

TOWN OF UNDERHILL, VERMONT
AUDIT REPORT AND FINANCIAL STATEMENTS
JUNE 30, 2012
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FOTHERGILL SEGALE & VALLEY

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INDEPENDENT AUDITOR'S REPORT

December 20, 2012

Selectboard Members
Town of Underhill
Underhill, VT

We have audited the accompanying financial statements of the governmental activities and its major fund of the Town of Underhill, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Town's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not recorded other postemployment benefits in the government-wide financial statements. Accounting principles generally accepted in the United States of America require that these benefits be recorded as liabilities and expenses in the Statement of Net Assets and Activities. The amount by which this departure would affect the liabilities, net assets and expenses is not reasonably determinable.

In our opinion, except for the effects of not recording other postemployment benefits in the government-wide statements as described in the preceding paragraph, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities of the Town of Underhill, as of June 30, 2012, and the respective change in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the major fund of the Town of Underhill, as of June 30, 2012 and the respective change in financial position and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, on our consideration of the Town'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 on 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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.

Our audit was conducted for the purpose of forming an opinion on the financial statement that comprise the Town's financial statements. The accompanying Schedule of Revenues, Expenditures and Change in Fund Balance – Compared to Budget – General Fund is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

Fothergill Segale & Valley, CPAs

FOTHERGILL SEGALE & VALLEY, CPAs
Vermont Public Accountancy License #110

TOWN OF UNDERHILL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

Our discussion and analysis of Town of Underhill's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Town's financial statements that begin on Exhibit A.

Financial Highlights

- The Town's net assets increased by \$233,478, approximately 9%, as a result of this year's operations.
- Total cost of all of the Town's programs was \$1,715,942 this year.
- The General Fund ended the year with a fund balance of \$770,362, compared to a restated fund balance of \$567,218 as of June 30, 2011.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits A and B) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements start on Exhibit C. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's general fund.

Reporting the Town as a Whole

The financial statements of the Town as a whole are reflected on Exhibit A and Exhibit B. One of the most important questions asked about the Town's finances is, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net assets and changes in them. You can think of the Town's net assets – the difference between assets and liabilities – as one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating.

You will need to consider other non-financial factors, however, such as changes in the Town's property tax base and the condition of the Town's capital assets, to assess the overall health of the Town.

TOWN OF UNDERHILL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

In the Statement of Net Assets and the Statement of Activities there is one kind of activity.

- Governmental activities – All of the Town's basic services are reported here, including the police, public works, and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.

Reporting the Town's General Fund

The financial statements of the Town's governmental fund is reflected on Exhibit C through Exhibit G. These fund financial statements provide detailed information about the general fund – not the Town as a whole. The Town establishes the fund to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money.

Governmental Fund

All of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of the fund and the balance left at year-end that is available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in Exhibits D and F.

The Town as a Whole

This is the first year that we are implementing GASB 34 and we are not able to provide meaningful comparisons for other government wide financial statements. Future analysis will include comparisons to prior years.

Our analysis below focuses on the components of net assets (Table 1), and the Town's government activities (Table 2).

TOWN OF UNDERHILL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

Table 1
Net Assets

	Governmental Activities
	2012
Current and other assets	\$ 882,850
Capital assets	2,287,302
Total assets	3,170,152
Long term liabilities	431,725
Other liabilities	56,336
Total liabilities	488,061
Net assets:	
Invested in capital assets, net of debt	1,862,302
Unrestricted	760,720
Restricted	59,069
Total net assets	\$ 2,682,091

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements is \$760,720 for fiscal year 2012.

Table 2
Net Assets

	2012
REVENUES	
Program revenues:	
Charges for services	\$ 86,830
Operating grants and contributions	185,084
General revenues:	
Property taxes	1,639,283
Investment income	1,701
Miscellaneous income	26,522
Total revenues	1,939,420
PROGRAM EXPENSES	
General government	663,068
Public safety	188,143
Culture and recreation	101,494
Highway and streets	740,290
Interest on long term debt	22,947
Total program expenses	1,715,942
Increase in net assets	\$ 223,478

Our analysis below separately considers the operations of governmental activities.

TOWN OF UNDERHILL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

Governmental Activities

The Town's tax rate dropped from \$.4536 per \$100 of assessed value to \$.4200 for the general expenses, or a decrease of 3 cents on the tax rate. There was a decrease of \$15,601 overall in the Town's tax revenue in FY 2012. The actual tax rate for fiscal year 2013 increased to \$.4442.

Table 3 presents the cost of each of the Town's largest programs – general, public safety, culture and recreation, highway and streets and debt service – as well as each program's net cost (total cost less revenue generated by the activities). The net cost shows the financial burden that was placed on the Town's taxpayers by each of these functions.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
	2012	2012
General government	\$ 663,068	\$ 510,095
Public safety	188,143	188,143
Culture and recreation	101,494	101,494
Highways and street	740,290	621,349
Interest on long term debt	22,947	22,947
Totals	\$ 1,715,942	\$ 1,444,028

The Town Funds

As the Town completed the year, its governmental funds (as presented in the Balance Sheet on Exhibit C) reported a fund balance of \$770,362.

Please see Exhibit G and Schedules 1 for a comparison of actual to budget that shows where the favorable and unfavorable variances arose during the year. Some revenue and expenditure items were not included in the approved budget because they netted out to no effect.

General Fund Budgetary Highlights

This year, revenues exceeded the budget by \$58,186 (see Exhibit G). Most notable was a favorable variance in recording fees of \$21,079, as a result of numerous refinances. Property taxes were less than budgeted by \$15,601. In addition grant revenues exceeded the budget by \$35,584.

Expenditures were less than budget by \$144,958. Most notable was the decrease in highway maintenance (\$190,224) mainly due to not doing a street reconstruction project and retreatment. Equipment and supplies was over budget (\$10,921) mainly due to a non budgeted expenditure in vehicle maintenance. There was a savings of \$15,660 in Debt Service. There was a non budgeted expense in the capital outlays of \$59,737 for the Pleasant Valley Road construction.

The beginning fund balance was restated by an increase of \$104,415 due to the FEMA reimbursement being received within six months of fiscal year end 2011.

TOWN OF UNDERHILL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

Monthly financial reports reviewed by the Town Selectboard served as the vehicle for monitoring the budget for the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2012, the Town had \$2,287,302 invested in a broad range of capital assets that include buildings, vehicle and equipment, infrastructure, and office equipment, net of accumulated depreciation. (See Table 4 below) This amount represents a net decrease of \$64,375 over last year.

Table 4
Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities	
	2012	2011
Land improvements	\$ 289,326	\$ 289,326
Construction in progress	498,022	438,285
Buildings and improvements	908,430	908,430
Vehicle and equipment	1,043,487	1,043,487
Infrastructure	780,096	780,096
Office equipment	16,595	16,595
Accumulated depreciation	(1,248,654)	(1,124,542)
Totals	\$ 2,287,302	\$ 2,351,677

This year's major addition consisted of construction in progress in the amount of \$59,737.

Debt Administration

At year-end, the Town had \$425,000 in bonds and notes payable versus \$490,000 last year – a decrease of \$65,000 – as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Increase (Decrease)
	2012	2011	
Bonds and notes payable	\$ 425,000	\$ 490,000	\$ (65,000)

TOWN OF UNDERHILL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

Economic Factors and Next Year's Budgets and Rates

The Town's elected and appointed officials considered many factors when setting the Fiscal Year 2013 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 2012-13, the combined homestead property tax rate for Town increased by .7% and the non-residential property tax rate decreased by .1%.

The Town's General Fund balance is expected to decrease by the close of Fiscal Year 2013 mainly due to the completion of prior year deferred highway maintenance.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Officer at the Town of Underhill in Underhill, Vermont.

TOWN OF UNDERHILL, VERMONT
STATEMENT OF NET ASSETS
JUNE 30, 2012

EXHIBIT A

	Governmental Activities	
ASSETS		
Cash and cash equivalents	\$ 717,666	
Receivables:		
Delinquent taxes	60,482	
Delinquent tax interest	2,699	
Delinquent tax penalties	3,669	
Other	1,565	
State of Vermont	15,521	
Prepaid expenses	37,377	
Inventory	43,871	
Capital assets:		
Land	289,326	
Construction in progress	498,022	
Property and equipment (net of allowance for accumulated depreciation of \$1,248,654)	1,499,954	
Total assets		3,170,152
LIABILITIES		
Accounts payable	\$ 38,496	
Accrued wages	14,840	
Deferred revenue - planning grant	3,000	
Bonds and notes payable due within one year	65,000	
Accrued compensated absences due after one year	6,725	
Bonds and notes payable due after one year	360,000	
Total liabilities		488,061
NET ASSETS		
Unrestricted	760,720	
Restricted:		
Reappraisal	29,648	
Matching grant	15,000	
Records retention	12,345	
Listers education	2,076	
Investment in capital assets, net of related debt	1,862,302	
Total net assets		\$ 2,682,091

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charge for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Change in Net Assets Governmental Activities</u>
Governmental Activities:				
General government	\$ 663,068	\$ 86,035	\$ 66,938	\$ (510,095)
Public safety	188,143	0	0	(188,143)
Culture and recreation	101,494	0	0	(101,494)
Highways and streets	740,290	795	118,146	(621,349)
Interest on long term debt	22,947	0	0	(22,947)
	<u>\$ 1,715,942</u>	<u>\$ 86,830</u>	<u>\$ 185,084</u>	<u>(1,444,028)</u>
General Revenues:				
Property taxes, penalties and interest				1,639,283
Earnings on investments				1,701
Miscellaneous				26,522
				<u>1,667,506</u>
Change in net assets				223,478
Net assets - July 1, 2011				<u>2,458,613</u>
Net assets - June 30, 2012				<u>\$ 2,682,091</u>

BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2012

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 717,666
Receivables:	
Delinquent taxes	60,482
Delinquent tax interest	2,699
Delinquent tax penalties	3,669
Other	1,565
Due from State of Vermont	15,521
Prepaid expenses	37,377
Inventory	<u>43,871</u>
Total assets	<u>\$ 882,850</u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 38,496
Accrued wages	14,840
Deferred revenue - taxes	56,152
Deferred revenue - planning grant	<u>3,000</u>
Total liabilities	<u>112,488</u>
FUND EQUITY	
Nonspendable	
Inventory	43,871
Prepaid expenses	37,377
Restricted	
Reappraisal	29,648
Matching grant	15,000
Records retention	12,345
Listers education	2,076
Committed	
Recreation	7,111
Conservation	1,173
Assigned	
Highway	227,106
FY13 expenditures	50,000
Morgan donation	5,000
Contingency	44,240
Unassigned	<u>295,415</u>
Total fund equity	<u>770,362</u>
Total liabilities and fund equity	<u>\$ 882,850</u>

TOWN OF UNDERHILL, VERMONT
 RECONCILIATION OF THE GOVERNMENTAL FUND
 BALANCE SHEET TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2012

EXHIBIT D

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 770,362

Amounts reported for governmental activities in the
 statement of net assets are 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
 \$3,535,956, and the accumulated depreciation is \$1,248,654. 2,287,302

Property taxes are recognized on an accrual basis
 in the statement of net assets, not the modified accrual basis.
 The deferred property taxes increased. 56,152

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	\$ 425,000	
Accrued compensated absences	<u>6,725</u>	<u>(431,725)</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 2,682,091

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

YEAR ENDED JUNE 30, 2012

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 1,629,465
Licenses and permits	38,179
Intergovernmental	185,084
Charges for services	48,651
Investment income	1,701
Miscellaneous income	26,522
	<hr/>
Total revenues	1,929,602
EXPENDITURES	
Current:	
General government	655,364
Public safety	188,143
Culture and recreation	101,494
Highway	633,773
Debt service	87,947
Capital outlay	59,737
	<hr/>
Total expenditures	1,726,458
EXCESS REVENUES OVER EXPENDITURES	<hr/> 203,144
FUND BALANCE - JULY 1, 2011	
As originally reported	462,803
Prior period adjustment	104,415
As restated	<hr/> 567,218
FUND BALANCE - JUNE 30, 2012	<hr/> \$ 770,362 <hr/>

TOWN OF UNDERHILL, VERMONT EXHIBIT F
 RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT
 OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT
 OF ACTIVITIES
 YEAR ENDED JUNE 30, 2012

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 203,144

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 depreciation expense (\$124,112) exceeds capital outlays net of disposals and adjustments (\$59,737) in the period. (64,375)

Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis. The deferred property taxes increased \$9,818. 9,818

Repayment of bond and notes principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 65,000

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 \$9,891. 9,891

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 223,478

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Property taxes	\$ 1,645,066	\$ 1,629,465	\$ (15,601)
Licenses and permits	28,000	38,179	10,179
Intergovernmental	149,500	185,084	35,584
Charges for services	26,500	48,651	22,151
Investment income	1,200	1,701	501
Miscellaneous income	21,150	26,522	5,372
Total revenues	<u>1,871,416</u>	<u>1,929,602</u>	<u>58,186</u>
EXPENDITURES			
General government			
Salaries and insurance	364,451	338,472	25,979
Utilities	15,300	13,223	2,077
Town property maintenance	13,600	18,859	(5,259)
Departments, training and travel	57,613	63,432	(5,819)
Office equipment and supplies	40,470	33,915	6,555
Professional services	25,000	39,358	(14,358)
Social services	24,640	27,710	(3,070)
Non-discretionary	118,002	120,395	(2,393)
Public safety	190,402	188,143	2,259
Culture and recreation	101,494	101,494	0
Highway			
Salaries and insurance	294,637	289,506	5,131
Utilities	12,000	13,370	(1,370)
Equipment and supplies	292,200	303,121	(10,921)
Highway maintenance	218,000	27,776	190,224
Debt service			
Principal	79,000	65,000	14,000
Interest	24,607	22,947	1,660
Capital outlay	0	59,737	(59,737)
Total expenditures	<u>1,871,416</u>	<u>1,726,458</u>	<u>144,958</u>
EXCESS REVENUES OVER EXPENDITURES			
	<u>\$ 0</u>	<u>203,144</u>	<u>\$ 203,144</u>
FUND BALANCE - JULY 1, 2011			
As originally reported		462,803	
Prior period adjustment		<u>104,415</u>	
As restated		<u>567,218</u>	
FUND BALANCE - JUNE 30, 2012			
		<u>\$ 770,362</u>	

TOWN OF UNDERHILL, VERMONT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

The Town of Underhill, Vermont was chartered in 1761. The Town of Underhill is managed by a three member legislative body elected during the annual March Town Meeting and serving for three-year staggered terms. The Town provides the following services as authorized by its charter: highways and streets, waste disposal, health and welfare, and general government.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is primarily responsible for establishing GAAP for state and local governments through its pronouncements (including Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town are discussed below.

The Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time the financial statements include:
 - A Management Discussion and Analysis (MD&A) section providing narrative analysis of the Town’s overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the Town’s activities.
- A change in the fund financial statements to focus on major funds, as defined.

GASB Statement No. 38 establishes and modifies certain financial statement note disclosure requirements to make the financial statements more useful in the context of GASB Statement No. 34 reporting model. The Statement had an impact on the presentation of the notes to the financial statements, but no impact on net assets.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Town has elected to implement the general provisions of the Statement in the current year.

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 Section 2100 of GASB’s Codification of Governmental Accounting and Financial Reporting Standards.

TOWN OF UNDERHILL, VERMONT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Basic Financial Statements, Government-Wide Statements

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

In the government-wide Statement of Net Assets, the governmental activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivable as well as long-term debt and obligations. The Town's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities for which both restricted and unrestricted resources are available.

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 revenue (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenue, operating and capital grants. Program revenue 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 reflects capital-specific grants.

The net cost (by governmental function) are normally covered by general revenue (property taxes, intergovernmental revenue, interest income, etc.).

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

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, reserves, fund equity, revenue and expenditures. The various funds are reported by major funds within the financial statements.

TOWN OF UNDERHILL, VERMONT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The emphasis in fund financial statements is on the major funds in either the governmental category or enterprise type. GASB No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category/type or the governmental and enterprise funds combined) for the determination of major funds. The General Fund is shown as a major fund.

The Town reports on the following major governmental fund:

General Fund is the Town's operating fund. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.

Fund Equity

GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions" provides defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balances - Indicates the portion of fund equity that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.

Restricted fund balances - Indicates the portion of fund equity that is mandated for a specific purpose by external parties, constitutional provisions, or enabling legislation (e.g. federal and state grants, bondholders, trust and trustee accounts).

Committed fund balances - Indicates the portion of the fund equity that is set aside for a specific purpose by the Town Select Board. Formal action must be taken prior to the end of the fiscal year (e.g. capital projects, compensated absences). The same formal action must be taken to remove or change the limitations placed on the funds.

Assigned fund balances - Indicates the portion of the fund equity that is set aside with the intent to be used for a specific purpose by the Town Select Board or body or official that has been given the authority to assign funds (e.g. encumbrances, subsequent budgets). Assigned funds cannot cause a deficit in unassigned fund balance.

Unassigned fund balances - Indicates the portion of fund equity that has not been classified in the previous four categories. All funds in this category are considered spendable resources. This category provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

TOWN OF UNDERHILL, VERMONT
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Select Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as special incentives). Assigned fund balance is established by the Select Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service or other purposes).

When an expenditure is incurred that would qualify for payment with either restricted or unrestricted funds, it will be paid from restricted funds.

When an expenditure is incurred that qualifies for payment from either of the three unrestricted fund balance categories, it will be applied in the following order:

1. Committed
2. Assigned
3. Unassigned

Measurement Focus

The accounting and financial reporting applied to a fund is determined by its measurement focus. Government-wide statements are reported using the economic resources measurement focus. This means that all assets and liabilities associated with the operation of these funds (whether current or noncurrent) are included on the balance sheet (or statement of net assets). Fund equity (i.e. net total assets) is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets. Operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets.

Basis of Accounting

Basis of accounting refers to the point at which revenue and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurements made, regardless of the measurement focus applied.

Accrual

Government activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenue is recognized when transactions occur and expenses are recognized when liabilities are incurred, regardless of the timing of the related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF UNDERHILL, VERMONT
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period. Property taxes and related revenues are considered available if collection is within 60 days. All other revenue is considered available if collectible within six months. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors may require the Town to refund all or part of the unused amount.

Budgetary Accounting

The Town approves the budget for the General Fund at an annual Town Meeting and the Selectboard determines the tax rate based on the budget and the Grand List. Formal budgetary accounting is employed as a management control device during the year. The budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

Cash and Cash Equivalents

The Town has defined cash and cash equivalents to include cash on hand and demand deposits.

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.

TOWN OF UNDERHILL, VERMONT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Buildings and improvements	15 – 30 years
Machinery and equipment	3 – 10 years
Infrastructure	30 – 45 years

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

Compensated Absences

Government-Wide Financial Statements – All vested or accumulated vacation leave 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 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 accounts.

Net Assets

Net assets represent the difference between assets and liabilities in the Statement of Net Assets. Net resources invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by Town legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

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 tax revenue.

TOWN OF UNDERHILL, VERMONT
 NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The presentation 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS

The 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 Town’s deposits may not be returned to it. As of June 30, 2012, the Town is not exposed to custodial credit risk as follows.

Insured by the FDIC	\$ 67,248
Uninsured - collateralized	<u>671,845</u>
Total deposits	<u>\$ 739,093</u>

Due to cash flows during certain times of the year, the Town’s uninsured deposits in banks may be substantially higher than at year end.

NOTE 3 – DELINQUENT TAXES RECEIVABLE

Delinquent taxes receivable consist of:

	<u>General Fund</u>
Delinquent property taxes	\$ 60,482
Penalties on taxes receivable	3,669
Interest on taxes receivable	<u>2,699</u>
Total delinquent taxes	<u>\$ 66,850</u>

Current receivables are defined as receivables which are due or past due and receivable within the current period and collected no later than 60 days after the close of the current period. The tax is 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.

TOWN OF UNDERHILL, VERMONT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 rate for fiscal year 2012 was:

	<u>Residential</u>	<u>Non-Residential</u>
Municipal	\$ 0.4200	\$ 0.4200
Local Agreement	0.0286	0.0286
Education	<u>1.2608</u>	<u>1.4284</u>
Total Tax Rate	<u>\$ 1.7094</u>	<u>\$ 1.8770</u>

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance June 30, 2011	<u>Additions</u>	<u>Depreciation</u>	Balance June 30, 2012
Capital assets not depreciated				
Land	\$ 289,326	\$ 0	\$ 0	\$ 289,326
Construction in progress	<u>438,285</u>	59,737	0	<u>498,022</u>
Total capital assets not depreciated	<u>727,611</u>	<u>59,737</u>	<u>0</u>	<u>787,348</u>
Capital assets being depreciated				
Building and improvements	908,430	0	0	908,430
Vehicle and equipment	1,043,487	0	0	1,043,487
Infrastructure	780,096	0	0	780,096
Office equipment	<u>16,595</u>	<u>0</u>	<u>0</u>	<u>16,595</u>
Total capital assets depreciated	<u>2,748,608</u>	<u>0</u>	<u>0</u>	<u>2,748,608</u>
Less accumulated depreciation for				
Building and improvements	(331,393)	0	(36,689)	(368,082)
Vehicle and equipment	(681,200)	0	(60,374)	(741,574)
Infrastructure	(99,538)	0	(26,003)	(125,541)
Office equipment	<u>(12,411)</u>	<u>0</u>	<u>(1,046)</u>	<u>(13,457)</u>
Total accumulated depreciation	<u>(1,124,542)</u>	<u>0</u>	<u>(124,112)</u>	<u>(1,248,654)</u>
Total capital assets, net	<u>\$2,351,677</u>	<u>\$ 59,737</u>	<u>\$ (124,112)</u>	<u>\$ 2,287,302</u>

Depreciation expense of \$17,595 was charged to General Government and \$106,517 was charged to Highway and Streets.

TOWN OF UNDERHILL, VERMONT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 6 – LONG TERM LIABILITIES

Long-term liabilities at June 30, 2012 consist of the following:

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.	\$ 315,000
People’s United Bank – 2011 International dump truck note, 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.	<u>110,000</u>
Total long term debt	425,000
Accrued vacation payable	<u>6,725</u>
Total long-term liabilities	<u>\$ 431,725</u>

Maturities for long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 65,000	\$ 20,111	\$ 85,111
2014	65,000	17,241	82,241
2015	65,000	14,338	79,338
2016	55,000	11,405	66,405
2017	35,000	8,798	43,798
2018 – 2021	<u>140,000</u>	<u>15,738</u>	<u>155,738</u>
Totals	<u>\$ 425,000</u>	<u>\$ 87,631</u>	<u>\$ 512,631</u>

The following is a summary of changes in long term liabilities:

	Balance			Balance		Due in
	June 30, 2011	Additions	Reductions	June 30, 2012	One Year	
Bonds and notes payable:						
Bond payable	\$ 350,000	\$ 0	\$ (35,000)	\$ 315,000	\$ 35,000	
People's United Bank notes payable	140,000	0	(30,000)	110,000	30,000	
Total bond and notes payable	<u>490,000</u>	<u>0</u>	<u>(65,000)</u>	<u>425,000</u>	<u>65,000</u>	
Other liabilities:						
Accrued compensated absences	16,616	3,476	(13,367)	6,725	0	
Total long-term liabilities	<u>\$ 506,616</u>	<u>\$ 3,476</u>	<u>\$ (78,367)</u>	<u>\$ 431,725</u>	<u>\$ 65,000</u>	

Interest paid on long-term debt for the year ended June 30, 2012 was \$22,947.

TOWN OF UNDERHILL, VERMONT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE 7 – NONSPENDABLE, RESTRICTED, COMMITTED AND ASSIGNED
FUND BALANCE**

Fund balances are as follows:

Nonspendable	
Inventory	\$ 43,871
Prepaid expenses	37,377
Restricted	
Reappraisal	29,648
Matching grant	15,000
Records retention	12,345
Listers education	2,076
Committed	
Recreation	7,111
Conservation	1,173
Assigned	
Highway	227,106
FY 13 expenditures	50,000
Morgan donation	5,000
Contingency	44,240
Unassigned	295,415
Total fund balance	<u>\$ 770,362</u>

NOTE 8 – RETIREMENT BENEFIT PLAN

All eligible employees of the Town are enrolled for coverage by the Vermont Municipal Employees' Retirement System (VMERS) immediately upon employment. VMERS has a defined benefit plan and a defined contribution plan that the Town participates in as follows:

Defined Benefit Plan

VMERS defined benefit plan is a cost sharing multiple-employer public employees' retirement system. Vermont State statutes provide the authority under which benefit provisions and the obligation to contribute are established. The Town and the employees make required contributions to the System based upon a valuation report prepared by the System's actuary.

TOWN OF UNDERHILL, VERMONT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 8 – RETIREMENT BENEFIT PLAN (Continued)

There are four levels of contributions and benefits in the System called Group A, Group B, Group C and Group D. The Town participates only in Group C. For Group C, employee contributions are 9.25% of gross pay and employer contributions are 6.5% of gross pay.

Of the Town's total payroll of \$425,749, \$367,805 was covered under the VMERS defined benefit plan. Total employer contributions to this plan were \$23,907 for fiscal year 2012, \$33,189 for fiscal year 2011 and \$18,987 for fiscal year 2010.

The State of Vermont issues an audited Financial Report that includes financial statements and required disclosures. This report may be obtained by writing the State Auditor of Accounts, 132 State Street, Montpelier, VT 05602.

NOTE 9 – COMMITMENTS AND CONTINGENT LIABILITIES

The Town entered into a twenty year agreement with the Underhill-Jericho Fire Department, Inc. on February 5, 1997 where the Town will designate the Fire Department as the primary provider of emergency response, firefighting, fire prevention, fire protection and fire suppression services. The Town shall appropriate annually out of the General Fund a sum of money to be paid over to the Fire Department in anticipation of the costs incurred by the Fire Department. Such appropriation shall be included in the Town's annual budget for voter approval. Payments shall be made quarterly.

The Town entered into an agreement with a former employee. The agreement consists of the Town paying benefit costs for the former employee and spouse including Medicare premium, Medicare supplemental plan, dental and vision at 100% until July 1, 2013. From July 1, 2012 until the end of the former employee's life, the Town will pay 25% of health insurance premiums, with the former employee reimbursing the Town for other benefits at cost. If the former employee dies, the spouse may continue his benefits at 100% payback to the Town.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS/DEPARTURE

The Town provides postemployment benefits for health insurance coverage for any employee who has attained age 65 and retires with a minimum of twenty years of service. Other postemployment benefits (OPEB) should be reported in the government-wide financial statements. The Town has elected to not show this amount in the financial statements as this amount is not readily determinable. The audit report shows a departure for this. Governmental fund type financial statements do not include OPEB as those funds use the current financial resources measurement focus and only include current assets and liabilities on their balance sheet.

TOWN OF UNDERHILL, VERMONT
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 11 – 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 made additional assessments to its members.

NOTE 12 – LEASE AGREEMENT

In January 2009, the Town entered into a 62-month lease for one copier with SymQuest. The lease calls for monthly payments of \$227.10. The lease expense for 2012 was \$2,724. The remaining minimum lease payments are as follows:

2013	\$	2,724
2014		<u>2,043</u>
Total	\$	<u><u>4,767</u></u>

NOTE 13 – CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor 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.

TOWN OF UNDERHILL, VERMONT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 14 – PRIOR PERIOD ADJUSTMENT

The beginning fund balance was increased by \$104,415 due to the FEMA reimbursement being received within six months of fiscal year end 2011.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 20, 2012, the date which the financial statements were available for issue.

In July 2012, the Town obtained a loan in the amount of \$175,835 from Merchants Bank, interest at 2.44% per annum to purchase a 2012 International Dump Truck, payable over five years with the first payment due in July 2013.

SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - COMPARED TO BUDGET
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes			
Property taxes	\$ 1,612,066	\$ 1,589,936	\$ (22,130)
Delinquent interest	3,000	10,222	7,222
Delinquent penalty	15,000	12,432	(2,568)
Payment in lieu of taxes	15,000	16,875	1,875
Total property taxes	<u>1,645,066</u>	<u>1,629,465</u>	<u>(15,601)</u>
Licenses and Permits			
Dog licenses	4,000	4,171	171
Zoning	19,000	20,003	1,003
Traffic control	3,000	7,816	4,816
Certified copies	0	1,265	1,265
Other fees	2,000	4,924	2,924
Total licenses and permits	<u>28,000</u>	<u>38,179</u>	<u>10,179</u>
Intergovernmental			
State aid	95,000	98,324	3,324
Current use	42,000	45,675	3,675
FEMA grant - Federal	0	4,301	4,301
FEMA grant - State	0	15,521	15,521
Planning grant	0	1,565	1,565
Private grant	0	7,045	7,045
Reappraisal	12,500	12,653	153
Total intergovernmental	<u>149,500</u>	<u>185,084</u>	<u>35,584</u>
Charges for Services			
Animal control	500	485	(15)
Copier usage	2,500	3,242	742
Town Hall rent	500	845	345
Recording fees	23,000	44,079	21,079
Total charges for services	<u>26,500</u>	<u>48,651</u>	<u>22,151</u>
Miscellaneous Income			
Interest income	1,200	1,701	501
Rental - Post Office	9,000	9,100	100
School contribution	7,500	5,200	(2,300)
School billback	2,500	5,044	2,544
Other miscellaneous income	2,150	7,178	5,028
Total miscellaneous income	<u>22,350</u>	<u>28,223</u>	<u>5,873</u>
Total revenues	<u>1,871,416</u>	<u>1,929,602</u>	<u>58,186</u>

SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - COMPARED TO BUDGET
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES			
General Government			
Salaries and insurance			
Salaries	262,549	235,598	26,951
Outside labor	0	674	(674)
Payroll taxes	20,200	18,220	1,980
Retirement	12,318	13,172	(854)
Health	38,109	40,781	(2,672)
Dental	3,262	3,751	(489)
Vision	677	732	(55)
Workers' compensation	1,324	1,321	3
Life insurance	0	1,919	(1,919)
Unemployment insurance	0	346	(346)
Retiree share of insurance	9,762	9,809	(47)
Insurance - general	16,250	12,149	4,101
Total salaries and insurance	<u>364,451</u>	<u>338,472</u>	<u>25,979</u>
Utilities			
Fuel oil	5,300	3,515	1,785
Telephone	4,000	3,638	362
Electricity	3,500	3,061	439
Street lights	2,500	3,009	(509)
Total Utilities	<u>15,300</u>	<u>13,223</u>	<u>2,077</u>
Town property maintenance			
Park care	3,000	4,472	(1,472)
Post office	0	1,175	(1,175)
Town building maintenance	0	3,023	(3,023)
Landfill well monitoring	10,600	10,189	411
Total Town property maintenance	<u>13,600</u>	<u>18,859</u>	<u>(5,259)</u>
Departments, training and travel			
Animal control	1,500	1,176	324
Planning and zoning	2,463	4,607	(2,144)
Recreation committee	0	615	(615)
Conservation commission	0	1,028	(1,028)
Custodial services	6,100	5,075	1,025
Mapping	5,000	400	4,600
Training and professional fees	2,000	4,010	(2,010)
Travel: mileage	2,500	4,523	(2,023)
Elections	8,150	8,370	(220)
Land record restoration	3,900	9,628	(5,728)
Bio-Mass energy study	2,000	0	2,000
Reappraisal	24,000	24,000	0
Total departments, training and travel	<u>57,613</u>	<u>63,432</u>	<u>(5,819)</u>
Office equipment and supplies			
Computer equipment and support	9,970	10,636	(666)
Copier	4,000	4,916	(916)
Postage	5,250	4,790	460
Office furnishings and supplies	21,250	13,573	7,677
Total office equipment and supplies	<u>40,470</u>	<u>33,915</u>	<u>6,555</u>
Professional services			
Auditing and financial fees	11,000	12,820	(1,820)
Legal services	14,000	26,538	(12,538)
Total professional services	<u>25,000</u>	<u>39,358</u>	<u>(14,358)</u>

SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - COMPARED TO BUDGET
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	Original and final Budget	Actual	Variance Favorable (Unfavorable)
Social services			
Women Helping Battered Women	500	500	0
Ecumenical Food Shelf	500	500	0
CUSI	1,500	1,500	0
Visiting Nurse Association	6,715	6,715	0
American Red Cross	1,000	1,000	0
Howard Mental Health	700	700	0
Vermont Association for the Blind	100	100	0
Jerihill Seniors	1,250	1,250	0
CVAAA	700	700	0
NVRCDC	75	75	0
Cemetery	200	0	200
Memorial Day	300	294	6
Child Care Resource	100	100	0
Winooski National Research	500	500	0
COTS	500	500	0
Contingency	10,000	13,276	(3,276)
Total social services	<u>24,640</u>	<u>27,710</u>	<u>(3,070)</u>
Non-discretionary			
Chittenden County Court Tax	19,000	13,113	5,887
CCMPO	2,305	2,305	0
VLCT	3,697	3,697	0
Land contracts	93,000	101,280	(8,280)
Total non-discretionary	<u>118,002</u>	<u>120,395</u>	<u>(2,393)</u>
Total general government	<u>659,076</u>	<u>655,364</u>	<u>3,712</u>
Public safety			
Underhill/Jericho Fire Department	170,902	170,902	0
State police and sheriff	15,000	12,741	2,259
Essex Rescue	4,500	4,500	0
Total public safety	<u>190,402</u>	<u>188,143</u>	<u>2,259</u>
Culture and recreation			
DRM Library	92,294	92,294	0
Jericho/Underhill Park District	9,200	9,200	0
Total culture and recreation	<u>101,494</u>	<u>101,494</u>	<u>0</u>
Highway fund			
Salaries and insurance			
Salaries	202,546	191,102	11,444
Contractors	0	24,119	(24,119)
Outside labor	6,000	3,958	2,042
Payroll taxes	15,495	14,019	1,476
Retirement	13,061	10,736	2,325
Health	32,154	20,902	11,252
Dental	2,264	1,445	819
Vision	674	460	214
Life insurance	0	1,075	(1,075)
Workers compensation	9,175	10,210	(1,035)
Unemployment insurance	0	387	(387)
Insurance - general	13,268	10,998	2,270
Training	0	95	(95)
Total salaries & insurance	<u>294,637</u>	<u>289,506</u>	<u>5,131</u>

SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - COMPARED TO BUDGET
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	Original and final Budget	Actual	Variance Favorable (Unfavorable)
Utilities			
Town shed - fuel	6,000	7,234	(1,234)
Town shed - telephone	2,000	3,046	(1,046)
Town shed - electricity	4,000	3,090	910
Total utilities	<u>12,000</u>	<u>13,370</u>	<u>(1,370)</u>
Equipment and supplies			
Gas, oil and grease	60,000	63,189	(3,189)
Gravel	70,000	32,147	37,853
Chloride	10,000	15,943	(5,943)
Salt	35,000	22,634	12,366
Sand	45,000	41,206	3,794
Stone	0	46,580	(46,580)
Vehicle maintenance	2,500	1,234	1,266
Equipment repair	50,000	71,558	(21,558)
Equipment rental	3,000	500	2,500
Chemical supplies	0	101	(101)
Town shed - supplies	12,000	2,262	9,738
VOSHA requirements	2,500	780	1,720
Clothing allowance	2,200	2,278	(78)
Small tools	0	2,709	(2,709)
Total equipment and supplies	<u>292,200</u>	<u>303,121</u>	<u>(10,921)</u>
Highway maintenance			
Roadside maintenance	20,000	11,594	8,406
Flash flood repair costs	0	8,677	(8,677)
Reconstruction	85,000	0	85,000
Retreatment - roads	95,000	6,959	88,041
Culverts and bridges	18,000	546	17,454
Total highway maintenance	<u>218,000</u>	<u>27,776</u>	<u>190,224</u>
Total Highway	<u>816,837</u>	<u>633,773</u>	<u>183,064</u>
Debt service			
Principal	79,000	65,000	14,000
Interest	24,607	22,947	1,660
Total debt service	<u>103,607</u>	<u>87,947</u>	<u>15,660</u>
Capital Outlays			
Pleasant Valley Road construction	0	59,737	(59,737)
Total expenditures	<u>1,871,416</u>	<u>1,726,458</u>	<u>144,958</u>
NET CHANGE IN FUND BALANCE	<u>\$ 0</u>	<u>203,144</u>	<u>\$ 203,144</u>
FUND BALANCE - JULY 1, 2011			
As originally reported		462,803	
Prior period adjustment		104,415	
As restated		<u>567,218</u>	
FUND BALANCE - JUNE 30, 2012		<u>\$ 770,362</u>	

FOTHERGILL SEGALE & VALLEY

Certified Public Accountants



John E. (Jeff) Fothergill, CPA
Michael L. Segale, CPA
Sheila R. Valley, CPA
Teresa H. Kajenski, CPA
Donald J. Murray, CPA

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

December 20, 2012

Selectboard Members
Town of Underhill
Underhill, VT

We have audited the financial statements of the governmental activities and its major fund information of the Town of Underhill, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 20, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or

material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Selectboard, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Fothergill Segale & Valley, CPAs

FOTHERGILL SEGALE & VALLEY, CPAs
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