

TOWN OF UNDERHILL, VERMONT

FINANCIAL STATEMENTS

June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Selectboard
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, 2019, and the related notes to the financial statements, which collectively comprise the Town of Underhill, Vermont'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, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, Budgetary comparison schedule – General fund on page 35, the Note to required supplementary information – Budgetary comparison schedule – General fund on page 36, the Schedules of the Town's proportionate share of the net pension liability and contributions on page 37, and the Notes to required supplementary information – Pension plan on page 38 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 – Budgetary basis - 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 – Budgetary basis - 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of revenues, expenditures, and changes in fund balance - Budget and actual – Budgetary basis - 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 January 15, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Underhill, Vermont's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Underhill, Vermont's internal control over financial reporting and compliance.

Saint Albans, Vermont
January 15, 2020
VT Reg. No. 92-0000102

A.M. Peisch & Company, LLP

TOWN OF UNDERHILL, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019

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, 2019. 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 \$1,227,221 as of June 30, 2019. Of this amount, \$1,140,290 (unrestricted fund balance) may be used to meet the government's ongoing obligations. The increase of \$88,732 in fund balance provides additional security for Underhill in the event of unforeseen financial obligations. (Detail on page 33)
- The Town of Underhill's total long-term debt, excluding compensated absences, accrued postemployment benefits, and net pension liability decreased by \$121,980 during the 2019 fiscal year, representing principle payments.
- The General Fund ended the year with a balance of \$1,227,221, compared to a fund balance of \$1,138,489 in FY2018.

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 39 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 34.

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 \$4,413,358 as of June 30, 2019, an increase of \$194,920 over June 30, 2018.

The largest portion of the Town of Underhill's net position (76.3%) 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 position:

Town of Underhill Net Position

	Governmental Activities	Governmental Activities
	2019	2018
Current and other assets	\$ 1,451,416	\$ 1,301,833
Capital assets	3,614,270	3,588,567
Total assets	5,065,686	4,890,400
Deferred outflows of resources	130,062	138,722
Long term liabilities	583,180	656,704
Other liabilities	191,784	141,625
Total liabilities	774,964	798,329
Deferred inflows of resources	7,426	12,355
Net position:		
Net investment in capital assets	3,370,193	3,223,627
Restricted	86,931	78,877
Unrestricted	956,234	915,934
Total net position	\$ 4,413,358	\$ 4,218,438

Changes in Net Position

As of June 30, 2019, total net position of the Town of Underhill amounted to \$4,413,358, which is an increase of \$194,920 compared to the 2018 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 \$956,234 for fiscal year 2019 as compared to \$915,934 in 2018.

The following schedule highlights the key elements of the Town's revenues and expenses for the 2019 and 2018 fiscal year ends. These main components are subtracted to yield the change in net position and are summarized as follows.

Changes in Net Position		
	2019	2018
REVENUES		
Program revenues:		
Charges for services	\$ 79,051	\$ 80,456
Operating grants and revenues	172,688	209,778
Capital grants and contributions	60,703	176,864
General revenues:		
Property taxes	2,196,135	2,128,739
Investment income	4,630	2,003
Miscellaneous income	15,502	23,326
Total revenues	<u>2,528,709</u>	<u>2,621,166</u>
PROGRAM EXPENSES		
General government	660,165	633,348
Public safety	268,205	274,130
Culture and recreation	108,466	111,216
Highway	1,148,228	979,862
Appropriations	145,694	159,136
Interest on long-term debt	3,031	79
Total program expenses	<u>2,333,789</u>	<u>2,157,771</u>
Increase in net position	<u>\$ 194,920</u>	<u>\$ 463,395</u>

Governmental Activities

The Town's tax rate increased from \$.5147 per \$100 of assessed value to \$.5315 for the general expenses, or an increase of .0168 cents on the tax rate. There was an increase of \$67,396 overall in the Town's tax revenue in fiscal year 2019. The actual tax rate for fiscal year 2020 decreased to \$.4764.

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
	2019	2018	2019	2018
General government	\$ 562,016	\$ 516,351	\$ (421,587)	\$ (398,187)
Public safety	268,205	274,130	(268,155)	(273,930)
Recreation	3,586	4,709	(3,165)	(4,709)
Planning and zoning	98,149	96,546	(67,349)	(58,947)
Conservation	-	741	-	(741)
Cultural services	104,880	106,507	(104,880)	(106,507)
Appropriations	145,694	159,136	(145,694)	(159,136)
Highways	1,148,228	979,862	(1,014,022)	(687,400)
Sidewalk grant - Flats	-	-	6,536	2,568
Town planning	-	19,710	-	(3,605)
Interest on long term debt	3,031	79	(3,031)	(79)
Totals	\$ 2,333,789	\$ 2,157,771	\$ (2,021,347)	\$ (1,690,673)

The net cost of services is 86.6% of the total cost of services in 2019. 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 \$1,227,221, an increase of \$88,732 in comparison to last year. Of the total balance, 47% is classified as committed or assigned and 42% is unassigned. The balance is non-spendable or restricted.

Committed funds include \$270,800 capital reserves, \$44,240 contingency or rainy day reserves, \$2,783 conservation reserve, \$28,181 for health reimbursement accounts, \$1,451 for recreation reserve, \$139,000 for FY20 highway expenditures, and \$50,000 for FY21 expenditures. The \$50,000 was originally voted on at Town Meeting to reduce the tax burden for FY20 and since the budget was favorable without the use of it, the Selectboard elected to carry it forward to be used in FY21.

General Fund Budgetary Highlights

The 2019 final budget was \$2,872,937. During the year, revenues were \$313,090 less than budgeted and expenditures were \$435,692 less than budgeted. The primary cause of the variance in both revenue and expenditures was due to the delay in the sidewalk construction again. The expenditures variance was mostly due to delays in highway projects.

The net result of the variances was a surplus of \$137,176 for FY19.

Capital Assets

At June 30, 2019, the Town had \$3,614,270 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 small net increase of \$25,703 over the prior year.

Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities	
	2019	2018
Land	\$ 321,899	\$ 321,899
Construction in progress	235,445	219,370
Buildings and improvements	1,189,760	1,088,007
Vehicle and equipment	1,473,298	1,441,098
Infrastructure	2,714,494	2,574,645
Office equipment	40,167	40,167
Accumulated depreciation	(2,360,793)	(2,096,619)
Totals	<u>\$ 3,614,270</u>	<u>\$ 3,588,567</u>

Long-term Debt

At year-end, the Town had \$242,960 in bonds and notes payable versus \$364,940 last year. In the current year, the Town paid \$121,980 in principal plus \$3,031 in interest, net of refunding of \$7,960.

Outstanding Debt at Year-End

	Governmental Activities		Increase
	2019	2018	(Decrease)
Bonds and notes payable	\$ 242,960	\$ 364,940	\$ (121,980)

Economic Factors and Next Year's Budgets and Rates

The Town's elected and appointed officials considered many factors when setting the Fiscal Year 2020 budget for town operations. Factors included were the economic climate, property values, and the impact of the budget on property tax rates. Consideration for the long-term infrastructure of Underhill and the financial health of the Town were paramount.

For fiscal year 2020, the combined homestead property tax rate for the Town decreased by .0374% and the combined non-residential tax rate decreased by .0148%. It is because of this decrease that the Selectboard chose to take the \$50,000 and carry it over into FY2021.

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 120, Underhill, VT 05489, direct contact at (802) 899-4434 Ext 102 or email jsilpe-katz@underhillvt.gov.

TOWN OF UNDERHILL, VERMONT

STATEMENT OF NET POSITION

June 30, 2019

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,310,864
Receivables:	
Delinquent taxes	39,423
Delinquent tax interest	1,059
Delinquent tax penalties	2,074
Grants receivable	51,325
Prepaid expenses	14,535
Inventory	31,336
Other current assets	800
Capital assets:	
Land	321,899
Property and equipment, net of depreciation	3,056,926
Work in progress	235,445
Total assets	<u>5,065,686</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - Pension	<u>130,062</u>
 LIABILITIES	
Accounts payable and accrued expenses	179,226
Accrued wages	9,522
Unearned grant revenue	3,036
Long-term liabilities	
Due within one year	123,097
Due in more than one year	460,083
Total liabilities	<u>774,964</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - Pension	<u>7,426</u>
 NET POSITION	
Net investment in capital assets	3,370,193
Restricted for:	
Reappraisal	64,758
Matching grant	15,000
Restoration reserve	3,908
Listers education	3,265
Unrestricted	956,234
Total net position	<u>\$ 4,413,358</u>

See accompanying notes.

TOWN OF UNDERHILL, VERMONT

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019**

<u>Funds/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
General government	\$ 562,016	\$ 46,745	\$ 70,691	\$ 22,993	\$ (421,587)
Public safety	268,205	50	-	-	(268,155)
Recreation	3,586	421	-	-	(3,165)
Planning and zoning	98,149	30,800	-	-	(67,349)
Cultural services	104,880	-	-	-	(104,880)
Appropriations	145,694	-	-	-	(145,694)
Highway	1,148,228	1,035	101,997	31,174	(1,014,022)
Flats sidewalk grant	-	-	-	6,536	6,536
Interest on long-term debt	3,031	-	-	-	(3,031)
Total governmental activities	<u>\$ 2,333,789</u>	<u>\$ 79,051</u>	<u>\$ 172,688</u>	<u>\$ 60,703</u>	<u>(2,021,347)</u>
General revenues:					
Property taxes, penalties and interest					2,196,135
Earnings on investments					4,630
Miscellaneous					<u>15,502</u>
Total general revenues					<u>2,216,267</u>
Change in net position					194,920
Net position - July 1, 2018					<u>4,218,438</u>
Net position - June 30, 2019					<u>\$ 4,413,358</u>

See accompanying notes.

TOWN OF UNDERHILL, VERMONT

**BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2019**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 1,310,864
Receivables:	
Delinquent taxes	39,423
Delinquent tax interest	1,059
Delinquent tax penalties	2,074
Grants receivable	51,325
Prepaid expenses	14,535
Inventory	31,336
Other current assets	800
Total assets	<u>\$ 1,451,416</u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 179,226
Accrued wages	9,522
Unearned grant revenue	<u>3,036</u>
Total liabilities	<u>191,784</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - Property taxes	<u>32,411</u>
FUND BALANCE	
Nonspendable	45,871
Restricted	86,931
Committed	536,455
Assigned	38,074
Unassigned	<u>519,890</u>
Total fund balance	<u>1,227,221</u>
Total liabilities, deferred inflows of resources, and fund balance	<u><u>\$ 1,451,416</u></u>

See accompanying notes.

TOWN OF UNDERHILL, VERMONT

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2019

Total fund balance - Governmental fund		\$ 1,227,221
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 \$5,975,063, and the accumulated depreciation is \$2,360,793.		3,614,270
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.		32,411
Current year pension contributions and other changes in the net pension liability are reported as deferred outflows of resources in the statement of net position, but are not reported as deferred outflows of resources in the governmental funds.		130,062
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	\$ 244,077	
Accrued compensated absences	45,249	
Accrued post employment benefits	11,546	
Net pension liability	<u>282,308</u>	
		(583,180)
Changes in the Town's proportionate share of pension contributions and other changes in the net pension liability are reported as deferred inflows of resources in the statement of net position, but are not reported in the governmental funds.		<u>(7,426)</u>
Total net position - Governmental activities		<u>\$ 4,413,358</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, 2019**

	General Fund
REVENUES	
Property taxes	\$ 2,185,443
Licenses and permits	47,854
Intergovernmental	229,048
Charges for services	30,726
Investment income	4,630
Miscellaneous income	20,316
Total revenues	<u>2,518,017</u>
EXPENDITURES	
Current:	
General government	491,128
Public safety	268,205
Recreation	10,585
Planning and zoning	99,748
Cultural services	104,880
Appropriations	145,694
Highway	1,005,845
Debt service	125,011
Capital outlay	<u>178,189</u>
Total expenditures	<u>2,429,285</u>
Net change in fund balance	88,732
Fund balance - July 1, 2018	<u>1,138,489</u>
Fund balance - June 30, 2019	<u>\$ 1,227,221</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, 2019**

Total net change in fund balances - Governmental fund	\$ 88,732
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 net capital outlays of \$289,877 exceeds depreciation expense of \$264,174 in the period.	25,703
Property taxes that are not collected within 60 days of year end are not available to pay current liabilities and are recorded as unavailable revenue in the governmental funds. Unavailable property tax revenue increased by \$10,692.	10,692
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	121,980
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 earned exceeded amounts used by \$9,067.	(9,067)
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, post employment benefits paid exceeded the amounts due by \$265.	265
Pension expense for the defined benefit 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 change in the net pension liability.	<u>(43,385)</u>
Change in net position of governmental activities	<u>\$ 194,920</u>

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, 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 includes 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. It has determined that all accounts are collectible and the allowance is zero as of June 30, 2019.

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 at 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 (1) the Town's current year pension contributions subsequent to the measurement date, (2) the change in the Town's proportionate share of pension contributions, (3) the Town's proportionate share of the difference between projected and actual investment earnings, (4) the Town's proportionate share of change in the net pension liability due to changes in assumptions, and (5) the Town's proportionate share of differences between expected and actual experience.

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 the change in the Town's proportionate share of pension contributions and the Town's proportionate share of differences between expected and actual experience. Deferred inflows on the governmental fund balance sheet consist 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, 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

Note 1. Summary of Significant Accounting Policies (Continued)

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.

VMERS 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 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 is reviewing the following GASB Statements, which are effective in future years, for possible implementation.

GASB Statement No. 87, *Leases*

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

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, 2019, the Town of Underhill, Vermont's bank balance of \$1,323,529 was exposed to custodial credit risk as follows:

Insured	\$ 546,506
Uninsured and collateral held by pledging institution's trust department not in the government's name	<u>777,023</u>
Total	<u>\$ 1,323,529</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

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 the Town. The State Department of Education determines the amount of the state education tax rate for the local school district.

The tax rates for fiscal year 2019 were:

	<u>Residential</u>	<u>Non-Residential</u>
Municipal	\$ 0.5315	\$ 0.5315
Local agreement	0.0220	0.0220
Education	<u>1.4937</u>	<u>1.5816</u>
Total tax rate	<u>\$ 2.0472</u>	<u>\$ 2.1351</u>

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 321,899	\$ -	\$ -	\$ 321,899
Work in progress	219,370	110,829	(94,754)	235,445
Total capital assets not depreciated	541,269	110,829	(94,754)	557,344
Capital assets, being depreciated				
Infrastructure	2,574,645	139,849	-	2,714,494
Building and improvements	1,088,007	101,753	-	1,189,760
Vehicles and equipment	1,441,098	32,200	-	1,473,298
Office equipment	40,167	-	-	40,167
Total capital assets being depreciated	5,143,917	273,802	-	5,417,719
Less accumulated depreciation for:				
Infrastructure	(603,373)	(118,750)	-	(722,123)
Building and improvements	(617,648)	(49,996)	-	(667,644)
Vehicles and equipment	(835,431)	(95,428)	-	(930,859)
Office equipment	(40,167)	-	-	(40,167)
Total accumulated depreciation	(2,096,619)	(264,174)	-	(2,360,793)
Total capital assets, being depreciated, net	3,047,298	9,628	-	3,056,926
Governmental activities capital assets, net	<u>\$ 3,588,567</u>	<u>\$ 120,457</u>	<u>\$ (94,754)</u>	<u>\$ 3,614,270</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 28,578
Highway	235,596
Total depreciation expense - Governmental activities	<u>\$ 264,174</u>

Note 6. Long-Term Liabilities

Below is a summary of long-term liabilities for the year ended June 30, 2019:

	Beginning Balance	Additions	Principal Payments	Ending Balance	Due Within One Year
Bonds and Notes Payable:					
Vermont Municipal Bond Bank - building improvements, Series 2010 principal to current refund Series 2000, 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. As a result of the refunding, the Town reduced its total debt service payments from December 1, 2015 through December 1, 2020 by \$38,149 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$36,263.	\$ 105,000	\$ -	\$ 35,000	\$ 70,000	\$ 35,000
Community Bank NA - 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 \$102,105.	64,000	-	32,000	32,000	32,000
Community Bank NA - note, interest 2.6%, maturing November 24, 2020, principal payments of \$23,980 plus interest due annually beginning November 24, 2016. Secured by 2015 Caterpillar loader with a net carrying value of \$127,920.	71,940	-	23,980	47,960	23,980
Community Bank NA - note, interest 2.15%, maturing February 1, 2022, principal payments of \$31,000 plus interest due annually beginning February 1, 2018. Secured by 2018 International truck with a net carrying value of \$151,191.	124,000	-	31,000	93,000	31,000
Total bonds and notes payable	364,940	-	121,980	242,960	121,980
Other long term liabilities:					
Accrued compensated absences	36,182	9,067	-	45,249	-
Accrued post employment benefits	12,928	-	265	12,663	1,117
Net pension liability	242,654	39,654	-	282,308	-
Total long-term liabilities	\$ 656,704	\$ 48,721	\$ 122,245	\$ 583,180	\$ 123,097

Note 6. Long-Term Liabilities (Continued)

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

Years Ending	Principal	Interest	Savings	Total
2020	\$ 121,980	\$ 7,007	\$ (8,181)	\$ 120,806
2021	89,980	2,945	(2,439)	90,486
2022	31,000	667	-	31,667
Thereafter	-	-	-	-
	<u>\$ 242,960</u>	<u>\$ 10,619</u>	<u>\$ (10,620)</u>	<u>\$ 242,959</u>

Interest expense on long-term debt for the year ended June 30, 2019 was \$3,031, net of refunding.

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 leases a copier under a 60-month operating lease that expires on June 30, 2023. The lease expense for fiscal year 2019 was \$1,831. Future minimum rental payments for each of the four subsequent fiscal years and thereafter are as follows:

2020	\$ 1,831
2021	1,831
2022	1,831
2023	1,831
Thereafter	-
	<u>\$ 7,324</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, 2018, the retirement system consisted of 402 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.

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.

Membership Full time employees of participating municipalities.

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.

Note 9. Municipal Employees' Retirement System (Continued)

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.

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%.

Retirement Stipend \$25 per month payable at the option of the Board of retirees.

Member Contributions 10.00% for fiscal year ended 6/30/18, 10.125% effective 7/1/18

Employer Contributions 7.25% for fiscal year ended 6/30/18, 7.375% effective 7/1/18

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 rate was 7.375% from July 1, 2018 to June 30, 2019. This rate was actuarially determined as an amount that, when combined with employee contributions, is expected to finance

Note 9. Municipal Employees' Retirement System (Continued)

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, 2019 were \$35,105.

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

At June 30, 2019, the Town reported a liability of \$282,308 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the Town's proportion was .20070%, which was an increase of .00042% from its proportion of .20028% measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$78,491. At June 30, 2019, 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 expected and actual experience	\$ 24,521	\$ 4,514
Changes in assumptions	31,262	-
Difference between projected and actual investment earnings	32,718	-
Changes in proportionate share of contributions	6,456	2,912
Town contributions subsequent to the measurement date	<u>35,105</u>	<u>-</u>
Total	<u>\$ 130,062</u>	<u>\$ 7,426</u>

The \$35,105 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, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2020	\$ 87,856
2021	21,190
2022	6,741
2023	6,849
Thereafter	<u>-</u>
Total	<u>\$ 122,636</u>

Note 9. Municipal Employees' Retirement System (Continued)

Significant Actuarial Assumptions and Methods

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest Rate: 7.50%, net of pension plan investment expenses, including inflation

Salary Increases: 5.00% per year

Mortality:

Death in Active Service: 98% of RP-2006 blended 60% Blue Collar Employee, 40% Healthy Employee with generational projection.

Healthy Post-retirement: 98% of RP-2014 blended 60% Blue Collar Annuitant, 40% Healthy Annuitant with generational projection.

Disabled Post-retirement: RP-2006 Disabled Mortality Table with generational improvement.

Spouse's Age: Females three years younger than males.

Cost-of-Living Adjustments: Assumed to occur on January 1 following one year of retirement at the rate of 1.30% per annum (beginning at normal retirement eligibility age for members who elect reduced early retirement, at age 55 for members who receive a disability retirement benefits). The January 1, 2019 COLA is assumed to be 1.30%.

Actuarial Cost Method: Entry Age Actuarial Cost Method. Entry Age is the age at date of employment or, if date is unknown, current age minus years of service. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salary, with Normal Cost determined using the plan of benefits applicable to each participant.

Actuarial Value of Assets: A smoothing method is used, under which the value of assets for actuarial purposes equals market value less a five-year phase-in of the difference between actual and assumed investment return. The value of assets for actuarial purposes may not differ from market value of assets by more than 20%.

Inflation: 2.50%

Long-term expected rate of return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, is summarized in the following table:

Note 9. Municipal Employees' Retirement System (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	18.00%	6.10%
Non-US Equity	16.00%	7.45%
Global Equity	9.00%	6.74%
Fixed Income	26.00%	2.25%
Real Estate	8.00%	5.11%
Private Markets	15.00%	7.60%
Hedge Funds	8.00%	3.86%
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. In accordance with paragraph 29 of GASB 68, professional judgement was applied to determine that the System's projected fiduciary net position exceeds projected benefit payments for current active and inactive members for all years. The analysis was based on the expectation that employers will continue to contribute at the rates set by the Board, which exceed the actuarially determined contribution, which is comprised of an employer normal cost payment and a payment to reduce the unfunded liability to zero by June 30, 2038. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 7.50%, 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 (6.50%) or one percent higher (8.50%) than the current rate:

	Discount Rate	Town's Proportionate Share of Net Pension Liability
1% decrease	6.50%	\$ 478,165
Current discount rate	7.50%	\$ 282,308
1% increase	8.50%	\$ 123,021

Included in accounts payable are legally required contributions not yet submitted to VMERS in the amount of \$5,781 at June 30, 2019.

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 \$12,663 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. which the Town has designated as the primary provider of emergency response; firefighting; and fire prevention, protection, and 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. Such appropriations are included in the Town's annual budget for voter approval. Payments are made quarterly. The agreement has no expiration date. The agreement can only be cancelled upon one year's advance written notice once the Fire Department has no mortgages outstanding.

The Town has entered into a five-year land records computerization contract that expires December 2022. The contract requires monthly payment of \$685. Future minimum payments for each of the four subsequent years and thereafter are as follows:

2020	\$ 8,220
2021	8,220
2022	8,220
2023	4,110
Thereafter	<u>-</u>
Total	<u>\$ 28,770</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. Fund Balances

Fund balances are composed of the following at June 30, 2019:

	General Fund
Nonspendable	
Inventory	\$ 31,336
Prepaid expenses	14,535
	<u>45,871</u>
Restricted	
Listers education	3,265
Matching grant	15,000
Reappraisal	64,758
Restoration reserve	3,908
	<u>86,931</u>
Committed	
Building reserve	50,000
Conservation	2,783
Contingency	22,741
HRA	28,181
FY21 expenditures	50,000
Highway - Capital reserve	140,000
Highway - Contingency reserve	21,499
Highway - FY20 expenditures	139,000
Highway - Garage reserve	30,000
Highway - Infrastructure reserve	50,800
Recreation	1,451
	<u>536,455</u>
Assigned	
Sidewalk reserve	33,074
Morgan donation	5,000
	<u>38,074</u>
Unassigned	<u>519,890</u>
Total fund balance	<u>\$ 1,227,221</u>

Note 14. Tax Abatements

The Town enters into property tax abatement agreements with local charitable and fraternal organizations pursuant to Vermont Statutes Annotated, Title 32, Chapter 125 §3840, as approved by the voters during town meeting. This statute states that fraternal organizations, volunteer fire, and ambulance or rescue companies who own real estate exclusively for such purposes, may be exempted from real estate taxation, either in whole or in part, for a period not exceeding 10 years, if the town so votes. Upon the expiration of the exemption, the town may vote additional periods of exemption not exceeding five years each.

During the March 2014 Town meeting, the voters approved an additional five-year exemption of real estate taxes for the Underhill Jericho Fire Department. The real property value exempted from taxes was \$916,000 which amounted to \$5,070 in municipal taxes during the year ended June 30, 2019. The property is exempt from state education taxes.

Note 15. Subsequent Events

Subsequent to year end, the Town entered into a land lease for twenty years with an outside party for the construction of a solar array. The lease agreement provides for three renewal options of five years each. The lease provides for annual lease payments to the Town of \$3,250 commencing November 2019 for ten years and annual payments of \$3,750 for an additional twenty-five years.

Subsequent to year end, the Town accepted bids for road reconstruction projects in the amount of \$493,050.

Management has evaluated subsequent events through January 15, 2020, 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, 2019**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 2,186,085	\$ 2,186,085	\$ 2,185,443	\$ (642)
Licenses and permits	34,010	34,010	47,854	13,844
Intergovernmental	572,692	572,692	229,048	(343,644)
Charges for services	23,100	23,100	30,726	7,626
Miscellaneous income	23,180	23,180	32,906	9,726
Total revenue	<u>2,839,067</u>	<u>2,839,067</u>	<u>2,525,977</u>	<u>(313,090)</u>
EXPENDITURES				
General government				
Select board	51,529	51,529	63,037	(11,508)
Elections	13,925	13,925	7,962	5,963
Administration	69,549	69,549	75,700	(6,151)
Town clerk and treasurer	102,516	102,516	113,350	(10,834)
Finance	105,594	105,594	66,908	38,686
Assessing	70,195	70,195	69,668	527
Town hall	93,529	93,529	81,683	11,846
Post office	2,000	2,000	2,400	(400)
School house	5,900	5,900	10,420	(4,520)
Public safety				
Animal control	3,199	3,199	2,305	894
Public safety	248,208	248,208	248,868	(660)
Health	16,647	16,647	17,032	(385)
Recreation	10,637	10,637	10,585	52
Planning and zoning	99,466	99,466	99,748	(282)
Cultural services	104,880	104,880	104,880	-
Appropriations	166,813	166,813	145,694	21,119
Highway	951,988	951,988	1,005,845	(53,857)
Debt service				
Principal	121,980	121,980	121,980	-
Interest	11,057	11,057	10,991	66
Capital outlay	<u>623,325</u>	<u>623,325</u>	<u>178,189</u>	<u>445,136</u>
Total expenditures	<u>2,872,937</u>	<u>2,872,937</u>	<u>2,437,245</u>	<u>435,692</u>
Excess (deficiency) of revenues over expenditures	<u>(33,870)</u>	<u>(33,870)</u>	<u>88,732</u>	<u>122,602</u>
OTHER FINANCING SOURCES				
Use of reserves	<u>33,870</u>	<u>33,870</u>	<u>48,444</u>	<u>14,574</u>
Total other financing sources	<u>33,870</u>	<u>33,870</u>	<u>48,444</u>	<u>14,574</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 137,176</u>	<u>\$ 137,176</u>

TOWN OF UNDERHILL, VERMONT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended June 30, 2019

Note A - Explanation of difference between budgetary basis and GAAP basis

Total other financing sources as reported on the budgetary comparison schedule	\$ 48,444
Use of reserves are recorded as other financing sources for budgetary purposes but as reserve transfers for GAAP purposes	<u>(48,444)</u>
Total other financing sources as reported on the statement of revenues, expenditures, and changes in fund balance - governmental fund	<u>\$ -</u>
Total revenue as reported on the budgetary comparison schedule	\$ 2,525,977
Interest refunded on debt service is recorded as miscellaneous income for budgetary purposes but as a reduction of debt service expense for GAAP purposes	<u>(7,960)</u>
Total revenue as reported on the statement of revenues, expenditures, and changes in fund balance - governmental fund	<u><u>\$ 2,518,017</u></u>
Total expenditures as reported on the budgetary comparison schedule	\$ 2,437,245
Interest refunded on debt service is recorded as miscellaneous income for budgetary purposes but as a reduction of debt service expense for GAAP purposes	<u>(7,960)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - governmental fund	<u><u>\$ 2,429,285</u></u>

TOWN OF UNDERHILL, VERMONT

**SCHEDULE OF THE TOWN'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
Vermont Municipal Employees Retirement System
Last 6 Fiscal Years**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability	0.2007%	0.2003%	0.1862%	0.2124%	0.2014%	0.2086%
Town's proportionate share of the net pension liability	\$ 282,308	\$ 242,654	\$ 239,577	\$ 163,747	\$ 18,384	\$ 75,949
Town's covered-employee payroll	\$ 484,835	\$ 451,144	\$ 393,636	\$ 428,200	\$ 388,221	\$ 385,233
Town's proportionate share of the net pension liability as a percentage of the covered-employee payroll	58.23%	53.79%	60.86%	38.24%	4.74%	19.72%
Plan fiduciary net position as a percentage of the total pension liability	82.60%	83.64%	80.95%	87.42%	98.32%	92.71%

**SCHEDULE OF THE TOWN'S CONTRIBUTIONS
Vermont Municipal Employees Retirement System
Last 6 Fiscal Years**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 35,151	\$ 32,708	\$ 28,293	\$ 29,689	\$ 25,983	\$ 25,040
Contributions in relation to the statutorily required contribution	<u>35,151</u>	<u>32,708</u>	<u>28,293</u>	<u>29,689</u>	<u>25,983</u>	<u>25,040</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 484,835	\$ 451,144	\$ 393,636	\$ 428,200	\$ 388,221	\$ 385,233
Contributions in relation to the statutory required contribution as a percentage of the covered-employee payroll	7.25%	7.25%	7.19%	6.93%	6.69%	6.50%

Note: These schedules will eventually present 10 years of information; however, they currently only provide information on fiscal years for which it is available.

TOWN OF UNDERHILL, VERMONT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

Vermont Municipal Employees Retirement System

Change in actuarial assumptions and methods: There have been no changes in plan provisions since the previous measurement date.

Changes in plan provisions:

The member contribution rates have been increased according to the following schedule:

<u>Effective Date</u>	<u>Fiscal Year</u>	<u>Rate</u>
July 1, 2018	2019	10.125%
July 1, 2019	2020	10.250%
July 1, 2020	2021	10.500%
July 1, 2021	2022	10.750%

OTHER SUPPLEMENTARY INFORMATION

TOWN OF UNDERHILL, VERMONT

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGETARY BASIS - BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Property taxes				
Property taxes	\$ 2,153,085	\$ 2,153,085	\$ 2,136,773	\$ (16,312)
Delinquent interest	3,000	3,000	4,096	1,096
Delinquent penalties	10,000	10,000	16,691	6,691
Payment in lieu of taxes	20,000	20,000	27,883	7,883
Total property taxes	<u>2,186,085</u>	<u>2,186,085</u>	<u>2,185,443</u>	<u>(642)</u>
Licenses and permits				
Dog licenses	4,000	4,000	3,454	(546)
Zoning	22,850	22,850	30,800	7,950
Traffic control	3,000	3,000	5,994	2,994
Tax research	3,000	3,000	4,835	1,835
Other fees	1,160	1,160	2,771	1,611
Total licenses and permits	<u>34,010</u>	<u>34,010</u>	<u>47,854</u>	<u>13,844</u>
Intergovernmental				
State aid	102,000	102,000	101,997	(3)
Current use	55,000	55,000	59,032	4,032
Road grants	82,500	82,500	31,174	(51,326)
Lister education grant	400	400	104	(296)
Flats sidewalk grant	318,892	318,892	6,536	(312,356)
Historical preservation grant	-	-	17,294	17,294
Reappraisal and equalization	13,900	13,900	12,911	(989)
Total intergovernmental	<u>572,692</u>	<u>572,692</u>	<u>229,048</u>	<u>(343,644)</u>
Charges for services				
Copier usage	2,500	2,500	2,245	(255)
Town hall rent	500	500	1,075	575
Recording fees	20,100	20,100	27,406	7,306
Total charges for services	<u>23,100</u>	<u>23,100</u>	<u>30,726</u>	<u>7,626</u>
Miscellaneous income				
Interest income	1,000	1,000	4,630	3,630
Rental - Post office	9,403	9,403	9,555	152
Historical Society donation	-	-	1,672	1,672
Other miscellaneous income	12,777	12,777	17,049	4,272
Total miscellaneous income	<u>23,180</u>	<u>23,180</u>	<u>32,906</u>	<u>9,726</u>
Total revenues	<u>2,839,067</u>	<u>2,839,067</u>	<u>2,525,977</u>	<u>(313,090)</u>

TOWN OF UNDERHILL, VERMONT

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGETARY BASIS - BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
EXPENDITURES				
General government:				
Select board				
Stipend	1,500	1,500	-	1,500
Payroll taxes	115	115	-	115
Benefits	6,060	6,060	10,372	(4,312)
Training and development	350	350	260	90
Professional and technical services	25,250	25,250	40,487	(15,237)
Other purchased services	5,514	5,514	6,121	(607)
Other expenses	12,740	12,740	5,797	6,943
Total select board	<u>51,529</u>	<u>51,529</u>	<u>63,037</u>	<u>(11,508)</u>
Elections				
Salaries	3,000	3,000	1,714	1,286
Professional and technical services	925	925	650	275
Other purchased services	8,500	8,500	4,748	3,752
Supplies	1,500	1,500	850	650
Total elections	<u>13,925</u>	<u>13,925</u>	<u>7,962</u>	<u>5,963</u>
Administration				
Salaries	57,053	57,053	61,784	(4,731)
Payroll taxes	4,364	4,364	5,854	(1,490)
Benefits	6,932	6,932	7,349	(417)
Training and development	200	200	154	46
Professional and technical services	300	300	-	300
Other expenses	700	700	559	141
Total administration	<u>69,549</u>	<u>69,549</u>	<u>75,700</u>	<u>(6,151)</u>
Town clerk and treasurer				
Salaries	78,998	78,998	86,530	(7,532)
Payroll taxes	6,043	6,043	6,620	(577)
Benefits	7,375	7,375	7,355	20
Training and development	430	430	355	75
Professional and technical services	8,370	8,370	11,768	(3,398)
Supplies	100	100	-	100
Other expenses	1,200	1,200	722	478
Total town clerk and treasurer	<u>102,516</u>	<u>102,516</u>	<u>113,350</u>	<u>(10,834)</u>

TOWN OF UNDERHILL, VERMONT

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGETARY BASIS - BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Finance				
Salaries	68,919	68,919	41,923	26,996
Payroll taxes	5,272	5,272	1,832	3,440
Benefits	17,503	17,503	6,756	10,747
Training and development	400	400	1,188	(788)
Professional and technical services	13,000	13,000	14,750	(1,750)
Supplies	-	-	140	(140)
Other expenses	500	500	319	181
Total finance	<u>105,594</u>	<u>105,594</u>	<u>66,908</u>	<u>38,686</u>
Assessing				
Salaries	38,855	38,855	36,775	2,080
Payroll taxes	2,972	2,972	2,771	201
Benefits	5,163	5,163	4,982	181
Training and development	1,550	1,550	295	1,255
Professional and technical services	20,455	20,455	24,000	(3,545)
Supplies	-	-	225	(225)
Other expenses	1,200	1,200	620	580
Total assessing	<u>70,195</u>	<u>70,195</u>	<u>69,668</u>	<u>527</u>
Town hall				
Other purchased services	52,440	52,440	46,917	5,523
Supplies	32,289	32,289	26,159	6,130
Other expenses	8,800	8,800	8,607	193
Total town hall	<u>93,529</u>	<u>93,529</u>	<u>81,683</u>	<u>11,846</u>
Post office				
Other purchased services	1,500	1,500	2,216	(716)
Supplies	500	500	184	316
Total post office	<u>2,000</u>	<u>2,000</u>	<u>2,400</u>	<u>(400)</u>
School house				
Other purchased services	5,000	5,000	9,386	(4,386)
Supplies	600	600	686	(86)
Other expenses	300	300	348	(48)
Total school house	<u>5,900</u>	<u>5,900</u>	<u>10,420</u>	<u>(4,520)</u>
Total general government	<u>514,737</u>	<u>514,737</u>	<u>491,128</u>	<u>23,609</u>

TOWN OF UNDERHILL, VERMONT

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGETARY BASIS - BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Public safety:				
Animal control				
Salaries	1,796	1,796	1,771	25
Payroll taxes	137	137	135	2
Benefits	166	166	184	(18)
Professional and technical services	700	700	25	675
Supplies	300	300	156	144
Other expenses	100	100	34	66
Total animal control	<u>3,199</u>	<u>3,199</u>	<u>2,305</u>	<u>894</u>
Public safety				
Professional and technical services	16,800	16,800	17,460	(660)
Appropriations	<u>231,408</u>	<u>231,408</u>	<u>231,408</u>	<u>-</u>
Total public safety	<u>248,208</u>	<u>248,208</u>	<u>248,868</u>	<u>(660)</u>
Health				
Salaries	873	873	-	873
Payroll taxes	67	67	-	67
Benefits	7	7	1	6
Professional and technical services	7,870	7,870	9,451	(1,581)
Supplies	250	250	-	250
Appropriations	<u>7,580</u>	<u>7,580</u>	<u>7,580</u>	<u>-</u>
Total health	<u>16,647</u>	<u>16,647</u>	<u>17,032</u>	<u>(385)</u>
Total public safety	<u>268,054</u>	<u>268,054</u>	<u>268,205</u>	<u>(151)</u>
Recreation:				
Salaries	4,043	4,043	-	4,043
Payroll taxes	309	309	-	309
Benefits	265	265	284	(19)
Other purchased services	4,000	4,000	437	3,563
Supplies	<u>2,020</u>	<u>2,020</u>	<u>9,864</u>	<u>(7,844)</u>
Total recreation	<u>10,637</u>	<u>10,637</u>	<u>10,585</u>	<u>52</u>
Planning and zoning:				
Salaries	50,975	50,975	54,680	(3,705)
Payroll taxes	3,900	3,900	4,183	(283)
Benefits	24,041	24,041	21,034	3,007
Training and development	1,031	1,031	391	640
Professional and technical services	9,250	9,250	11,498	(2,248)
Other purchased services	7,969	7,969	7,721	248
Supplies	1,750	1,750	241	1,509
Other expenses	<u>550</u>	<u>550</u>	<u>-</u>	<u>550</u>
Total planning and zoning	<u>99,466</u>	<u>99,466</u>	<u>99,748</u>	<u>(282)</u>

TOWN OF UNDERHILL, VERMONT

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGETARY BASIS - BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Cultural services:				
Town library	104,880	104,880	104,880	-
Total cultural services	104,880	104,880	104,880	-
Appropriations:				
General appropriations	123,770	123,770	104,062	19,708
Regional service appropriations	36,718	36,718	35,307	1,411
Social service appropriations	6,325	6,325	6,325	-
Total appropriations	166,813	166,813	145,694	21,119
Highway:				
Salaries	238,341	238,341	224,686	13,655
Payroll taxes	18,233	18,233	17,040	1,193
Benefits	82,441	82,441	99,763	(17,322)
Training and development	200	200	30	170
Professional and technical services	40,700	40,700	65,390	(24,690)
Other purchased services	97,923	97,923	94,471	3,452
Supplies	275,000	275,000	313,309	(38,309)
Other expenses	199,150	199,150	191,156	7,994
Total highway	951,988	951,988	1,005,845	(53,857)
Debt service:				
Principal	121,980	121,980	121,980	-
Interest	11,057	11,057	10,991	66
Total debt service	133,037	133,037	132,971	66
Capital outlay	623,325	623,325	178,189	445,136
Total expenditures	2,872,937	2,872,937	2,437,245	435,692
Excess (deficiency) of revenues over expenditures	(33,870)	(33,870)	88,732	122,602
OTHER FINANCING SOURCES				
Use of reserves	33,870	33,870	48,444	14,574
Total other financing sources	33,870	33,870	48,444	14,574
Net change in fund balance	\$ -	\$ -	\$ 137,176	\$ 137,176

TOWN OF UNDERHILL, VERMONT
ADDITIONAL REQUIRED REPORT
June 30, 2019

CONTENTS

ADDITIONAL REQUIRED REPORT

Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with

Government Auditing Standards

1 and 2

Schedule of findings and responses

3 and 4

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

To the Selectboard
Town of Underhill, Vermont

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Town of Underhill, Vermont, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Underhill, Vermont's basic financial statements, and have issued our report thereon dated January 15, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Underhill, Vermont's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Underhill, Vermont's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Underhill, Vermont's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in

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A.M. PEISCH & COMPANY, LLP

internal control, described in the accompanying schedule of findings and responses as items 2019-1 and 2019-2 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Underhill, Vermont's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Town of Underhill, Vermont's Response to Findings

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

Purpose of this Report

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

St. Albans, Vermont
January 15, 2020
VT Reg. No. 92-0000102

A.M. Peioch & Company, LLP

TOWN OF UNDERHILL, VERMONT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019

2019-1 Preparation of Financial Statements

Condition: The Town does not prepare its financial statements completely but relies on its auditors to perform this function or to assist with performing this function.

Criteria: An entity is responsible for the internal control process which includes the preparation of year-end financial statements in accordance with generally accepted accounting standards. This must be done by someone having sufficient expertise and ability so that there is only a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

Causes: Because of the complexity and annual issuance of new pronouncements, it is sometimes difficult for the financial reporting officer to obtain annual education on the new pronouncements to retain his/her expertise.

Effect: Financial statements prepared in accordance with GAAP by entity personnel are not available.

Additional Information: Reliable financial reporting is a significant task which requires a significant investment in personnel. Most small entities elect to use the services of outside professional to prepare the financial statements because it is not economically feasible to perform this function in-house.

Response: The Town will continue to rely on its auditor to prepare the financial statements. As noted above, it is not feasible for many small towns, including the Town of Underhill Vermont, to invest the time and money in training for and preparation of the financial statements in-house. The local emphasis is placed instead on ensuring that the entries into the local accounting system are accurate and timely, therefore providing good information for the accurate preparation of financial statements by others.

2019-2 Segregation of Duties

Condition: One employee within the Town prepares monthly bank statement reconciliations, has access to blank checks, brings deposits to the bank, and posts transaction to the general ledger.

Criteria: It is the fiduciary responsibility of the Town to have appropriate internal controls, including sufficient segregation of duties, to mitigate risk of fraud or error.

Causes: Because of the limited number of employees, it is difficult to provide for complete segregation of duties.

Effect: With existing controls, there remains a risk that cash could be misappropriated and not be detected by others within the Town.

Additional Information: The Town has implemented various compensating controls to minimize the risk of errors or fraud. We are not suggesting that an irregularity has occurred or is likely to occur; however, we would like management and those charged with governance to be aware of this weakness and to implement steps to strengthen controls.

Response: The Assistant Treasurer will review the monthly bank statements and reconciliations for unusual items. The Assistant Treasurer will also review cancelled checks to ensure they are signed by an authorized signor and are issued to valid vendors and review deposit reports for agreement to the bank statement.

January 15, 2020

To the Selectboard of the
Town of Underhill, Vermont
Underhill, Vermont

In planning and performing our audit of the financial statements of Town of Underhill, Vermont as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal control. This letter does not affect our report dated January 15, 2020 on the financial statements of Town of Underhill, Vermont.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Town personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are as follows:

DISASTER RECOVERY POLICY

There is no formal disaster recovery plan. Formal, written procedures will provide staff with instruction on how to proceed in the event of a disaster.

We recommend that a formal policy be written and maintained off site. The policy should include items such as (1) where backup operating site and equipment is maintained, (2) contact names and numbers, including responsibilities, (3) instructions on how backup information will be retrieved and where, etc.

SMALL FIXED ASSETS – TOWN GARAGE

In the prior and current year, we noted that cement barriers owned by the Town were located on private property.

In order to maintain physical control of highway assets, we recommend that all town property that is not in use be kept at the Town garage. In addition, the Town may want to consider maintaining an inventory list of small fixed assets over a certain dollar amount.

A.M. PEISCH & COMPANY, LLP

The list could be periodically checked to assets on hand to ensure that all Town owned equipment is accounted for.

UPDATES TO EMPLOYEE MANUAL

Updates to the personnel policy approved by the Selectboard December 19, 2017 have not been updated to the written personnel policy.

To avoid employee confusion, we recommend that the EE policy be updated with approved changes as soon as changes are approved.

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

A.M. Peisch & Company, LLP

A.M. Peisch & Company, LLP
St. Albans, Vermont
January 15, 2020

January 15, 2020

To the Selectboard
Town of Underhill, Vermont
P.O. Box 32
Underhill, VT 05490

We have audited the financial statements of the governmental activities and the major fund of the Town of Underhill, Vermont (“the Town”) for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 4, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2019. We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management’s estimate of the net pension liability is based on information obtained from the Vermont Municipal Employees’ Retirement System (VMERS) which is based on actuarial calculations. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements. We relied on calculations provided by the auditors of the pension system.

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

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Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Below is the uncorrected misstatement of the financial statements. Management has determined that its effect is immaterial to the financial statements taken as a whole.

- Liabilities and expenditures are overstated by \$3,581 due to an unreconciled difference in the general ledger for uncleared items.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 15, 2020.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to Management's discussion and analysis, the Budgetary comparison schedule – General fund, the Schedule of the Town's proportional share of the net pension liability, the Schedule of the Town's contributions, and the Notes to required supplementary information – Pension plan which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of revenues, expenditures, and changes in fund balance – Budgetary basis - Budget to actual - General fund, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Selectboard and management of the Town of Underhill, Vermont and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A.M. Peisch & Company, LLP

A.M. Peisch & Company, LLP