

TOWN OF ROCHESTER, VERMONT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORTS
JUNE 30, 2021

TOWN OF ROCHESTER, VERMONT

JUNE 30, 2021

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report	1 - 2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	5
Reconciliation of the Balance Sheet - Governmental Funds to the Government-wide Statement of Net Position.....	6
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	7 - 8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Government-wide Statement of Activities.....	9
Statement of Net Position - Proprietary Fund.....	10
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund.....	11
Statement of Cash Flows - Proprietary Fund.....	12
Statement of Fiduciary Net Position - Fiduciary Funds.....	13
Statement of Changes in Fiduciary Net Position – Fiduciary Funds.....	14
Notes to Financial Statements.....	15 - 27
Required Supplementary Information Other than Management's Discussion and Analysis:	
Schedule of Revenues and Expenditures - Budget and Actual Budgetary Basis - General Fund.....	28
Schedule of Proportionate Share of the Net Pension Liability	29
Schedule of Pension Contributions.....	30
Nonmajor Fund Financial Statements	
Balance Sheet – Nonmajor Governmental Fund	31
Schedule of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Fund	32
Internal Control and Compliance:	
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 <i>Government Auditing Standards</i>	33 - 34
Schedule of Findings.....	35

INDEPENDENT AUDITOR'S REPORT

The Select Board
Town of Rochester, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Rochester, Vermont, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town'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 error or fraud.

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, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Rochester, Vermont, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1.N. to the financial statements, in 2021, the Town adopted new accounting guidance, GASBS No 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

The Select Board
Town of Rochester, Vermont

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of the proportionate share of the net pension liability and schedule of pension contributions on pages 28 to 30 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.

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

Other information

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

The 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 individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2022, on our consideration of the Town of Rochester, Vermont's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Rochester, Vermont's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Rochester, Vermont's internal control over financial reporting and compliance.

Pace & Hawley, LLC

Berlin, Vermont
February 11, 2022

TOWN OF ROCHESTER, VERMONT
Statement of Net Position
June 30, 2021

	Governmental Activities	Business-type Activities	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 556,115	\$ 51,076	\$ 607,191
Investments	587,444	-	587,444
Accounts receivable	-	23,249	23,249
Due from other governments	221,270	-	221,270
Delinquent taxes and interest receivable	97,404	-	97,404
Other assets	589	110	699
Internal balances	3,315	(3,315)	-
Total current assets	1,466,137	71,120	1,537,257
Noncurrent assets:			
Capital assets	15,344,529	3,083,761	18,428,290
(Accumulated depreciation)	(3,983,831)	(1,190,220)	(5,174,051)
Total noncurrent assets	11,360,698	1,893,541	13,254,239
Total assets	12,826,835	1,964,661	14,791,496
Deferred outflows of resources			
Pension related - VMERS	61,301	-	61,301
Liabilities			
Current liabilities:			
Accounts payable	81,231	-	81,231
Note payable: short-term	348,130	-	348,130
Other current liabilities	15,358	-	15,358
Capital leases, current portion	16,191	-	16,191
Notes and bonds payable, current portion	55,449	-	55,449
Total current liabilities	516,359	-	516,359
Noncurrent liabilities:			
Capital leases, less current portion	70,267	-	70,267
Notes and bonds payable, less current portion	993,862	-	993,862
Net pension liability - VMERS	142,145	-	142,145
Total noncurrent liabilities	1,206,274	-	1,206,274
Total liabilities	1,722,633	-	1,722,633
Deferred inflows of resources			
Property taxes received in advance	17,191	-	17,191
Pension related - VMERS	3,456	-	3,456
Total	20,647	-	20,647
Net position			
Net investment in capital assets	10,224,929	1,893,541	12,118,470
Restricted	565,414	30,556	595,970
Unrestricted	354,513	40,564	395,077
Total net position	\$ 11,144,856	\$ 1,964,661	\$ 13,109,517

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

TOWN OF ROCHESTER, VERMONT
Statement of Activities
For the Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Governmental activities							
General government	\$ 258,978	\$ 41,267	\$ 104,753	\$ -	\$ (112,958)	\$ -	\$ (112,958)
Highways and streets	938,115	-	385,781	49,045	(503,289)	-	(503,289)
Solid waste	35,966	-	-	-	(35,966)	-	(35,966)
Public safety	111,428	-	19	-	(111,409)	-	(111,409)
Library	79,676	458	14,793	-	(64,425)	-	(64,425)
Recreation	25,319	843	1,200	-	(23,276)	-	(23,276)
Community services	91,180	-	-	-	(91,180)	-	(91,180)
Interest	73,044	-	-	-	(73,044)	-	(73,044)
Total governmental activities	<u>1,613,706</u>	<u>42,568</u>	<u>506,546</u>	<u>49,045</u>	<u>(1,015,547)</u>	<u>-</u>	<u>(1,015,547)</u>
Business-type activities							
Wastewater operations	64,261	49,258	-	-	-	(15,003)	(15,003)
Water operations	37,349	40,902	-	-	-	3,553	3,553
Depreciation	78,197	-	-	-	-	(78,197)	(78,197)
Total business-type activities	<u>179,807</u>	<u>90,160</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(89,647)</u>	<u>(89,647)</u>
	\$ <u>1,793,513</u>	\$ <u>132,728</u>	\$ <u>506,546</u>	\$ <u>49,045</u>	<u>(1,015,547)</u>	<u>(89,647)</u>	<u>(1,105,194)</u>
		General revenues					
		Property taxes and related interest			938,437	-	938,437
		Investment income			101,703	153	101,856
		Miscellaneous			41,132	-	41,132
		Total general revenues			<u>1,081,272</u>	<u>153</u>	<u>1,081,425</u>
		Change in net position			65,725	(89,494)	(23,769)
		Net position, beginning of year "as restated"			<u>11,079,131</u>	<u>2,054,155</u>	<u>13,133,286</u>
		Net position, end of year			\$ <u>11,144,856</u>	\$ <u>1,964,661</u>	\$ <u>13,109,517</u>

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

TOWN OF ROCHESTER, VERMONT
Balance Sheet - Governmental Funds
June 30, 2021

	General Fund	Reserve Fund	Grants Fund	Library Fund	Cemetery Fund	Nonmajor Governmental Fund	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 219,662	\$ 265,514	\$ -	\$ 51,558	\$ -	\$ 19,381	\$ 556,115
Investments	8,549	-	-	291,195	287,700	-	587,444
Due from other governments	359	-	220,911	-	-	-	221,270
Delinquent taxes and interest receivable	97,404	-	-	-	-	-	97,404
Prepaid expenditures	-	-	-	589	-	-	589
Due from other funds	240,468	-	-	-	-	-	240,468
Total assets	\$ 566,442	\$ 265,514	\$ 220,911	\$ 343,342	\$ 287,700	\$ 19,381	\$ 1,703,290
Liabilities, deferred inflows of resources and fund balances							
Liabilities:							
Accounts payable	\$ 80,634	\$ -	\$ -	\$ 597	\$ -	\$ -	\$ 81,231
Note payable: short-term	348,130	-	-	-	-	-	348,130
Other current liabilities	3,508	-	11,850	-	-	-	15,358
Due to other funds	-	-	236,683	470	-	-	237,153
Total liabilities	432,272	-	248,533	1,067	-	-	681,872
Deferred inflows of resources:							
Property taxes received in advance	17,191	-	-	-	-	-	17,191
Unavailable property taxes	49,535	-	-	-	-	-	49,535
Total deferred inflows	66,726	-	-	-	-	-	66,726
Fund balances (deficits):							
Nonspendable	-	-	-	589	-	-	589
Restricted	-	86,451	-	171,882	287,700	19,381	565,414
Committed	-	179,063	-	-	-	-	179,063
Assigned	8,549	-	-	169,804	-	-	178,353
Unassigned	58,895	-	(27,622)	-	-	-	31,273
Total fund balances (deficits)	67,444	265,514	(27,622)	342,275	287,700	19,381	954,692
Total liabilities, deferred inflows of resources and fund balances	\$ 566,442	\$ 265,514	\$ 220,911	\$ 343,342	\$ 287,700	\$ 19,381	\$ 1,703,290

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

TOWN OF ROCHESTER, VERMONT
Reconciliation of the Balance Sheet - Governmental Funds
to the Government-wide Statement of Net Position
June 30, 2021

Total fund balances - governmental funds	\$	954,692
<p>Amounts reported for governmental activities in the government-wide statement of net position are different because:</p>		
<p>Capital assets used in governmental funds are not current financial resources, and therefore, are not reported in the governmental funds balance sheet:</p>		
Capital assets		15,344,529
Accumulated depreciation		(3,983,831)
<p>Unavailable property taxes are recorded as a deferred inflow of resources in the governmental funds financial statement because property taxes which are not collected within 60 days of year-end are not available financial resources.</p>		
		49,535
<p>Deferred outflows of resources, deferred inflows of resources and the net pension liability related to the Town's proportionate share of the VMERS pension plan are not reported in the governmental funds balance sheet.</p>		
		(84,300)
<p>Long-term liabilities, including notes payable, bonds payable and capital leases, are not due and payable in the current year and therefore, are not reported in the governmental funds balance sheet.</p>		
		<u>(1,135,769)</u>
Net position - governmental activities	\$	<u>11,144,856</u>

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

TOWN OF ROCHESTER, VERMONT
Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
For the Year Ended June 30, 2021
(Page 1 of 2)

	General Fund	Reserve Fund	Grants Fund	Library Fund	Cemetery Fund	Nonmajor Governmental Fund	Total Governmental Funds
Revenues							
Property taxes	\$ 924,760	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 924,760
Property taxes - interest	17,066	-	-	-	-	-	17,066
Intergovernmental	260,875	8,100	267,364	720	-	-	537,059
Licenses, permits & fines	14,974	-	-	14	-	-	14,988
Charges for services	20,077	5,183	-	444	1,875	-	27,579
Contributions	3,610	-	-	14,073	-	850	18,533
Investment income	2,979	495	-	59,107	39,120	2	101,703
Miscellaneous	35,460	1,744	-	3,803	125	-	41,132
Total revenues	<u>1,279,801</u>	<u>15,522</u>	<u>267,364</u>	<u>78,161</u>	<u>41,120</u>	<u>852</u>	<u>1,682,820</u>
Expenditures							
Current:							
General government	245,935	-	-	-	2,080	-	248,015
Public safety	76,110	-	-	-	-	682	76,792
Highway and streets	581,611	-	46,899	-	-	-	628,510
Library	-	-	-	67,464	-	-	67,464
Recreation	21,128	-	-	-	-	-	21,128
Solid Waste	35,966	-	-	-	-	-	35,966
Appropriations	91,180	-	-	-	-	-	91,180
Capital outlay	-	-	57,498	-	-	-	57,498
Debt service:							
Principal	85,830	67,998	-	-	-	-	153,828
Interest	71,857	1,187	-	-	-	-	73,044
Total expenditures	<u>1,209,617</u>	<u>69,185</u>	<u>104,397</u>	<u>67,464</u>	<u>2,080</u>	<u>682</u>	<u>1,453,425</u>
Excess of revenues or (expenditures)	<u>70,184</u>	<u>(53,663)</u>	<u>162,967</u>	<u>10,697</u>	<u>39,040</u>	<u>170</u>	<u>229,395</u>

(Continued)

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

TOWN OF ROCHESTER, VERMONT
Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
For the Year Ended June 30, 2021
(Page 2 of 2)

	<u>General Fund</u>	<u>Reserve Fund</u>	<u>Grants Fund</u>	<u>Library Fund</u>	<u>Cemetery Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
<i>(Continued)</i>							
Other financing sources (uses)							
Transfers in (out)	<u>(28,504)</u>	<u>(12,121)</u>	<u>-</u>	<u>45,625</u>	<u>(5,000)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	41,680	(65,784)	162,967	56,322	34,040	170	229,395
Fund balances (deficits), beginning of year "as restated"	<u>25,764</u>	<u>331,298</u>	<u>(190,589)</u>	<u>285,953</u>	<u>253,660</u>	<u>19,211</u>	<u>725,297</u>
Fund balances (deficits), end of year	\$ <u>67,444</u>	\$ <u>265,514</u>	\$ <u>(27,622)</u>	\$ <u>342,275</u>	\$ <u>287,700</u>	\$ <u>19,381</u>	\$ <u>954,692</u>

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

TOWN OF ROCHESTER, VERMONT
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds to the
Government-wide Statement of Activities
For the Year Ended June 30, 2021

Net change in fund balances - governmental funds \$ 229,395

Amounts reported for governmental activities in the government-wide statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives:

Expenditures for capital assets	57,498
Current year depreciation	(350,361)

The Town's contribution to VMERS is recorded as an expenditure in the governmental funds. However, in the statement of activities, pension expense is actuarially determined. (21,246)

Proceeds from long-term debt provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net position:

Principal payments on long-term debt	153,828
--------------------------------------	---------

Revenues in the statement of activities that do not provide current financial resources (property taxes not collected within 60 days of fiscal year end) are not reported as revenues in the governmental funds statements:

Increase (decrease) in unavailable property taxes	<u>(3,389)</u>
---	----------------

Change in net position - governmental activities \$ 65,725

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

TOWN OF ROCHESTER, VERMONT
Statement of Net Position - Proprietary Fund
June 30, 2021

	Utility Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 51,076
Accounts receivable	23,249
Other assets	110
Total current assets	74,435
Noncurrent assets:	
Capital assets	3,083,761
(Accumulated depreciation)	(1,190,220)
Total noncurrent assets	1,893,541
Total assets	1,967,976
Liabilities	
Current liabilities:	
Due to other funds	3,315
Total liabilities	3,315
Net position	
Net investment in capital assets	1,893,541
Restricted for water operations	17,840
Restricted for wastewater operations	12,716
Unrestricted	40,564
Total net position	\$ 1,964,661

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

TOWN OF ROCHESTER, VERMONT
Statement of Revenues, Expenses and Changes
in Fund Net Position - Proprietary Fund
For the Year Ended June 30, 2021

	<u>Utility Fund</u>
Operating revenues	
Charges for services	\$ 89,984
Penalties and interest	<u>176</u>
Total operating revenues	<u>90,160</u>
 Operating expenses	
Operation and maintenance	101,610
Depreciation	<u>78,197</u>
Total operating expenses	<u>179,807</u>
 Operating income	 <u>(89,647)</u>
 Nonoperating revenues (expenses)	
Investment income	 <u>153</u>
 Change in net position	 (89,494)
 Net position, beginning of year	 <u>2,054,155</u>
 Net position, end of year	 \$ <u><u>1,964,661</u></u>

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

TOWN OF ROCHESTER, VERMONT
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2021

	<u>Utility Fund</u>
Cash flows from operating activities	
Cash received from customers	\$ 93,153
Cash paid to employees	(41,654)
Cash paid to suppliers and for professional services	<u>(60,066)</u>
Net cash (used) by operating activities	<u>(8,567)</u>
 Cash flows from noncapital financing activities	
Increase (decrease) in amounts due to/from General Fund	<u>(1,506)</u>
 Cash flows from investing activities	
Investment income	<u>153</u>
Net (decrease) in cash and cash equivalents	(9,920)
Cash and cash equivalents, beginning of year	<u>60,996</u>
Cash and cash equivalents, end of year	\$ <u><u>51,076</u></u>
 Reconciliation of operating income to net cash provided by operating activities	
Operating income (loss)	\$ (89,647)
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	78,197
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	2,993
(Increase) decrease in other assets	<u>(110)</u>
Net cash used by operating activities	\$ <u><u>(8,567)</u></u>

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

TOWN OF ROCHESTER, VERMONT
Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2021

	Private Purpose Trust Funds	Custodial Fund
Assets		
Cash and cash equivalents	\$ -	\$ 4,902
Investments	<u>2,098,858</u>	<u>-</u>
Total assets	<u>2,098,858</u>	<u>4,902</u>
Liabilities and net position		
Liabilities	<u>-</u>	<u>-</u>
Net position:		
Restricted for:		
Townsend Hutchinson Trust	1,697,173	-
Kirkpatrick Trust	258,467	-
Leland Trust	139,359	-
Guernsey Trust	3,859	-
Individuals	<u>-</u>	<u>4,902</u>
Total net position	<u>\$ 2,098,858</u>	<u>\$ 4,902</u>

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

TOWN OF ROCHESTER, VERMONT
Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2021

	<u>Private Purpose Trust Funds</u>	<u>Custodial Fund</u>
Additions		
Statewide education taxes collected for other governments	\$ -	\$ 2,175,832
Investment income	<u>327,052</u>	<u>32</u>
Total additions	<u>327,052</u>	<u>2,175,864</u>
Deductions		
Statewide education taxes paid to other governments	-	2,175,832
Distributions to others	<u>28,000</u>	<u>200</u>
Total deductions	<u>28,000</u>	<u>2,176,032</u>
Change in net position	299,052	(168)
Net position, beginning of year	<u>1,799,806</u>	<u>5,070</u>
Net position, end of year	\$ <u>2,098,858</u>	\$ <u>4,902</u>

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

TOWN OF ROCHESTER, VERMONT
Notes to Financial Statements
June 30, 2021

1. Summary of significant accounting policies

The Town of Rochester, Vermont (the Town) is a unit of local government organized under the statutes of the State of Vermont. The Town operates under a Select Board form of government and provides the following services: public safety, highways and streets, solid waste, culture and recreation, public improvements, planning and zoning, and general and administrative services.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements of the Town have been prepared in conformity with generally accepted accounting principles as applied to governmental entities. The following is a summary of the Town's more significant accounting policies:

A. Reporting entity - The Town is a primary government under reporting criteria established by the GASB. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units and evaluated them against the criteria established by the GASB. Based on these criteria, there are no other entities that are considered to be component units of the Town that should be included in these financial statements.

B. Basis of presentation -

Fund accounting: The accounts of the Town are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Government-wide statements: The statement of net position and the statement of activities present financial information about the Town's governmental and business-type activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

Fund financial statements: Fund financial statements are presented according to each fund category; governmental, proprietary, and fiduciary. Separate financial statements are provided for each of these categories. Major governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining funds are aggregated and reported as non-major funds.

The Town reports the following major governmental funds:

General Fund - The General Fund is used to account for the primary activity of the Town. Property tax revenues and other sources of revenue used to finance the fundamental operations of the Town are included in this fund. This fund is charged with all costs of operating the government for which a separate fund has not been established.

Reserve Fund - The Reserve Fund is a special revenue fund used to account for funds restricted or committed to capital equipment, reappraisal, record preservation and other specific functions.

Grants Fund – The Grants Fund is used to account for activity related to specified grants and similar activity.

Cemetery Fund - The Cemetery Fund is used to account for activity related to perpetual care of the Town's cemeteries.

Library Fund - The Library Fund is used to account for the activity of the Rochester Municipal Library.

TOWN OF ROCHESTER, VERMONT
Notes to Financial Statements
June 30, 2021

1. Summary of significant accounting policies (continued)

The Town reports the following major proprietary fund:

Utility Fund - The Utility Fund is used to account for the Town's water and wastewater facility operations.

The Town also reports fiduciary activities for the following various trust relationships: Townsend/Hutchinson, Kirkpatrick, Leland, Guernsey and custodial funds to report statewide education property taxes collected on behalf of the State of Vermont and paid to other governments

- C. Measurement focus and basis of accounting - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. Measurement focus refers to what items are reported on the financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

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

The government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this model, revenues are recognized when both measurable and available for use. Expenditures are recorded when the liability has occurred if measurable. Measurable means that the amount of the transaction 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. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the fiscal year and other revenues to be available if they are collected within 6 months of the end of the fiscal year. Expenditures related to principal and interest on general long-term debt that has not matured, compensated absences, and claims and judgments are recorded only when payment is due.

The proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Additions are recorded when they occur and deductions when a liability has occurred, regardless of the related cash flows.

- D. Governmental fund equity - In the fund financial statements, governmental fund balance is presented in five possible categories:

Nonspendable - Resources which cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

Restricted - Resources with constraints placed on the use of resources which are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

TOWN OF ROCHESTER, VERMONT
Notes to Financial Statements
June 30, 2021

1. Summary of significant accounting policies (continued)

Committed - Resources which are subject to limitations the government imposes upon itself at its highest level of decision-making authority, and that remain binding unless removed in the same manner. For the purposes of defining the committed fund balance category, the Town considers the taxpayers, through voted Town Articles, its highest level of decision-making authority.

Assigned - Resources neither restricted nor committed for which a government has a stated intended use as established by the Select Board or a body or official to which the Select Board has delegated the authority to assign amounts for specific purposes.

Unassigned - Resources which cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include any negative residual balance resulting from expenditures exceeding amounts restricted, committed or assigned for a specific purpose.

The Town has not formalized a policy which identifies which fund balance classification is affected when an expenditure has been incurred for purposes for which restricted, committed, assigned or unassigned amounts could be used.

For the classification of net position, the Town does not have a formal policy regarding which classification should be reduced first when more than one classification is available. However, the Town has generally considered an expense to be made from the most restrictive first when more than one classification is available.

- E. Budgetary accounting - The operating budget of the General Fund is prepared by the Town on the modified accrual basis of accounting. The budget is approved at Town Meeting and the Select Board sets the tax rate based on the grand list and approved budget.
- F. Estimates - The preparation of the financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, or expenses during the reported period. Actual results could differ from those estimates.
- G. Cash and cash equivalents - Cash and cash equivalents consists of cash and short-term investments with an original maturity of three months or less.
- H. Investments - Investments are recorded at fair value based on quoted market prices. Unrealized gains and losses in the value of investments are included in revenue.
- I. Receivables - The Town has not recorded an allowance for doubtful accounts. Management estimates that all receivables are collectible.
- J. Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure are reported in the applicable governmental or business-type activities columns in the government-wide statements and in the proprietary fund financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The Town does not have a formal policy establishing criteria above which assets are capitalized. However, major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Donated capital assets are recorded at acquisition value at the date of donation. Capital assets of the Town are depreciated using the straight-line method over the following useful lives:

TOWN OF ROCHESTER, VERMONT
Notes to Financial Statements
June 30, 2021

1. Summary of significant accounting policies (continued)

Building and improvements	20 - 50 years
Equipment, machinery and vehicles	5 - 30 years
Infrastructure	25 - 50 years

- K. Property taxes - Property taxes attach as an enforceable lien on property owned as of April 1st. Property taxes for the fiscal year ended June 30, 2021, were payable in three installments due October 27, 2020, February 16, 2021, and May 17, 2021.
- L. Interfund balances and transfers - Interfund receivables and payables represent transactions incurred within the fund for other funds. These accounts are expected to be eliminated in the normal course of operations. Interfund transfers represent flows of cash or goods from one fund to another fund without a requirement for repayment.
- M. Deferred outflows/inflows of resources – In addition to assets and liabilities, deferred outflows of resources and deferred inflows of resources, if applicable, are reported as separate sections in the statements of net position and the balance sheets. A deferred outflow of resources is a consumption of net assets by the Town that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets by the Town that is applicable to a future reporting period. The Town has recorded, in the General Fund, unavailable property taxes which have not been collected within 60 days following year-end, and therefore, are not considered available for current year operations.
- N. New Accounting Standard - The Town has implemented GASB 84, *Fiduciary Activities*, for the year ended June 30, 2021. The effect on these financial statements is to report Statewide Education Property Taxes collected on behalf of the State of Vermont and paid to other governments as a fiduciary activity custodial fund.

2. Cash and cash equivalents

The Town maintains cash balances which may, at times throughout the year, exceed amounts covered by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2021, the Town's bank balance was \$758,033; the corresponding carrying amount of the Town's cash was \$612,093 which included \$4,902 of cash held in a trustee or custodial capacity and reported as fiduciary activities. Of the Town's total bank balance, \$531,277 was covered by the FDIC, \$105,693 was collateralized through participation in a public unit deposit and backed by a letter of credit from the Federal Home Loan Bank of Boston and \$121,063 was uninsured and uncollateralized.

3. Investments

As of June 30, 2021, the Town reported total investments of \$2,686,302 which included \$2,098,858 held in a trustee capacity and reported as fiduciary activities. The Town has not adopted a formal investment policy. The classification and fair value of investments held as of June 30, 2021, were as follows:

<u>Investment</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 134,133	\$ -	\$ -
U.S. Government obligations and agencies	436,261	-	-
Corporate bonds	370,785	-	-
Mutual funds & ETFs - fixed income	291,153	-	-
Mutual funds & ETFs - equity	420,830	-	-
Mutual funds & ETFs - international equity	360,551	-	-
Mutual funds & ETFs - real assets	26,334	-	-
Corporate stock	646,255	-	-
	<u>\$ 2,686,302</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF ROCHESTER, VERMONT
Notes to Financial Statements
June 30, 2021

3. Investments (continued)

The Town classifies its investments into Level 1, which refers to investments traded in an active market; Level 2, which refers to investments not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to investments not traded in an active market and for which no significant observable market inputs are available. Generally, Level 3 investments are valued based upon information provided by fund managers, including audited financial statements of the investment fund. The levels relate to valuation only and do not necessarily indicate a measure of risk.

Interest rate risk - Changes in market interest rate will affect the fair value of an interest-earning investment over time. The Town does not have a policy regarding interest rate risk. Maturities of interest-earning investments as of June 30, 2021, were as follows:

	Fair Value	Investment Maturity		
		Less than One Year	1 to 5 Years	6 to 10 Years
U.S. Government obligations and agencies	\$ 436,261	\$ 126,159	\$ 257,630	\$ 52,472
Corporate bonds	370,785	25,011	210,048	135,726
	<u>\$ 807,046</u>	<u>\$ 151,170</u>	<u>\$ 467,678</u>	<u>\$ 188,198</u>

Credit risk - The Town's investment in corporate bonds are subject to credit risk. Credit risk is the risk that the bond issuer will not fulfill its obligation. The Town does not have an investment policy regarding credit risk. The rating of the Town's investment in corporate bonds was unavailable as of June 30, 2021.

Foreign currency risk - The Town's investments in international equity mutual funds and exchange traded funds (ETFs) are subject to foreign currency risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

4. Capital assets

Changes in business-type activities capital assets consisted of the following:

	Balance July 1, 2020	Increase	Decrease	Balance June 30, 2021
Capital assets, not depreciated:				
Land	\$ 63,200	\$ -	\$ -	\$ 63,200
Capital assets, depreciated:				
Buildings & improvements	85,000	-	-	85,000
Equipment, machinery and vehicles	160,369	-	-	160,369
Infrastructure	2,775,192	-	-	2,775,192
	<u>3,020,561</u>	<u>-</u>	<u>-</u>	<u>3,020,561</u>
Less accumulated depreciation for:				
Buildings & improvements	80,250	3,000	-	83,250
Equipment, machinery and vehicles	84,650	6,518	-	91,168
Infrastructure	947,123	68,679	-	1,015,802
	<u>1,112,023</u>	<u>78,197</u>	<u>-</u>	<u>1,190,220</u>
Total capital assets depreciated, net	<u>1,908,538</u>	<u>(78,197)</u>	<u>-</u>	<u>1,830,341</u>
Capital assets, net, business-type activities	\$ <u>1,971,738</u>	\$ <u>(78,197)</u>	\$ <u>-</u>	\$ <u>1,893,541</u>

TOWN OF ROCHESTER, VERMONT
Notes to Financial Statements
June 30, 2021

4. Capital assets (continued)

Changes in governmental activities capital assets consisted of the following:

	Balance July 1, <u>2020</u>	<u>Increase</u>	<u>Decrease</u>	Balance June 30, <u>2021</u>
Capital assets, not depreciated:				
Land	\$ 308,361	\$ -	\$ -	\$ 308,361
Construction in process	-	49,301	-	49,301
	<u>308,361</u>	<u>49,301</u>	<u>-</u>	<u>357,662</u>
Capital assets, depreciated:				
Buildings & improvements	1,269,132	-	-	1,269,132
Equipment, machinery and vehicles	1,921,493	-	-	1,921,493
Infrastructure	11,788,045	8,197	-	11,796,242
	<u>14,978,670</u>	<u>8,197</u>	<u>-</u>	<u>14,986,867</u>
Less accumulated depreciation for:				
Buildings & improvements	429,154	19,443	-	448,597
Equipment, machinery and vehicles	1,069,634	92,898	-	1,162,532
Infrastructure	2,134,682	238,020	-	2,372,702
	<u>3,633,470</u>	<u>350,361</u>	<u>-</u>	<u>3,983,831</u>
Total capital assets depreciated, net	<u>11,345,200</u>	<u>(342,164)</u>	<u>-</u>	<u>11,003,036</u>
Capital assets, net, governmental activities	\$ <u>11,653,561</u>	\$ <u>(292,863)</u>	\$ <u>-</u>	\$ <u>11,360,698</u>

Depreciation expense in the governmental activities totaling \$350,361 was allocated to the following functions: general government \$340, public safety \$34,636, highways and streets \$298,982, library \$12,212 and recreation \$4,191.

5. Short-term debt

The Town uses short-term notes payable to coordinate cash flow needs for various capital improvement and emergency repair projects. As of June 30, 2021, \$348,133 in principal was outstanding, with an additional \$2,031,837 available to be borrowed, on a short-term note payable, at an interest rate of 2.50% due July 8, 2022.

Changes in short-term debt for the year ended June 30, 2021, were as follows:

	Balance July 1, <u>2020</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>2021</u>
Notes payable	\$ <u>950,000</u>	\$ <u>-</u>	\$ <u>601,870</u>	\$ <u>348,130</u>

6. Risk management

The Town is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Town manages these risks through commercial insurance packages and participation in public entity risk pools covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured loss.

TOWN OF ROCHESTER, VERMONT
Notes to Financial Statements
June 30, 2021

7. Long-term liabilities

Long-term liabilities consisted of the following as of June 30, 2021:

Governmental activities:

General obligation bond payable, Vermont Municipal Bond Bank issued for water and waste-water system improvements, annual principal payments and semiannual interest payments, variable interest rates from 2.0% to 5.0%, through November 2034	\$ 451,618
General obligation bond payable, Vermont Municipal Bond Bank, issued for capital improvements to municipal library, annual principal payments of \$8,750, and semiannual interest payments, variable interest rates from 0.75% to 4.0%, through November 2034	122,500
Sewer system bond payable, sewer system improvements, Semiannual principal and interest payments of \$2,041, interest rate of 2.75%, through September 2042	65,892
General obligation bond, sewer system improvements, Annual principal and administration fee of \$16,054, no interest, starting September 2019 through September 2038.	233,849
Note payable, fire station, monthly principal and interest payments of \$1,509, interest rate of 3.95%, through September 2033	175,452
Capital lease payable, fire truck, annual principal and interest payments of \$19,035 interest rate of 3.29%, through October 2025	86,458
Net pension liability - VMERS	<u>142,145</u>
	<u>\$ 1,277,914</u>

Changes in long-term liabilities for the year ended June 30, 2021, were as follows:

	Balance July 1, <u>2020</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>2021</u>	Due Within <u>One Year</u>
Governmental activities:					
General obligation bonds	\$ 933,077	\$ -	\$ 59,218	\$ 873,859	\$ 55,449
Notes from direct borrowing	186,387	-	10,935	175,452	11,374
Capital leases payable	170,133	-	83,675	86,458	16,191
Net pension liability - VMERS	<u>100,125</u>	<u>42,020</u>	<u>-</u>	<u>142,145</u>	<u>-</u>
	<u>\$ 1,389,722</u>	<u>\$ 42,020</u>	<u>\$ 153,828</u>	<u>\$ 1,277,914</u>	<u>\$ 83,014</u>

Certain outstanding notes from direct borrowings related to governmental activities contain a provision that in the event of default, outstanding amounts become immediately due.

TOWN OF ROCHESTER, VERMONT
Notes to Financial Statements
June 30, 2021

7. Long-term liabilities (Continued)

Annual maturities of the bonds and notes payable as of June 30, 2021, were as follows:

Year ending June 30,	Governmental Activities:		Notes from	
	<u>General Obligation Bonds</u>		<u>Direct Borrowings</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 55,449	\$ 21,827	\$ 11,374	\$ 6,729
2023	56,954	20,274	11,832	6,272
2024	49,964	18,811	12,308	5,796
2025	51,260	17,447	12,803	5,301
2026	52,599	16,035	13,318	4,786
2027-2031	284,683	57,240	75,070	15,449
2032-2036	253,845	16,187	38,747	1,810
2037-2041	63,168	2,226	-	-
2042-2043	5,937	186	-	-
	<u>\$ 873,859</u>	<u>\$ 170,233</u>	<u>\$ 175,452</u>	<u>\$ 46,143</u>

Capital leases - The Town has entered into a lease agreement to finance the acquisition of fire department equipment. This lease agreement qualifies as a capital lease for accounting purposes. The cost of the asset is capitalized and depreciated on the government-wide statements. As of June 30, 2021, the cost and accumulated depreciation of the asset was \$348,929 and \$87,232, respectively. The present value of the minimum lease payments is recorded as a liability in governmental activities on the government-wide statements. Future minimum lease payments and the net present value as of June 30, 2021, were as follows:

2022	\$ 19,035
2023	19,035
2024	19,035
2025	19,035
2026	<u>19,035</u>
Total minimum lease payments	95,175
Less: amount representing interest	<u>(8,717)</u>
Present value of minimum lease payments	<u>\$ 86,458</u>

8. Pension plan – Vermont Municipal Employees’ Retirement System

Plan description – The Vermont Municipal Employees’ Retirement System (VMERS) is a cost-sharing, multiple-employer defined benefit pension plan that is administered by the Vermont State Treasurer and its Board of Trustees. The plan was established effective July 1, 1975. The State statutory provisions, found in Title 24, V.S.A. Chapter 125, govern eligibility for benefits, service requirements, contribution requirements and benefit provisions. The general administration and responsibility for formulating administrative policy and procedures of the retirement System for its members and their beneficiaries is vested in the Board of Trustees. All assets are held in a single trust and are available to pay retirement benefits to all members. 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 of Vermont’s Department of Finance and Management’s website.

TOWN OF ROCHESTER, VERMONT
Notes to Financial Statements
June 30, 2021

8. Pension plan – Vermont Municipal Employees’ Retirement System (continued)

Benefits – Full-time employees of participating municipalities are covered under VMERS. Municipalities elect coverage under Groups A, B, C or D provisions. VMERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are based on average final compensation, years of creditable service, age upon retirement, and on the benefit structure of the Group. Vesting occurs upon the attainment of five years of creditable service.

Contributions – Municipal employees participating in the plan were required to contribute 3.000%, 5.375%, 10.500%, and 11.850% of gross wages for Groups A, B, C and D, respectively, for the year ended June 30, 2021. Municipal employers were required to contribute 4.500%, 6.000%, 7.750%, and 10.350% of gross wages for Groups A, B, C and D, respectively, for the year ended June 30, 2021.

Employees of the Town are covered under Group B. Town employees contributed \$11,268 to VMERS for the year ended June 30, 2021. The Town contributed \$12,578 to VMERS for the year ended June 30, 2021.

The State of Vermont has provided the following information to all employers participating in VMERS; net pension liability, each Town’s proportionate share of the net pension liability, expected rate of return on investments and discount rates. The information specific to the Town is based on its proportionate share of VMERS relative to all participating employers. Actuarial reports and schedules of employer allocations can be obtained by visiting the office of the Vermont State Treasurer at the following internet address: www.vermonttreasurer.gov.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – As of June 30, 2021, the Town reported a liability of \$142,145 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. The Town’s proportion of the net pension liability was based on the Town’s proportionate share of employer contributions to the total contributions to VMERS during the June 30, 2020, fiscal year. As of the June 30, 2020, measurement date, the Town’s proportion was 0.05619%, which was a decrease of 0.00152% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$33,825, related to VMERS. As of June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to VMERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 12,802	\$ 421
Changes in assumptions	19,057	-
Difference between projected and actual earnings on pension plan investments	13,595	-
Changes in proportional share of contributions	3,269	3,035
Town contributions subsequent to the measurement date	12,578	-
	<u>\$ 61,301</u>	<u>\$ 3,456</u>

\$12,578 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized in pension expense over a period of 5 years.

TOWN OF ROCHESTER, VERMONT
Notes to Financial Statements
June 30, 2021

8. Pension plan – Vermont Municipal Employees’ Retirement System (continued)

Actuarial assumptions – The total pension liability, measured as of June 30, 2020, was based on a June 30, 2019, actuarial valuation using the following actuarial assumptions: investment rate of return 7.00%, salary increases: varying, inflation 2.30%, cost of living adjustments 0.40% to 1.20%. Mortality rates were based on Scale MP-2019.

The long-term expected rate of return of pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of the June 30, 2020, measurement date, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Global equity	29.00%	7.07%
US equity - large cap	4.00%	6.19%
US equity - small/mid cap	3.00%	6.93%
Non-US equity - large cap	5.00%	7.01%
Non-US equity - small cap	2.00%	7.66%
Emerging markets debt	4.00%	3.66%
Core bond	20.00%	0.39%
Private & alternate credit	10.00%	6.03%
US Tips	3.00%	-0.20%
Core real estate	5.00%	4.06%
Non-core real estate	3.00%	6.43%
Private equity	10.00%	11.27%
Infrastructure/farmland	<u>2.00%</u>	5.44%
	100.00%	

Discount rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions would continue to be made in accordance with the current funding policy at the rates set by the Board of Trustees.

The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Town’s proportionate share would be if it were calculated using a discount rate that is one percent lower (6.00%) or one percent higher (8.00%) than the current rate:

	1 % Decrease <u>(6.00%)</u>	Current Discount Rate <u>(7.00%)</u>	1 % Increase <u>(8.00%)</u>
Town's proportionate share of the net pension liability	\$ 217,169	\$ 142,145	\$ 80,416

TOWN OF ROCHESTER, VERMONT
Notes to Financial Statements
June 30, 2021

9. Interfund balances

Interfund receivables and payables as of June 30, 2021, were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental activities		
General Fund	\$ 240,468	\$ -
Grants Fund	-	236,683
Library Fund	-	470
	<u>240,468</u>	<u>237,153</u>
Business-type Activities		
Utility Fund	-	3,315
	<u>\$ 240,468</u>	<u>\$ 240,468</u>

The interfund payable from the Grants Fund, Library Fund, and Utility Fund represent amounts paid by the General Fund that have not yet been reimbursed by the respective fund.

10. Interfund transfers

Interfund transfers for the year ended June 30, 2021, consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 17,121	\$ 45,625
Reserve Fund	-	12,121
Cemetery Fund	-	5,000
Library Fund	45,625	-
	<u>\$ 62,746</u>	<u>\$ 62,746</u>

The transfer out of the General Fund to the Library Fund was for the annual budgeted appropriation to the Library Fund. The transfer from the Cemetery Fund to the General Fund was a budgeted allocation to pay for cemetery maintenance costs recorded as expenditures in the General Fund. The transfer from the Reserve Fund to the General Fund was to pay for costs paid out of the General Fund that were paid from Reserve Fund assets.

11. Contingencies

The Town receives significant financial assistance from the State of Vermont through grants and other forms of state aid. Entitlement to these resources is generally based on compliance with terms and conditions of grant agreements and applicable state regulations, including the expenditure of the resources for eligible purposes. These resources are subject to audit by the granting authority in order to ensure compliance. Any disallowance as a result of these audits becomes a liability of the Town. Management believes that there are no significant contingent liabilities relating to compliance with grant agreements and applicable state regulations.

TOWN OF ROCHESTER, VERMONT
Notes to Financial Statements
June 30, 2021

12. Governmental fund equity

As of June 30, 2021, governmental fund balances consisted of the following:

	General Fund	Reserve Fund	Grants Fund	Cemetery Fund	Library Fund	Nonmajor Governmental Fund	Total Governmental Funds
Nonspendable:							
Prepaid expenditures	\$ -	\$ -	-	\$ -	\$ 589	\$ -	\$ 589
Restricted for:							
Reappraisal	-	78,315	-	-	-	-	78,315
Revolving loan	-	8,136	-	-	-	-	8,136
Library	-	-	-	-	171,882	-	171,882
Fire department	-	-	-	-	-	19,381	19,381
Cemetery maintenance	-	-	-	287,700	-	-	287,700
	<u>-</u>	<u>86,451</u>	<u>-</u>	<u>287,700</u>	<u>171,882</u>	<u>19,381</u>	<u>565,414</u>
Committed to:							
Cemetery	-	17,354	-	-	-	-	17,354
Cemetery lot sale	-	9,563	-	-	-	-	9,563
Emergency management	-	3,200	-	-	-	-	3,200
Fire building	-	2,244	-	-	-	-	2,244
Fire equipment	-	5,678	-	-	-	-	5,678
Highway equipment	-	71,098	-	-	-	-	71,098
Planning & zoning	-	3,073	-	-	-	-	3,073
Rapid response	-	2,903	-	-	-	-	2,903
Town Office Building	-	28,733	-	-	-	-	28,733
Tennis	-	3,010	-	-	-	-	3,010
Youth sports	-	2,252	-	-	-	-	2,252
Record preservation	-	29,955	-	-	-	-	29,955
	<u>-</u>	<u>179,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>179,063</u>
Assigned to:							
Forest Service	8,549	-	-	-	-	-	8,549
Library	-	-	-	-	169,804	-	169,804
	<u>8,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>169,804</u>	<u>-</u>	<u>178,353</u>
Unassigned	<u>58,895</u>	<u>-</u>	<u>(27,622)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,273</u>
Total fund balances	\$ <u>67,444</u>	\$ <u>265,514</u>	\$ <u>(27,622)</u>	\$ <u>287,700</u>	\$ <u>342,275</u>	\$ <u>19,381</u>	\$ <u>954,692</u>

TOWN OF ROCHESTER, VERMONT
Notes to Financial Statements
June 30, 2021

13. Governmental activities restricted net position

As of June 30, 2021, governmental activities restricted net position consisted of the following:

	<u>Restricted Net Position</u>
Reappraisal	\$ 78,315
Revolving loan	8,136
Library	171,882
Fire department	19,381
Cemetery maintenance	<u>287,700</u>
	<u>\$ 565,414</u>

14. Deficit fund balance

The Town anticipates eliminating the June 30, 2021, fund deficit in the Grants Fund of \$27,622 by receiving grant proceeds in future years.

15. Prior period restatement

The Town has presented the Fire Station Fund as a separate non-major governmental fund used to report donations restricted to the fire department. Previously this activity was not presented in the Town's financial statements. The Town has restated the beginning governmental fund balance from \$706,086 to \$725,297 and the beginning governmental activities from \$11,059,920 to \$11,079,131 because of this change in presentation.

TOWN OF ROCHESTER, VERMONT
Schedule of Revenues and Expenditures
Budget and Actual - General Fund
For the Year Ended June 30, 2021

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 937,755	\$ 937,755	\$ 924,760	\$ (12,995)
Property taxes - interest	20,229	20,229	17,066	(3,163)
Intergovernmental	203,867	203,867	260,875	57,008
Licenses, permits & fines	26,869	26,869	14,974	(11,895)
Charges for services	12,299	12,299	20,077	7,778
Contributions	1,000	1,000	3,610	2,610
Investment income	-	-	2,979	2,979
Miscellaneous	31,500	31,500	35,460	3,960
Total revenues	<u>1,233,519</u>	<u>1,233,519</u>	<u>1,279,801</u>	<u>46,282</u>
Expenditures				
Finance	104,277	104,277	138,807	(34,530)
Capital purchase	19,035	19,035	19,035	-
Salaries	83,842	83,842	88,012	(4,170)
General office	61,450	61,450	48,512	12,938
Buildings and grounds	29,373	29,373	27,877	1,496
Solid waste	12,552	12,552	12,166	386
General employee	17,836	17,836	24,149	(6,313)
Dues and fees	12,174	12,174	14,592	(2,418)
General Town	42,696	42,696	40,803	1,893
Park	8,178	8,178	9,159	(981)
Recreation	9,250	9,250	9,845	(595)
Highway	608,075	608,075	584,236	23,839
Constable	36,000	36,000	40,373	(4,373)
Fire department	38,484	38,484	35,108	3,376
Listers	4,978	4,978	1,698	3,280
Planning and zoning	500	500	265	235
Appropriations	22,840	22,840	22,840	-
WRVA rescue services	68,340	68,340	68,340	-
Fast trash & recycling	20,400	20,400	23,800	(3,400)
Total expenditures	<u>1,200,280</u>	<u>1,200,280</u>	<u>1,209,617</u>	<u>(9,337)</u>
Excess of revenues or (expenditures)	<u>33,239</u>	<u>33,239</u>	<u>70,184</u>	<u>36,945</u>
Other financing sources (uses)				
Proceeds from sale of capital assets	-	-	-	-
Transfers in (out)	(34,675)	(34,675)	(28,504)	6,171
Total other financing sources (uses)	<u>(34,675)</u>	<u>(34,675)</u>	<u>(28,504)</u>	<u>6,171</u>
Net change in fund balances	<u>\$ (1,436)</u>	<u>\$ (1,436)</u>	<u>\$ 41,680</u>	<u>\$ 43,116</u>

TOWN OF ROCHESTER, VERMONT
Schedule of Proportionate Share of the Net Pension Liability
June 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
VMERS							
Town's proportion of the net pension liability	0.05619%	0.05771%	0.05440%	0.05897%	0.04854%	0.05260%	0.05120%
Town's proportionate share of the net pension liability	\$ 142,145	\$ 100,125	\$ 76,584	\$ 71,442	\$ 62,466	\$ 40,536	\$ 4,674
Town's covered payroll	\$ 202,532	\$ 197,128	\$ 173,373	\$ 175,087	\$ 134,124	\$ 136,738	\$ 128,899
Town's proportionate share of the net pension liability as a percentage of its covered payroll	70.18%	50.79%	44.17%	40.80%	46.57%	29.65%	3.63%
Plan fiduciary net position as a percentage of the total pension liability	74.52%	80.35%	82.60%	83.64%	80.95%	87.42%	98.32%

Notes to schedule:

Data presented as of the measurement date. Historical information prior to implementation of GASB 68 is not required.
The plan provisions used in the measurement of the net pension liability are the same as those used in the actuarial valuation as of June 30, 2019.

TOWN OF ROCHESTER, VERMONT
Schedule of Pension Contributions
For the year ended June 30,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
VMERS							
Contractually required contributions	\$ 12,578	\$ 11,645	\$ 11,088	\$ 9,536	\$ 9,630	\$ 7,377	\$ 7,350
Contributions in relation to the contractually required contribution	<u>(12,578)</u>	<u>(11,645)</u>	<u>(11,088)</u>	<u>(9,536)</u>	<u>(9,630)</u>	<u>(7,377)</u>	<u>(7,350)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Town's covered payroll	\$ <u>209,644</u>	\$ <u>202,532</u>	\$ <u>197,128</u>	\$ <u>173,373</u>	\$ <u>175,087</u>	\$ <u>134,124</u>	\$ <u>136,738</u>
Contributions as a percentage of covered payroll	6.000%	5.750%	5.625%	5.500%	5.500%	5.500%	5.375%

Notes to schedule:

Historical information prior to implementation of GASB 68 is not required.

TOWN OF ROCHESTER, VERMONT
Balance Sheet - Nonmajor Governmental Fund
June 30, 2021

		Fire Department Fund
Assets		
Cash and cash equivalents	\$	<u>19,381</u>
Liabilities and fund balances		
Liabilities:	\$	<u>-</u>
Fund balances:		
Restricted		<u>19,381</u>
Total liabilities and fund balances	\$	<u><u>19,381</u></u>

See Independent Auditor's Report.

TOWN OF ROCHESTER, VERMONT
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Nonmajor Governmental Fund
For the Year Ended June 30, 2021

		Fire Department Fund
Revenues		
Investment income	\$	2
Contributions		850
Total revenues		852
Expenditures		
Current:		
Public safety		682
Net change in fund balances		170
Fund balances, beginning of year (as restated)		19,211
Fund balances, end of year	\$	19,381

See Independent Auditor's 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**

The Select Board
Town of Rochester, Vermont

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, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Rochester, Vermont, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of Rochester, Vermont's basic financial statements and have issued our report thereon dated February 11, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Rochester, Vermont's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Rochester, Vermont's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Rochester, Vermont'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2021-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Rochester, Vermont's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Select Board
Town of Rochester, Vermont

Town of Rochester, Vermont's Response to Findings

The Town of Rochester, Vermont's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Rochester, Vermont's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Pace & Hawley, LLC

Berlin, Vermont
February 11, 2022

TOWN OF ROCHESTER, VERMONT
Schedule of Findings
June 30, 2021

2021-001 Grant Accounting

Condition: The Town did not sufficiently reconcile grant financial reports and related activity to the general ledger.

Criteria: GASB 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments* is the foundation for financial reporting for municipal governments.

Cause: Reconciliation of grant activity requires coordination with the Select Board Assistant and requires manual reconciliation and adjustments beyond normal operating activities.

Effect: Without correction, the Town financial statements could be misstated.

Recommendation: We recommend that the Town reconciles grant activity and balances in the Grants Funds, with grant documentation. We also recommend that the Town adopt a formal grant accounting policy. Such a policy would describe what governmental fund grant activity should be reported in, when and how they are reconciled, and where the Town’s match will be budgeted and recorded.

Management’s response: The Town of Rochester Select Board agree with the auditor’s findings and ask the Town Clerk/Treasurer to reconcile the grant activity and balance in the Grants Fund and include grant documentation. The Select Board agreed that the Town will adopt a grant accounting policy formally and this policy will include the Town’s match to be budgeted and recorded.