

TOWN OF DERBY, VERMONT

Financial Statements

December 31, 2018

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Independent Auditor's Report

To the Selectboard
Town of Derby
Derby Center, Vermont

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, 2018, and the related notes to the financial statements, which collectively comprise a portion of the Town of Derby Vermont's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Derby, Vermont as of December 31, 2018, and the respective change in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, on page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management discussion and analysis, schedule of local government's proportionate share of the net pension liability, and schedules of the local government's contributions that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 June 6, 2019, on our consideration of the Town of Derby, Vermont's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Derby, Vermont's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Derby, Vermont's internal control over financial reporting and compliance.

Telling & Hillman, P.C.

Telling & Hillman, P.C.
Middlebury, Vermont
June 6, 2019
License #092.0131564

TOWN OF DERBY, VERMONT
Statement of Net Position
December 31, 2018

	Governmental Activities	Component Unit
Assets		
Current assets:		
Cash	\$ 499,515	\$ 87,737
Investments	-	28,468
Delinquent taxes receivable	296,463	-
Due from other funds	9,090	-
Total current assets	805,068	116,205
Noncurrent assets:		
Restricted cash	37,692	-
Land, building, and equipment (net)	4,785,032	870
Mortgage notes receivable	115,000	-
Total non-current assets	4,937,724	870
Deferred outflows of resources		
Pensions- VMERS	78,718	-
Total assets and deferred outflows of resources	\$ 5,821,510	\$ 117,075
Liabilities		
Current liabilities:		
Accounts payable	\$ 15,347	\$ -
Due to other funds	-	9,090
Notes payable, current	148,151	-
Deferred revenue - state aid	210,661	-
Total current liabilities	374,159	9,090
Long term liabilities:		
Notes payable, less current portion	526,048	-
Net pension liability	143,534	-
Accrued compensated absences	8,434	-
Total liabilities	1,052,175	9,090
Deferred inflows of resources		
Pensions- VMERS	8,458	-
Unavailable revenue - property taxes	31,298	-
Total deferred inflows of resources	39,756	-
Net Position		
Net investment in capital assets	4,110,833	870
Restricted	902,007	107,115
Unassigned	(283,261)	-
Total net position	4,729,579	107,985
Total liabilities, deferred inflows of resources, and net position	\$ 5,821,510	\$ 117,075

The accompanying notes are an integral part of the financial statements.

TOWN OF DERBY, VERMONT
Statement of Activities
Year Ended December 31, 2018

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for	Operating	Capital	Primary Government		
		Services	Grants	Grants	Governmental Activities	Component Unit	Total
Primary government							
Governmental activities							
General government	\$ 618,408	\$ 69,889	\$ -	\$ -	\$ (548,519)	\$ -	\$ (548,519)
Public safety	321,099	6,508	-	-	(314,591)	-	(314,591)
Health and welfare	27,311	-	-	-	(27,311)	-	(27,311)
Transportation	1,037,432	11,684	296,766	55,666	(673,316)	-	(673,316)
Recreation	52,779	4,496	15,967	-	(32,316)	-	(32,316)
Appropriations	112,486	-	-	-	(112,486)	-	(112,486)
Capital outlay	311,022	-	-	-	(311,022)	-	(311,022)
Intergovernmental	188,307	-	-	-	(188,307)	-	(188,307)
Interest	29,404	-	-	-	(29,404)	-	(29,404)
Total governmental activities	<u>2,698,248</u>	<u>92,577</u>	<u>312,733</u>	<u>55,666</u>	<u>(2,237,272)</u>	<u>-</u>	<u>(2,237,272)</u>
Component Unit							
Cemetery	42,480	8,120	-	-	-	(34,360)	(34,360)
Total component unit	<u>42,480</u>	<u>8,120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,360)</u>	<u>(34,360)</u>
Total primary-government	<u>\$ 2,740,728</u>	<u>\$ 100,697</u>	<u>\$ 312,733</u>	<u>\$ 55,666</u>	<u>(2,237,272)</u>	<u>(34,360)</u>	<u>(2,271,632)</u>
General revenues							
Real property taxes					2,066,081	29,584	2,095,665
State sources, not restricted to specific programs					105,278	-	105,278
Investment earnings					33,548	2,162	35,710
Unrealized gain on investments					-	9,186	9,186
Miscellaneous					15,370	-	15,370
Total general revenues and transfers					<u>2,220,277</u>	<u>40,932</u>	<u>2,261,209</u>
Change in net position					(16,995)	6,572	(10,423)
Total net position - beginning of year					<u>4,746,574</u>	<u>101,413</u>	<u>4,847,987</u>
Total net position - end of year					<u>\$ 4,729,579</u>	<u>\$ 107,985</u>	<u>\$ 4,837,564</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF DERBY, VERMONT
Balance Sheet - Governmental Funds
December 31, 2018

	General	Community Development	Milfoil Prevention	Governmental Funds
Assets				
Cash				
Unrestricted	\$ 499,515	\$ -	\$ -	\$ 499,515
Restricted	37,692	-	-	37,692
Delinquent taxes and fees receivable	296,463	-	-	296,463
Mortgage notes receivable	-	115,000	-	115,000
Due from other funds	10,212	-	-	10,212
	<u>843,882</u>	<u>115,000</u>	<u>-</u>	<u>958,882</u>
Total assets	\$ 843,882	\$ 115,000	\$ -	\$ 958,882
Liabilities				
Accounts payable	\$ 15,347	\$ -	\$ -	\$ 15,347
Due to other funds	-	-	1,122	1,122
Deferred revenue - state aid	210,661	-	-	210,661
	<u>226,008</u>	<u>-</u>	<u>1,122</u>	<u>227,130</u>
Total liabilities	226,008	-	1,122	227,130
Deferred inflow of resources				
Unavailable revenue - property tax	31,298	-	-	31,298
	<u>31,298</u>	<u>-</u>	<u>-</u>	<u>31,298</u>
Fund balance				
Nonspendable	-	115,000	-	115,000
Restricted	825,090	-	-	825,090
Committed	78,039	-	(1,122)	76,917
Unassigned	(316,553)	-	-	(316,553)
	<u>586,576</u>	<u>115,000</u>	<u>(1,122)</u>	<u>700,454</u>
Total fund balance	586,576	115,000	(1,122)	700,454
Total liabilities and fund balance	\$ 843,882	\$ 115,000	\$ -	\$ 958,882

The accompanying notes are an integral part of the financial statements.

TOWN OF DERBY, VERMONT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2018

Total fund balances- Governmental Funds	\$	700,454
Capital assets used in governmental activities that are not financial resources and therefore, are not reported in the governmental fund financial statements.		8,131,859
Accumulated depreciation has not been included in the governmental fund financial statements.		(3,346,827)
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.		(674,199)
For governmental funds, the liability for accrued compensated absences is not recorded. The expense is recorded when incurred.		(8,434)
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 contribution and its proportionate share of the total contributions to the systems. The following are differences:		
Deferred outflow of resources		
Pension- VMERS		78,718
Deferred inflows of resources		
Pension- VMERS		(8,458)
Net pension liability		<u>(143,534)</u>
Net Position of Governmental Activities	\$	<u><u>4,729,579</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF DERBY, VERMONT
Statement of Revenues, Expenditures,
And Changes in Fund Balance - Governmental Funds
Year Ended December 31, 2018

	General	Community Development	Milfoil Prevention	Total Governmental Funds
Revenues				
Property taxes	\$ 2,066,081	\$ -	\$ -	\$ 2,066,081
Licenses and permits	20,862	-	-	20,862
Fees and charges for services	69,364	-	-	69,364
Intergovernmental revenue	457,710	-	15,967	473,677
Interest and penalties	33,548	-	-	33,548
Local fines	2,351	-	-	2,351
Miscellaneous	15,370	-	-	15,370
Total revenues	2,665,286	-	15,967	2,681,253
Expenditures				
General government	589,374	-	-	589,374
Public safety	246,149	-	-	246,149
Health and welfare	27,311	-	-	27,311
Transportation	813,223	-	-	813,223
Recreation	20,075	-	30,704	50,779
Appropriations	112,486	-	-	112,486
Intergovernmental	188,307	-	-	188,307
Capital outlay	627,623	-	-	627,623
Debt Service	176,081	-	-	176,081
Total expenditures	2,800,629	-	30,704	2,831,333
Excess of expenses over revenues	(135,343)	-	(14,737)	(150,080)
Other financing source (uses)				
Transfers in (out)	(15,000)	-	15,000	-
Total other financing sources (uses)	(15,000)	-	15,000	-
Change in fund balance	(150,343)	-	263	(150,080)
Fund balance - beginning of year	736,919	115,000	(1,385)	850,534
Fund balance - end of year	\$ 586,576	\$ 115,000	\$ (1,122)	\$ 700,454

The accompanying notes are an integral part of the 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, 2018

Total net change in fund balances- Governmental Funds	\$ (150,080)
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.	(318,053)
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	316,601
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.	(9,317)
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.	(2,823)
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.	-
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>146,677</u>
Change in Net Position of Governmental Activities	<u>\$ (16,995)</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF DERBY, VERMONT
Balance Sheet
Discretely Presented Component Unit
December 31, 2018

	<u>Cemetery Fund</u>
Assets	
Current assets	
Cash	\$ 87,737
Investments	<u>28,468</u>
Total assets	\$ <u><u>116,205</u></u>
 Liabilities and Fund Balance	
Liabilities	
Due to other funds	\$ 9,090
 Fund Balance	
Restricted	<u>107,115</u>
Total liabilities and net position	\$ <u><u>116,205</u></u>

TOWN OF DERBY, VERMONT
Reconciliation of the Balance Sheet to the Statement of Net Position
Discretely Presented Component Unit
Year Ended December 31, 2018

Total fund balance	\$ 107,115
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>(17,480)</u>
Net position of the discretely presented component unit	\$ <u><u>107,985</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF DERBY, VERMONT
Statements of Revenues, Expenses and Changes in Net Position
Discretely Presented Component Unit
Year Ended June 30, 2018

Revenues	
Property taxes	\$ 29,584
Fees and charges for services	4,970
Interest and dividends	2,162
Sale of lots	3,150
Total revenue	<u>39,866</u>
 Expenditures	
Cemetery	<u>41,900</u>
Total operating expenses	<u>41,900</u>
 Excess of revenues over expenditures	 (2,034)
 Other financing uses	
Unrealized gain on investments	<u>9,186</u>
 Change in net position	 7,152
 Net position - beginning of year	 <u>99,963</u>
 Net position - end of year	 \$ <u><u>107,115</u></u>

TOWN OF DERBY, VERMONT
Reconciliation of Statement of Revenues, Expenditures, and Changes in Net Position to
the Statement of Activities - Discretely Presented Component Unit
Year Ended December 31, 2018

Total net change in fund balance	\$ 7,152
Depreciation is not recognized as an expense since it does not require the use of current financial resources. The effect of the current year depreciation is to decrease net position	<u>(580)</u>
Change in net position of the Discretely Presented Component Unit	\$ <u><u>6,572</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF DERBY, VERMONT
Statement of Net Position
Fiduciary Funds
December 31, 2018

Assets

Cash and cash equivalents	\$ 230
Investments- certificates of deposit	<u>2,000</u>

Total assets

2,230

Net Position

Held in trust	\$ <u><u>2,230</u></u>
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The accompanying notes are an integral part of the financial statements.

TOWN OF DERBY, VERMONT

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

The Town of Derby, Vermont, (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 principals for governmental units.

The Select Board 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.

a) Reporting Entity

This report includes all of the funds of the Town. The reporting entity consists of the primary government; organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. Based on these criteria, the Cemetery Fund is reported as a discrete component unit. The fund is considered a component unit as a significant portion of its revenue is from real estate taxes raised by the Town.

b) Basis of Presentation

The accounts of the Town are organized and operated on the basis of fund accounting. A fund is an independent fiscal and accounting entity with a separate set of self-balancing accounts which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled.

The basic financial statements of the Town include both government-wide statements and fund financial statements. The focus of the government-wide statements is on reporting the operating results and financial position of the Town as a whole and present a longer-term view of the Town's finances. The focus of the fund financial statements is on reporting on the operating results and financial position of the most significant funds of the Town and present a shorter-term view of how operations were financed and what remains available for future spending.

Government-Wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government, the Town. These statements report financial information of the Town's non-fiduciary activities as a whole. Individual funds are not displayed but the statements distinguish government activities, generally supported by taxes, state aid, grants, and Town general revenues, from business-type activities, generally financed in whole or in party with fees charged to external customers.

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.

TOWN OF DERBY, VERMONT

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

b) Basis of Presentation (continued)

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.

Net position (the amount by which assets and deferred outflows of resources exceed liabilities and deferred inflows of resources) are reported on the Statement of Net Position in three components:

- (1) Net investment in capital assets – total amount of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds and other debt that are related to the acquisition or construction of those assets, including related deferred outflows of resources and deferred inflows of resources.
- (2) Restricted – for amounts when constraints placed on the net position are either externally imposed or are imposed by constitutional provisions or enabling legislation.
- (3) Unrestricted - the total net position which do not fit the two preceding categories. When both restricted and unrestricted resources are available for use, generally it is the Town's policy to use restricted assets first with unrestricted resources utilized as needed.

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – governmental, proprietary, and fiduciary– are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds. Since 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 funds.

The Town has the following funds:

General Fund – This is the Town's main operating fund. It accounts for all financial resources of the general government except those accounted for in another fund.

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

The Town reports the following fiduciary funds:

Nonexpendable Trust Funds – This fund is used to account for assets held in trust or as an agent by the Town or others.

TOWN OF DERBY, VERMONT

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

c) Measurement Focus

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

Governmental fund financial statements are reported using the current financial resources measurement focus. This means that only current assets, current deferred outflows of resources, current liabilities, and current deferred inflows of resources are generally reported on their balance sheets. Their reported fund balances (net current position) are considered a measure of available spendable resources and are segregated into non-spendable; restricted; committed; assigned and unassigned amounts. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current position. Accordingly, they present a summary of sources and uses of available spendable resources during a period.

d) Basis of Accounting

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

The government-wide and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are reported at the time the liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Measurable" means the amount of the transaction can be determined, and "available" means the amount is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers all revenues reported in governmental funds to be available if the revenues are collected within sixty (60) days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for principal interest on general long-term debt, certain compensated absences and other long-term liabilities which are recognized when the obligations are expected to be liquidated or are funded with expendable available financial resources.

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

TOWN OF DERBY, VERMONT

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

d) Basis of Accounting (continued)

Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and other grant requirements have been met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and other grant requirements have been met.

e) 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 report amounts and disclosures. Accordingly, actual results could differ from those estimates.

f) Delinquent Taxes Receivable

Delinquent taxes receivable represent property taxes in arrears as of December 31, 2018. The Town has the legal right to force sale of the property to recover these taxes. The value of the properties exceeds the amount of delinquent taxes, therefore, no allowance for doubtful accounts has been recognized.

g) Internal Balances

The operations of the Town include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowing. The Town may loan resources between funds for the purpose of providing cash flow. Permanent transfers of funds include the transfer of expenditures and revenues to provide financing or other services.

The Town reports all interfund transactions as originally recorded. Interfund receivables and payables may be netted in the accompanying financial statements when it is the Town's practice to settle these amounts as a net balance based upon the right of legal offset. Refer to Note 7 for a detailed disclosure by individual funds for interfund receivables, payables, expenditures, and revenue activity.

h) Capital Assets

The Town's property, plant, equipment, vehicles, 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. 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 the 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.

TOWN OF DERBY, VERMONT

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

h) Capital Assets (continued)

Estimated useful lives, in years, for depreciable assets are as follows:

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

i) Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, “deferred outflows of resources,” represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. The Town has two items that qualify for reporting in this category. The first item is related to pensions reported in the government-wide statement of net position. This represents the effect of the net change in the Town’s proportion of the collective net pension liability and the difference during the measurement period between the Town’s contributions and its proportionate share of the total contributions to the pension system not included in pension expense. The second item is the Town’s contribution to the pension system (VMERS) subsequent to the measurement date.

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 resources,” represents and acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one type of transaction which arises under the modified accrual basis of accounting and one type which arises under the accrual basis of accounting that qualify for reporting in this category.

The Town reports unavailable revenues on its governmental funds balance sheets. Unavailable revenues consist of property taxes which are deferred and recognized as an inflow of resources in the period that the amounts become available.

The statement of net position report has one item that qualifies for reporting under this category. It is related to pensions. This represents the effect of the net change in the Town’s proportion of the collective net pension liability (VMERS) and differences during the measurement periods between the Town’s contributions and its proportion share of total contributions to the pension system not included in the pension expense.

j) 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 with the Town. A maximum of fifteen days accrued vacation may be carried over.

TOWN OF DERBY, VERMONT

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

k) Long-Term Liabilities

Long-term liabilities include notes payable and other obligations such as compensated absences and net pension liability. Long-term liabilities are reported in the government-wide and financial statements. Governmental fund financial statements do not include any long-term liabilities as those funds use the current financial resources measurement focus and only include current liabilities on their balance sheets.

l) Budgetary Accounting

General governmental 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 budget for the General Fund is formally acted upon at the annual Town meeting. All budget appropriations lapse at year end.

m) Fund Balance

In the fund financial statements, funds report aggregate amounts for five classifications of fund balance based on the constraints imposed on the use of these resources. The non-spendable 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. Restricted fund balance at the end of the year consists of \$8,525 for land record restoration, \$29,167 for fire department equipment, and \$787,398 for the Highway Fund.

Committed fund balance: The 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 the existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. Committed fund balance at the end of the year consisted of the following:

Salem Beach House	\$	667
Veterans memorial		7,997
Dog park		7,745
Recreation		61,630
	\$	<u>78,039</u>

Assigned fund balance: This classification reflects the amounts constrained by the Board's "intent" to be used for specific purposes but are neither restricted or 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 non-spendable and are neither restricted nor committed.

TOWN OF DERBY, VERMONT

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

m) Fund Balance (continued)

Unassigned fund balance: This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances on 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.

Note 2. Cash and Cash Equivalents

For financial statement reporting purposes, cash and cash equivalent are defined as all bank deposits with original maturities of three months or less. The Town authorizes the treasurer to invest cash in bank accounts and obligations of the U.S. Treasury. The Town has adopted a formal deposit 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, 2018, the carrying amount of the Town's and Component Unit's deposits were \$627,175 and the bank balance was \$677,608. 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, 2018, the Town's deposits exceeded the Federal Depository Insurance coverage by \$427,608; however, the Town has an irrevocable stand-by letter of credit with the Federal Home Loan Bank of Boston of \$500,000 which covered the excess deposits to \$750,000.

At December 31, 2018, the Town had restricted cash for the following purposes:

Fire department equipment	\$ 29,167
Record restoration	8,525
	<u>\$ 37,692</u>

Note 3. Mortgage Notes Receivable

Mortgage notes receivable consists of the following as of December 31, 2018:

Mortgage receivable, Derby Village Housing, due June 1, 2025, bearing no interest, secured by land and buildings	\$ 115,000
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TOWN OF DERBY, VERMONT

Notes to the Financial Statements

Note 4. Investments

All investments held in the name of the Town are stated at market value. At December 31, 2018, investments in corporate stock had a cost basis of \$200. Market value of the investments were determined by quoted market prices at December 31, 2018, as follows:

Canadian Imperial Bank of Commerce stock \$ 28,467

Note 5. Capital Assets

Capital assets activity for the year ended December 30, 2018 was as follows:

	12/31/17 Balance	Additions	Retirements Reclassify	12/31/18 Balance
Governmental activities:				
Land	\$ 60,684	\$ -	\$ -	\$ 60,684
Equipment				
Highway	1,730,726	283,349	-	2,014,075
General	159,396	1,452	-	160,848
Fire	1,066,501	31,800	-	1,098,301
Infrastructure	2,552,926	-	-	2,552,926
Recreation	3,999	-	-	3,999
Buildings	2,240,867	-	-	2,240,867
	7,815,099	316,601	-	8,131,700
Component Unit	18,350	-	-	18,350
Total	7,833,449	316,601	-	8,150,050
Less accumulated depreciation:				
Governmental activities:				
Equipment				
Highway	838,705	123,337	-	962,042
General	159,396	1,452	-	160,848
Fire	681,791	51,835	-	733,626
Infrastructure	341,959	87,387	-	429,347
Recreation	1,201	267	-	1,468
Buildings	1,005,563	53,774	-	1,059,337
	3,028,615	318,052	-	3,346,668
Component Unit	16,900	580	-	17,480
Total	3,045,515	318,632	-	3,364,148
Capital assets, net	\$ 4,787,934	\$ (2,031)	\$ -	\$ 4,785,902

Depreciation expense was charged as follows:

General Government	\$ 16,894
Public Safety	74,950
Transportation	224,208
Culture and Recreation	2,000
	\$ 318,052

TOWN OF DERBY, VERMONT

Notes to the Financial Statements

Note 6. Long-term Debt

Long-term notes payable consists of the following at December 31, 2018:

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.	\$ 120,000
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.	350,000
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.	67,781
Note payable, Community National Bank, payable August 30 of each year, yearly principal and interest payments of \$47,350, interest at 2.05%, final payment due August 30, 2021, secured by equipment.	<u>136,418</u>
Total governmental activities	674,199
Less current portion:	<u>(148,151)</u>
	<u>\$ 526,048</u>

Scheduled maturities of notes and bonds payable are as follows as December 31, 2018:

<u>Years ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	70,000	12,000	82,000
2024-2025	<u>120,000</u>	<u>4,675</u>	<u>124,675</u>
	<u>\$ 674,199</u>	<u>\$ 91,200</u>	<u>\$ 765,399</u>

During the year ended December 31, 2018, the following changes occurred in the long-term liabilities:

	<u>12/31/17 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/18 Balance</u>
Governmental Activities				
Notes payable	\$ 820,876	\$ -	\$ 146,677	\$ 674,199
Compensated absences	5,611	2,823	-	8,434
Net pension liability	<u>151,023</u>	<u>-</u>	<u>7,489</u>	<u>143,534</u>
Total long-term liabilities	<u>\$ 977,510</u>	<u>\$ 2,823</u>	<u>\$ 154,166</u>	<u>\$ 826,167</u>

TOWN OF DERBY, VERMONT
Notes to the Financial Statements

Note 7. Interfund Balances and Activity

Interfund balances and activity at December 31, 2018 and for the fiscal year then ended, were as follows:

Fund	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenses
General	\$ 10,212	\$ -	\$ -	\$ 15,000
Community development	-	-	-	-
Lake Salem Milfoil Prevention	-	1,122	15,000	-
Cemetery – Component Unit	-	9,090	-	-
Total	\$ <u>10,212</u>	\$ <u>10,212</u>	\$ <u>15,000</u>	\$ <u>15,000</u>

Note 8. Pensions

Summary of significant accounting policies

Pensions

For the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions and pensions expense information about the fiduciary net position of the Vermont Municipal Employees’ Retirement System (VMERS), and additions to/deductions from VMERS’s fiduciary net position has been determined on the same basis as they are reported by VMERS.

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General information about the pension plan

Plan Description

VMERS is a cost sharing, multi-employer defined benefit pension plan that is administered by the State Treasurer and its Board of Trustees. It is designed for school districts and other municipal employees that work on a regular basis and also includes employees of museums and libraries it at least half of that institution’s operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter. Any employee fired 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, 2017, the retirement consisted of 411 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.

TOWN OF DERBY, VERMONT

Notes to the Financial Statements

Note 8. Pensions (continued)

The list of four nominees is jointly submitted by the Vermont League of Cities and Towns and the Vermont School Board 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 Group A, B, C, or D provisions.
Creditable service	Service as a member plus purchased service.
Average final compensation (AFC)	Group A – average annual compensation during the highest 5 consecutive years. Group B and C – average annual compensation during highest 3 consecutive years. Group D – average annual compensation during highest 2 consecutive years.
Service retirement allowance	
Eligibility	Group A – the earlier of age 65 with 5 years of service or age 55 with 35 years of service. Group B the earlier of age 62 with 5 years of service or age 55 with 30 years of service. Group C and D – age 55 with 5 years of service.
Amount	Group A – 1.4% of AFC x service Group B – 1.7% of AFC x service as Group B member plus percentage earned as a group A member x AFC. Group C – 2.5% of AFC x service as a Group C member plus percentage earned as a Group A or B member x service. 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. Maximum benefit is 60% of AFC for Group A and B and 50% of AFC for Groups C and D. The above includes the portion of the allowance provided by member contributions.

TOWN OF DERBY, VERMONT

Notes to the Financial Statements

Note 8. Pensions (continued)

Summary of system provisions (continued)

Early retirement allowance

Eligibility	Age 55 with 5 years of service for Group 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 aged based on AFC and service at termination. The AFC is to be adjusted annually by one-half of the percentage change in the Consumer Price Index, subject to the limits on "Post-Retirement Adjustments" described below.

Disability Retirement Allowance

Eligibility	5 years of service and disability as determined by Retirement Board.
Amount	Immediate allowance based on AFC and service to date of disability; 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 benefits

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 Group 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.

TOWN OF DERBY, VERMONT

Notes to the Financial Statements

Note 8. Pensions (continued)

Summary of system provisions (continued)

Refund of Contribution	Upon termination, if the member so elects or if no other benefit is payable, the member's accumulated contributions are refunded.
Member contributions	Group A – 2.5%
	Group B – 4.875%
	Group C – 10.00%
	Group D – 11.35%
Employer contributions	Group A – 4.0%
	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

Pension liabilities, pension expense, and deferred outflows of resources, and deferred inflows of resources related to pensions

At December 31, 2018 the Town reported a government-wide liability of \$143,534 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension obligation was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projections of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Town's proportion was 0.11847%, which was an increase of 0.00112% from its proportion measured as of June 30, 2016.

TOWN OF DERBY, VERMONT

Notes to the Financial Statements

Note 8. Pensions (continued)

For the year ended December 31, 2018 the Town recognized pension expense of \$18,843. At December 31, 2018 the Town reported deferred outflows and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows or Resources</u>	<u>Deferred Inflows of resources</u>
Differences between expected and actual experiences	\$ 2,088	\$ 3,553
Changes of assumptions	30,049	-
Net difference between projected and actual earnings on pension plan investments	23,906	-
Changes in proportion and differences between the Town's contributions and proportionate share of contributions	571	4,905
Town's contributions subsequent to the measurement date	<u>22,104</u>	<u>-</u>
Total	<u>\$ 78,718</u>	<u>\$ 8,458</u>

The Town's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended:	
2018	\$ 15,932
2019	25,660
2020	7,547
2021	<u>(982)</u>
Total	<u>\$ 48,157</u>

Employer contribution history for the Town as of December 31, 2018 is as follows:

FY 18	\$ 18,843
FY 17	19,156

Significant actuarial assumptions and methods

Investment rate of return: 7.50%, net of pension plan investment expense, including inflation.

Salary increase: 5.00% per year.

TOWN OF DERBY, VERMONT
Notes to the Financial Statements

Note 8. Pensions (continued)

Mortality:

Death in active service:

Group A, B, and C – 98% of RP-2014 blended 60% Blue Collar Employee, 40% Health Employee with generation projection using Scale SSA-2017.

Group D – RP-2014 Blue Collar Annuitant Table with generation projection using Scale SSA-2017.

Healthy post-retirement:

Group A, B, and C – 98% of RP-2014 blended 60% Blue Collar Employee, 40% Health Annuitant with generation projection using Scale SSA-2017.

Group D – 100% of RP-2014 Healthy Annuitant with generational projection using Scale SSA-2017.

Disabled post-retirement

All groups – RP-2014 Disabled Mortality Table with generational projection using Scale SSA-2017.

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

Cost-of-living adjustments: Assumed to occur on January 1 following one year of retirement at the rate of 1.15% per annum for Group A members and 1.30% per annum for Groups B, C, and D members.

Actuarial cost method: Entry age normal cost method.

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 difference between actual and assumed investment return. The value for actuarial purposes may not differ from market value of assets by more than 20%.

Inflation: 2.50%.

Long-term expected rate of return: The long-term expected rate of return on System investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

TOWN OF DERBY, VERMONT

Notes to the Financial Statements

Note 8. Pensions (continued)

Best estimates of arithmetic rates of return for each major class included in the target asset allocation at June 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected</u>
US equity	16.0%	6.07%
Non-US equity	16.0	7.42
Global equity	9.0	6.85
Fixed income	24.0	2.41
Real estate	8.0	4.62
Private markets	15.0	7.8
Hedge funds	8.0	3.95
Risk parity	4.0	4.8

Discount rate

The discount rate used to measure the total pension liability was 7.50%. 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 assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current System members. The assumed discount rate has been determined in accordance with the method prescribed by GASB 68.

Sensitivity of the employer's share of the net pension liability to changes in the discount rate

The following presents the Town's proportionate share of the net pension liability calculated using the discount of 7.50%, as well as what the proportionate share would be if it were calculated using a discount rate that is one percent lower (6.50%) and one percent higher (8.50%):

	<u>1% Decrease (6.50%)</u>	<u>Current discount rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Town's proportionate share of the net pension liability	\$ 256,270	\$ 143,534	\$ 50,037

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available as a 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

TOWN OF DERBY, VERMONT

Notes to the Financial Statements

Note 9. Fund Deficit

The Town has a fund deficit in the Milfoil Prevention Fund of \$1,122. This will be liquidated through transfers from the general fund in subsequent years.

Note 10. Property taxes

Property taxes attach as an enforceable lien on property as of July 1. Town taxes levied in July are payable on October 16th and become delinquent on October 17th. Property taxes are recognized as revenue in the period for which they levied, which is the fiscal year during which tax payments are due, provided the taxes are received within sixty (60) days after year-end. The remaining receivables are reported as unearned revenue, a deferred inflow of resources.

The tax rates for fiscal year 2018 were:

Town tax rate	\$	0.3917
Education tax rate - residential		1.3643
Education tax rate - nonresidential		1.6132

Note 11. Risk Management

The Town is exposed to various risks of loss related to tort, theft of, damage to, and destruction of assets, errors and omissions, and injuries to employees. The Town of Derby, Vermont maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settle claims have not exceeded this commercial coverage in any of the past three (3) fiscal years.

Note 12. 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 authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of such audits is not likely to have a material adverse effect on the Town's funds.

Note 13. Subsequent events

Management has evaluated subsequent events through June 6, 2019, the date that the financial statements were available to be issued.

TOWN OF DERBY, VERMONT
Statement of Revenues and Expenditures and Changes
in Fund Balance - Budget to Actual
Budgetary Basis - General Fund
Year Ended December 31, 2018

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 2,035,280	\$ 2,066,081	\$ 30,801
Licenses and permits	21,810	20,862	(948)
Fees and charges for services	48,500	69,364	20,864
Intergovernmental revenue	250,000	457,710	207,710
Interest and penalties	34,000	33,548	(452)
Local fines	6,000	2,351	(3,649)
Miscellaneous	5,500	15,370	9,870
Appropriated fund balance	496,478	-	(496,478)
Total revenues	2,897,568	2,665,286	(232,282)
Expenditures			
General government	582,549	589,374	(6,825)
Public safety	266,084	246,149	19,935
Health and welfare	28,437	27,311	1,126
Transportation	858,183	813,223	44,960
Recreation	15,144	20,075	(4,931)
Appropriations	112,486	112,486	-
Intergovernmental	182,891	188,307	(5,416)
Capital outlay	730,150	627,623	102,527
Debt Service	106,644	176,081	(69,437)
Total expenditures	2,882,568	2,800,629	81,939
Excess of revenues over (under) expenditures	15,000	(135,343)	(150,343)
Other financing sources (uses)			
Transfer out	(15,000)	(15,000)	-
Change in fund balance	\$ -	(150,343)	\$ (150,343)
Fund balance - beginning of year		736,919	
Fund balance - end of year		\$ 586,576	

See the independent auditor's report.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Governmental Auditing Standards*

To the Selectboard
Town of Derby
Derby Center, Vermont

We have audited 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Derby, Vermont as of and for the year ended December 31, 2018, which collectively comprise Town of Derby, Vermont's basic financial statements and have issued our report thereon dated June 6, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Derby, Vermont'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Telling & Hillman, P.C.

Telling & Hillman, P.C.
Middlebury, Vermont
June 6, 2019
License #092.0131564