

BATTENKILL VALLEY SUPERVISORY UNION

FINANCIAL & COMPLIANCE REPORTS

JUNE 30, 2017

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Jeffrey R. Bradley CPA, P.C.

~ Member ~

American Institute of Certified Public Accountants

PO Box 102

Essex Junction, Vermont 05453

Telephone (802) 775-0103

Fax (802) 775-4655

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

Battenkill Valley Supervisory Union

### **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 Battenkill Valley Supervisory Union, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Battenkill Valley Supervisory Union'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 Battenkill Valley Supervisory Union, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-6 and 21-23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Battenkill Valley Supervisory Union's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2018, on our consideration of the Battenkill Valley Supervisory Union'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 Battenkill Valley Supervisory Union's internal control over financial reporting and compliance.



Jeffrey R. Bradley CPA, P.C.  
Essex Junction, Vermont  
VT License No. 92-0000515  
January 19, 2018

# BATTENKILL VALLEY SUPERVISORY UNION

## Management's Discussion and Analysis

The following discussion and analysis of the Battenkill Valley Supervisory Union's (the Union) financial performance provides an overview of the Union's financial activities as of and for the fiscal year ended June 30, 2017. The analysis focuses on the Union's financial performance as a whole. Please read it in conjunction with the transmittal letter at the front of this report and the Union's financial statements, which follow this section.

### OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Union's basic financial statements. The Union's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Union's financial statements consist of two kinds of statements that present different views of the Union's financial activities.

- The Statement of Net Position and Statement of Activities provide information on a government-wide basis. The statements present an aggregate view of the Union's finances. The government-wide financial statements provide both long-term and short-term information about the Union's overall financial status.
- The fund financial statements focus on the individual parts of the Union, reporting Union operations with more information and detail than the government-wide statements.
- Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year, or government to government) and enhance the Union's accountability. The notes to the financial statements explain some of the information in the statements and provide additional disclosures so that statement users have a complete picture of the Union's financial activities and position. The required supplementary information further explains and supports the financial statements.

#### Fund Financial Statements

Traditional users of government financial statements will find the fund financial presentation more familiar. The focus is on the Union's only significant fund, the General Fund. The All of the Union's other funds are considered non-major funds. They are summarized into one total, but the details of each fund are also shown.

#### Financial Analysis of the Union as a Whole

The Union presents its financial statements under the reporting model required by the Governmental Accounting Standards Board (GASB). The government-wide financial statements (pages 7 & 8) report information about the Union as a whole using accounting methods similar to those used by private-sector companies. An important question one could ask about the Union's finances is, "Is the Union as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which are the government-wide statements, report information about the Union as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Union adopts an annual appropriated budget for its general fund, a budgetary comparison statement has been provided for those funds to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 9-13 of this report.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-18 of this report. Other information - The combining statements referred to earlier in connection with non-major governmental funds can be found immediately following the footnotes.

## FINANCIAL HIGHLIGHTS

- The School District's net position (assets minus liabilities) from governmental activities decreased as a result of this year's operations due primarily to increased service fees.
- The Union's investment in capital assets did not increase in the current fiscal year.
- At the close of the current fiscal year, the School District's governmental funds reported total ending fund balances of \$314,341 [an increase of \$40,252 (14.7%)].
- Key factors in the General Fund unfavorable outcome are primarily due to greater than anticipated across the board general operating expenditures. Overall, the unfavorable budget variance of (\$8,347) created a general fund balance deficit of (\$4,200) as of June 30, 2017.

A portion of the Union's net position (\$12,344) reflects investments in capital assets (e.g., land, buildings, structures, systems, machinery, equipment, infrastructure, and intangible assets), net of any related debt used to acquire those assets that is still outstanding. The School District uses assets to provide services to citizens; consequently, these assets are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. A larger portion of the School District's net assets (\$318,541) represents resources that are subject to internal and external restrictions on how they can be used.

Government-wide total unrestricted net position increased \$31,653 during the fiscal year.

Governmental Activities - The most significant revenues of the governmental activities are: member district assessments (74%); Federal, State and Local grant revenue (16%); Food service program grant & sales receipts (8%) and miscellaneous receipts account for the remaining 2%.

Special education and related support service costs are the most significant (66%), followed by administration (14%), plant operations and transportation (10%) and food service (10%).

Governmental revenues increased 12.6% in the current year. Governmental activities expenses also increased (11.2%) in the current year. The most significant changes in program expenses were as follows:

- Increases primarily due to special education program costs.
- There were not any other programs with significant or unusual changes.

## FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

- Governmental funds. The focus of the School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School District's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

## Management's Discussion and Analysis (continued)

- 101% of the total ending fund balances (\$318,541) constituted restricted fund balances, which are considered unavailable for appropriation for general operations. Prior year restricted fund balance totaled \$269,941.
- At the close of the current fiscal year, the School District's general fund reported an ending fund balance deficit of (\$4,200) a decrease of (\$8,347).

## CAPITAL ASSETS

	Balance - July 1, 2016	Net Activity	Depreciation	Beginning Accumulated Depreciation	Net Asset Value - June 30, 2017
Equipment & Furnishings	\$54,143	\$88,790	(\$13,673)	(\$37,005)	\$88,713

- The Supervisory Union is precluded by Vermont State Statute from incurring long term debt obligations related to land or building acquisition.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Expenditures in the General and the budgeted Other Governmental Funds are budgeted to decrease 1.5% from \$2,164,675 to \$2,131,276 as compared to fiscal year 2017. The projected decrease is expected to less than normal secondary special education costs. The School District has added no major new major programs or initiatives to the fiscal year 2018 budget. If these estimates are realized, the School District's budgetary general fund balance is not expected to decrease by the close of fiscal year 2018.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the School District's finances for all those interested in governmental finance. Questions concerning any information in the report or requests for additional information should be addressed to Battenkill Valley Supervisory Union, 540 East Arlington Road, Arlington, VT 05250.

As required by the Vermont Legislature, the Union formed a merger study committee in order to implement the consolidation of local school districts and supervisory unions into certain unified districts with a single governance structure.

While the Union has completed the study, there has not been a formal decision regarding merger scenarios as of January 19, 2018. When a potential scenario has been determined by the designated committee, the voters of the District will be required to ratify its decision.

In light of the preceding, there is substantial doubt that the Supervisory Union will exist as an independent entity as of July 1, 2019.

**COMPARATIVE FINANCIAL INFORMATION:** The following schedules detail the changes in the Statement of Net Position and Statement of Activities for the fiscal years ended June 30, 2017 and 2016:

## STATEMENT OF NET POSITION

	<b>2017</b>	<b>2016</b>
Current Assets	\$ 428,523	\$ 298,414
Capital Assets	92,255	17,138
<b>Total Assets</b>	<b>520,778</b>	<b>315,552</b>
Current Liabilities	\$ 134,182	\$ 44,326
Noncurrent Liabilities	83,624	43,713
<b>Total Liabilities</b>	<b>217,806</b>	<b>88,039</b>
Nonspendable General Fixed Assets	92,255	17,138
Other Net Position	210,717	210,375
<b>Total Net Position</b>	<b>302,972</b>	<b>227,513</b>
 Total Liabilities & Net Position	 \$ 520,778	 \$ 315,552

## STATEMENT OF ACTIVITIES

<i>Program Revenues:</i>		
Operating Grants & Charges for Services	\$ 3,023,172	\$ 2,687,818
<i>General Revenues:</i>		
Interest Earnings	2,785	2,613
Miscellaneous	8,547	(100)
<b>Total General Revenues</b>	<b>11,333</b>	<b>2,513</b>
<b>Total Revenues</b>	<b>3,034,504</b>	<b>2,690,332</b>
<i>Programs:</i>		
Curriculum Development	70,788	41,465
Student Support Services	271,676	589,959
Special Education	1,619,361	1,271,155
Administration	240,385	248,397
Fiscal Services	145,010	164,381
Plant Operations	15,243	15,606
Transportation	293,135	196,708
Food Service	303,448	218,813
<b>Total Expenses</b>	<b>2,959,046</b>	<b>2,746,483</b>
Change in Net Position	75,459	(56,151)
Net Position - Beginning	227,513	283,665
<b>Net Position - Ending</b>	<b>\$ 302,972</b>	<b>\$ 227,513</b>



**Battenkill Valley Supervisory Union**  
**Statement of Net Position**  
**June 30, 2017**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<i>Current Assets:</i>		
Cash and Investments	\$ 226,972	\$ 217,838
Accounts Receivable	118,023	60,944
Due from Other Governments	83,528	19,632
Total Current Assets	<u>428,523</u>	<u>298,414</u>
<i>Noncurrent Assets:</i>		
Property, Plant & Equipment, net of applicable depreciation	92,255	17,138
<b>TOTAL ASSETS</b>	<u><u>\$ 520,778</u></u>	<u><u>\$ 315,552</u></u>
<b>LIABILITIES &amp; NET POSITION</b>		
<i>Liabilities:</i>		
<i>Current Liabilities:</i>		
Accounts Payable	\$ 7,190	\$ 13,496
Accrued Payroll & Benefits	24,364	81
Current Portion of Early Retirement	20,000	20,000
Deferred Revenue	82,629	10,749
Total Current Liabilities	<u>134,182</u>	<u>44,326</u>
<i>Noncurrent Liabilities:</i>		
Early Retirement Obligations	-	40,000
Capital Lease Obligation	79,911	-
Compensated Absences	3,713	3,713
Total Noncurrent Liabilities	<u>83,624</u>	<u>43,713</u>
<i>Net Position:</i>		
Nonspendable General Fixed Assets	92,255	17,138
Restricted For Specific Purposes	318,541	269,941
Unassigned	(107,824)	(59,566)
<b>Total Net Position</b>	<u><u>302,972</u></u>	<u><u>227,513</u></u>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<u><u>\$ 520,778</u></u>	<u><u>\$ 315,552</u></u>

*The accompanying notes are an integral part of these financial statements.*

**Battenkill Valley Supervisory Union**  
**Statement of Activities**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

<u>Functions/Programs</u>	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants & Contributions	Governmental Activities	Primary Government June 30, 2017 Total	June 30, 2016 Total
<i>Governmental Activities:</i>						
Curriculum Development	\$ 70,788	\$ -	\$ -	\$ (70,788)	\$ (70,788)	(41,465)
Student Support Services	271,676	2,340	399,298	129,962	129,962	(196,670)
Special Education	1,619,361	214,044	1,436,916	31,600	31,600	162,589
Office of the Superintendent	200,379	-	684,162	483,783	483,783	442,560
Administration	40,006	-	-	(40,006)	(40,006)	(43,496)
Fiscal Services	145,010	-	-	(145,010)	(145,010)	(164,381)
Plant Operations	15,243	-	-	(15,243)	(15,243)	(15,606)
Transportation	293,135	-	-	(293,135)	(293,135)	(196,708)
Food Service	303,448	161,775	124,636	(17,037)	(17,037)	(5,489)
Total Governmental Activities	2,959,046	378,159	2,645,012	64,126	64,126	(58,665)
<i>General Revenues:</i>						
Investment Income				2,785	2,785	2,613
Other				8,547	8,547	(100)
Total General Revenues				11,333	11,333	2,513
Change in Net Position				75,459	75,459	(56,152)
Net Position - Beginning (As adjusted)				227,513	227,513	283,665
Net Position - Ending				\$ 302,972	\$ 302,972	\$ 227,513

*The accompanying notes are an integral part of these financial statements.*

**Battenkill Valley Supervisory Union**  
**Balance Sheet - Governmental Fund Types**  
**June 30, 2017 and 2016**

	<i>Governmental Fund Types</i>		<b>Totals</b> June 30, 2017	<b>Totals</b> June 30, 2016
	<b>General</b> Fund	<b>Other</b> Governmental Funds		
<b>ASSETS</b>				
<i>Current Assets:</i>				
Cash and Investments	\$ 202,369	\$ 24,604	\$ 226,972	\$ 217,838
Accounts Receivable	40,048	77,974	118,023	60,944
Due From Other Governments	83,528	-	83,528	19,632
Due from Other Funds	-	298,591	298,591	277,196
<b>TOTAL ASSETS</b>	<b>\$ 325,945</b>	<b>\$ 401,169</b>	<b>\$ 727,115</b>	<b>\$ 575,610</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<i>Current Liabilities:</i>				
Accounts Payable	\$ 7,190	\$ -	\$ 7,190	\$ 13,496
Accrued Payroll & Benefits	24,364	-	24,364	81
Deferred Revenue	-	82,629	82,629	10,749
Due to Other Funds	298,591	-	298,591	277,196
<b>Total Liabilities</b>	<b>330,145</b>	<b>82,629</b>	<b>412,774</b>	<b>301,522</b>
<i>Fund Balances:</i>				
Restricted For Specific Purposes	-	318,541	318,541	269,941
Unassigned	(4,200)	-	(4,200)	4,147
<b>Total Fund Balances</b>	<b>(4,200)</b>	<b>318,541</b>	<b>314,341</b>	<b>274,089</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<b>\$ 325,945</b>	<b>\$ 401,169</b>	<b>\$ 727,115</b>	<b>\$ 575,610</b>

*The accompanying notes are an integral part of these financial statements.*

**Battenkill Valley Supervisory Union**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**To the Government-Wide Statement of Net Position**  
**June 30, 2017**

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Total Fund Balances - Governmental Funds Balance Sheet	\$ 314,341
 <i>Amounts reported for Governmental Activities in the Statement of Net Position are different due to the following:</i>	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet	92,255
Capital lease obligations are recognized when incurred in the Government Wide Financials, while lease obligations are recognized when paid in the Governmental Funds financial statements.	(79,911)
Early Retirement and Compensated Absences are recognized in the government wide financials when incurred, while in the governmental funds financial statements they are recognized when paid.	<u>(23,713)</u>
<i>Net Position - Government-Wide Financial Statements</i>	<u><u>\$ 302,972</u></u>

**Battenkill Valley Supervisory Union**  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund Types**  
**For the Fiscal Year Ended June 30, 2017 and 2016**

	<i>Governmental Fund Types</i>		<b>Totals</b> June 30, 2017	<b>Totals</b> June 30, 2016
	<b>General</b> Fund	<b>Other</b> Governmental Funds		
<i>Revenues:</i>				
Assessments	\$ 684,162	\$ 1,436,916	\$ 2,121,078	2,003,076
Grants - Federal	-	379,460	379,460	353,800
Grants - State	-	16,897	16,897	17,300
Grants - Other	-	2,941	2,941	-
EPSDT & Medicaid Billings	-	214,044	214,044	78,129
Service Fees to Local Educational Agencies	2,340	-	2,340	22,190
Food Program Sales and Assessments	-	161,775	161,775	100,333
Food Program - Federal Grant Support	-	124,636	124,636	112,992
Investment Income	2,520	266	2,785	2,613
Miscellaneous	8,547	-	8,547	(100)
<b>Total Revenues</b>	<b>697,569</b>	<b>2,336,936</b>	<b>3,034,504</b>	<b>2,690,332</b>
<i>Expenditures:</i>				
Curriculum Development	34,085	36,702	70,788	41,465
Student Support Services	-	311,676	311,676	589,959
Special Education	-	1,619,361	1,619,361	1,225,655
Office of the Superintendent	200,379	-	200,379	204,901
Administration	35,213	-	35,213	41,495
Fiscal Services	145,010	-	145,010	164,381
Plant Operations	15,243	-	15,243	13,786
Transportation	275,986	17,149	293,135	196,708
Food Service	-	303,448	303,448	218,813
<b>Total Expenditures</b>	<b>705,916</b>	<b>2,288,336</b>	<b>2,994,252</b>	<b>2,697,162</b>
Excess (Deficiency) of Revenues over Expenditures	(8,347)	48,600	40,252	(6,830)

*The accompanying notes are an integral part of these financial statements.*

**Battenkill Valley Supervisory Union**  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund Types**  
**For the Fiscal Year Ended June 30, 2017 and 2016**

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	<i>Governmental Fund Types</i>		<b>Totals</b>	<b>Totals</b>
	<b>General</b>	<b>Other</b>		
	<b>Fund</b>	<b>Funds</b>	<b>June 30, 2017</b>	<b>June 30, 2016</b>
Excess (Deficiency) of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	(8,347)	48,600	40,252	(6,830)
Fund Balances - Beginning	4,147	269,941	274,089	280,919
Fund Balances - Ending (Deficit)	\$ (4,200)	\$ 318,541	\$ 314,341	\$ 274,089

**Reconciliation of the Combined Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund Types to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2017**

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

Net change in fund balances - Governmental Funds Financial Statements	\$ 40,252
Change in Early Retirement Liability	40,000
In the Statement of Activities, the cost of fixed assets is allocated over their estimated useful lives and reported as depreciation expense annually.	(4,794)
<i>Change in Net Position - Statement of Activities</i>	\$ 75,459

*The accompanying notes are an integral part of these financial statements.*

## Battenkill Valley Supervisory Union NOTES TO FINANCIAL STATEMENTS

**NOTE 1 - Summary of significant accounting policies** - The Battenkill Valley Supervisory Union (the Supervisory Union) provides administrative and educational services to the citizens of Arlington and Sandgate, Vermont. The financial statements of the Supervisory Union have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units.

*Reporting entity* - The Supervisory Union 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 Supervisory Union.

*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 non-fiduciary activities of the Supervisory Union. The effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues.

In the Government-wide Statement of Net Position, the financial position of the Supervisory Union is consolidated and incorporates capital assets as well as certain 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. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds, if any, are summarized in a single column.

*Basis of presentation* - The accounts of the Supervisory Union 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.

The Supervisory Union reports the following major governmental funds: *General Fund* is the general operating fund of the Supervisory Union. It is used to account for all financial resources, except those required to be accounted for in another fund. *Other Governmental Funds* used to account for the assets and activity of monies left to the Supervisory Union through trust and grant agreements, or capital project expenditures incurred for specific Supervisory Union infrastructure projects.

*Measurement focus and basis of accounting* - Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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

**Battenkill Valley Supervisory Union**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - Summary of significant accounting policies (continued)**

accrual accounting. However, debt service expenditures are recorded only when payment is made.

*Budgets and budgetary accounting* - The Supervisory Union approves a budget for the General Fund at an annual Supervisory Union Meeting. The accounting method used for budgetary 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 Supervisory Union does not legally adopt budgets for other governmental funds. The Board is authorized to transfer budgets between departments under their jurisdiction to another. All budgeted amounts lapse at year end.

*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 or expenses during the reporting period. Actual results could differ from those estimates.

*Risk management* - The Supervisory Union 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 Supervisory Union manages these risks through participation in the Vermont League of Cities 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 Supervisory Union. There were no settlements in excess of the insurance coverage in any of the past three fiscal years.

*Cash, cash equivalents and investments* - The Supervisory Union considers all cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

*Capital assets* - Capital assets, which include land, buildings, equipment, vehicles and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide and in the proprietary fund financial statements. Capital assets are defined by the Supervisory Union as assets with an initial useful life of one year or greater and an initial individual cost equal to or greater than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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. Equipment and furnishings (5 - 20 years)

*Compensated absences* - Employees are entitled to certain compensated absences based on their length of employment. Sick leave accumulates and is paid upon illness during employment and the cumulative liability is not included in these financial statements. Vacation accrues for annual use. *Postretirement Benefits* - In addition to providing pension benefits, the Supervisory Union 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 Supervisory Union.

*Fund Balances/Net Position* - In the fund financial statements, governmental funds may report five categories of fund balances: non-spendable, restricted, committed, assigned and unassigned. *Non-spendable* fund balance includes amounts associated with inventory, prepaid expenditures, long-term loans or notes receivable, and trust fund principal to be held in perpetuity. *Restricted* fund balance includes amounts that can be spent only



**Battenkill Valley Supervisory Union**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - Summary of significant accounting policies (continued)**

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 Supervisory Union's highest level of decision making authority, the voters, as a result of articles passed at Annual or Special Meetings. *Assigned* fund balance includes amounts that are intended to be used by the Supervisory Union for specific purposes, as authorized by the Select Board. *Unassigned* fund balance is the Fund and includes all spendable amounts not contained in another classification. Deficits are also classified as unassigned. The Supervisory Union's policy is to apply expenditures to fund balance in the order of restricted, committed, assigned and unassigned. The Supervisory Union maintains separate governmental funds to account for donor specified amounts (restricted), voter approved amounts (committed), and amounts set aside by management. Any residual fund balance amounts are reported as unassigned fund balance in the General Fund.

*Accrued Liabilities, Long-Term Obligations and Deferred Outflows* - 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. The District reports deferred revenue as deferred inflows of resources.

**NOTE 2 - Deposits and investments**

As of June 30, 2017, the Supervisory Union's deposit accounts were fully insured or collateralized. Custodial credit risk deposits and investments - Custodial credit risk is the risk that in the event of a financial institution failure, the Supervisory Union will not be able to recover its deposits or investments or will not be able to recover collateral securities that are in the possession of an outside party. The Supervisory Union addresses this risk by requiring each institution to provide deposit insurance and/or proof of collateralization. The Treasurer is required to determine the types of collateralization after consultation with the Board. *Credit risk* is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. The Supervisory Union addresses credit risk by limiting the types of investments the Treasurer can make to bank deposit accounts, collateralized repurchase agreements and U.S. Treasury obligations. *Concentration of credit risk* is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2017, the Supervisory Union does not hold more than 5% of its investments in any one issuer.

**NOTE 3 - Inter-fund receivable and payable balances**

Inter-fund receivable and payables, due to the pooling of cash for cash receipts and disbursements, as it shall not necessarily be bound solely and constitutes the transfer of resources from the fund that receives the resources to the fund that utilizes them. Transfers from Other Governmental Funds to the General Fund were to cover expenses that had been incurred on their behalf.

	General Fund	Other Governmental/Trust Funds
Federal & State Sub-grants	(\$45,365)	\$45,365
Local Special & Early Education Funds	255	(\$255)
Medicaid & EPSDT Funds	(253,227)	253,227
Totals	(\$298,591)	\$298,591

**Battenkill Valley Supervisory Union**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - Fixed Assets and Depreciation**

The following is a schedule detailing the Supervisory Union's investment in capital assets:

	Balance - July 1, 2016	Net Activity	Depreciation	Beginning Accumulated Depreciation	Net Asset Value - June 30, 2017
Equipment & Furnishings	\$54,143	\$88,790	(\$13,673)	(\$37,005)	\$88,713

**NOTE 5 - Capital Lease Liability**

On December 19, 2016, the Union entered into a lease agreement for digital imaging equipment with a total of payments to be made over a 60 month period ending in November 2021. The monthly payments of \$1,480 totaling \$88,790 were also recognized as capital asset purchases as depicted in Note 4 above. There is no imputed interest rate, and the Union may return the equipment with 60 days' notice to the lessor. The Union would be responsible for costs of return to the lessor.

**NOTE 6 - Deferred (Unearned) Revenue**

The following is a schedule of grant revenues received, but not spent at June 30, 2017:

Grantor	Amount
IDEA-B Funds	\$21,549
Title I & II Funds	48,634
Farm to School Grant	512
State Grants	11,934
TOTAL	\$82,629

**NOTE 7 - Defined Benefit & Contribution Pension Plans**

*Vermont Teachers' Retirement System*

The District contributes to the Vermont Teachers' Employees' Retirement System (VSTRS), a cost-sharing multiple-employer public employee retirement system (PERS) with defined contribution plans administered by the State of Vermont. VMERS provides retirement, disability and death benefits to plan members and beneficiaries. Teachers become members of VSTRS upon employment, and vest in the system after 10 years of service. Group A - for public school teachers employed within the State of Vermont prior to July 1, 1981 and who elected to remain in Group A. Group C is for public school teachers employed within the State of Vermont on or after July 1, 1990, or hired before July 1, 1990 and were a member of Group B at that time. Group C members contribute 5% of salary. 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).

The employees of the Supervisory Union are members of the Arlington Town School District's (its member district's employer account). Amounts are reported in the Arlington Town School District financial statements.

**Battenkill Valley Supervisory Union**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 – Defined Benefit & Contribution Pension Plans (continued)**

*Vermont Municipal Employees' Retirement System*

Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions requires employers participating in a cost-sharing, multiple-employer defined benefit pension plan to recognize their proportional share of total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. The schedules below have been prepared to provide you with your entities' proportional share of the overall amounts of the VMERS plan. Your portion has been allocated based on your proportional share of employer contributions to the total contributions to VMERS during the fiscal year. The full report containing the schedules of all employers in the VMERS plan is available on the State of Vermont Treasurer's website at: <http://www.vermonttreasurer.gov/retirement/muni-financial-reports>

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 Vermont Municipal Employees' Retirement System (VMERS) or its participating employers. VMERS 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/reports\\_and\\_publications/cafr](http://finance.vermont.gov/reports_and_publications/cafr)

The employees of the Supervisory Union are members of the Arlington Town School District's (its member district's employer account). Amounts are reported in the Arlington Town School District financial statements.

The Vermont Municipal Employees' Retirement System is a cost-sharing, multiple-employer defined benefit pension plan that is administered by the State Treasurer and its Board of Trustees. It is designed for school districts and other municipal employees that work on a regular basis and also includes employees of museums and libraries if at least half of that institution's operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter. Any employee hired subsequent to the effective participation date of their employer who meets the minimum hourly requirements is required to join the system. During the year ended June 30, 2015, the retirement system consisted of 437 participating employers.

The plan was established effective July 1, 1975, and is governed by Title 24, V.S.A. Chapter 125. 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. Defined Benefit Plan members are required to contribute 2.5% (Group A), 4.625% (Group B) of their annual covered salary, and the Town is required to contribute 4% (Group A), 5.125% (Group B). Defined Contribution Plan members are required to contribute 5% of their annual covered salary and the Town is required to contribute an equal dollar amount.

The following is a discussion of the significant assumptions employed in the measurement of the net pension liability: A select and ultimate interest rate set is restarted each year based on the employee's entry date; employee salary increases are estimated at 5% per year; cost of living adjustments are made 1.5% for Group A members and 1.8% for Groups B, C & D. Inflation rates are consistent with stated assumptions for investment return, salary increases and cost of living adjustments are consistent with a 3% to 3.25% per year.

**Battenkill Valley Supervisory Union**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - Commitments & Contingencies**

The Supervisory Union is exposed to various risks of loss related to torts; theft, damage and destruction of its assets; injuries. Any claims under these policies have not exceeded coverage in any of the immediately preceding three fiscal years. If the insurance funds noted above should ever become insolvent, the Supervisory Union could be liable for a proportionate share of the Fund's liabilities.

The Supervisory Union receives grant support from various State, Local and Federal sources. These programs are subject to financial and compliance audits by these grantors. Management believes that any possible disallowed costs, if any, would be immaterial to these financial statements.

**NOTE 9 - Concentration of Support**

The Supervisory Union's General Fund receives approximately 74% of its revenue from its member districts' assessments. Additionally, the Supervisory Union receives grants from the State of Vermont for special education, transportation, after school programs and other programs. The Supervisory Union receives grant support from various State, Local and Federal sources.

**NOTE 10 - Going Concern**

As required by the Vermont Legislature, the Union formed a merger study committee in order to implement the consolidation of local school districts and supervisory unions into certain unified districts with a single governance structure.

While the Union has completed the study, there has not been a formal decision regarding merger scenarios as of the date of these financial statements. When a potential scenario has been determined by the designated committee, the voters of the District will be required to ratify its decision.

In light of the preceding, there is substantial doubt that the Supervisory Union will exist as an independent entity as of July 1, 2019.

Jeffrey R. Bradley CPA, P.C.

~ Member ~

American Institute of Certified Public Accountants

PO Box 102

Essex Junction, Vermont 0545

Telephone (802) 775-0103

Fax (802) 775-4655

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors

Battenkill Valley Supervisory Union

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 Battenkill Valley Supervisory Union, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Battenkill Valley Supervisory Union's basic financial statements, and have issued our report thereon dated January 19, 2018.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Battenkill Valley Supervisory Union'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 Battenkill Valley Supervisory Union's internal control. Accordingly, we do not express an opinion on the effectiveness of the Battenkill Valley Supervisory Union'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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Battenkill Valley Supervisory Union'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.

A handwritten signature in red ink that reads "Jeffrey R. Bradley CPA, P.C.".

Jeffrey R. Bradley CPA, P.C.

Essex Junction, Vermont

January 19, 2018

**Battenkill Valley Supervisory Union**  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual - General Fund and Budgeted Other Governmental Funds**  
**For the Fiscal Year Ended June 30, 2017**

	<i>General Fund</i>			<i>Other Governmental Funds (Local Early Education &amp; Special Education)</i>		
	<u>Original &amp; Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Original &amp; Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<i>Revenues:</i>						
Interest	\$ 2,000	\$ 2,520	\$ 520	\$ -	\$ -	\$ -
Assessments	608,964	684,162	75,198	1,505,706	1,357,448	(148,258)
Service Fees	-	2,340	2,340	47,100	77,586	30,486
Miscellaneous	-	8,547	8,547	-	-	-
Total Revenues	<u>610,964</u>	<u>697,569</u>	<u>86,605</u>	<u>1,552,806</u>	<u>1,435,034</u>	<u>(117,772)</u>
<i>Expenditures:</i>						
Curriculum Development	\$ -	\$ 34,085	\$ (34,085)	\$ -	\$ -	\$ -
Special Education	-	-	-	1,394,545	1,345,567	48,978
Student Transportation	204,320	275,986	(71,666)	51,620	9,749	41,871
Administration	10,441	35,213	(24,772)	106,641	105,220	1,421
Office of the Superintendent	209,913	200,379	9,534	-	-	-
Fiscal Services	167,570	145,010	22,560	-	-	-
Plant Operations	18,720	15,243	3,477	-	-	-
Total Expenditures	<u>610,964</u>	<u>705,916</u>	<u>(94,952)</u>	<u>1,552,806</u>	<u>1,460,536</u>	<u>92,270</u>
<i>Other Financial Sources (Uses):</i>						
Operating Transfer In/(Out)	-	-	-	-	-	-
Excess (Deficiency) of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	<u>\$ -</u>	<u>\$ (8,347)</u>	<u>\$ (8,347)</u>	<u>\$ -</u>	<u>\$ (25,502)</u>	<u>\$ (25,502)</u>

*Battenkill Valley Supervisory Union  
Required Supplementary Information*

The employees of the Supervisory Union are members of the Arlington Town School District's (its member district's employer account) for the Vermont Municipal Retirement System and State Teachers' Retirement System. Amounts are reported in the Arlington Town School District financial statements.

Therefore, specific information regarding the net pension liability for the Union's proportionate share of the Vermont Municipal Retirement System underfunded pension liability is not recognized in these financial statements. However, general information related to the plans in general are disclosed herein:

The Vermont State Teachers' Retirement System and the Vermont Municipal Retirement System are cost-sharing, multiple-employer defined benefit pension plans with special funding situations. It covers nearly teachers and administrators as well as support and administrative staff. 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 created in 1947, and are divided into membership groups.

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

Members of all groups may qualify for vested deferred allowance, disability allowances and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC and service.

**Significant Actuarial Assumptions and Methods**

The total pension liability as of June 30, 2016 was determined by rolling forward the total pension liability as of June 30, 2015 to June 30, 2016 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, 2014. The recommended assumption changes based on this experience study were adopted by the Board at its October 29, 2015 Board meeting, and were effective for the actuarial valuation made as of June 30, 2015. The 7.95% assumed rate of return on assets was adopted by the Board at a meeting on July 27, 2015.

**Interest Rate:** 7.95% per annum.

**Deaths After Retirement:** The RP-2000 Mortality Tables projected to 2029 for retirees, terminated vested members and beneficiaries; the RP-2000 Disabled Life Table with projection to 2020 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.

**Cost-of-Living Adjustments:** Assumed to occur on January 1 following one year of retirement at the rate of 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).

**Inactive Members:** A liability equal to 350% of accumulated contributions of inactive members is included in the valuation liabilities. Solely for the June 30, 2016 valuation, this percentage was reduced to 332.5% in recognition of the impact of the school district consolidation program on the demographics of the inactive population.

**Actuarial Cost Method:** The individual entry age normal actuarial cost method was used. For actuarial valuations prior to June 30, 2006, the entry age normal method with frozen initial liability was used.



*Battenkill Valley Supervisory Union  
Required Supplementary Information*

**Asset Valuation Method:** The amount of the assets for valuation purposes equals the preliminary asset value plus 20% of the difference between the market and preliminary asset values. The preliminary asset value is equal to the previous year's asset value (for valuation purposes) adjusted for contributions less benefit payments and expenses and expected investment income. If necessary, a further adjustment is made to ensure that the valuation assets are within 20% of the market value.

**Member Data:** 315 members terminated on June 30, 2016 and retired on July 1, 2016 were included with a valuation status as members receiving benefits. 536 members who were active on June 30, 2016 and terminated on July 1, 2016, were included with a valuation status as inactive. For those terminated members with at least five years of service, the system will automatically vest them six years after their termination if they do not withdraw.

**Health and Medical Benefits for Retirees:** Not included in this valuation.

**Long-term expected rate of return:**

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

<b>Asset Class</b>	<b>Target Asset Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Equity	35.00%	8.54%
Fixed Income	32.00%	2.36%
Alternatives	16.00%	8.35%
Multi-strategy	17.00%	4.90%

**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 continue to be made in accordance with the current funding policy. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current System members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.