflows, fund balance, revenue, and expenditures. The various funds are summarized by type in the financial statements. Significant transactions between funds within a fund type have been eliminated. The fund types and account groups used by the District are as follows:

Governmental Fund Types

Governmental funds are those in which most governmental functions of the District are reported. The acquisition, use, and balances of the District's expendable financial resources and related liabilities are accounted for through the governmental funds. The measurement focus is upon determination of changes in financial position rather than upon determination of net income. The District has the following fund types:

General Fund: This is the District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.

Capital Projects Fund: This fund is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured, whereas basis of accounting refers to when revenues and expenditures are recognized. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place.

Non-exchange transactions in which the District gives or receives value without directly receiving or giving equal value in exchange include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. The District considers all revenue reported in the governmental funds to be available if the revenue is collected within sixty days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Cash

The District's cash consist of cash on hand, demand deposits. Vermont State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the state. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements, and obligations of Vermont State or its localities.

Accounts Receivable

Accounts receivable are shown gross. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

Interfund Activity

Interfund receivables and payables, within governmental activities, are eliminated on the statement of net position.

The District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues.

2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets, Net

Capital assets are reported at actual cost for acquisitions subsequent to July 1, 2003. For assets acquired prior to July 1, 2003, estimated historical costs, based on appraisals conducted by independent third-party professionals were used. Donated assets are reported at estimated fair value at the time received.

Capitalization thresholds, (the dollar value above which asset acquisitions are added to the capital asset accounts; \$1,000 for individual items, \$10,000 for an asset group), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 10,000	N/A	N/A
Buildings and improvements	1,000	SL	75
Equipment	1,000	SL	5-10
Vehicles	1,000	SL	7

Education Fund Taxes

State Education Fund taxes are levied annually by the State of Vermont in conjunction with the local municipalities real property taxes no later than October 1 and become a lien at the time of the levy. Taxes are collected from the date of issue until the due date set in November. Twenty days after the due date the Town on behalf of the State turns over all State Education Funds collected to the District. Uncollected Education Fund taxes are subsequently enforced by the Town in which the District is located. The Town must provide any uncollected State Education Fund taxes to the District no later than 120 days from the date the tax was due.

Budgetary Procedures and Budgetary Accounting

Budgets are managed annually on a basis consistent with GAAP.

The District follows these procedures in establishing the budgetary data reflected in the general purpose financial statements:

1. The School Board prepares the annual operating budget for the general fund for the District's year ended June 30th. The School Board prepares the budget with assistance from the Business Manager, Buildings and Grounds Supervisor, and Principals from each of the schools that the District operates. The operating budget includes proposed expenditures and the means of financing them. The budget is then submitted to the full board of school directors for its adoption.
2. After the budget is adopted by the Board, the District publishes a copy of the proposed operating budget. A notice of the annual meeting of the District is posted in three public places and legal voters are invited to attend the annual meeting to discuss the proposed budget.
3. In March, the annual District meeting is held and the budget is legally enacted by a general District vote.
4. Budget revisions, which would increase the amount of total budgeted expenditures, must be approved by a District vote. Appropriations lapse at the end of the District's fiscal year.

2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Procedures and Budgetary Accounting (Continued)

The District follows these procedures in establishing the budgetary data reflected in the general purpose financial statements:

5. The budget is controlled by a monthly review process which involves detailed communications between accounts payable, the CFO, the building principal, and the Board.
6. The budget for the general fund is managed using the modified accrual basis. The total budgeted amount of expenditures is as originally adopted. Transfers between expenditure categories have occurred during the year.

Compensated Absences

The liability for compensated absences is calculated at rates in effect as of the balance sheet date and is recorded in the governmental funds in as much as it will be funded from current financial resources and the government-wide statements for amounts to be paid from future financial resources.

The District recognizes a liability for sick leave and additional salary related payments as the benefits are earned by the employees, based on the rendering of past service and the probability that the employees will be compensated for the benefits through pay or some other means. This includes sick leave that was earned but not used during the current or prior periods and for which employees can receive compensation in a future period. Amounts do not include leave that is expected to lapse and includes leave that employees will eventually qualify for but have not earned.

Retirement Plans

State Teachers' Retirement System of Vermont

Teachers who are full-time employees of the District are members of the State Teachers' Retirement System of Vermont. Under Vermont statutes, the District employees each contribute a statutory percentage of compensation to the system. Any remaining actuarial liability of the retirement system is funded by the State of Vermont.

Postretirement Benefits

In addition to providing pension benefits, the District offers health insurance coverage and survivor benefits for retired employees and their survivors. The respective retirees pay for this coverage with no additional expense recognized by the District.

Accrued Liabilities and Long-Term Obligations

Payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources.

Compensated absences that will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

Long-term obligations represent the District's future obligations or future economic outflows. The liabilities are reported as due in one year or due within more than one year in the statement of net position.

2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District's policy concerning which to apply first varies with the intended use, and with associated legal requirements, many of which are described elsewhere in these notes.

Unearned Revenue

Unearned revenue is reported when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the District before it has legal claim to them, as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for unearned revenue is removed and revenue is recorded.

Equity Classifications

Government-wide Statements

In the government-wide statements there are three classes of net position:

Net investment in capital assets— consists of net capital assets (cost less accumulated depreciation) plus unspent bond proceeds reduced by outstanding balances of related debt obligations from the acquisition, constructions or improvements of those assets.

Restricted Net Position – reports net position when constraints placed on the assets are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The District has no restricted net position as of June 30, 2015

Unrestricted Net Position – reports all other net position that do not meet the definition of the above two classifications and are deemed to be available for general use by the District.

Governmental Funds Statements

In the fund basis statements there are five classifications of fund balance:

Nonspendable fund balance – Includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Nonspendable fund balance would include prepaid expenses. The District has no nonspendable fund balance as of June 30, 2016.

Restricted fund balance – Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District has no restricted fund balance as of June 30, 2015.

Committed fund balance – Includes amounts that can be used for the specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority, i.e., the Board of School Directors. The District has no committed fund balance as of June 30, 2016.

Assigned fund balance – Includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned fund balance - Includes all other general fund amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the District.

2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Order of Fund Balance Spending Policy

The District's policy is to apply expenditures against restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the general fund are classified as assigned fund balance. In the general fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

3. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND FINANCIAL STATEMENTS AND GOVERNMENT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the government-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the statement of activities compared with the current financial resources focus of the governmental funds.

Total Fund Balance of Governmental Funds vs. Net Position of Governmental Activities

Total fund balance of the District's governmental funds differ from "net position" of governmental activities reported in the statement of net position. This difference primarily results from the additional long-term economic focus of the statement of net position versus the solely current financial resources focus of the governmental fund balance sheet.

Statement of Revenue, Expenditures, and Change in Fund Balance vs. Statement of Activities

Differences between the governmental funds statement of revenue, expenditures, and change in fund balance and the statement of activities fall into one of three broad categories.

Long-Term Revenue and Expense Differences

Long-term revenue differences arise because governmental funds report revenue only when it is considered "available", whereas the statement of activities reports revenue when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used for the statement of activities.

Capital Related Differences

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the statement of activities.

Long-Term Debt Transaction Differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the statement of activities as incurred, and principal payments are recorded as a reduction of liabilities in the statement of net position.

4. CUSTODIAL CREDIT, CONCENTRATION OF CREDIT RISK

The District's investment policies are governed by State statutes. In addition, the District has its own written investment policy. The Treasurer is authorized to use demand accounts, money market accounts, and certificates of deposit. Permissible investments include obligations of the U.S. Government, repurchase agreements, and obligations of the State of Vermont.

The District's aggregate bank balances of \$104,318 with a carrying amount of \$100,858 are fully insured and/or collateralized with securities held by the pledging financial institutions but not in the district's name.

5. CAPITAL ASSETS, NET

Capital asset balances and activity for the year ended June 30, 2016, were as follows:

	July 1, 2015			June 30, 2016
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 25,597	\$ -	\$ -	\$ 25,597
Capital assets that are depreciated:				
Buildings and building improvements	295,423	-	-	295,423
Equipment	17,792	3,550	3,076	18,266
Vehicles	70,072	-	-	70,072
Total	<u>383,287</u>	<u>3,550</u>	<u>3,076</u>	<u>383,761</u>
Less accumulated depreciation:				
Buildings and improvements	114,704	7,665	-	122,369
Equipment	22,858	2,298	3,076	22,080
Vehicles	43,503	10,010	-	53,513
Total accumulated depreciation	<u>181,065</u>	<u>19,973</u>	<u>3,076</u>	<u>197,962</u>
Total depreciable cost, net	<u>\$ 227,819</u>	<u>\$ (16,423)</u>	<u>\$ -</u>	<u>\$ 211,396</u>

Depreciation expense of \$19,973 for the year ended June 30, 2016, was allocated to the following specific functions:

Building and grounds	\$ 7,665
Instruction	2,298
Transportation	<u>10,010</u>
Total	<u>\$ 19,973</u>

6. LONG-TERM DEBT

Long-term liability balances and activity for the year are summarized below:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Long-term Portion</u>
Bonds payable:						
General obligation debt:						
Serial bond	\$ 10,000	\$ -	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
Other liabilities:						
Compensated absences	<u>5,850</u>	<u>-</u>	<u>-</u>	<u>5,850</u>	<u>-</u>	<u>5,850</u>
Total	<u>\$ 15,850</u>	<u>\$ -</u>	<u>\$ 5,000</u>	<u>\$ 10,850</u>	<u>\$ 5,000</u>	<u>\$ 5,850</u>

(A) Additions and deletions are shown net because it is impractical to determine these amounts separately.

The District's serial bond matures in 2017 with a final payment of \$5,000.

7. PENSION PLAN

Vermont State Teachers Retirement System

All of the teachers employed by the District participate in the Vermont State Teachers' Retirement System (VSTRS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation, covering nearly all public day school and nonsectarian private high school teachers and administrators as well as teachers in schools and teacher training institutions within and supported by the State of Vermont that are controlled by the State Board of Education. Membership in the system for those covered classes is a condition of employment. During the year ended June 30, 2016, the retirement system consisted of 288 participating employers.

The plan was established effective July 1, 1947, and is governed by Title 16, V.S.A. Chapter 55. Subsequent Vermont state legislation, Act 74, which became effective on July 1, 2010, contained numerous changes to the plan benefits available to current and future members, as well as a change in access to health care coverage after retirement, resulting from a multi-party agreement to provide sustainability of quality pension and retiree health benefits.

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. The Vermont State Agency of Administration issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the VSTRS. That report may be viewed on the State's Department of Finance & Management website at <http://finance.vermont.gov/reportsandpublications/cafr>.

7. PENSION PLAN (Continued)

The VSTRS provides retirement, and disability benefits, annual cost-of-living adjustments, health care and death benefits to plan members and beneficiaries. There are two levels of contributions and benefits in the System: Group A – for public school teachers employed with in the State of Vermont prior to July 1, 1981 and elected to remain in Group A; and Group C – for public school teachers employed within the State of Vermont on or after July 1, 1990. Group C also includes those teachers hired prior to July 1, 1990 and were in Group B on July 1, 1990. When Act 74 became effective on June 30, 2010, Group C was further bifurcated into Groups #1 and #2. Group #1 contains members who were at least 57 years of age or had at least 25 years of service, and Group #2 contains members who were less than 57 years of age and had less than 25 years of service.

Benefits available to each group are based on average final compensation (AFC) and years of creditable service.

Other post-employment benefits consisting of medical and dental benefits are available to all plan members. Medical benefit subsidy are based on the members’ service credit and members pay full premium for dental benefits.

Contributions

VSTRS is a cost-sharing public employee retirement system with one exception: all risks and costs are not shared by the District but are the liability of the State of Vermont. VSTRS is funded through State and employee contributions and trust fund investment earnings; and the District has no legal obligation for paying benefits. Required contributions to the System are made by the State of Vermont based upon a valuation report prepared by the System’s actuary, which varies by plan group. VSTRS estimates the contributions on behalf of the District’s employees included in the teachers’ retirement plan which approximates \$14,402 or 13% of the \$110,169 in covered payroll.

Employee contribution rates by Plan group follow:

VSTRS	Group A	Group C- Group #1	Group C- Group #2
Employee Contributions	2.5% of gross salary	5.0% of gross salary with 5 or more years of service as of 7/1/14; 6.0% of gross salary if less than 5 years of service as of 7/1/14	5.0% of gross salary with 5 or more years of service as of 7/1/14; 6.0% of gross salary if less than 5 years of service as of 7/1/14

Employee contributions totaled \$5,508 during the year and were paid by the District to the State of Vermont. The District has no other liability under the plan.

7. PENSION PLAN (Continued)

Pension Liabilities and Pension Expense

The State is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of member employers. Therefore the employers are considered to be in a special funding situation as defined in GASB No. 68 and the State is treated as nonemployer to VSTRS. Because the District does not contribute directly to VSTRS, no net pension liability was recorded at June 30, 2016. The State's portion of the collective net pension liability that was associated with the District was \$234,380 as of June 30, 2015, the most recent valuation date.

The State of Vermont's proportionate share of the net pension liability associated with the District is equal to the collective net pension liability, actuarially measured as of June 30, 2015, multiplied by the District's proportionate share percentage. The District's proportionate share percentage was based on its reported salaries to the total reported salaries for all participating employers. At June 30, 2015, the District's proportion was .01975%, which was a decrease of .00158% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the district recognized total pension expense of \$23,105 and revenue of \$23,105 to recognize the support the State provided for District employees' pension benefits.

Significant Actuarial Assumptions and Methods

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using the actuarial assumptions outlined below. These assumptions were selected on the basis of the experience study that was performed for the five year period ending June 30, 2010:

Interest Rate: The interest rate is used was 7.95% per annum.

Salary Increases: Representative values of the assumed annual rates of future salary increases are as follows:

<u>Age</u>	<u>Annual Rate of Salary Increase</u>
25	8.40%
30	7.05%
35	6.15%
40	5.45%
45	4.95%
50	4.60%
55	4.35%
60	4.25%
64	4.25%

Deaths After Retirement: The 1995 Buck Mortality Tables set back three years for males and one year for females, for retirees, terminate vested members and beneficiaries: the RP-2000 Disabled Life table with projection to 2016 using Scale AA for disabled retirees. The tables used contain a margin to reflect anticipated mortality improvement after the valuation date.

Inflation: The separately stated assumptions for investment return, salary increases and cost of living adjustments are consistent with an expected annual inflation rate of 3.00% to 3.25% per year.

7. PENSION PLAN (Continued)

Significant Actuarial Assumptions and Methods

Cost-of-Living Adjustments: Assumed to occur on January 1 following one year of retirement at the rate 3% per annum for Group A members and 1.5% per annum for Group C members (beginning at age 62 for Group C members who elect reduced early retirement).

Actuarial cost method: Entry Age Normal – Level Percentage of Pay.

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

Long-term Expected Rate of Return

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

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

<u>Asset Type</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	32.00%	8.61%
Fixed Income	35.00%	1.91%
Alternatives	17.00%	6.93%
Multi-strategy	16.00%	4.88%

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

Discount Rate

The discount rate used to measure the total pension liability was 7.95%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at current member contribution rates that contributions from the non-employer will be made at statutorily required rates, actuarially determined. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current system members. Therefore, the long-term expected rate of return on plan investment was applied to all periods of projected payments to determine the total pension liability.

7. PENSION PLAN (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the State's proportionate share of the net pension liability associated with the District calculated using the discount rate of 7.95 percent, as well as what the proportionate share would be if it were calculated using a discount rate that is one percent lower (6.95%) or one percent higher (8.95%):

	1 % Decrease (6.95%)	Current Assumption	1% Increase (8.95%)
Proportionate Share of Net Pension liability (asset)	\$ 297,621	\$ 234,380	\$ 181,328

Pension Plan Fiduciary Net Position

The schedule of employer allocations and schedule of pension amounts by employer are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The schedules present amounts that are elements of the financial statements of the VSTRS or its participating employers. VSTRS does not issue stand-alone financial reports, but instead are included as part of the State of Vermont's Comprehensive Annual Financial Report (CAFR). The CAFR can be viewed on the State's Department of Finance & Management website at <http://finance.vermont.gov/reportsandpublications/cafr>

8. RELATED PARTIES

Windham Central Supervisory Union

The District has an ongoing financial relationship with the Windham Central Supervisory Union (WCSU). Through the WCSU's assessment process, the District's assessment can be increased to cover a share of any prior year deficits and decreased to share in any prior year surpluses. Separate financial statements on the WCSU are available from the Windham Central Supervisory Union.

9. CONTINGENCIES

The District participates in various state and federal grant programs which are subject to program compliance audits by the grantors or their representatives. The audits of these programs are an on-going process and many have not been conducted or completed. Accordingly, the District's compliance with applicable grant requirements will be established at a future date. The amount, if any, of expenditures, which may be disallowed by the granting agencies cannot be determined at this time, although the District anticipates such amounts, if any, to be immaterial.

10. RISK FINANCING AND RELATED INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

WINDHAM SCHOOL DISTRICT

**SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016**

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
REVENUES:				
General state support grant	\$ 298,928	\$ 298,928	\$ 297,284	\$ (1,644)
Interest income	-	-	46	46
State and federal aid	<u>63,404</u>	<u>63,404</u>	<u>77,044</u>	<u>13,640</u>
Total revenue	<u>362,332</u>	<u>362,332</u>	<u>374,374</u>	<u>12,042</u>
EXPENDITURES:				
Administration	66,969	66,969	70,691	(3,722)
Regular instruction	195,026	195,026	190,794	4,232
Building maintenance	40,705	40,705	29,543	11,162
Transportation	14,123	14,123	16,318	(2,195)
Special education	25,053	25,053	29,931	(4,878)
Debt service - principal & interest	<u>5,456</u>	<u>5,456</u>	<u>4,942</u>	<u>514</u>
Total expenditures	<u>347,332</u>	<u>347,332</u>	<u>342,219</u>	<u>5,113</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>15,000</u>	<u>15,000</u>	<u>32,155</u>	<u>17,155</u>
OTHER SOURCES AND (USES):				
Operating transfers (out)	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	<u>-</u>
Total other sources (uses)	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	<u>-</u>
CHANGE IN FUND BALANCE	-	-	17,155	17,155
FUND BALANCE - beginning of year	<u>(34)</u>	<u>(34)</u>	<u>(378)</u>	<u>(344)</u>
FUND BALANCE - end of year	<u>\$ (34)</u>	<u>\$ (34)</u>	<u>\$ 16,777</u>	<u>\$ 16,811</u>

WINDHAM SCHOOL DISTRICT

**SCHEDULE OF PROPORTIONATE SHARE OF PENSION LIABILITY (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>	<u>Last 10 Fiscal years (Dollar Amounts Displayed in Thousands)</u>								
			<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	
Vermont State Teachers' Retirement System											
Proportion of net pension liability	0.0198%	0.0213%	Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.								
Proportionate share of net pension liability	\$ 234,380	\$ 204,418									
Covered employee payroll	\$ 110,169	\$ 120,901									
Proportionate share of net pension liability as a percentage of covered employee payroll	213%	169%									
Plan fiduciary net position as a percentage of total pension liability	58%	64%									

See independent auditor's report.

WINDHAM SCHOOL DISTRICT

**SCHEDULE OF CONTRIBUTIONS - PENSION PLAN (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016**

Vermont State Teachers' Retirement System

	<u>Last 10 Fiscal years (Dollar Amounts Displayed in Thousands)</u>									
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ -	\$ -								
Contribution in relation to the contractually required contrib.	-	-								
Contribution deficiency(excess)	<u>\$ -</u>	<u>\$ -</u>								
Covered employee payroll	\$ 110,169	\$ 120,901								
Contribution as a percentage of payroll	-	-								

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

OTHER REQUIRED REPORT

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

January 30, 2017

To the Board of School Directors of
Windham School District:

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 and each major fund of Windham School District (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 30, 2017.

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.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

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 (Continued)

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*.

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 communication is not suitable for any other purpose.

VT License #092.0048099

WINDHAM SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

Section I – Summary of Auditor’s Results

Financial Statements

Type of independent auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes None Identified

Significant deficiency(ies) identified not
Considered to be material weaknesses? Yes None Identified

Noncompliance material to the financial
statements noted? Yes None Identified

Section II – Status of Prior Year Findings

Finding # 2015-01 Journal Entry Supporting Documentation

In fiscal year 2015, the District was not able to provide supporting documentation for a selection of non-standard journal entries that were selected for testing. We noted that the failure to provide supporting documentation could lead to incorrect amounts or double posting of accounts without being discovered. We recommended that the District file all journal entries and supporting documentation in one consistent place so they are readily accessible if needed.

Status: No issues noted in the current year.