

The Speaker of the House of Representatives,
President Pro-Tempore of the Senate
And the Governor of the State of Vermont

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Vermont (the State) as of and for the year ended June 30, 2018, and have issued our report thereon dated December 21, 2018. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the State are described in Note I to the financial statements.

As described in Notes I and V.G. to the State's financial statements, the State implemented the Statement of Governmental Accounting Standards (GASB Statement) No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, by recognizing its net OPEB liability related to its post-employment benefit plan. Accordingly, the cumulative effect of the accounting change is recorded at the beginning of the year in the financial statements of the governmental and business-type activities and the proprietary funds.

As described in Notes I and V.G. to the State's financial statements, the State implemented the Statement of Governmental Accounting Standards (GASB Statement) No. 81, *Irrevocable Split Interest Agreements*, by recognizing its assets and liabilities related to its irrevocable split interest agreements. Accordingly, the cumulative effect of the accounting change is recorded at the beginning of the year in the financial statements of the discretely presented component units.

Also described in Note I, the State's financial statements included the impact of the adoption of the Statements of Governmental Accounting Standards (GASB Statement) No. 85, *Omnibus 2017*, and No. 86, *Certain Debt Extinguishments Issues*, and Statements of Governmental Accounting Standards (GASB Statement) No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*.

We noted no transactions entered into by the State during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the allowance for doubtful accounts is based on historical collection trends and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of tax refunds payable liability is based on an analysis of historical trends and past refund activities. We evaluated the key factors and assumptions used to develop the liability in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of incurred but not reported claims is based on computations performed by outside specialists, including actuarial computations that were relied upon to establish the amount of claims liabilities under self-insurance programs. We evaluated the key factors and assumptions used to develop the estimates for claims liabilities including incurred but not reported claims for health-care, workers compensation, and state liability insurance, in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of Medicaid claims liability is based on historical trends and claims run out reports. We evaluated the key factors and assumptions used to develop the Medicaid claims liability in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the other post-employment benefits (OPEB) liability is based on computations performed by outside specialists, including actuarial computations and assumptions that were relied upon. We evaluated the key factors and assumptions used to develop the OPEB liability and obligation in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net pension liability is based on computations performed by outside specialists, including actuarial computations and assumptions that were relied upon. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

- Note V.G. to the financial statements, Accounting Changes, the State restated beginning balances resulting from accounting changes that occurred in the prior period.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following summarizes uncorrected misstatements of the financial statements:

- In the Liquor Control Fund, a misstatement of \$174,895 occurred due to an understatement of Cash and Revenue.

Corrected misstatements

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

The following immaterial misstatements detected as a result of audit procedures were corrected by management:

- In the Federal Fund, an adjustment of \$127,859 was made to decrease Accounts Receivable and to increase Cash due to the receipt of the Cash occurring prior to fiscal year end.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the attached management representation letter dated December 21, 2018.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the State's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the State's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Audits of group financial statements

We noted no matters related to the group audit that we consider to be significant to the responsibilities of those charged with governance of the group.

We have provided a separate letter to you dated December 21, 2018, communicating internal control related matters relevant to the group audit and identified by us or by a component auditor during the audit.

Quality of component auditor's work

There were no instances in which our evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work.

Limitations on the group audit

There were no restrictions on our access to information of components or other limitations on the group audit.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated December 21, 2018.

The introductory section and the statistical section accompanying the financial statements, which is the responsibility of management, was prepared for purposes of additional analysis and is not a required part of the financial statements. Such information was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we did not express an opinion or provide any assurance on it.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * *

This communication is intended solely for the information and use of the Governor, members of the State Legislature, and management of the State of Vermont and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
December 21, 2018



State of Vermont
Agency of Administration
Office of the Secretary
Pavilion Office Building
109 State Street, 5th Floor
Montpelier, VT 05609-0201
www.aoa.vermont.gov

[phone] 802-828-3322
[fax] 802-828-3320

Susanne R. Young, Secretary

December 21, 2018

CliftonLarsonAllen LLP
131 Hartwell Avenue
Suite 300
Lexington, MA 02421

This representation letter is provided in connection with your audit of the financial statements of the State of Vermont (the State), which comprise the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of December 21, 2018, the following representations made to you during your audit of the financial statements as of and for the year ended June 30, 2018:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the contract #35472 and audit engagement acknowledgement letter, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We acknowledge and have fulfilled our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. We have identified all accounting estimates that could be material to the financial statements in accordance with the requirement of U.S. GAAP. We believe the estimates and the key factors and significant assumptions used in making those estimates, and we believe the estimates including those measured at fair value and the significant assumptions used in making those accounting estimates are reasonable and have been consistently applied. Significant estimates are estimates at the financial statement date that could change materially within the next year.
5. Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events occurring subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of uncorrected misstatements identified are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
8. We have made all adjustments to convert our financial information from budgetary to accrual basis and acknowledge that we are responsible for the accuracy and completeness of such accrual basis adjustments.
9. The State's reporting entity includes all entities that are component units of the State. Such component units have been properly presented as either blended or discretely presented. Investments on joint ventures in which the State holds an equity interest have been properly recorded on the statement of net position. The basic financial statements disclose all other joint ventures and other related organizations.
10. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
11. Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.
12. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.
13. The fact that the amount of "uncollateralized" deposits or "uninsured, unregistered securities held by the counterparty, or by its trust department or agent but not in the entity's name" during the period significantly exceeded the amounts in those categories as of the financial statement date was properly disclosed in the financial statements.
14. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.

15. The State is responsible for determining the fair value of certain investments as required by GASB Statements. The amounts reported represent the State's best estimate of fair value of investments required to be reported under the Statement. The State also has disclosed the methods of significant assumptions used to estimate the fair value of its investments, and the nature of investments reported at Net Asset Value (NAV).
16. Agreements to repurchase assets previously sold have been properly disclosed.
17. The State has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred outflows and inflows of financial resources, fund balance or net position.
18. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility. Impairment loss and insurance recoveries have been properly recorded.
19. Participation in a public entity risk pool has been properly reported and disclosed in the financial statements.
20. The State has identified and properly accounted for all nonexchange transactions.
21. The following information about financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk, if applicable, has been properly disclosed in the basic financial statements:
 - a. The extent, nature, and terms, of financial instruments with off-balance sheet risk;
 - b. The amount of credit risk for financial instruments with off-balance sheet credit risk and information about the collateral supporting such financial instruments.
 - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
22. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value.
23. Provision has been made for any loss to be sustained as a result of other-than-temporary declines in the fair value of investments, except for the amounts that have been reflected in the financial statements.
24. The State has no transfers, reservations or designations of fund equity or interfund borrowings that were not properly authorized and approved, or uncollectible interfund loans that have not been properly reflected in the financial statements or disclosed to you.
25. We believe that all material expenditures that have been deferred to future periods will be recoverable.
26. The State has identified and properly accounted for and presented all deferred outflows of resources and deferred inflows of resources.
27. The State has complied with all tax and debt related covenants.

28. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefits (OPEB) liabilities and costs for financial accounting purposes are appropriate in the circumstances.
29. We are unable to determine the possibility of a withdrawal liability in a multiple-employer benefit plan.
30. We do not intend to compensate for the elimination of postretirement benefits by granting an increase in pension benefits.
31. We do not plan to make frequent amendments to our pension or other postretirement benefit plans.
32. We are not aware of any pollution remediation obligations which would require an adjustment to, or disclosure in, the financial statements in accordance with GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, except as already reported.
33. We are not aware of any intangible assets which would require an adjustment to or disclosure in the financial statements in accordance with GASB Statements, except as already reported.
34. We have properly accounted for financing arrangements that use derivatives in accordance with GASB Statements.
35. We agree with the findings of specialists in evaluating the net pension and OPEB liabilities and costs and the workers' compensation, general and professional, and automobile liabilities, and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.
36. We believe that the effects of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, have been properly reflected in the financial statements, including the cumulative effect of the change in accounting principle as a restatement of net position as of July 1, 2017.

Information Provided

1. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

- e. All communications from regulatory agencies, grantors, lenders, and other funding sources concerning noncompliance with, or deficiencies in, financial reporting practices.
 - f. All communications from regulatory agencies, grantors, lenders, and other funding sources concerning noncompliance with the provisions of laws, regulations, contracts, and grant agreements.
 - g. Access to all audit or relevant monitoring reports, if any, received from funding sources.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
 3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 4. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others when the fraud could have a material effect on the financial statements.
 5. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, grantors, regulators, or others.
 6. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts and grant agreements or abuse whose effects should be considered when preparing financial statements.
 7. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
 8. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.
 9. We have disclosed to you the identity of the State's related parties and all the related party relationships and transactions of which we are aware.
 10. The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as made known to you and disclosed in the financial statements.
 11. We have taken timely and appropriate steps to remedy fraud, violations of laws, regulations, contracts, or grant agreements, or abuse that you have reported to us.
 12. The State has a process to track the status of audit findings and recommendations.

13. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
14. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
15. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the State of Vermont, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
16. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
17. The State has complied with all aspects of contractual or grant agreements that would have a material effect on the financial statements in the event of noncompliance.
18. The State has followed all applicable laws and regulations in adopting, approving, and amending budgets.
19. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures, jointly governed organizations, and other related organizations.
20. The financial statements properly classify all funds and activities.
21. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
22. All Components of net position, non-spendable fund balance, and restricted, committed, assigned and unassigned fund balance are properly classified and, if applicable, approved.
23. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
24. Provisions for uncollectible receivables have been properly identified and recorded.
25. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

26. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
27. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
28. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.
29. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
30. The State has identified and properly reported all of its derivative instruments and any related deferred outflows of resources or deferred inflows of resources related to hedging derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The State complied with the requirements of GASB Statement No. 53 related to the determination of hedging derivative instruments and the application of hedge accounting. Further, the State has disclosed all material information about its derivative and hedging arrangement in accordance with GASB Statement No. 53.
31. The State properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, including those related to the recognition of outlays associated with the development of internally generated computer software.
32. The participants' data provided to the actuary for the purpose of determining the net pension liability and expenses were accurate and complete.
33. The participants' data provided to the actuary for the purpose of determining the net OPEB liability and expenses were accurate and complete.
34. The net pension liability, deferred outflows/inflows of resources, and pension expense have been properly allocated to governmental activities, proprietary funds, and fiduciary funds based on a rationale methodology.
35. The net OPEB liability, deferred outflows/inflows of resources, and OPEB expense have been properly allocated to governmental activities, proprietary funds, and fiduciary funds based on a rationale methodology.
36. We have appropriately disclosed the State's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
37. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the State's current period financial statements and our assessment of internal control over financial reporting, and the expected impact of each

such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements and our assessment of internal control over financial reporting is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.

38. The State has disclosed all tax abatement agreements required to be disclosed under GASB Statement No. 77, *Tax Abatement Disclosures*.
39. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
40. We acknowledge our responsibility for presenting the combining statements as listed in the table of contents (the supplementary information) in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditors' report thereon.
41. The State of Vermont asserts that the individual signing this letter is entitled to represent the State of Vermont, empowered to respond fully to all inquiries posed by CliftonLarsonAllen LLP, and authorized to sign this letter.

Signature: 

Susanne R. Young
Secretary, Agency of Administration

Signature: 

Adam Greshin
Commissioner, Department of Finance and Management

Enclosure: Summary of Uncorrected Misstatements - Audit

SUMMARY OF UNCORRECTED MISSTATEMENTS - AUDIT

State of Vermont

Liquor Control Fund

Year Ended June 30, 2018

UNCORRECTED ADJUSTMENTS

Effect of misstatements on:

Description	Assets	Liabilities	Fund Balance / Net Position	Net Expense/Revenue and Change in Net Assets / Fund Position
The bank reconciliation for one bank account contained an unreconciled difference in the amount of \$174,895.	\$ (174,895)	\$ -	\$ (174,895)	\$ -
Net current year misstatements (Iron Curtain Method)	(174,895)	-	(174,895)	-
Net prior year misstatements	-	-	-	-
Combined current and prior year misstatements (Rollover Method)	\$ (174,895)	\$ -	\$ (174,895)	\$ -
Financial statement totals	\$ 17,824,445	\$ 19,541,347	\$ (1,194,191)	\$ 63,029
Current year misstatement as a % of financial statement totals (Iron Curtain Method)	-1%		15%	
Current and prior year misstatement as a % of financial statement totals (Rollover Method)	-1%		15%	

INADEQUATE DISCLOSURES

Description	Amount (If Applicable)
N/A - None	