

TOWN OF DERBY, VERMONT

FINANCIAL STATEMENTS

Year Ended December 31, 2017

**TOWN OF DERBY, VERMONT
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INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen
Town of Derby
Derby, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Derby, Vermont, as of and for the year ended December 31, 2017, as listed in the table of contents, which collectively comprise the Town of Derby's basic financial statements.

Management's Responsibility

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 the 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 a 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 Town'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 Town'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 account estimates made by management, as well as evaluation of the overall presentation of the financial statements.

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To the Board of Selectmen
Town of Derby

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Derby as of December 31, 2017, 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.

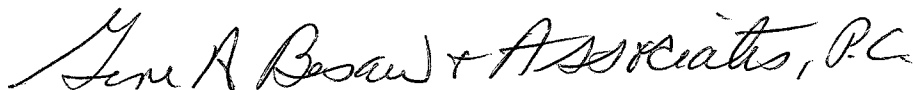
Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the financial statements. Such missing information, although not a part of the 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 the appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with "Government Auditing Standards," we have also issued our report dated January 25, 2018, on our consideration of Town of Derby's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Governmental Auditing Standards" in considering the Town of Derby's internal control over financial reporting and compliance.

Handwritten signature of Gene A. Besaw in cursive script.

Newport, Vermont
January 25, 2018
92-0000568

TOWN OF DERBY, VERMONT
STATEMENT OF NET POSITION
December 31, 2017

	Governmental Activities	Component Unit
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 572,859	\$ 88,579
Investments	-	19,482
Receivables:		
Taxes	333,933	-
Due from other funds	8,098	-
Total current assets	<u>914,890</u>	<u>108,061</u>
Non-current Assets		
Restricted cash	96,642	-
Property and equipment, net	4,786,484	1,450
Mortgage notes receivable	115,000	-
Total non-current assets	<u>4,998,126</u>	<u>1,450</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions - VMERS	95,121	-
Total assets and deferred outflows of resources	<u>6,008,137</u>	<u>109,511</u>
LIABILITIES		
Current Liabilities		
Accounts payable	17,448	-
Accrued compensated absences	5,611	-
Due to other funds	-	8,098
Current note payable portion long term - debt	146,677	-
Net pension liability	151,023	-
Deferred revenue - state aid	188,144	-
Total current liabilities	<u>508,903</u>	<u>8,098</u>
Non-current Liabilities		
Notes payable	674,199	-
Total liabilities	<u>1,183,102</u>	<u>8,098</u>
DEFERRED INFLOWS OF RESOURCES		
Pensions - VMERS	8,055	-
Unavailable revenue - property taxes	70,406	-
Total deferred inflow of resources	<u>78,461</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>1,261,563</u>	<u>8,098</u>
NET POSITION		
Net investment in capital assets	3,965,608	1,450
Restricted	696,356	99,963
Unassigned	84,610	-
Total net position	<u>\$ 4,746,574</u>	<u>\$ 101,413</u>

See notes to financial statements

**TOWN OF DERBY, VERMONT
STATEMENT OF ACTIVITIES
Year Ended December 31, 2017**

	Program Revenues				Net Revenue	Component Unit
	Expenses	Charges for Services	Operating Grants	Capital Grants/Contributions		
Functions/programs						
Governmental activities						
General government	\$ 600,146	\$ 63,972	\$ 23,428	\$ -	\$ (512,746)	\$ -
Public safety	327,656	9,472	-	92,783	(225,401)	-
Health and welfare	24,785	-	-	-	(24,785)	-
Transportation	945,074	13,672	176,830	91,414	(663,158)	-
Recreation	55,011	4,737	15,920	-	(34,354)	-
Appropriations	117,848	-	-	-	(117,848)	-
Intergovernmental	177,878	-	-	-	(177,878)	-
Total governmental activities	\$ 2,248,398	\$ 91,853	\$ 216,178	\$ 184,197	\$ (1,756,170)	\$ -
Component Unit						
Cemetery	\$ 42,122	\$ 7,480	\$ -	\$ -	\$ -	\$ (34,642)
Change in net position						
Net expense					\$ (1,756,170)	\$ (34,642)
General Revenues						
Property taxes					2,020,844	32,496
Intergovernmental					73,920	-
Interest and dividends					39,558	1,643
Unrealized loss on investments					-	(4,849)
Miscellaneous					19,060	-
Total general revenues					2,153,382	29,290
Change in net position					397,212	(5,352)
Net Position - Beginning of Year, Restate					4,349,362	106,765
Net Position - End of Year					\$ 4,746,574	\$ 101,413

See notes to financial statements

TOWN OF DERBY, VERMONT
BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2017

	General Fund	Community Development Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash				
Unrestricted	\$ 572,859	\$ -	\$ -	\$ 572,859
Restricted	96,642	-	-	96,642
Accounts receivable:				
Delinquent taxes and fees	333,933	-	-	333,933
Mortgage notes receivable	-	115,000	-	115,000
Due from other funds	9,483	-	-	9,483
Total assets	<u>\$ 1,012,917</u>	<u>\$ 115,000</u>	<u>\$ -</u>	<u>\$ 1,127,917</u>
LIABILITIES				
Accounts payable	\$ 17,448	\$ -	\$ -	\$ 17,448
Due to other funds	-	-	1,385	1,385
Deferred revenues - state aid	188,144	-	-	188,144
Total liabilities	<u>205,592</u>	<u>-</u>	<u>1,385</u>	<u>206,977</u>
DEFERRED INFLOW OF RESOURCES				
Unavailable revenue - property taxes	70,406	-	-	70,406
Total liabilities and deferred inflow of resources	<u>275,998</u>	<u>-</u>	<u>1,385</u>	<u>277,383</u>
FUND BALANCES				
Nonspendable	-	115,000	-	115,000
Restricted	581,356	-	-	581,356
Committed	75,213	-	-	75,213
Unassigned	80,350	-	(1,385)	78,965
Total fund balances	<u>736,919</u>	<u>115,000</u>	<u>(1,385)</u>	<u>850,534</u>
Total liabilities, deferred inflow of resources, and fund balances	<u>\$ 1,012,917</u>	<u>\$ 115,000</u>	<u>\$ -</u>	<u>\$ 1,127,917</u>

See notes to financial statements

TOWN OF DERBY, VERMONT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2017

Total Fund Balances - Governmental Funds	\$	850,534
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental fund financial statements.		7,815,099
Accumulated depreciation has not been included in the governmental fund financial statements.		(3,028,615)
For governmental funds, the issuance of long-term debt provides current financial resources and the repayment of long-term debt consumes current financial resources. Neither transaction, however, has any effect on the net position. This amount is the net effect of these differences in the treatment of long-term debt.		(820,876)
For governmental funds, the liability for accrued compensated absences is not recorded. The expense is recorded when incurred.		(5,611)
Pension differences occur as a result of changes in the Town's proportion of the collective net pension asset/liability and differences between the Town's contributions and its proportionate share of the total contributions to the systems. The followings are the differences:		
Deferred outflows of resources		
Pension - VMERS		95,121
Deferred inflows of resources		
Pension - VMERS		(8,055)
Net pension liability		<u>(151,023)</u>
Net Position of Governmental Activities	\$	<u>4,746,574</u>

See notes to financial statements

TOWN OF DERBY, VERMONT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES
Year Ended December 31, 2017

	General Fund	Community Development Fund	Other Governmental Funds	Total
Revenues				
Property taxes	\$ 2,020,844	\$ -	\$ -	\$ 2,020,844
Donations	92,783	-	-	92,783
Licenses and permits	20,504	-	-	20,504
Fees and charges for services	66,308	-	-	66,308
Intergovernmental revenue	365,592	-	15,920	381,512
Interest and penalties	39,558	-	-	39,558
Local fines	5,041	-	-	5,041
Miscellaneous	19,060	-	-	19,060
Total revenues	<u>2,629,690</u>	<u>-</u>	<u>15,920</u>	<u>2,645,610</u>
Expenditures				
General government	556,567	-	-	556,567
Public safety	231,702	-	-	231,702
Health and welfare	24,785	-	-	24,785
Transportation	703,917	-	-	703,917
Recreation	15,679	-	37,369	53,048
Appropriations	117,848	-	-	117,848
Intergovernmental	177,878	-	-	177,878
Capital outlay	859,317	-	-	859,317
Debt service	107,614	-	-	107,614
Total expenditures	<u>2,795,307</u>	<u>-</u>	<u>37,369</u>	<u>2,832,676</u>
Excess of expenditures (over) revenues	<u>(165,617)</u>	<u>-</u>	<u>(21,449)</u>	<u>(187,066)</u>
Other Financing Sources (Uses)				
Proceeds long-term debt	280,876	-	-	280,876
Transfer in (out)	(15,000)	-	15,000	-
Total other financing sources (uses)	<u>265,876</u>	<u>-</u>	<u>15,000</u>	<u>280,876</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	100,259	-	(6,449)	93,810
Fund Balance, Beginning of Year	636,660	115,000	5,064	756,724
Fund Balance, End of Year	<u>\$ 736,919</u>	<u>\$ 115,000</u>	<u>\$ (1,385)</u>	<u>\$ 850,534</u>

See notes to financial statements

TOWN OF DERBY, VERMONT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

Total Net Change in Fund Balances - Governmental Funds	\$	93,810
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of the current year's depreciation is to decrease net position.		(311,872)
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		844,562
Governmental funds report Town pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employer contributions is reported as pension expense.		(19,156)
Accrued compensated absences is not recognized as an expense in governmental funds since it is not due and payable with current financial resources. This is the current year change in the accrual.		744
The issuance of long-term debt is recorded as another financing source; however in the Statement of Activities issuance of long-term debt reduces net position. This is the current year long-term debt that was issued.		(280,876)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		<u>70,000</u>
Change in Net Position of Governmental Activities	\$	<u>397,212</u>

See notes to financial statements

TOWN OF DERBY, VERMONT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended December 31, 2017

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 2,048,695	\$2,020,844	\$ (27,851)
Donations	-	92,783	92,783
Licenses and permits	24,210	20,504	(3,706)
Fees and charges for services	48,500	66,308	17,808
Intergovernmental revenue	225,000	365,592	140,592
Interest and penalties	34,000	39,558	5,558
Local fines	4,000	5,041	1,041
Miscellaneous	5,500	19,060	13,560
Total revenues	<u>2,389,905</u>	<u>2,629,690</u>	<u>239,785</u>
Expenditures			
General government	573,550	556,567	16,983
Public safety	282,946	231,702	51,244
Health and welfare	26,285	24,785	1,500
Transportation	830,912	703,917	126,994
Recreation	13,114	15,679	(2,564)
Appropriations	117,848	117,848	-
Intergovernmental	166,909	177,878	(10,969)
Capital outlay	645,000	859,317	(214,317)
Debt service	103,224	107,614	(4,390)
Total expenditures	<u>2,759,788</u>	<u>2,795,307</u>	<u>(35,519)</u>
Excess of revenues over (under) expenditures	<u>(369,883)</u>	<u>(165,617)</u>	<u>204,266</u>
Other Financing Sources (Uses)			
Proceeds long-term debt	-	280,876	280,876
Transfer out	(15,000)	(15,000)	-
Total other financing sources (uses)	<u>(15,000)</u>	<u>265,876</u>	<u>280,876</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(384,883)</u>	<u>100,259</u>	<u>485,142</u>
Fund Balance, Beginning of Year	<u>636,660</u>	<u>636,660</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 251,777</u>	<u>\$ 736,919</u>	<u>\$ 485,142</u>

See notes to financial statements

TOWN OF DERBY, VERMONT
BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT
December 31, 2017

	Cemetery Fund
ASSETS	
Cash	\$ 88,579
Investments	19,482
Total assets	\$ 108,061
 LIABILITIES AND FUND BALANCE	
Liabilities	
Due to other funds	\$ 8,098
Fund Balance	
Restricted	99,963
Total liabilities and fund balance	\$ 108,061

See notes to financial statements

**TOWN OF DERBY, VERMONT
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT
Year Ended December 31, 2017**

Total Fund Balance	\$ 99,963 ✓
Capital assets used in the discretely presented component unit are not financial resources and therefore are not reported in the balance sheet.	18,350
Accumulated depreciation has not been included in the balance sheet.	<u>(16,900)</u>
Net Position of the Discretely Presented Component Unit	<u><u>\$ 101,413</u></u>

TOWN OF DERBY, VERMONT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE
DISCRETELY PRESENTED COMPONENT UNIT
Year Ended December 31, 2017

	Cemetery Fund
Revenues	
Property taxes	\$ 32,496
Fees and charges for services	5,530
Interest and dividends	1,643
Sale of lots	1,950
Total revenues	41,619
Expenditures	
Cemetery	41,340
Excess of revenues over expenditures	279
Other Financing Uses	
Unrealized loss on investments	(4,849)
Excess of expenditures and other financing uses over revenues	(4,570)
Fund Balance, Beginning of Year	104,533
Fund Balance, End of Year	\$ 99,963

See notes to financial statements

TOWN OF DERBY, VERMONT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF
ACTIVITIES - DISCRETELY PRESENTED COMPONENT UNIT
Year Ended December 31, 2017

Total Net Change in Fund Balance	\$	(4,570)
Depreciation is not recognized as an expense since it does not require the the use of current financial resources. The effect of the current year depreciation is to decrease net position.		
		(782)
Change in Net Position of the Discretely Presented Component Unit	\$	(5,352)

See notes to financial statements

TOWN OF DERBY, VERMONT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
December 31, 2017

	<u>School Scholarship Account</u>
ASSETS	
Cash and cash equivalents	\$ 226
Investments - certificates of deposits	<u>2,000</u>
Total assets	<u><u>\$ 2,226</u></u>
NET POSITION	
Held in trust	<u><u>\$ 2,226</u></u>

See notes to financial statements

**TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies

The Town of Derby (the Town) has adopted the accounting principles generally accepted in the United States of America established by the Governmental Accounting Standards Board ("GASB"), the accepted standard setting body for establishing accounting and financial reporting principles for government units.

The Board of Selectmen of the Town adopted the following policies which are consistently applied in the preparation of the financial statements. The following is a summary of the more significant policies.

Reporting Entity: The Town, for financial reporting purposes, includes all of the funds relevant to the operations of the Town of Derby. The Town also considered all potential "components units" for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town's financial statements to be incomplete. The financial statements presented herein do not include entities which have been formed under applicable state laws or separate and distinct units of government apart from the Town of Derby.

The Town of Derby Board of Selectmen is the basic level of government which has oversight responsibility and control over all activities related to the Town. The Town receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the Town is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since Board members are elected by the public and have decision making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

The financial statements of the Town do not include those of separately administered entities that are not controlled by or dependent on the Town. Such control or dependence ("oversight responsibility") is determined on the basis of five basic characteristics; financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Based upon the foregoing criteria, the financial statements of the following entities are excluded from the accompanying financial statements:

Town of Derby School District
Village of Derby Center
Village of Derby Line
Derby Line Fire Department
Derby Line Ambulance Service, Inc.
Derby Historical Society

These entities are not part of the Town's reporting entity because the Town exercises no oversight responsibility and has no accountability for fiscal matters. The significant factors for exclusion are: the directors or trustees are elected directly by the registered voters or members; the Town cannot significantly influence the entities' operations; the entities have

TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

sole budgetary authority; the entities control surpluses and deficits; the Town is not responsible for fiscal management and fee determination.

Based upon the application of the criteria contained in GASB Statement No. 14, the Town of Derby Cemetery Fund is reported as a discrete component unit. The fund is reported separately to emphasize that it is legally separate from the Town. The fund is considered a component unit as a significant portion of its revenue is from real estate taxes raised by the Town.

Government-Wide and Fund Financial Statements: The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information of the Town's nonfiduciary activities as a whole, with most of the interfund activities removed, and its component unit. Governmental activities include programs supported primarily by taxes, state aid, grants, and other intergovernmental revenues. The Town has no business-type activities that rely, to a significant extent, on fees and charges for support. The Town is reported separately from the legally separate component unit for which the Town is financially accountable.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines, and forfeitures, and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities, including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Interfund activities between governmental funds appear as due to/due from on the Governmental Fund Balance Sheet and as other sources and other uses on the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds, fiduciary funds, and component units remain as due to/due from on the government-wide Statement of Net Position.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for Town's operations, they are not included in the government-wide statements. The Town does not have any proprietary type funds.

TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation: The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Fiduciary funds also report using this same focus and basis of accounting.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year they are assessed while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets and current liabilities (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable. However, debt service expenditures are recorded when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources. The Town considers all revenues available if they are collectible within 60 days after year end, except those receivables related to reimbursement of incurred costs under contracts and grants. The time period for those receivables is based on the term of the agreements.

Property taxes are recognized under the susceptible to accrual concept in accordance with Governmental Accounting Standards Board Pronouncements. Revenues received from the State of Vermont are also recognized when susceptible to accrual. Miscellaneous revenues and fees are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Grant revenues are considered to be earned to the extent of expenditures made under the provisions of the grant.

Net Position and Fund Balance:

Government-Wide Financial Statements

Net Position on the Statement of Net Position include the following:

Net investment in capital assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly

TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

attributable to the acquisition, construction, or improvement of these capital assets.

Restricted net position – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grants, or laws and regulations of other governments or 2) law through constitutional provisions or enabling legislation.

Unrestricted – The difference between the assets and liabilities that is not reported in net position invested in capital assets or restricted net position.

Governmental Fund Financial Statements:

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance: This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance: These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Board, which is the Town's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board removes the specified use by taking the same type of action imposing the commitment. This classification also includes voter approved reservations and contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance: This classification reflects the amounts constrained by the Board's "intent" to be used for specific purposes, but are neither restricted nor committed. The Board has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance: This fund balance is the residual classification for the

TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted fund balances are available for use, it is the Town's policy to use restricted funds first, then unrestricted funds. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Basis of Presentation Fund Accounting: The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equities, revenues, and expenditures. Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Governmental Funds

These funds are used to account for the programs and activities of the governmental functions of the Town.

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. This is a budgeted fund and any fund balances are considered as resources available for use.

Special Revenue Fund - to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Community Development and Lake Salem Milfoil Prevention Funds are special revenue funds.

Fiduciary Funds

Nonexpendable Trust Funds - to account for assets held by the Town in a trustee capacity for individuals, private organizations, and other governmental units and funds.

Accounts Receivable - Delinquent Taxes and Fees: Delinquent taxes and fees represent property taxes and related fees in arrears as of December 31, 2017. The Town has the legal right to force sale of the property to recover the taxes and fees; and the value of the properties exceed the amount due. Therefore, no allowance for doubtful accounts has been recognized.

Capital Assets: The Town's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The Town maintains infrastructure asset records consistent with all other capital assets. The Town has elected under the requirements of GASB Statement No.

TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

34 not to capitalize infrastructure costs prior to January 1, 2004. Donated assets are stated at fair value on the date donated. The Town generally capitalizes assets with a cost of \$2,500 for vehicles and machinery, \$12,500 for land improvements, \$25,000 for building and building improvements, and \$100,000 for infrastructure. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	5-40
Vehicles	5-15
Equipment	5-15
Infrastructure	20-40

Compensated Absences: All full-time employees of the Town accumulate vacation and sick leave during the calendar year. All full-time employees are entitled to three days of sick leave per year. Sick leave may be accumulated indefinitely; however, upon termination of employment voluntary, involuntary, or upon retirement, no compensation shall be granted for any unused portion of sick leave remaining. Vacation leave is based upon the number of years employed by the Town. A maximum of fifteen (15) days accrued vacation time may be carried over.

Due To/From Other Funds: Generally, outstanding balances between funds reported as “due to/from other funds” include outstanding charges by one fund to another for services or goods and other miscellaneous receivables/payables between funds. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are also described as “due to/from other funds”

Deferred Inflows of Resources: In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Town has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. The governmental funds reports unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Pension plan:

Information required under GASB Statement No. 68

Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, requires employers participating in a cost-sharing, multiple-employer defined benefit pension plan to recognize their proportional share of total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense.

**TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies (continued)

The schedules below have been prepared to show the Town's proportional share of the overall amounts of the Vermont Municipal Retirement Plan (VMERS) plan. The Town's portion has been allocated based on the Town's proportional share of employer contributions to the total contributions to VMERS during the fiscal year.

Schedule A – Employer Allocations as of June 30, 2015:

Fiscal Year Ended June 30, 2015

<u>Reported Contributions</u>	<u>Employer Proportion</u>	<u>Total Pension Liability</u>
\$17,385	0.12437%	\$762,388

Fiscal Year Ended June 30, 2015

<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>	<u>Total Deferred Outflows</u>	<u>Total Deferred Inflows</u>	<u>Net Pension Liability 1% Decrease (6.95% Discount Rate)</u>	<u>Net Pension Liability 1% Increase (8.95% Discount rate)</u>
\$666,504	\$95,884	\$40,650	\$(8,086)	\$191,522	\$15,712

Schedule B – Allocations of Pension Amounts as June 30, 2016

Fiscal Year Ended June 30, 2016

<u>Employer Contributions</u>	<u>Employer Proportion</u>	<u>Total Pension Liability</u>
\$17,385	0.11735%	\$792,939

<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>	<u>Total Deferred Outflows</u>	<u>Total Deferred Inflows</u>	<u>Net Pension Liability 1% Decrease (6.95% Discount Rate)</u>	<u>Net Pension Liability 1% Increase (8.95% Discount rate)</u>
\$641,915	\$151,203	\$76,325	\$(8,055)	\$250,714	\$67,553

Schedule C – Allocations of Pension Amounts as June 30, 2016

**TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies (continued)

Deferred Outflows of Resources

<u>Employer Proportion</u>	<u>Net Pension Liability</u>	<u>Difference Between Expected and Actual Experience</u>	<u>Changes in Assumptions</u>	<u>Changes in Benefits</u>	<u>Difference Between Projected and Actual Investment Earnings</u>	<u>Difference Between Employer Contributions and Proportionate Share of Total Contributions</u>	<u>Total Deferred Outflows</u>
0.11735%	\$151,023	\$3,102	\$24,254	\$0	\$48,969	\$0	\$76,325

Deferred Inflows of Resources

<u>Difference Between Expected and Actual Experience</u>	<u>Changes in Assumptions</u>	<u>Changes in Benefits</u>	<u>Difference Between Projected and Actual Investment Earnings</u>	<u>Difference Between Employer Contributions and Proportionate Share of Total Contributions</u>	<u>Total Deferred Inflows</u>
\$0	\$0	\$0	\$0	(\$8,055)	(\$8,055)

Pension Expense Recognized

<u>Proportionate Share of Pension Plan Expense</u>	<u>Change in Proportional Share of Contributions</u>	<u>Total</u>
\$40,418	(\$3,150)	\$37,268

Schedule D – Employers’ Allocation of Recognition of Deferred Outflows/Inflows as of June 30, 2016

<u>Fiscal Year Ending</u>					
<u>June 30, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2020</u>	<u>June 30, 2021</u>	<u>Thereafter</u>
\$16,724	\$16,724	\$26,374	\$8,449	\$0	\$0

Schedule E – Contribution History for Fiscal Years 2014-2016

<u>FY 2016</u>	<u>FY2015</u>	<u>FY2014</u>
\$17,835	\$17,385	\$18,799

The full report containing the schedules of all employers in the VMERS plan is available on the State of Vermont Treasurer’s website at:

**TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies (continued)

<http://www.vermonttreasurer.gov/content/retirement/vmers/>

The schedule of employer allocations and schedule of pension amounts by employer are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The schedules present amounts that are elements of the financial statements of the Vermont Municipal Employees' Retirement System (VMERS) or its participating employers. VMERS does not issue stand-alone financial reports, but instead are included as part of the State of Vermont's Comprehensive Annual Financial Report (CAFR). The CAFR can be viewed on the State's Department of Finance & Management website at:

<http://finance.vermont.gov/reports-and-publications/cafr>

Plan Description

The Vermont Municipal Employees' Retirement System is a cost-sharing, multiple-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 institutions 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, 2016, the retirement system consisted of 441 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 the 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

Membership	Full time employees of participating municipalities. Municipality elects coverage under Groups A, B, C, or D provisions.
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**TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies (continued)

Creditable Service	Service as a member plus purchased service.
Average Final Compensation (AFC)	<p>Group A – average annual compensation during highest 5 consecutive years.</p> <p>Groups B and C – average annual compensation during highest 3 consecutive years.</p> <p>Group D – average annual compensation during highest 2 consecutive years.</p>
Service Retirement Allowance	
Eligibility	<p>Group A – The earlier of age 65 with 5 years of service or age 55 with 35 years of service.</p> <p>Group B – The earlier of age 62 with 5 years of service or age 55 with 30 years of service.</p> <p>Groups C and D – Age 55 with 5 years of service.</p>
Amount	<p>Group A – 1.4% of AFC x service.</p> <p>Group B – 1.7% of AFC x service as Group B member plus percentage earned as Group A member x AFC.</p> <p>Group C – 2.5% of AFC x service as a Group C member plus percentage earned as a Group A or B member x AFC.</p> <p>Group D – 2.5% of AFC x service as a Group D member plus percentage earned as a Group A, B, or C member x AFC.</p> <p>Maximum benefit is 60% of AFC for Groups A and B and 50% of AFC for Groups C and D. The above amounts include the portion of the allowance provided by member contributions.</p>
Early Retirement Allowance	
Eligibility	Age 55 with 5 years of service for Groups A and B; age 50 with 20 years of service for Group D.
Amount	Normal allowance based on service and AFC at early retirement, reduced by 6% for each year commencement precedes Normal Retirement Age for Group A and B members, and payable without reduction to Group D members.
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

**TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies (continued)

	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; children's benefit of 10% of AFC payable to up to three minor children (or children up to age 23 if enrolled in full-time studies) of a disabled Group D member.
Death Benefit	
Eligibility	Death after 5 years of service.
Amount	For Groups A, B, and C, 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. For Group D, 70% of the unreduced accrued benefit plus children's benefit.
Optional Benefit and Death After Retirement	For Groups A, B, and C, lifetime allowance or actuarially equivalent 50% or 100% joint and survivor allowance with refund of contribution guarantee. For Group D, lifetime allowance or 70% contingent annuitant option with no reduction.
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 2% for Group A and 3% for Groups B, C, and D.
Member Contributions	Group A – 2.5%. Group B – 4.875%. Group C – 10.00%. Group D – 11.35%.
Employer Contributions	Group A – 4.0%.

**TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies (continued)

	Group B – 5.5%.
	Group C – 7.25%.
	Group D – 9.85%.
Retirement Stipend	\$25 per month payable at the option of the Board of Retirees.

Significant Actuarial Assumptions and Methods

Interest Rate: 7.95% per annum.

Salary Increases: 5% per year.

Deaths:

Groups A, B and C : RP-2000 Tables for Employees and Healthy Annuitants projected 10 years from the valuation date with Scale BB with a 60% blue collar and 40% white collar adjustment.

Group D : RP-2000 Tables for Employees and Healthy Annuitants projected 10 years from the valuation date with Scale BB with a 100% blue collar adjustment.

The post-retirement mortality assumption was chosen to recognize improved longevity experience after the valuation date.

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

Cost-of-Living Adjustments to Benefits of Terminated Vested and Retired Participants: Assumed to occur at the rate of 1.5% per annum for Group A members and 1.8% per annum for members of Groups B, C, and D.

Actuarial Cost Method: Projected benefit cost method. The unfunded accrued liability is amortized in installments increasing by 5% per year.

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

Note – For funding purposes – 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 differences between actual and assumed investment return. Then value of assets for actuarial purposes may not differ from the market value of assets by more than 20% (Not for GASB68).

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

**TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies (continued)

Long-term Expected Rate of Return

The long-term expected rate of return on System investments was determined using best-estimate ranges of expected future real rates of return (expected returns, net of investment expense, and inflation) developed for each major asset class using an econometric model that forecast a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variable and the asset classes. These best estimate ranges were combined to produce forecasts of the short, intermediate, and longer term horizons by weighting the expected future nominal rates of return by the target asset allocation percentage. The various time horizons in the forecast are intended to capture more recent economic and capital market conditions as well as other plausible environments that could develop in the future over economic cycles.

Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of June 30, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	8.54%
Fixed Income	2.36%
Alternatives	8.35%
Multi-strategy	4.90%

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

Discount Rate

The discount rate used to measure the total pension liability was 7.95%. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current System members. The assumed discount rate has been determined in accordance with the method prescribed by GASB 68.

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.95%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower (6.95%) or one percent higher (8.95%):

<u>1% Decrease (6.95%)</u>	<u>Discount Rate (7.95%)</u>	<u>1% Increase (8.95%)</u>
<u>\$250,714</u>	<u>\$151,203</u>	<u>\$67,553</u>

TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

For the year ended December 31, 2017, the Town recognized pension expense of \$18,796 for payments to the Vermont Municipal Employee Retirement System. These contributions will be recognized as a reduction of the net pension liability for year end December 31, 2018.

For the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources, and pension expense of the Vermont Municipal Employees' Retirement System (VMERS) was determined on the same basis as they are reported by VMERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

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

At December 31, 2017, the Town reported a liability of \$151,023 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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 to the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating towns, actuarially determined. At June 30, 2016, the Town's proportion was .11735%, which was a decrease of .0702% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2017, the Town recognized pension expense of \$19,156. At December 31, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experiences	\$ 3,102	\$ -
Changes in assumptions	24,254	-
Difference between projected and actual investment earnings	48,969	-
Change in proportional share of contributions	-	8,055
Town's contributions subsequent to the measurement date	<u>18,796</u>	<u>-</u>
Total	<u>\$ 95,121</u>	<u>\$ 8,055</u>

TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Property Taxes: The Town is responsible for assessing, collecting, and distributing property taxes in accordance with state statutes. Property taxes are billed in one installment based on the assessed property value.

Taxes were assessed July 31 and were due and payable on October 16. All unpaid taxes assessed become delinquent October 17.

Taxes Collected for Others: Property taxes collected by the Town include taxes assessed for the Derby School District. The Town is ultimately responsible for the collection of these taxes which are remitted to the school district as required by law. Total taxes collected on behalf of the school amounted to \$7,220,272.

Budgetary Accounting: General government revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary system in accordance with various legal requirements which govern the Town's operations. The budgets of the Town of Derby for the General Fund and Cemetery Fund are formally acted upon at the annual Town meeting. All budget appropriations lapse at year end.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2. Cash

For financial statement reporting purposes, cash and cash equivalents are defined as all bank deposits with original maturities of three (3) months or less. The Town authorizes the Treasurer to invest cash in bank accounts, obligations of the U.S. Treasury, commercial paper, and corporate bonds. The Town has adopted a formal deposit and investment policy.

The Town's policy is as follows:

Credit risk will be minimized by diversifying the Town's investment portfolio so that the impact of potential losses from any one type of investment will be minimized. Interest rate risk will be minimized by investing operating funds primarily in shorter term securities, money market mutual funds, or similar investment pools, and limiting the average maturity of the Town's investment portfolio.

At December 31, 2017, the carrying amount of the Town's and Component Unit's deposits, including certificates of deposits, was \$760,105 and the bank balance was \$790,303. The bank balances are covered by Federal Depository Insurance to the limit of \$250,000 for interest bearing accounts and \$250,000 for non-interest bearing accounts per bank. At December 31, 2017, deposits exceeded this coverage by \$451,725. The excess funds are covered by a irrevocable stand-by letter of credit from Federal Home Loan Bank of Boston up to a limit of \$750,000.

**TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS**

Note 2. Cash (continued)

At December 31, 2017, the Town had in restricted cash for the following purposes:

Fire department equipment	\$92,799
Record restoration	<u>3,843</u>
	<u>\$96,642</u>

Note 3. Investments

All investments, held in the name of the Town are stated at market value. At December 31, 2017, investments in corporate stock had a cost basis of \$200. Market value of the investments was determined by quoted market prices at December 31, 2017, as follows:

Canadian Imperial Bank of Commerce stock	<u>\$ 19,482</u>
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Note 4. Delinquent Taxes and Fees Receivable

An analysis of delinquent taxes and fees receivable for the year ended December 31, 2017, is as follows:

12/31/09	\$ 2,534
12/31/10	3,109
12/31/11	4,790
12/31/12	3,274
12/31/13	3,899
12/31/14	3,256
12/31/15	3,800
12/31/16	55,848
12/31/17	<u>253,423</u>
	<u>\$333,933</u>

Note 5. Capital Assets Activity

Capital assets activity in the Town for the year ended December 31, 2017, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Equipment				
Highway	\$1,347,953	\$ 488,273	\$ 105,500	\$ 1,730,726
General	159,396	-	-	159,396
Fire	1,066,501	-	-	1,066,501
Land	60,684	-	-	60,684
Infrastructure	2,196,637	356,289	-	2,552,926
Recreation	3,999	-	-	3,999
Buildings	<u>2,240,867</u>	<u>-</u>	<u>-</u>	<u>2,240,867</u>
	7,076,037	844,562	105,500	7,815,099

**TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS**

Note 5. Capital Assets Activity (continued)

Component Unit	<u>18,350</u>	<u>-</u>	<u>-</u>	<u>18,350</u>
Total at Historic Cost	<u>7,094,387</u>	<u>844,562</u>	<u>105,500</u>	<u>7,833,449</u>
Less Accumulated Depreciation for:				
Governmental Activities:				
Equipment				
Highway	818,950	125,255	105,500	838,705
General	159,396	-	-	159,396
Fire	633,098	48,693	-	681,791
Infrastructure	259,738	82,221	-	341,959
Recreation	934	267	-	1,201
Buildings	<u>950,127</u>	<u>55,436</u>	<u>-</u>	<u>1,005,563</u>
	2,822,243	311,872	105,500	3,028,615
Component Unit	<u>16,118</u>	<u>782</u>	<u>-</u>	<u>16,900</u>
Total Accumulated Depreciation	<u>2,838,361</u>	<u>312,654</u>	<u>105,500</u>	<u>3,045,515</u>
Capital Assets, Net	<u>\$4,256,026</u>	<u>\$ 531,908</u>	<u>\$ -</u>	<u>\$ 4,787,934</u>

Governmental activities	\$4,786,484
Component unit	<u>1,450</u>
	<u>\$ 4,787,934</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 16,894
Public safety	74,952
Transportation	218,026
Culture & recreation	<u>2,000</u>
Total depreciation expense	<u>\$311,872</u>

Depreciation for the component unit was \$782 for the year ended December 31, 2017.

Note 6. Mortgage Notes Receivable

Mortgage notes receivable consists of the following as of December 31, 2017:

Mortgage receivable, Derby Village Housing, due June 1, 2025, bearing no interest, secured by land and buildings	<u>\$ 115,000</u>
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**TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS**

Note 7. Note Payable – Short-Term

During 2017, the Town issued a grant anticipation note to pay capital expenses until the grant was received. The note was with Community National Bank for \$631,883, interest at 2.85%, due April 24, 2018.

Short-term notes payable activity for the year ended December 31, 2017, is as follows:

	<u>01/01/17</u>	<u>Issued</u>	<u>Retired</u>	<u>12/31/17</u>
Tax anticipation notes	\$ -	\$631,883	\$631,883	\$ -

Interest expense on short-term debt for the year ended December 31, 2017, was \$11,799. Interest expense was charged to the general government function.

Note 8. General Long-Term Debt

	<u>Balance 01/01/17</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12/31/17</u>
Note payable, Vermont Municipal Bond Bank, payable December 1 of each year, yearly principal payment of \$20,000, interest due semi-annually at 4.65% to 5.09%, final payment due December 2024. Total note of \$410,000.	\$ 160,000	\$ -	\$ 20,000	\$ 140,000
Note payable, Vermont Municipal Bond Bank, payable December 1 of each year, yearly principal payment of \$50,000, interest due semi-annually at 4.28% to 4.58%, final payment due December 2025. Total note of \$1,035,000.	450,000	-	50,000	400,000
Note payable, Community National Bank, payable September 12 of each year, yearly principal and interest payment of \$34,783, interest at 1.75%, final payment due September 12, 2020, secured by equipment.	-	100,800	-	100,800
Note payable, Community National Bank, payable August 30 of each year, yearly principal and interest payment of \$47,350, interest at 2.05%, final payment due August 30, 2021, secured by equipment.	-	180,076	-	180,076
Total general long-term debt	<u>\$610,000</u>	<u>\$280,876</u>	<u>\$70,000</u>	<u>\$820,876</u>

**TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS**

Note 8. General Long-Term Debt (continued)

Debt service requirements for general long-term debt to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 146,677	\$ 30,000	\$ 176,677
2019	148,151	25,464	173,615
2020	149,651	20,852	170,503
2021	116,397	16,172	132,569
2022	70,000	12,037	82,037
2023-2027	<u>190,000</u>	<u>16,675</u>	<u>206,675</u>
Total	<u>\$ 820,876</u>	<u>\$121,200</u>	<u>\$ 942,076</u>

Interest expense on long-term debt for the year ended December 31, 2017, was \$25,816. Interest expense of \$21,002 was charged to the public safety function and \$4,813 was charged to general government function.

Note 9. Accrued Compensated Absences

Accrued compensated absences in the Statement of Net Position reflect the liability for earned vacation time and compensation time at December 31, 2017. The total outstanding payable at December 31, 2017, was \$5,611. The activity for the year 2017 is as follows:

	<u>Balance</u> <u>1/01/17</u>	<u>Decrease</u>	<u>Balance</u> <u>12/31/17</u>
Accrued vacation and compensation time	<u>\$ 6,355</u>	<u>\$ 744</u>	<u>\$ 5,611</u>

Note 10. Related Party

The Town pays the Village of Derby Line for road and sidewalk maintenance and the Town's share of the water project. The Town also pays the Village of Derby Center for water and sewer usage. The total paid to the Village of Derby Line was \$105,403 and the Village of Derby Center was \$13,211 for the year ended December 31, 2017.

Note 11. Fund Equity - Restricted

The Town has restricted funds for future expenditures that relate to the following activities:

Highway	\$484,730
Fire Department – equipment	92,783
Land records restoration	<u>3,843</u>
	<u>\$581,356</u>

Note 12. Fund Balances - Committed

The Town has assigned funds for future expenditures that relate to the following activities:

**TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS**

Note 12. Fund Balances – Committed (continued)

Salem Beach House	\$ 667
Veterans memorial	7,997
Dog park	7,744
Recreation	<u>58,805</u>
	<u>\$75,213</u>

Note 13. Donations

On November 6, 2017, the Town received a donation of \$92,783 from the Renihan Family Trusts B/C to be used solely for the purchase of new equipment for the Town’s fire department.

Note 14. Transfers To and From Funds

Interfund transfers are used to 1) move revenues from the fund where they are authorized for collections by statute or budget to the fund where the expenditures are required and 2) use unrestricted revenues collected to finance various programs accounted for in other funds. Interfund transfers are eliminated in the government-wide financial statements if the transfers are between governmental funds. Transfers to and from other funds for the year ended December 31, 2017, consisted of the following:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Salem Milfoil Prevention Fund	<u>\$15,000</u>	Operating expenses

Note 15. Commitments and Contingencies

Federal and State Grants: In the normal course of operations, the Town receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

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 benefits from sovereign immunity and 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 commercial coverage in any of the past three (3) fiscal years. The Town may withdraw from the fund by giving sixty days notice. Fund underwriting and rate setting policies have been established after consultation with actuaries. Fund members are subject to a 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.

**TOWN OF DERBY, VERMONT
NOTES TO FINANCIAL STATEMENTS**

Note 15. Commitments and Contingencies (continued)

The Town is also a member of the Vermont League of Cities and Towns Unemployment Insurance Trust. The Unemployment Insurance 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 16. Subsequent Events

Management has evaluated subsequent events through January 25, 2018, the date the financial statements were available to be issued.

GENE A. BESAW & ASSOCIATES, P.C.

Certified Public Accountants & Consultants

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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 Board of Selectmen
Town of Derby
Derby, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Derby as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town of Derby's basic financial statements and have issued our report thereon dated January 25, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Derby's internal control over financial reporting (internal control) to determine 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 Derby's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Derby'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 Town'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 significant deficiencies or material weaknesses. Given these limitations,

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To the Board of Selectmen
Town of Derby


during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Derby'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."

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 Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "June A. Besaw Associates, P.C." The signature is written in black ink and is positioned above the printed name and address.

June A. Besaw Associates, P.C.
Newport, Vermont
January 25, 2018
92-0000568