

TOWN OF UNDERHILL, VERMONT

AUDIT REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2011

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FOTHERGILL SEGALE & VALLEY

Certified Public Accountants



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

INDEPENDENT AUDITOR'S REPORT

December 8, 2011

To the Selectboard
Town of Underhill
Underhill, Vermont

We have audited the accompanying financial statements of the major fund of the Town of Underhill, Vermont, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America, specifically GASB 34 and GASB 37, require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements resulting from transactions for the Town's governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the respective financial position of the Town of Underhill, Vermont as of June 30, 2011, and the respective changes in financial position, thereof and the budget comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2011, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Management has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is required to supplement, although not required to be a part of, the basic financial statement.

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Fothergill Segale & Valley, CPAs". The signature is written in dark ink and is positioned above the printed name of the firm.

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

TOWN OF UNDERHILL, VERMONT
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2011

EXHIBIT A

	Major Fund	
ASSETS	General Fund	
Cash	\$ 510,478	
Delinquent taxes receivable	57,839	
Prepaid expenses	4,564	
Inventory	11,500	
Total assets		\$ 584,381
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 58,770	
Deferred tax revenue	46,334	
Accrued payroll and payroll taxes	16,475	
Total liabilities		121,579
FUND BALANCES		
Nonspendable		
Inventory		11,500
Prepaid expenses		4,564
Restricted		
Reappraisal		40,995
Matching grant		15,000
Records retention		8,692
Highway		59,541
Listers education		1,680
Committed		
Recreation		7,110
Conservation		526
Assigned		
FY12 expenditures		125,000
Morgan donation		5,000
Unassigned		183,194
Total fund balances		462,802
Total liabilities and fund balances		\$ 584,381

TOWN OF UNDERHILL, VERMONT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2011

EXHIBIT B

	Major Fund	
	General Fund	
REVENUES		
Property taxes	\$ 1,622,467	
Licenses and permit	48,991	
Intergovernmental	331,852	
Charges for services	52,359	
Interest income	1,470	
Miscellaneous	43,915	
Total revenues		2,101,054
 EXPENDITURES		
Current expenditures		
General government		
Salaries and insurance	339,841	
Utilities	14,624	
Maintenance	23,657	
Departments/Training/Travel	65,661	
Equipment and supplies	29,043	
Professional services	44,183	
Local, regional and state organizations	167,985	
Non-discretionary	234,927	
Social services	17,522	
Highway		
Salaries and insurance	291,690	
Utilities	14,560	
Equipment and supplies	301,652	
Maintenance	102,302	
Capital outlays	487,340	
Debt service		
Principal	79,000	
Interest	26,311	
Total expenditures		2,240,298
 NET CHANGE IN FUND BALANCE		 (139,244)
 FUND BALANCE - JULY 1, 2010		 602,046
 FUND BALANCE - JUNE 30, 2011		 <u>\$ 462,802</u>

TOWN OF UNDERHILL, VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - COMPARED TO BUDGET
GENERAL FUND
YEAR ENDED JUNE 30, 2011

EXHIBIT C

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 1,615,999	\$ 1,622,467	\$ 6,468
Licenses and permit	34,000	48,991	14,991
Intergovernmental	135,000	331,852	196,852
Charges for services	23,500	52,359	28,859
Interest income	1,200	1,470	270
Miscellaneous revenue	20,950	43,915	22,965
Total revenues	1,830,649	2,101,054	270,405
 EXPENDITURES			
Current expenditures			
General government			
Salaries and insurance	369,964	339,841	30,123
Utilities	15,000	14,624	376
Maintenance	24,750	23,657	1,093
Department/Training/Travel	35,390	65,661	(30,271)
Equipment and supplies	28,800	29,043	(243)
Professional services	34,000	44,183	(10,183)
Local, regional and state organizations	167,985	167,985	0
Non-discretionary	218,820	234,927	(16,107)
Social services	28,245	17,522	10,723
Highway			
Salaries and insurance	277,063	291,690	(14,627)
Utilities	12,000	14,560	(2,560)
Equipment and supplies	318,700	301,652	17,048
Maintenance	125,000	102,302	22,698
Capital outlays	95,000	487,340	(392,340)
Debt service			
Principal	49,000	79,000	(30,000)
Interest	30,932	26,311	4,621
Total expenditures	1,830,649	2,240,298	(409,649)
 NET CHANGE IN FUND BALANCE			
	\$ 0	(139,244)	\$ (139,244)
 FUND BALANCE - JULY 1, 2010			
		602,046	
 FUND BALANCE - JUNE 30, 2011			
		\$ 462,802	

TOWN OF UNDERHILL, VERMONT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are not prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is primarily responsible for establishing GAAP for state and local governments through its pronouncements (including Statements and Interpretations).

The Governmental Accounting Standards Board (GASB) unanimously approved Statements No. 34 and No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- The financial statements would include:

A Management Discussion and Analysis (MD&A) section providing an analysis of the Town’s overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Town’s activities.

- A change in the fund financial statements to focus on the major funds.

GASB Statement No. 37 establishes and modifies certain financial statement note disclosure requirements to make the financial statements more useful in the context of GASB Statement No. 34 reporting model. The Statement had an impact on the presentation of the notes to the financial statements, but no impact on net assets.

The Town’s management has elected to present only the financial statements of the major fund which is not in conformity with generally accepted accounting principles, specifically GASB 34 and GASB 37. Therefore, government-wide financial statements that include accounting for capital assets, lease payables and notes payable are not included in the financial statements.

TOWN OF UNDERHILL, VERMONT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity

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

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

Basic Financial Statements, Measurement and Basis of Accounting

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

The emphasis in fund financial statements is on the major funds in either the governmental category or enterprise type. GASB No. 34 and No. 37 set forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category/type or the governmental and enterprise funds combined) for the determination of major funds. The General Fund is shown as a major fund.

The Town reports on the following major governmental fund:

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

Fund Equity

Beginning with fiscal year 2011, the Town implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

TOWN OF UNDERHILL, VERMONT
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

1. Committed
2. Assigned
3. Unassigned

TOWN OF UNDERHILL, VERMONT
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

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

Modified Accrual

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

Budgetary Accounting

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

Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property Taxes

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

TOWN OF UNDERHILL, VERMONT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

General capital assets should be capitalized and recorded when all of the following criteria are met:

- (1) The asset is tangible and complete,
- (2) The asset is used in the operation of the Town's activities, and
- (3) The asset has a value of \$5,000 or greater and a useful life over one year at the date of acquisition.

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts is an estimate for the potential losses that will be incurred in the collection of receivables. Management has decided not to enter an allowance for uncollectible accounts.

Compensated Absences

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

NOTE 2 – DELINQUENT TAXES RECEIVABLE

Delinquent taxes receivable consist of:

	<u>General Fund</u>
Delinquent property taxes	\$ 50,387
Penalties on taxes receivable	4,446
Interest on taxes receivable	<u>3,006</u>
Total delinquent taxes	<u>\$ 57,839</u>

TOWN OF UNDERHILL, VERMONT
 NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 2 – DELINQUENT TAXES RECEIVABLE (Continued)

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

The Town is responsible for assessing and collecting taxes for itself and for the Town School District. Town property tax revenues are recognized when levied to the extent they result in current receivables. Current receivables are defined as receivables which are due or past due and receivable within the current period and collected no later than 60 days after the close of the current period.

NOTE 3 – PROPERTY TAXES

The tax rate for fiscal year 2011 was:

	<u>Residential</u>	<u>Non-Residential</u>
General Fund	\$ 0.4536	\$ 0.4536
School	<u>1.3096</u>	<u>1.4280</u>
Total Tax Rate	<u>\$ 1.7632</u>	<u>\$ 1.8816</u>

NOTE 4 – DEPOSITS

The Treasurer invests excess cash according to policies established by the Selectboard.

Custodial credit risk is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. As of June 30, 2011, the Town is not exposed to custodial credit risk.

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

The bank balances at year end were:

Insured by the FDIC	\$ 52,621
Uninsured - collateralized	<u>485,479</u>
Total deposits	<u>\$ 538,100</u>

TOWN OF UNDERHILL, VERMONT
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 5 – LONG TERM LIABILITIES

Long-term liabilities at June 30, 2011 consist of the following:

Vermont Municipal Bond Bank – building improvements, variable interest rate (4.344% - 5.644%), maturing December 1, 2020, principal payments of \$35,000 due annually, with interest payments due semiannually beginning December 1, 2000.	\$ 350,000
People’s United Bank – 2011 International dump truck note, interest 3.5%, maturing May 28, 2016, principal payments of \$30,000 (five years 2011 – 2015) and a final payment of \$20,000 due 2016, plus interest, due annually beginning May 28, 2011.	<u>140,000</u>
Total long-term debt	490,000
Accrued vacation payable	<u>16,616</u>
Total long-term liabilities	<u>\$ 506,616</u>

On July 14, 2010, the Vermont Municipal Bond Bank issued and sold \$40,750,000 of 2010 Series 4 refunding bonds for the purpose of providing debt service reductions to a number of Vermont Municipalities, including the Town of Underhill. As a result of this debt restructure, the Town will save \$38,149 in future interest payments.

Maturities for long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 65,000	\$ 22,947	\$ 87,947
2013	65,000	20,111	85,111
2014	65,000	17,241	82,241
2015	65,000	14,338	79,338
2016	55,000	11,405	66,405
2017 – 2021	<u>175,000</u>	<u>24,535</u>	<u>199,535</u>
Totals	<u>\$ 490,000</u>	<u>\$ 110,577</u>	<u>\$ 600,577</u>

TOWN OF UNDERHILL, VERMONT
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 5 – LONG TERM LIABILITIES (Continued)

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

	Balance			Balance	
	June 30, 2010	Additions	Reductions	June 30, 2011	Due in One Year
Bonds and notes payable:					
Bond payable	\$ 385,000	\$ 0	\$ (35,000)	\$ 350,000	\$ 35,000
People's United Bank notes payable	184,000	0	(44,000)	140,000	30,000
Total bond and notes payable	<u>569,000</u>	<u>0</u>	<u>(79,000)</u>	<u>490,000</u>	<u>65,000</u>
Other liabilities:					
Accrued compensated absences	7,066	10,715	(1,165)	16,616	0
Total long-term liabilities	<u>\$ 576,066</u>	<u>\$ 10,715</u>	<u>\$ (80,165)</u>	<u>\$ 506,616</u>	<u>\$ 65,000</u>

Interest paid on long-term debt for the year ended June 30, 2011 was \$26,311.

NOTE 6 – FUND BALANCE CLASSIFICATIONS

Fund balances are as follows:

Nonspendable	
Inventory	\$ 11,500
Prepaid expenses	4,564
Restricted	
Reappraisal	40,995
Matching grant	15,000
Records retention	8,692
Highway	59,541
Listers education	1,680
Committed	
Recreation	7,110
Conservation	526
Assigned	
Fy 12 expenditures	125,000
Morgan donation	5,000
Unassigned	183,194
Total fund balance	<u>\$ 462,802</u>

NOTE 7 – COMMITMENTS

The Town entered into a twenty year agreement with the Underhill-Jericho Fire Department, Inc. on February 5, 1997 where the Town will designate the Fire Department as the primary provider of emergency response, fire fighting, fire prevention, fire protection and fire suppression services. The Town shall appropriate annually out of the

TOWN OF UNDERHILL, VERMONT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 7 – COMMITMENTS (Continued)

General Fund a sum of money to be paid over to the Fire Department in anticipation of the costs incurred by the Fire Department. Such appropriation shall be included in the Town's annual budget for voter approval. Payments shall be made quarterly.

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

Health Care Benefits

On January 1, 2011, the Town changed the employee health insurance program to a High Deductible Health Plan with a Health Reimbursement Arrangement (HRA). All eligible employees who chose to participate were enrolled in the CIGNA HDHP 2250 Value Insurance Plan with a \$3,500/\$7,000 maximum out of pocket expense. The Town is responsible for the full deductible amount for all individual and family plans. Draw downs for the HRA occur daily as employee health claims are processed. As of June 30, 2011, the Town had only six months of experience with this new health insurance program so the ultimate benefit or risk of the new funding arrangement cannot be determined.

NOTE 8 – RETIREMENT BENEFIT PLAN

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

Defined Benefit Plan

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

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

TOWN OF UNDERHILL, VERMONT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 8 – RETIREMENT BENEFIT PLAN (Continued)

Of the Town's total payroll of \$429,641, \$359,743 was covered under the VMERS defined benefit plan. Total employer contributions to this plan were \$33,189 for fiscal year 2011 which includes a \$9,805 retroactive contribution for an employee who was eligible but was not enrolled on a timely basis.

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

NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2011, expenditures exceeded appropriations in the General Fund by \$409,649. The excess expenditures were funded by available excess revenues and fund balance.

NOTE 10 – 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.

NOTE 11 – LEASE AGREEMENT

In January 2009, the Town entered into a 62-month lease for one copier with SymQuest. The lease calls for monthly payments of \$227.10. The lease expense for 2011 was \$2,725. The remaining minimum lease payments are as follows:

2012	\$	2,724
2013		2,724
2014		2,043
Total	\$	<u>7,491</u>

TOWN OF UNDERHILL, VERMONT
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 8, 2011, the date which the financial statements were available for issue.

In April, heavy rain caused flooding of infrastructure. The Town of Underhill is assessing the extent of the damage, and is filing claims with its insurance carriers and FEMA. The extent of the monetary damage is not able to be quantified at this time.

The Town of Underhill entered into a five year lease with the United States Postal Service. The lease is effective from November 1, 2012 to October 31, 2017. The annual rent to be paid by the United States Postal Service to the Town is \$9,100.

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

YEAR ENDED JUNE 30, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes			
Property taxes	\$ 1,582,999	\$ 1,589,273	\$ 6,274
Delinquent interest	3,000	3,858	858
Delinquent penalty	15,000	12,221	(2,779)
Payment in lieu of taxes	15,000	17,115	2,115
Total property taxes	<u>1,615,999</u>	<u>1,622,467</u>	<u>6,468</u>
Licenses and Permits			
Dog licenses	4,000	4,133	133
Zoning	25,000	33,883	8,883
Traffic control	3,000	4,926	1,926
Certified copies	0	860	860
Other fees	2,000	5,189	3,189
Total licenses and permits	<u>34,000</u>	<u>48,991</u>	<u>14,991</u>
Intergovernmental			
State aid	95,000	98,828	3,828
Current use	40,000	44,953	4,953
Highway grant	0	175,000	175,000
High risk grant	0	60	60
Reappraisal	0	13,011	13,011
Total intergovernmental	<u>135,000</u>	<u>331,852</u>	<u>196,852</u>
Charges for Services			
Animal control	500	384	(116)
Copier usage	2,500	3,481	981
Town Hall rent	500	425	(75)
Recording surcharge	20,000	48,069	28,069
Total charges for services	<u>23,500</u>	<u>52,359</u>	<u>28,859</u>
Miscellaneous Income			
Interest income	1,200	1,470	270
Rental - Post Office	9,000	9,100	100
School contribution	7,500	5,522	(1,978)
Sale of vehicle	0	4,500	4,500
Donation	0	5,000	5,000
Other miscellaneous income	4,450	19,793	15,343
Total miscellaneous income	<u>22,150</u>	<u>45,385</u>	<u>23,235</u>
Total revenues	<u>1,830,649</u>	<u>2,101,054</u>	<u>270,405</u>

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

YEAR ENDED JUNE 30, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES			
General Government			
Salaries and insurance			
Salaries	237,381	226,223	11,158
Outside labor	0	19,275	(19,275)
Payroll taxes	18,159	17,922	237
Retirement	11,282	20,623	(9,341)
Health	60,540	22,870	37,670
Dental	3,312	2,601	711
Vision	1,178	708	470
Workers' compensation	0	1,447	(1,447)
Retiree share of insurance	0	14,053	(14,053)
Insurance - general	38,112	14,119	23,993
Total salaries and insurance	<u>369,964</u>	<u>339,841</u>	<u>30,123</u>
Utilities			
Fuel oil	5,000	5,396	(396)
Telephone	4,000	3,635	365
Electricity	3,500	3,090	410
Street lights	2,500	2,503	(3)
Total Utilities	<u>15,000</u>	<u>14,624</u>	<u>376</u>
Town property maintenance			
Park care	3,000	3,600	(600)
Post office	750	210	540
Town building maintenance	9,000	9,215	(215)
Landfill well monitoring	12,000	10,632	1,368
Total Town property maintenance	<u>24,750</u>	<u>23,657</u>	<u>1,093</u>
Departments, training and travel			
Animal control	1,500	1,279	221
Planning and zoning	7,400	12,356	(4,956)
Recreation committee	2,840	3,417	(577)
Trails committee	800	165	635
Conservation commission	1,250	2,977	(1,727)
Training: municipal workshops	2,000	2,641	(641)
Mapping	5,000	300	4,700
Travel: mileage	3,000	1,644	1,356
Elections	9,100	10,550	(1,450)
Restoration and computerization	0	4,832	(4,832)
Land record restoration	1,500	1,500	0
Bio-Mass energy study	1,000	0	1,000
Reappraisal	0	24,000	(24,000)
Total departments, training and travel	<u>35,390</u>	<u>65,661</u>	<u>(30,271)</u>
Office equipment and supplies			
Computer equipment and support	9,800	8,263	1,537
Copier	4,000	3,775	225
Postage	4,500	5,230	(730)
Office furnishings and supplies	10,500	11,775	(1,275)
Total office equipment and supplies	<u>28,800</u>	<u>29,043</u>	<u>(243)</u>
Professional services			
Auditing and financial fees	12,000	11,312	688
Legal services	7,000	16,668	(9,668)
State police and sheriff	15,000	16,203	(1,203)
Total professional services	<u>34,000</u>	<u>44,183</u>	<u>(10,183)</u>

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

YEAR ENDED JUNE 30, 2011

	Original and final Budget	Actual	Variance Favorable (Unfavorable)
Local, regional and state organizations			
Underhill/Jericho Fire Department	163,485	163,485	0
Essex Rescue	4,500	4,500	0
Total local, regional and state organizations	<u>167,985</u>	<u>167,985</u>	<u>0</u>
Non-discretionary			
Chittenden County Court Tax	18,591	18,460	131
DRM Library	89,596	89,677	(81)
Jericho/Underhill Park District	9,200	9,200	0
CCMPO	2,323	2,323	0
CCRP	2,482	2,482	0
VLCT	3,628	3,628	0
Land contracts	93,000	109,157	(16,157)
Total non-discretionary	<u>218,820</u>	<u>234,927</u>	<u>(16,107)</u>
Social services			
Women Helping Battered Women	400	400	0
Ecumenical Food Shelf	500	500	0
CSUI	1,500	1,500	0
Visiting Nurse Association	6,520	6,520	0
Howard Mental Health	700	700	0
Jerihill Seniors	1,250	1,250	0
CVAAA	700	700	0
NVRDC	75	75	0
Cemetary	200	0	200
Memorial Day	300	284	16
Child Care Resource	100	100	0
Winooski National Resource	500	500	0
COTS	500	500	0
Contingency	15,000	4,493	10,507
Total social services	<u>28,245</u>	<u>17,522</u>	<u>10,723</u>
Total general government	<u>922,954</u>	<u>937,442</u>	<u>(14,488)</u>
Highway fund			
Salaries and insurance			
Salaries	195,048	202,942	(7,894)
Outside labor	6,000	10,112	(4,112)
Payroll taxes	14,921	14,554	367
Retirement	12,191	12,566	(375)
Health	44,844	28,131	16,714
Dental	3,312	2,230	1,082
Vision	747	337	410
Training	0	156	(156)
Insurance - general	0	20,662	(20,662)
Total salaries & insurance	<u>277,063</u>	<u>291,690</u>	<u>(14,627)</u>

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

YEAR ENDED JUNE 30, 2011

	Original and final Budget	Actual	Variance Favorable (Unfavorable)
Utilities			
Town shed - fuel	6,000	9,486	(3,486)
Town shed - telephone	2,000	1,988	12
Town shed - electricity	4,000	3,086	914
Total utilities	<u>12,000</u>	<u>14,560</u>	<u>(2,560)</u>
Equipment and supplies			
Gas, oil and grease	70,000	69,727	273
Gravel	70,000	67,964	2,036
Chloride	10,000	12,297	(2,297)
Salt	35,000	34,809	191
Sand	45,000	62,579	(17,579)
Equipment parts	70,000	38,142	31,858
Equipment repair	2,500	1,503	997
Equipment rental	4,000	81	3,919
Signs	3,000	478	2,522
Town shed - supplies	4,500	6,359	(1,859)
VOSHA requirements	2,500	703	1,797
Clothing allowance	2,200	2,060	140
Insured losses	0	4,950	(4,950)
Total equipment and supplies	<u>318,700</u>	<u>301,652</u>	<u>17,048</u>
Highway maintenance			
Roadside maintenance	20,000	8,089	11,911
Flash flood repair costs	0	86,598	(86,598)
Reconstruction	85,000	0	85,000
Culverts and bridges	20,000	7,615	12,385
Total highway maintenance	<u>125,000</u>	<u>102,302</u>	<u>22,698</u>
Debt service			
Principal	49,000	79,000	(30,000)
Interest	30,932	26,311	4,621
Total debt service	<u>79,932</u>	<u>105,311</u>	<u>(25,379)</u>
Capital Outlays			
Pleasant Valley Road construction	0	403,987	(403,987)
Highway equipment	0	3,453	(3,453)
Retreatment - roads	95,000	79,900	15,100
Total capital outlays	<u>95,000</u>	<u>487,340</u>	<u>(392,340)</u>
Total Highway	<u>907,695</u>	<u>1,302,855</u>	<u>(395,160)</u>
Total expenditures	<u>1,830,649</u>	<u>2,240,297</u>	<u>(409,648)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 0</u>	(139,243)	<u>\$ (139,244)</u>
FUND BALANCE - JULY 1, 2010		602,046	
FUND BALANCE - JUNE 30, 2011		<u>\$ 462,803</u>	

FOTHERGILL SEGALE & VALLEY

Certified Public Accountants



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

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

December 8, 2011

Selectboard Members
Town of Underhill
Underhill, Vermont

We have audited the financial statements of the major fund of the Town of Underhill, as of and for the year ended June 30, 2011, which is a portion of the Town's basic financial statements and have issued our report thereon dated December 8, 2011. The report on the financial statements of the major fund was adverse because Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America, specifically GASB 34 and GASB 37, require the presentation of government-wide financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the Town in a separate letter dated December 8, 2011.

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

Respectfully submitted,


FOTHERGILL SEGALE & VALLEY, CPAs
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