

TOWN OF UNDERHILL, VERMONT

FINANCIAL STATEMENTS

June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen
Town of Underhill, Vermont
Underhill, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Town of Underhill, Vermont as of and for the year ended June 30, 2015, 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 fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Town of Underhill, Vermont, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the 2015 opening net position for the year ended June 30, 2015 has been restated upon the adoption of new accounting principles, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition For Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedules of the Town's proportionate share of the net pension liability and contributions on pages 4 through 10 and 36 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Underhill, Vermont's basic financial statements. The schedule of revenues, expenditures and changes in fund balance - Budget and actual - General fund is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying schedule of revenues, expenditures and changes in fund balance - Budget and actual - General fund is the responsibility of management and was derived from and relates 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 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 schedule of revenues, expenditures and changes in fund balance - Budget and actual - General fund is 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 December 15, 2015, on our consideration of the Town of Underhill, 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 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 Underhill, Vermont's internal control over financial reporting and compliance.

St. Albans, Vermont
December 15, 2015
VT Reg. No. 92-0000102

**TOWN OF UNDERHILL, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

As management of the Town of Underhill (Town), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2015. The discussion and analysis presents the highlights of financial activities and financial position for the Town of Underhill. The analysis focuses on significant financial issues, major financial activities and resulting changes in financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the Town.

Financial Highlights

- The net assets of the Town exceeded its liability by \$958,376 as of June 30, 2015. Of this amount, \$920,710 (unrestricted fund balance) may be used to meet the government's ongoing obligations.
- The Town of Underhill's total long-term debt, excluding compensated absences and accrued postemployment benefits, increased by \$42,833 during the 2015 fiscal year, representing payments of \$117,617 plus an increase of \$160,000 for a loan used to acquire a 2015 dump truck.
- The General Fund ended the year with a balance of \$958,376, compared to a fund balance of \$854,273 in FY2014.

Overview of the Financial Statements

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town of Underhill's finances in a manner similar to a private-sector business.

The statement of net position presents information on all the Town's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and compensatory time off).

In the Statement of Net Position and the Statement of Activities, we divide the Town into two kinds of activities: Government activities which are typically supported by taxes, grants and intergovernmental revenues and business-type activities which are supported by fees and charges.

- Governmental activities – All of the Town's basic services are reported here, including protection of person and property, highways, recreation, health, and general government.
- Business-type activities – The Town has no business type activities.

The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Underhill, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Funds are divided into three categories: governmental fund, proprietary funds, and fiduciary funds. The Town has only a governmental fund.

Governmental Fund

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of Underhill has one governmental fund.

The Town adopts an annual budget for its General Fund. A budgetary comparison statement is provided for the General Fund to demonstrate compliance with the budget on pages 38 through 43 of this report.

Notes to the Financial Statement

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 35.

Government-Wide Financial Analysis

As financial information is accumulated from year-to-year, changes in net position may serve as a useful indicator of a government’s financial position. In the case of the Town of Underhill, assets exceeded liabilities by \$3,278,034 as of June 30, 2015.

The largest portion of the Town of Underhill’s net position (72.6%) reflects its investment in capital assets (land, buildings, improvements, equipment, and infrastructure), less any debt used to acquire those assets that is still outstanding. The Town of Underhill uses these assets to provide services to citizens.

The following provides a summary of the Town’s net assets:

Town of Underhill
Net Position

	<u>Governmental Activities</u>	
	2015	2014
Current and other assets	\$ 1,061,243	\$ 1,030,275
Capital assets	2,857,182	2,633,112
Total assets	<u>3,918,425</u>	<u>3,663,387</u>
Deferred outflows of resources	29,689	-
Long term liabilities	398,455	363,486
Other liabilities	212,848	250,507
Total liabilities	<u>611,303</u>	<u>613,993</u>
Deferred inflows of resources	58,777	-
Net position:		
Net investment in capital		
assets	2,378,681	2,197,444
Unrestricted	861,687	810,311
Restricted	37,666	41,639
Total net assets	<u>\$ 3,278,034</u>	<u>\$ 3,049,394</u>

Changes in Net Position

As of June 30, 2015, total net position of the Town of Underhill amounted to \$3,278,034, which is an increase of \$228,640 compared to the 2014 fiscal year end.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements is \$861,687 for fiscal year 2015 as compared to \$810,311 in 2014.

The following schedule highlights the key elements of the Town’s revenues and expenses for the 2015 and 2014 fiscal year ends. These main components are subtracted to yield the change in net position and are summarized as follows.

Changes in Net Position		
	2015	2014
REVENUES		
Program revenues:		
Charges for services	\$ 69,984	\$ 66,130
Operating grants and contributions	182,165	175,770
Capital grants	17,054	126,558
General revenues:		
Property taxes	1,995,346	1,823,318
Investment income	1,062	1,278
Gain on sale of asset	5,000	0
Miscellaneous income	34,627	28,935
Total revenues	<u>2,305,238</u>	<u>2,221,989</u>
PROGRAM EXPENSES		
General government	557,165	503,415
Public safety	252,106	244,147
Culture and recreation	106,041	100,962
Highway	939,346	1,007,181
Appropriations	174,746	148,860
Interest on long term debt	24,164	18,888
Total program expenses	<u>2,053,568</u>	<u>2,023,453</u>
Gain (Loss) from extraordinary item	<u>26,936</u>	<u>176,513</u>
Increase in net position	<u>\$ 278,606</u>	<u>\$ 375,049</u>

Governmental Activities

The Town’s tax rate increased from \$.4629 per \$100 or assessed value to \$.4889 for the general expenses, or an increase of 2.60 cents on the tax rate. There was an increase of \$172,028 overall in the Town’s tax revenue in fiscal year 2014. The actual tax rate for fiscal year 2016 increased to \$.5031.

The table below discloses cost of services for Governmental Activities. The total cost of services column contains all costs related to the programs. The net of services column shows how much of the total amount is not covered by program revenue and must be covered by local taxes or other general revenue or transfers.

Governmental Activities

	Total Cost of Services	Total Cost of Services	Net (Expense) of Services	Net (Expense) of Services
	2015	2014	2015	2014
General government	\$ 482,933	\$ 455,840	\$ (371,957)	\$ (330,397)
Public safety	252,106	244,147	(252,006)	(244,147)
Recreation	10,606	5,904	(10,606)	(5,904)
Planning and zoning	74,232	47,042	(46,126)	(47,042)
Conservation	-	533	-	(533)
Cultural services	95,435	95,058	(95,435)	(95,058)
Appropriations	174,746	148,860	(174,746)	(148,860)
Highways	939,346	992,210	(826,379)	(762,669)
Underhill Flats Sidewalk	-	14,971	17,054	(1,497)
Interest on long term debt	24,164	18,888	(24,164)	(18,888)
Totals	\$ 2,053,568	\$ 2,023,453	\$ (1,784,365)	\$ (1,654,995)

The net cost of services is 87% of the total cost of services in 2015. This reflects a continued reliance on taxes to fund the cost of services.

Financial Analysis of the Government's Fund

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

As of the end of the current fiscal year, the Town's governmental fund reported an ending balance of \$958,376, an increase of \$104,103 in comparison to last year. Of the total balance, 51% is classified as committed or assigned and 41% is unassigned. The balance is non-spendable or restricted.

Committed funds include \$250,000 capital reserve, \$44,240 contingency or rainy day reserve, \$2,037 conservation reserve, and \$1,451 for recreation reserve.

General Fund Budgetary Highlights

The 2015 final budget was \$2,412,693. During the year, revenues were more than budgeted and expenditures were more than budgeted. The major variance was in the additional spending on the equipment and building improvements.

Capital Assets

At June 30, 2015, the Town had \$2,857,182 invested in a broad range of capital assets that includes land, buildings and improvements, equipment, infrastructure, and construction in process, net of accumulated depreciation. This amount represents a net increase of \$224,070 over the prior year.

Capital Assets at Year-End (Net of Depreciation)

	Governmental Activities	
	2015	2014
Land	\$ 289,326	\$ 289,326
Construction in progress	36,903	52,367
Buildings and improvements	1,032,278	941,265
Vehicle and equipment	1,332,403	1,150,520
Infrastructure	1,808,878	1,679,362
Office equipment	40,167	40,167
Accumulated depreciation	(1,682,773)	(1,519,895)
Totals	<u>\$ 2,857,182</u>	<u>\$ 2,633,112</u>

Long-term Debt

At year-end, the Town had \$478,501 in bonds and notes payable versus \$435,668 last year. In the current year, the Town paid \$117,167 in principal plus \$17,952 in interest.

Outstanding Debt at Year-End

	Governmental Activities		Increase
	2015	2014	(Decrease)
Bonds and notes payable	<u>\$ 478,501</u>	<u>\$ 435,668</u>	<u>\$ 42,833</u>

Economic Factors and Next Year's Budgets and Rates

The Town's elected and appointed officials considered many factors when setting the Fiscal Year 2016 budget for town operations. Factors included were the economic climate and unemployment in the region, property values, and the impact of the budget on property tax rates.

For fiscal year 2016 the combined homestead property tax rate for the Town increased by 1.7% and the combined non-residential tax rate increased by 1.7%.

The Town's general fund balance is expected to remain relatively unchanged as the result of adhering to the budget.

Requests for Information

This financial report is designed to provide a general overview of the Town of Underhill's finances for all those with an interest in the government's finances. Readers having questions about any of the information in this report or needing additional information should contact the Finance Officer, Town of Underhill, P O Box 32, Underhill Center, VT 05490, direct contact at (802) 899-4434 Ext 102 or email rsheppard@underhillvt.gov.

TOWN OF UNDERHILL, VERMONT

STATEMENT OF NET POSITION

June 30, 2015

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 890,084
Receivables:	
Delinquent taxes	29,797
Delinquent tax interest	910
Delinquent tax penalties	1,853
Grants receivable	97,136
Prepaid expenses	24,551
Inventory	16,912
Capital assets:	
Land	289,326
Property and equipment, net of depreciation	2,530,953
Work in progress	<u>36,903</u>
Total assets	<u>3,918,425</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pension	<u>29,689</u>
LIABILITIES	
Accounts payable	51,151
Accrued wages	19,849
Unearned grant revenue	18,811
Long-term liabilities	
Due within one year	121,037
Due in more than one year	<u>400,455</u>
Total liabilities	<u>611,303</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pension	<u>58,777</u>
NET POSITION	
Net investment in capital assets	2,378,681
Restricted for:	
Reappraisal	14,837
Matching grant	15,000
Restoration reserve	4,564
Listers education	3,265
Unrestricted	<u>861,687</u>
Total net position	<u>\$ 3,278,034</u>

See accompanying notes.

TOWN OF UNDERHILL, VERMONT

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015**

<u>Funds/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position Governmental Activities</u>
Governmental Activities:					
General government	\$ 482,933	\$ 40,853	\$ 70,123	\$ -	\$ (371,957)
Public Safety	252,106	100	-	-	(252,006)
Recreation	10,606	-	-	-	(10,606)
Planning and zoning	74,232	28,106	-	-	(46,126)
Cultural services	95,435	-	-	-	(95,435)
Appropriations	174,746	-	-	-	(174,746)
Highways	921,064	925	112,042	-	(808,097)
Underhill Flats sidewalk	18,282	-	-	17,054	(1,228)
Interest on long-term debt	24,164	-	-	-	(24,164)
	<u>\$ 2,053,568</u>	<u>\$ 69,984</u>	<u>\$ 182,165</u>	<u>\$ 17,054</u>	<u>(1,784,365)</u>
General revenues:					
Property taxes, penalties and interest					1,995,346
Earnings on investments					1,062
Gain on sale of asset					5,000
Miscellaneous					<u>34,627</u>
Total general revenues					<u>2,036,035</u>
Extraordinary items:					
Grant revenues - Flood					41,215
Flood expenses					<u>(14,279)</u>
Total extraordinary items					<u>26,936</u>
Change in net position					<u>278,606</u>
Net position- July 1, 2014, as previously stated					3,049,394
Restatement upon adoption of new accounting principle					<u>(49,966)</u>
Net position - July 1, 2014, as restated					<u>2,999,428</u>
Net position - June 30, 2015					<u>\$ 3,278,034</u>

See accompanying notes.

TOWN OF UNDERHILL, VERMONT

**BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2015**

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 890,084
Receivables:	
Delinquent taxes	29,797
Delinquent tax interest	910
Delinquent tax penalties	1,853
Grants receivable	97,136
Prepaid expenses	24,551
Inventory	<u>16,912</u>
Total assets	<u>\$ 1,061,243</u>
 LIABILITIES	
Accounts payable	\$ 44,939
Accrued wages	19,849
Unearned grant revenue	<u>18,811</u>
Total liabilities	<u>83,599</u>
 DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue- Property taxes	<u>19,268</u>
 FUND EQUITY	
Nonspendable	
Inventory	16,912
Prepaid expenses	23,894
Restricted	
Listers education	3,265
Matching grant	15,000
Reappraisal	14,837
Restoration reserve	4,564
Committed	
Conservation	2,037
Contingency	22,741
General capital reserve	20,000
Highway-Capital reserve	145,000
Highway-Contingency reserve	21,499
Highway-Generator reserve	20,000
Highway-Infrastructure reserve	65,000
Recreation	1,451
Assigned	
HRA	15,497
Highway	171,451
Morgan donation	5,000
Unassigned	<u>390,228</u>
Total fund equity	<u>958,376</u>
Total liabilities, deferred inflows of resources, and fund equity	<u>\$ 1,061,243</u>

See accompanying notes.

TOWN OF UNDERHILL, VERMONT
RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2015

Total fund balances - governmental funds		\$ 958,376
Amount reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$4,539,955, and the accumulated depreciation is \$1,682,773.		2,857,182
Property taxes that are not collected within 60 days of year end are not available to pay liabilities of the current period and are recorded as unavailable revenue in the governmental funds.		19,268
Current year pension contributions are reported as deferred outflows of resources in the statement of net position, but are reported as expenses in the governmental funds.		29,689
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and notes payable	\$ 478,501	
Accrued compensated absences	10,240	
Accrued post employment benefits	14,367	
Net pension liability	<u>18,384</u>	
		(521,492)
Accrued interest on long term debt is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.		(6,212)
Certain pension contributions and changes in the pension plan net position are reported as deferred inflows of resources in the statement of net position, but are reported as expenses in the governmental funds.		<u>(58,777)</u>
 Total net position - governmental activities		 <u>\$ 3,278,034</u>

See accompanying notes.

**TOWN OF UNDERHILL, VERMONT
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended June 30, 2015**

	General Fund
REVENUES	
Property taxes	\$ 2,002,468
Licenses and permits	40,448
Intergovernmental	199,219
Charges for services	29,536
Investment income	1,062
Miscellaneous income	<u>39,627</u>
Total revenues	<u>2,312,360</u>
EXPENDITURES	
Current:	
General government	455,807
Public safety	252,106
Recreation	10,606
Planning and zoning	75,044
Cultural services	95,435
Appropriations	174,746
Highway	752,623
Underhill Flats Sidewalk	18,282
Debt service	135,119
Capital outlay	<u>425,425</u>
Total expenditures	<u>2,395,193</u>
Deficiency of revenues over expenditures	<u>(82,833)</u>
OTHER FINANCING SOURCES	
Proceeds from issuance of debt	<u>160,000</u>
Total other financing sources	<u>160,000</u>
EXTRAORDINARY ITEMS	
Grant revenue - Flood relief	41,215
Flood expenses	<u>(14,279)</u>
Total extraordinary items	<u>26,936</u>
Net change in fund balance	104,103
Fund balance - July 1, 2014	<u>854,273</u>
Fund balance - June 30, 2015	<u>\$ 958,376</u>

See accompanying notes.

TOWN OF UNDERHILL, VERMONT

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015**

Total net change in fund balances - governmental fund \$ 104,103

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$443,706 exceeds depreciation expense of \$219,636 in the period. 224,070

Property taxes that are not collected within 60 days of year end are not available to pay for current liabilities and are recorded as unavailable revenue in the governmental funds. Unavailable property tax revenue decreased by \$7,122. (7,122)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 117,167

Proceeds of long term debt issued is recorded as revenue in the governmental funds and as a long-term liability in the statement of net position. (160,000)

In the statement of activities, accrued compensated absences payable are measured by the amounts earned during the year. In the governmental funds, however, expenditures for this item are measured by the amount of financial resources used (essentially the amounts actually paid). This year, compensated absences used exceeded the amounts earned by \$4,802. 4,802

In the statement of activities, accrued post employment benefits are measured by the amounts due in the future as of the end of the year. In the governmental funds, however, expenditures for this item are measured by the amount of financial resources used (essentially the amounts actually paid). This year, the amounts due exceeded post employment benefits paid by \$696. (696)

In the governmental fund, interest on long term debt is recognized as an expenditure when due. In the statement of activities, interest is recognized as it accrues, regardless of when it is due. (6,212)

Pension expense for the defined contribution plan (VMERS) is recognized in the governmental funds based on current year employer matching contributions. Pension expense in the government-wide statements is based on the net change in the net pension liability. 2,494

Change in net position of governmental activities \$ 278,606

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The financial statements of the Town of Underhill, Vermont have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town are described below.

A. Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity are set forth in GASB 14 as amended by GASB 39 and 61 and Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards.

Based on the aforementioned criteria, the Town has no component units.

B. Basic Financial Statements - Government-Wide Statements

The Town's basic financial statements include both government-wide (reporting the town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. All of the Town's activities are classified as governmental activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants and contributions. Program revenues must be directly associated with the function (highway, public safety, etc.). Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reports capital-specific grants.

The net costs by function are normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc.). The Town does not allocate indirect costs.

The government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities.

C. Basic Financial Statements – Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, deferred inflows and outflows of resources, fund equity, revenues and expenditures.

Note 1. Summary of Significant Accounting Policies (Continued)

The emphasis in fund financial statements is on the major funds in the governmental activities categories. Nonmajor funds by category are summarized into a single column. GASB No. 34 sets forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combined) for the determination of major funds. The Town may electively add funds, as major funds, which either had debt outstanding or specific community focus. The Town does not report any nonmajor funds.

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The Town reports the following major governmental fund:

- The general fund is the Town's primary operating fund. It accounts for all financial resources of the Town.

The activities reported in this fund are reported as governmental activities in the government-wide financial statements.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues, expenditures/expenses, assets, deferred outflows and inflows of resources, and liabilities are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual

Governmental activities in the government-wide financial statements are presented on the economic resources measurement focus and the accrual basis of accounting. Property taxes are reported in the period for which they are levied. Other nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period for property taxes and six months for other revenues. Intergovernmental revenues and grants are recognized when all eligibility requirements are met and the revenues are available. Expenditures generally are recorded when a liability is incurred, as under

Note 1. Summary of Significant Accounting Policies (Continued)

accrual accounting. The exception to this general rule includes principal and interest on general obligation long term debt which is recognized when due.

E. Budgetary Data

Budgets are presented on the modified accrual basis of accounting for all governmental funds. The following procedures are used in establishing the budgetary data reflected in the financial statements.

- The Finance Officer prepares a budget for the upcoming fiscal year during December. The operating budget includes proposed expenditures and means of financing them and encompasses the Capital Improvement Plan.
- The budget and any revisions are approved by the Selectboard.
- The legal voters of the Town of Underhill, Vermont meet on the first Tuesday in March to review, discuss and vote on the budget.
- Formal budgetary integration is employed as a management control device during the year for the General Fund.
- The General Fund budgetary comparison schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis which conforms with the modified accrual basis of accounting.

F. Equity Classification

Government-wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets -- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by remaining balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- b. Restricted net position -- Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position -- All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

Fund Statements

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Note 1. Summary of Significant Accounting Policies (Continued)

Nonspendable fund balance - Amounts that are not in a spendable form (such as prepaid expenses or inventory) or are legally or contractually required to remain intact (such as the principal of an endowment fund).

The spendable portion of the fund balances are categorized based on a hierarchy of spending constraints.

- a. Restricted fund balance - Amounts constrained to specific purposes by external parties (such as grantors, bondholders, and higher levels of government), constitutional provisions, or enabling legislation.
- b. Committed fund balance – Fund balances that contain self-imposed constraints of the government from its highest level of decision-making authority. These amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- c. Assigned fund balance - Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- d. Unassigned fund balance - Amounts that are available for any purpose; positive amounts are reported only in the general fund.

G. Use of Restricted Resources

When an expense is incurred that can be paid from either restricted or unrestricted resources (net position), the Town's policy is to first apply the expense toward restricted resources and then to unrestricted resources. In governmental funds, the Town's policy is to first apply the expenditure toward restricted fund balance and then to other less-restrictive classifications – committed then assigned fund balances before using unassigned fund balances.

H. Cash and Cash Equivalents

The Town's cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

I. Receivables

The Town utilizes the allowance method for uncollectible accounts. They have determined that all accounts are collectible and the allowance is zero.

J. Inventory

Inventory consists of road materials held for the Town's use and is carried at cost.

K. Property Taxes

Property taxes are recognized as revenue in the year for which taxes have been levied. Delinquent property taxes not collected within 60 days of year end are reflected as deferred inflows of resources.

Note 1. Summary of Significant Accounting Policies (Continued)

L. Capital Assets

Infrastructure assets purchased or acquired with an original cost of \$25,000 and capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	10-75 years
Machinery and equipment	2-25 years
Infrastructure	10-75 years

GASB No. 34 required the Town to report and depreciate new infrastructure assets effective with the beginning of fiscal year 2004. It was not required to report these assets retroactively. General infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc.

M. Deferred Outflows/Inflows of Resources

The Town reports deferred outflows of resources on its statement of net position. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until the applicable period. Deferred outflows consist of the Town's current year pension contributions subsequent to the measurement date.

The Town reports deferred inflows of resources on its statement of net position. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that future period. Deferred inflows on the statement of net position consist of (1) the Town's proportional share of the difference between projected and actual investment earnings on pension assets and (2) the change in the Town's proportional share of pension contributions. Deferred inflows on the governmental fund balance sheet consists of unavailable revenue - property taxes that were not collected within 60 days of year end.

N. Defined Benefit Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Vermont Municipal Employees Retirement System (VMERS) and additions to/deductions from VMERS' fiduciary net position have been determined on the same basis as they are reported by VMERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Note 1. Summary of Significant Accounting Policies (Continued)

Investments are reported at fair value. VMERS does not issue stand-alone financial reports, but is instead included as part of the State of Vermont's Comprehensive Annual Financial Report (CAFR).

O. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the period. Accordingly, actual results could differ from those estimates.

P. Accrued Compensated Absences

Government-Wide Financial Statements - All vested or accumulated vacation leave and compensatory time is reported as a liability and an expense on the government-wide financial statements. Sick days are not accrued since they are not paid when the employee terminates employment.

Fund Financial Statements - Vested or accumulated vacation leave and compensatory time that has matured and is reported as expenditures and fund liabilities of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave and compensatory time that are not expected to be liquidated with expendable available financial resources are not reported as a liability in the fund financial statements and no expenditure is reported for these amounts.

Q. Accrued Post Employment Benefits

Government-Wide Financial Statements – Accrued post employment benefits based on the value of the discounted cash flows related to the anticipated cost of the agreement is reported as a liability on the government-wide financial statements.

Fund Financial Statements – Actual post employment benefits paid are reported as expenditures in the governmental fund that will pay it. Amounts of post employment benefits that are not expected to be liquidated with expendable available financial resources are not reported as a liability in the fund financial statements.

R. Implementation of New Accounting Principles

The Town reviewed the following GASB Statements, which are effective in future years, for possible implementation and has determined that they have no effect on the Town's financial reporting.

GASB Statement No. 72, Fair Value Measurement and Application

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Note 1. Summary of Significant Accounting Policies (Continued)

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

S. Change in Accounting Principles

The Town adopted the provisions of GASB Statement 68 *Accounting and Financial Reporting for Pensions*, and GASB Statement 71 *Pension Transition For Contributions Made Subsequent to the Measurement Date- An Amendment of GASB Statement No. 68*. Implementation of these new accounting standards required a restatement of the beginning net position to reclassify pension contributions during the measurement period which had been closed to net position for the prior year end to recognize the beginning net pension liability. Previously, net pension liability and the related deferred outflows and inflows were not required to be reported.

The above restatements had the following impact on previously reported balances.

Net Position, July 1, 2014, as previously reported	\$ 3,049,394
Restatement upon adoption of new accounting principles	<u>(49,966)</u>
Net Position, July 1, 2014, as restated	<u>\$ 2,999,428</u>

As it is impractical to determine the cumulative effect of applying the change in accounting principle to July 1, 2013, the change has been applied prospectively from July 1, 2014.

Note 2. Cash and Custodial Credit Risk - Deposits in Financial Institutions

Cash belonging to the Town is placed in the custody of the Town Treasurer who is elected. The Town Treasurer invests excess cash according to policies established by the Selectboard. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At June 30, 2015, the Town of Underhill, Vermont's bank balance of \$920,354 was exposed to custodial credit risk as follows:

Insured	\$ 250,000
Uninsured and collateral held by pledging institution's trust department not in the government's name	<u>670,354</u>
Total	<u>\$ 920,354</u>

Due to the timing of cash flows, the Town's uninsured deposits may be higher during certain times of the year. Management considers this a normal business risk.

Note 3. Delinquent Taxes Receivable

Delinquent taxes receivable consist of:

	<u>General Fund</u>
Delinquent property taxes	\$ 29,797
Penalties on taxes receivable	1,853
Interest on taxes receivable	<u>910</u>
Total delinquent taxes	<u>\$ 32,560</u>

Property taxes are payable in four installments due August 15, November 15, February 15 and May 15. Interest of 1% per month is charged for overdue taxes from the due date of each installment. Any tax levies still delinquent after the due dates are charged an 8% penalty.

Note 4. Property Taxes

The Town levies its property tax based upon the assessed value as of April 1, for all real and personal property, with exemptions to qualifying veterans, and excludes assessments on municipal, school, and church properties. Elected listers establish a Grand List of all property and the Selectboard sets the tax rate required to raise the tax revenue authorized by Town and School District voters and the Vermont Department of Education.

The tax rates for fiscal year 2015 were:

	<u>Residential</u>	<u>Non-Residential</u>
Municipal	\$ 0.4889	\$ 0.4889
Local agreement	0.0340	0.0340
Education	<u>1.4137</u>	<u>1.4827</u>
Total tax rate	<u>\$ 1.9366</u>	<u>\$ 2.0056</u>

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 289,326	\$ -	\$ -	\$ 289,326
Work in progress	<u>52,367</u>	<u>21,932</u>	<u>(37,396)</u>	<u>36,903</u>
Total capital assets not depreciated	<u>341,693</u>	<u>21,932</u>	<u>(37,396)</u>	<u>326,229</u>
Capital assets, being depreciated				
Infrastructure	1,679,362	129,516	-	1,808,878
Building and improvements	941,265	91,013	-	1,032,278
Vehicles and equipment	1,150,520	238,641	(56,758)	1,332,403
Office equipment	<u>40,167</u>	<u>-</u>	<u>-</u>	<u>40,167</u>
Total capital assets being depreciated	<u>3,811,314</u>	<u>459,170</u>	<u>(56,758)</u>	<u>4,213,726</u>
Less accumulated depreciation for:				
Infrastructure	(265,909)	(72,745)	-	(338,654)
Building and improvements	(442,175)	(41,314)	-	(483,489)
Vehicles and equipment	(790,657)	(96,674)	56,758	(830,573)
Office equipment	<u>(21,154)</u>	<u>(8,903)</u>	<u>-</u>	<u>(30,057)</u>
Total accumulated depreciation	<u>(1,519,895)</u>	<u>(219,636)</u>	<u>56,758</u>	<u>(1,682,773)</u>
Total capital assets, being depreciated, net	<u>2,291,419</u>	<u>239,534</u>	<u>-</u>	<u>2,530,953</u>
Governmental activities capital assets, net	<u>\$ 2,633,112</u>	<u>\$ 261,466</u>	<u>\$ (37,396)</u>	<u>\$ 2,857,182</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 29,703
Highways and streets	<u>189,933</u>
Total depreciation expense - Governmental activities	<u>\$ 219,636</u>

Note 6. Long-Term Liabilities

Below is a summary of long-term liabilities for the year ended June 30, 2015:

	Beginning Balance	Additions	Principal Payments	Ending Balance	Due Within One Year
Bonds and Notes Payable:					
Vermont Municipal Bond Bank - building improvements, variable interest rate (4.344% - 5.644%), maturing December 1, 2020, principal payments of \$35,000 due annually, with interest payments due semiannually beginning December 1, 2000.	\$ 245,000	\$ -	\$ 35,000	\$ 210,000	\$ 35,000
Peoples United Bank - interest 3.5%, maturing May 28, 2016, principal payments of \$30,000 (five years 2011 - 2015) and a final payment of \$20,000 due 2016, plus interest, due annually beginning May 28, 2011. Secured by 2011 International dump truck with a net carrying value of \$85,000.	50,000	-	30,000	20,000	20,000
Merchants Bank - note, interest 2.44%, maturing July 15, 2017, principal payments of \$35,167 plus interest due annually beginning July 15, 2013. Secured by 2013 International dump truck with a net carrying value of \$131,476.	140,668	-	35,167	105,501	35,167
Merchants Bank - note, interest 2.5%, maturing September 30, 2019, principal payments of \$32,000 plus interest due annually beginning September 30, 2015. Secured by 2015 International dump truck with a net carrying value of \$129,738.	-	160,000	17,000	143,000	15,000
Total bonds and notes payable	435,668	160,000	117,167	478,501	105,167
Other long term liabilities:					
Accrued compensated absences	15,042	-	4,802	10,240	-
Accrued post employment benefits	13,671	696	-	14,367	870
Net pension liability	-	18,384	-	18,384	-
Total long-term liabilities	<u>\$ 464,381</u>	<u>\$ 179,080</u>	<u>\$ 121,969</u>	<u>\$ 521,492</u>	<u>\$ 106,037</u>

Note 6. Long-Term Liabilities (Continued)

Maturities for bonds and notes payable including interest are as follows:

Years Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 105,167	\$ 17,806	\$ 122,973
2017	102,167	13,588	115,755
2018	102,167	10,047	112,214
2019	67,000	5,858	72,858
2020	67,000	3,018	70,018
2021 - 2025	<u>35,000</u>	<u>988</u>	<u>35,988</u>
	<u>\$ 478,501</u>	<u>\$ 51,305</u>	<u>\$ 529,806</u>

Interest expense on long-term debt for the year ended June 30, 2015 was \$24,164.

Note 7. 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 maintains insurance coverage through the Vermont League of Cities and Towns Property and Casualty Intermunicipal Fund, Inc., covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town.

Settled claims have not exceeded this coverage in any of the past three fiscal years. The Town must remain a member for a minimum of one year and may withdraw from the Fund after that time by giving sixty days notice. Fund underwriting and rate-setting policies have been established after consultations with actuaries. Fund members are subject to supplemental assessment in the event of deficiencies. If the assets of the Fund were to be exhausted, members would be responsible for the Fund's liabilities.

The Town is a member of Vermont Leagues of Cities and Towns Unemployment Insurance Trust. The Unemployment Trust is a nonprofit corporation formed to provide unemployment coverage for Vermont municipalities and is owned by the participating members. The agreement does not permit the Unemployment Trust to make additional assessments to its members.

Note 8. Lease Agreement

The Town has entered into a 60-month operating lease for a copier. The lease expense for 2015 was \$2,010. Future minimum rental payments for each of the four subsequent fiscal years and thereafter are as follows:

2016	\$	2,700
2017		2,700
2018		2,700
2019		675
Thereafter		<u>-</u>
Total	\$	<u>8,775</u>

Note 9. Municipal Employees' Retirement System

Plan Description

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

The plan was established effective July 1, 1975, and is governed by Title 24, V.S.A. Chapter 125.

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 consisting of five members. They are the State Treasurer, two employee representatives elected by the membership of the system, and two employer representatives—one elected by governing bodies of participating employers of the system, and one selected by the Governor from a list of four nominees. The list of four nominees is jointly submitted by the Vermont League of Cities and Towns and the Vermont School Boards Association.

All assets are held in a single trust and are available to pay retirement benefits to all members. Benefits available to each group are based on average final compensation (AFC) and years of creditable service.

Note 9. Municipal Employees' Retirement System (Continued)

Summary of System Provisions

There are four levels of contributions and benefits available under the system, Group A, Group B, Group C, and Group D. The Town's employees are covered under Group C. The following is a summary of system provisions under Group C.

Creditable service Service as member plus purchased service.

Average Final Compensation (AFC) Average annual compensation during highest 3 consecutive years

Service Retirement Allowance

Eligibility: Age 55 with 5 years of service.

Amount: 2.5% of AFC x service as a Group C member plus percentage earned as a Group A or B member x AFC.

Maximum benefit is 50% of AFC. The above amounts include the portion of the allowance provided by member contributions.

Vested Retirement Allowance

Eligibility: 5 years of service.

Amount: Allowance beginning at normal retirement age based on AFC and service at termination. The AFC is to be adjusted annually by one-half of the percentage change in the Consumer Price Index, subject to the limits on "Post-Retirement Adjustments" described below.

Disability Retirement Allowance

Eligibility: 5 years of service and disability as determined by Retirement Board.

Amount: Immediate allowance based on AFC and service to date of disability.

Death Benefit

Eligibility: Death after 5 years of service.

Amount: Reduced early retirement allowance under 100% survivor option commencing immediately or, if greater, survivor's benefit under disability annuity computed as of date of death.

Optional Benefit And Death after Retirement Lifetime allowance or actuarially equivalent 50% or 100% joint and survivor allowance with refund of contribution guarantee.

Refund of Contribution Upon termination, if the member so elects or if no other benefit is payable, the member's accumulated contributions are refunded.

Note 9. Municipal Employees' Retirement System (Continued)

Post-Retirement Adjustments	Allowance in payment for at least one year increased on each January 1 by one-half of the percentage increase in Consumer Price Index but not more than 3%.
Member Contributions	9.625% effective July 1, 2014 and 9.75% effective January 1, 2015 (increased from 9.5%)
Employer Contributions	6.875% from July 1, 2014 to December 31, 2014 (changed from 6.625%) and then 7.0% effective January 1, 2015
Retirement Stipend	\$25 per month payable at the option of the Board of retirees.

Contributions

The contribution requirements of VMERS members and the Town are established by the VMERS Board of Trustees. The contribution rates are reviewed annually by the VMERS Board as recommended by the actuary of the retirement system in order to achieve and preserve the financial integrity of the fund. The employees' contributions are deducted from the employee's wages or salary and remitted by the Town to VMERS on a monthly basis. The Town's contractually required contribution rates for the year ended June 30, 2015 were 6.875% from July 1, 2014 to December 31, 2014 and 7.00% from January 1, 2015 to June 30, 2015. These rates were actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Town's contributions to the Plan for the year ended June 30, 2015 were \$29,689.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Town reported a liability of \$18,384 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the Town's proportion was .2014%, which was a decrease of .0072% from its proportion measured as of June 30, 2013.

Note 9. Municipal Employees' Retirement System (Continued)

For the year ended June 30, 2015, the Town recognized pension expense of \$27,195. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ -	\$ 56,687
Changes in proportionate share of contributions	-	2,090
Town contributions subsequent to the measurement date	<u>29,689</u>	<u>-</u>
 Total	 <u>\$ 29,689</u>	 <u>\$ 58,777</u>

The \$29,689 of deferred outflows of resources resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,

2016	\$ (15,199)
2017	(15,199)
2018	(15,199)
Thereafter	<u>-</u>
Total	<u>\$ (45,597)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest Rate: A select-and-ultimate interest rate set, specified below. The interest rate set is restarted every year:

Year 1: 6.25%	Year 10: 8.50%
Year 2: 6.75%	Year 11: 8.50%
Year 3: 7.00%	Year 12: 8.50%
Year 4: 7.50%	Year 13: 8.50%
Year 5: 7.75%	Year 14: 8.50%
Year 6: 8.25%	Year 15: 8.50%
Year 7: 8.25%	Year 16: 8.75%
Year 8: 8.25%	Year 17 and later: 9.00%
Year 9: 8.50%	

Note 9. Municipal Employees' Retirement System (Continued)

Salary Increases: 5% per year

Deaths:

Active participants - 50% of the probabilities in the 1995 Buck Mortality Tables for males and females.

Non-disabled retirees and terminated vested participants - The 1995 Buck Mortality Tables with no set-back for males and one-year set-back for females.

Disabled retirees - RP-2000 Disabled Life Tables

Beneficiaries - 1995 Buck Mortality Tables for males and females

Spouse's Age: Husbands are assumed to be three years older than their wives.

Cost-of-Living Adjustments to Benefits of Terminated Vested and Retired Participants:

Assumed to occur at the rate of 1.8% per annum.

Actuarial Cost Method: Entry Age Normal - Level Percentage of Pay.

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

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

Long-term expected rate of return

The long-term expected rate of return on system investments was determined using best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variable and the asset classes. These best estimate ranges were combined to produce forecasts of the short, intermediate, and longer term horizons by weighting the expected future nominal rates of return by the target asset allocation percentage. The various time horizons in the forecast are intended to capture more recent economic and capital market conditions as well as other plausible environments that could develop in the future over economic cycles. To reflect this in the rate-of-return assumption, a Select and Ultimate assumption setting approach, which is cited in Section 3.8.4 of Actuarial Standard of Practice No. 27 as an alternative to a single assumed rate of return, is employed.

Note 9. Municipal Employees' Retirement System (Continued)

Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	31.50%	6.70%
Fixed Income	33.00%	2.94%
Alternatives	15.50%	6.26%
Multi-strategy	<u>20.00%</u>	5.98%
Total	100.00%	

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

Discount Rate

The discount rate used to measure the total pension liability was 8.23%. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current system members. The assumed discount rate has been determined in accordance with the method prescribed by GASB 68.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Change in the Discount Rate

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 8.23%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percent lower (7.23%) or one percent higher (9.23%) than the current rate:

	Discount Rate	Town's proportionate share of net pension liability
1% decrease	7.23%	\$ 154,870
Current discount rate	8.23%	18,384
1% increase	9.23%	\$ (96,124)

Detailed information about the plan's fiduciary net position is available in the separately issued State of Vermont Comprehensive Annual Financial Report. This report may be obtained by writing the State Auditor of Accounts, 132 State Street, Montpelier, VT 05602.

Note 10. Accrued Post Employment Benefits

The Town has entered into an agreement with a former employee to provide for benefit costs until the former employee’s death. Under the terms of the agreement, the Town will pay 25% of health insurance premiums for the former employee, with the former employee reimbursing the Town for other benefits at cost. A liability in the amount of \$14,367 has been recognized, based on the value of the discounted cash flows related to the anticipated cost of the agreement.

Note 11. Long Term Contracts

The Town has entered into an agreement with the Underhill-Jericho Fire Department, Inc. on February 5, 1997 whereas the Town has designated the Fire Department as the primary provider of emergency response, firefighting, fire prevention, fire protection and fire suppression services. The Town appropriates annually, out of the General Fund, a sum of money to be paid to the Fire Department in anticipation of the costs incurred by the Fire Department. Such appropriations are included in the Town’s annual budget for voter approval. Payments are made quarterly. The agreement can only be cancelled when the Fire Department has no mortgages outstanding.

The Town has entered into a land records computerization contract. The agreement requires monthly payments of \$685, commencing September 2014. Future minimum payments for each of the five subsequent years and thereafter are as follows:

2016	\$ 8,220
2017	8,220
2018	8,220
2019	8,220
2020	1,370
Thereafter	<u>-</u>
Total	<u>\$ 34,250</u>

Note 12. Commitments and Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies, principally the State of Vermont or the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

The Town is a party to various legal actions in the normal course of business, the aggregate effect of which, in management’s opinion, would not be material to the financial condition of the Town of Underhill, Vermont.

Note 13. Excess of Expenditures over Appropriations

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Budgetary Comparison Schedule.

Note 14. Flood

During the weeks of May 22-26, 2013 and June 25-July 11, 2013, excessive rain caused extensive damage to the Town's roads. On June 13, 2013 and August 2, 2013, respectively, the floods were declared major federal disasters. The federal government issued two separate grants to the State of Vermont to help defer the costs of repairs in which the Town was named as one of the subgrantees. Under the terms of the grants, FEMA will reimburse the Town 75% of approved costs and the State will reimburse 15% of approved costs. The Town is responsible for the remaining costs.

As of June 30, 2015, \$446,837 in eligible costs have been incurred of which \$402,153 is to be reimbursed by FEMA and the State. There has been \$363,117 received in payment through June 30, 2015 and the remaining reimbursement due to the Town of \$39,036 has been recorded in grants receivable.

Note 15. Subsequent Events

Subsequent to year end, the Town purchased a loader for approximately \$119,900. A highway equipment note in the amount of \$119,900 was signed to finance the purchase. The note requires annual principal payments of \$23,980 through November 2020 together with interest at 2.6%.

Subsequent to year end, the Town approved a bid for approximately \$172,000 in construction costs at the Deane Road location.

Management has evaluated subsequent events through December 15, 2015, the date which the financial statements were available for issue.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF UNDERHILL, VERMONT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2015

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 1,990,387	\$ 2,002,468	\$ 12,081
Licenses and permits	33,010	40,448	7,438
Intergovernmental	161,500	199,219	37,719
Charges for services	34,000	29,536	(4,464)
Investment income	1,000	1,062	62
Miscellaneous income	<u>24,076</u>	<u>39,627</u>	<u>15,551</u>
Total revenue	<u>2,243,973</u>	<u>2,312,360</u>	<u>68,387</u>
EXPENDITURES			
General government			
Select board	53,029	49,368	3,661
Elections	10,750	12,879	(2,129)
Administration	65,008	61,795	3,213
Town clerk and treasurer	102,950	100,749	2,201
Finance	94,346	91,429	2,917
Listers	67,557	50,626	16,931
Town hall	82,828	76,765	6,063
Post office	3,450	11,181	(7,731)
School house	3,190	1,015	2,175
Public safety			
Animal control	3,101	2,941	160
Public safety	237,285	233,963	3,322
Health	19,335	15,202	4,133
Recreation	11,341	10,606	735
Planning and zoning	78,826	75,044	3,782
Cultural services	95,435	95,435	-
Appropriations	148,318	174,746	(26,428)
Highway	708,511	752,623	(44,112)
Town planning grant	-	18,282	(18,282)
Debt service			
Principal	100,167	117,167	(17,000)
Interest	17,866	17,952	(86)
Capital outlay	<u>509,400</u>	<u>425,425</u>	<u>83,975</u>
Total expenditures	<u>2,412,693</u>	<u>2,395,193</u>	<u>17,500</u>
Excess (deficiency) of revenues over expenditures	<u>(168,720)</u>	<u>(82,833)</u>	<u>85,887</u>
OTHER FINANCING SOURCES			
Proceeds of issuance of debt	<u>160,000</u>	<u>160,000</u>	<u>-</u>
Total other financing sources	<u>160,000</u>	<u>160,000</u>	<u>-</u>
EXTRAORDINARY ITEMS			
Grant revenue - Flood relief	-	41,215	41,215
Flood expenses	<u>-</u>	<u>(14,279)</u>	<u>(14,279)</u>
Total extraordinary items	<u>-</u>	<u>26,936</u>	<u>26,936</u>
Net change in fund balance, before use of surplus	(8,720)	104,103	112,823
Use of surplus	<u>8,720</u>	<u>-</u>	<u>(8,720)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 104,103</u>	<u>\$ 104,103</u>

TOWN OF UNDERHILL, VERMONT

**SCHEDULE OF THE TOWN'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

Vermont Municipal Employees Retirement System

Last 2 Fiscal years

	<u>2014</u>	<u>2013</u>
Town's proportion of the net pension liability	0.2014%	0.2086%
Town's proportionate share of the net pension liability	\$ 18,383	\$ 75,949
Town's covered-employee payroll	\$ 388,221	\$ 385,233
Town's portion of the net pension liability as a percentage of the covered-employee payroll	4.74%	19.72%
Plan fiduciary net position as a percentage of the total pension liability	98.32%	92.71%

SCHEDULE OF THE TOWN'S CONTRIBUTIONS

Vermont Municipal Employees Retirement System

Last 2 Fiscal years

	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 25,983	\$ 25,040
Contributions in relation to the statutorily required contribution	<u>25,983</u>	<u>25,040</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Contributions in relation to the statutory required contribution as a percentage of the covered-employee payroll	6.69%	6.50%

OTHER SUPPLEMENTARY INFORMATION

TOWN OF UNDERHILL, VERMONT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2015

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Property taxes			
Property taxes	\$ 1,955,701	\$ 1,968,996	\$ 13,295
Delinquent interest	5,000	3,392	(1,608)
Delinquent penalties	13,000	13,092	92
Payment in lieu of taxes	<u>16,686</u>	<u>16,988</u>	<u>302</u>
Total property taxes	<u>1,990,387</u>	<u>2,002,468</u>	<u>12,081</u>
Licenses and permits			
Dog licenses	4,000	3,993	(7)
Zoning	18,000	28,106	10,106
Traffic control	8,000	3,333	(4,667)
Certified copies	400	715	315
Other fees	<u>2,610</u>	<u>4,301</u>	<u>1,691</u>
Total licenses and permits	<u>33,010</u>	<u>40,448</u>	<u>7,438</u>
Intergovernmental			
State aid	102,000	102,042	42
Current use	47,000	47,765	765
Energy efficiency grant	-	10,000	10,000
Road grants	-	10,000	10,000
Flats Sidewalk Grant	-	17,054	17,054
Reappraisal	<u>12,500</u>	<u>12,358</u>	<u>(142)</u>
Total intergovernmental	<u>161,500</u>	<u>199,219</u>	<u>37,719</u>
Charges for services			
Animal control	500	100	(400)
Copier usage	3,000	2,263	(737)
Town hall rent	400	735	335
Recording fees	<u>30,100</u>	<u>26,438</u>	<u>(3,662)</u>
Total charges for services	<u>34,000</u>	<u>29,536</u>	<u>(4,464)</u>
Investment income			
Interest income	<u>1,000</u>	<u>1,062</u>	<u>62</u>
Miscellaneous income			
Rental - Post office	9,100	9,100	-
School contribution	7,500	7,500	-
School billback	2,500	2,814	314
Other miscellaneous income	<u>4,976</u>	<u>20,213</u>	<u>15,237</u>
Total miscellaneous income	<u>24,076</u>	<u>39,627</u>	<u>15,551</u>
Total revenues	<u>2,243,973</u>	<u>2,312,360</u>	<u>68,387</u>

TOWN OF UNDERHILL, VERMONT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2015

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
EXPENDITURES			
General government:			
Select board			
Stipend	4,500	4,500	-
Payroll taxes	344	344	-
Benefits	10,798	4,774	6,024
Training and development	350	60	290
Professional and technical services	12,750	27,978	(15,228)
Other purchased services	4,687	5,375	(688)
Other expenses	<u>19,600</u>	<u>6,337</u>	<u>13,263</u>
Total select board	<u>53,029</u>	<u>49,368</u>	<u>3,661</u>
Elections			
Salaries	3,000	3,163	(163)
Payroll taxes	50	-	50
Professional and technical services	875	605	270
Other purchased services	5,425	8,495	(3,070)
Supplies	<u>1,400</u>	<u>616</u>	<u>784</u>
Total elections	<u>10,750</u>	<u>12,879</u>	<u>(2,129)</u>
Administration			
Salaries	52,145	49,307	2,838
Payroll taxes	3,990	3,772	218
Benefits	6,148	6,039	109
Training and development	250	235	15
Professional and technical services	500	-	500
Supplies	1,475	1,933	(458)
Other expenses	<u>500</u>	<u>509</u>	<u>(9)</u>
Total administration	<u>65,008</u>	<u>61,795</u>	<u>3,213</u>
Town clerk and treasurer			
Salaries	78,163	74,126	4,037
Payroll taxes	5,979	5,690	289
Benefits	7,493	7,206	287
Training and development	795	115	680
Professional and technical services	8,720	11,408	(2,688)
Supplies	1,500	1,459	41
Other expenses	<u>300</u>	<u>745</u>	<u>(445)</u>
Total town clerk and treasurer	<u>102,950</u>	<u>100,749</u>	<u>2,201</u>

TOWN OF UNDERHILL, VERMONT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2015

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
Finance			
Salaries	60,008	62,573	(2,565)
Payroll taxes	4,591	4,787	(196)
Benefits	14,647	14,706	(59)
Training and development	500	733	(233)
Professional and technical services	14,000	8,450	5,550
Supplies	500	-	500
Other expenses	100	180	(80)
Total finance	94,346	91,429	2,917
Listers			
Salaries	52,366	39,872	12,494
Payroll taxes	4,006	3,050	956
Benefits	590	457	133
Training and development	275	830	(555)
Professional and technical services	5,250	4,860	390
Supplies	4,635	1,125	3,510
Other expenses	435	432	3
Total listers	67,557	50,626	16,931
Town hall			
Other purchased services	47,528	38,419	9,109
Supplies	24,000	28,937	(4,937)
Other expenses	11,300	9,409	1,891
Total town hall	82,828	76,765	6,063
Post office			
Other purchased services	2,700	11,002	(8,302)
Supplies	750	179	571
Total post office	3,450	11,181	(7,731)
School house			
Other purchased services	2,500	135	2,365
Supplies	-	632	(632)
Other expenses	690	248	442
Total school house	3,190	1,015	2,175
Total general government	483,108	455,807	27,301

TOWN OF UNDERHILL, VERMONT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2015

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Public safety:			
Animal control			
Salaries	1,665	1,446	219
Payroll taxes	128	124	4
Benefits	8	8	-
Other purchased services	300	175	125
Supplies	1,000	1,140	(140)
Other expenses	-	48	(48)
Total animal control	<u>3,101</u>	<u>2,941</u>	<u>160</u>
Public safety			
Professional and technical services	15,300	11,978	3,322
Appropriations	<u>221,985</u>	<u>221,985</u>	<u>-</u>
Total public safety	<u>237,285</u>	<u>233,963</u>	<u>3,322</u>
Health			
Salaries	640	-	640
Payroll taxes	49	-	49
Professional and technical services	11,430	8,486	2,944
Supplies	500	-	500
Appropriations	<u>6,716</u>	<u>6,716</u>	<u>-</u>
Total health	<u>19,335</u>	<u>15,202</u>	<u>4,133</u>
Total public safety	<u>259,721</u>	<u>252,106</u>	<u>7,615</u>
Recreation:			
Salaries	3,692	3,309	383
Payroll taxes	283	253	30
Benefits	16	26	(10)
Other purchased services	5,600	5,554	46
Supplies	<u>1,750</u>	<u>1,464</u>	<u>286</u>
Total recreation	<u>11,341</u>	<u>10,606</u>	<u>735</u>
Planning and zoning:			
Salaries	52,145	52,521	(376)
Payroll taxes	3,304	4,018	(714)
Benefits	5,654	5,823	(169)
Training and development	1,000	205	795
Professional and technical services	8,000	7,413	587
Other purchased services	5,423	4,076	1,347
Supplies	3,000	707	2,293
Other expenses	<u>300</u>	<u>281</u>	<u>19</u>
Total planning and zoning	<u>78,826</u>	<u>75,044</u>	<u>3,782</u>

TOWN OF UNDERHILL, VERMONT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2015

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Cultural services:			
Town library	95,435	95,435	-
Total cultural services	<u>95,435</u>	<u>95,435</u>	<u>-</u>
Appropriations:			
General appropriations	110,150	136,495	(26,345)
Regional service appropriations	32,468	32,551	(83)
Social service appropriations	<u>5,700</u>	<u>5,700</u>	<u>-</u>
Total appropriations	<u>148,318</u>	<u>174,746</u>	<u>(26,428)</u>
Highway:			
Salaries	212,224	200,778	11,446
Payroll taxes	16,235	15,964	271
Benefits	60,627	63,911	(3,284)
Training and development	300	75	225
Professional and technical services	26,000	38,351	(12,351)
Other purchased services	97,025	117,675	(20,650)
Supplies	236,500	253,269	(16,769)
Other expenses	<u>59,600</u>	<u>62,600</u>	<u>(3,000)</u>
Total highway	<u>708,511</u>	<u>752,623</u>	<u>(44,112)</u>
Underhill Flats sidewalk:			
Other expenses	<u>-</u>	<u>18,282</u>	<u>(18,282)</u>
Total Underhill Flats sidewalk	<u>-</u>	<u>18,282</u>	<u>(18,282)</u>
Debt service:			
Principal	100,167	117,167	(17,000)
Interest	<u>17,866</u>	<u>17,952</u>	<u>(86)</u>
Total debt service	<u>118,033</u>	<u>135,119</u>	<u>(17,086)</u>
Capital outlay	<u>509,400</u>	<u>425,425</u>	<u>83,975</u>
Total expenditures	<u>2,412,693</u>	<u>2,395,193</u>	<u>17,500</u>
Excess (deficiency) of revenues over expenditures	<u>(168,720)</u>	<u>(82,833)</u>	<u>85,887</u>
OTHER FINANCING SOURCES			
Proceeds of issuance of debt	<u>160,000</u>	<u>160,000</u>	<u>-</u>
Total other financing sources	<u>160,000</u>	<u>160,000</u>	<u>-</u>

TOWN OF UNDERHILL, VERMONT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2015

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
EXTRAORDINARY ITEMS			
Grant revenue - Flood relief	-	41,215	41,215
Flood expenses	-	(14,279)	(14,279)
Total extraordinary items	-	26,936	26,936
 Net change in fund balance, before use of surplus	 (8,720)	 104,103	 112,823
 Use of surplus	 8,720	 -	 (8,720)
 Net change in fund balance	 \$ -	 \$ 104,103	 \$ 104,103