

**VERMONT HOUSING & CONSERVATION BOARD
MONTPELIER, VERMONT**

**FINANCIAL STATEMENTS
JUNE 30, 2015
AND
INDEPENDENT AUDITOR'S REPORTS**

VERMONT HOUSING & CONSERVATION BOARD

JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

The Board Members
Vermont Housing & Conservation Board
and the State Auditor:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Vermont Housing & Conservation Board (the Board), a component unit of the State of Vermont, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Vermont Housing & Conservation Board as of June 30, 2015, and the respective changes in financial

position thereof and the budgetary comparison for the General Fund expenditures for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Vermont Housing & Conservation Board's basic financial statements. The accompanying schedule 1 and the Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule 1 and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule 1 and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2015 on our consideration of the Board's internal control over financial reporting; on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and on 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 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 Board's internal control over financial reporting and compliance.

Montpelier, Vermont
November 19, 2015

*Mudgett, Jennett &
Krogh-Wisner, P.C.*

**VERMONT HOUSING & CONSERVATION BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

The Vermont Housing & Conservation Board (VHCB) is a public instrumentality of the State of Vermont, established in 1987 with the purpose of improving the quality of life for Vermonters by implementing the dual goals of creating "affordable housing for Vermonters, and conserving and protecting Vermont's agricultural land, forestland, historic properties, important natural areas, and recreational lands."

The VHCB makes grants and loans to municipalities, a variety of non-profit organizations including community land trusts, housing development organizations, conservation groups, and qualifying State agencies. The VHCB administers several programs that contribute to the success of its mission such as the Lead-Based Paint Hazard Control Program, Healthy Homes Vermont, the AmeriCorps program with statewide participation, a Farm & Forest Viability Program, and Technical Assistance in various forms to aid organizations developing and stewarding projects.

VHCB Funding and Award Process

Funding sources of the VHCB include both state and federal sources as well as miscellaneous other resources. VHCB's primary funding originates from the State's Property Transfer Tax. By statute VHCB is to receive 50% of the Property Transfer Tax revenue subsequent to the Water Quality Surtax and the Vermont Tax Department's 2% of the projected gross Property Transfer Tax revenue. The General Assembly has altered that allocation in some years and has in some years supplemented Property Transfer Tax revenue with other funding such as bond proceeds or pass-thru federal funds. Funds that originate from sources other than federal or state government include: loan repayments, interest earnings, and grants or contributions from miscellaneous entities.

VHCB administers and operates several federal grants and programs that complement both the housing and conservation aspects of the mission. They include: U.S. Department of Housing and Urban Development (HUD) funds for HOME, Housing Opportunities for Persons with Aids (HOPWA), Lead Based Hazard Reduction Program (LEAD), Healthy Homes Vermont (HHVT), Economic Development Initiative/Special Project Grant (EDI/SPG), U.S. Department of Agriculture for farmland conservation (NRCS ALE & RCPP), and an AmeriCorps program.

The Board meets approximately seven times during each year to make awards from the various resources the Board administers. As a funding agency, the VHCB's project awards are a significant form of measurement, and in addition to the funding sources of each award, data such as units, acres, type of project and location, are tracked and utilized by the VHCB to measure performance.

The primary indicator of VHCB's activity is represented by the Board's awards. Actual disbursement of the awards is a secondary indicator of the VHCB's activity in a given year, in that disbursement of an award may occur over several years dependent upon the nature of the project and satisfaction of conditions. Disbursement activity is tightly tied to compliance with applicable grant conditions, and monitored accordingly. Awards are recorded on the financial statements when the Board takes action that results in a contract, grant, or loan award; corresponding disbursements reduce the recorded obligations. Balances outstanding on awards are reflected on the financial statements as either Deferred grant revenue - Project commitments or fund balance Committed for projects (Net Position - Restricted for project commitments). Award activity for the year is presented in note 5 to the financial statements.

Financial Highlights

Property Transfer Tax (PTT) revenues received by VHCB in FY2015 were \$14,954,840. This amount was \$940,840 higher than the prior year, representing only 90% of the statutory provision. The state has been

experiencing a rising trend in the PTT revenues as the real estate market has rebounded. Relating the Board's funding to the PTT was, by design, intended to provide corresponding protection against the real estate market pressures on open space and affordable housing. Appropriations to VHCB have not directly correlated with these increases.

Federal resources for programs of the Board have been experiencing a steady downward trend over the last several years. The Board has experienced this impact with the elimination of certain federal programs and reduced or threatened funding. The trend of increasing federal regulations over grant administration has also put pressure on VHCB by requiring a larger utilization of state resources to assure appropriate compliance.

In FY2015 the Board approved total awards of \$21,413,087. These awards will assist in developing 351 units of affordable housing; conserving 24 farms consisting of 3,339 acres; protecting 2,330 acres of natural area and recreational lands, and 2 historic properties. The award level for FY2015 is higher than FY2014 commitments of \$20,405,597, mainly due to an influx of foundation resources into the Farm & Forest Viability Program, and the early commitment of subsequent year's resources.

Financial Statements

The basic financial statements of the VHCB for the year ended June 30, 2015 conform with *Government Accounting Standards*. There are two sets of financial statements; the fund financial statements presented on the modified accrual basis of accounting, and the government-wide statements presented on the accrual basis.

The Government-wide Financial Statements (pages 7 - 8) present the financial picture of the VHCB using the **accrual basis** of accounting. The statements combine all resources and obligations of the Board, and require that loans presented are reflective of accrued interest, and an allowance for bad debt. These statements focus on the programs of the VHCB as opposed to its funds. However, the expenses reflected in the programs do not include awards disbursed in the form of loans as is demonstrated in the expenditures reported in the Fund Financial Statements. Therefore, this presentation is not as meaningful a representation of the organization's funding activities during the year as is the Fund Financial Statements presentation.

The Fund Financial Statements (pages 9 - 15) present the governmental activities of the Board by fund. They are prepared using the **modified accrual basis of accounting**. VHCB prefers this format of reporting because the presentation is comprehensive. The expenditure of awards as loans is included, making the loan award activity comparable to that of grant award activity. The external restrictions on resources available are clearly depicted. Fund Financial Statements are utilized by management, funders, and the Board during the year to account and report upon restricted resources, determine fiscal health, analyze, and plan.

Reconciliations between the Fund and Government-wide statements (pages 11 and 13) are provided to explain the differences created by the integrated approach.

Analysis of Financial Information Presented in the Government-wide Statements:

Statement of Net Position:

Total assets and deferred outflows for FY2014 and FY2015 are \$212,691,505 and \$224,785,318, respectively. The growth in assets is largely due to two factors: 1) an increase in loans and interest receivable of \$9,334,233, a result of housing projects funded with loans; and 2) an increase in cash on hand of \$3,779,142, related to the timing of disbursement of awards.

Total liabilities for FY2014 and FY2015 are \$2,646,883 and \$2,962,648, respectively. The increase represents an increased liability in the amount Due to the State of Vermont, an amount that correlates to an increase in Grant reimbursements receivable. Year-end Accounts payable and accrued liabilities are also slightly higher, an

effect of increased program activity. Total deferred inflows for FY2014 and FY2015 are \$18,439,380 and \$17,324,551, respectively. The decrease is a result of timing around disbursements of awards.

Net position at June 30, 2015 has increased from the 2014 net position by \$12,892,877, driven by the increase in loans receivable and timing around disbursement of awards. Unrestricted net position includes \$247,971 of Board assigned funds for future Technical Assistance and Information Technology projects; the balance of \$85,316 was sufficient to cover immediate operational needs at the on-set of FY2016.

Statement of Activities:

Revenues -

Total revenues of FY2014 and FY2015 from all sources were \$28,118,610 and \$28,003,726, respectively. Program revenues for FY2014 and FY2015 were \$11,815,186 and \$10,857,943, representing a decrease in dedicated federal revenues, indicative of the larger trend of decreased funding.

General revenues for FY2014 and FY2015 were \$16,303,424 and \$17,145,783, respectively. PTT revenues for FY2014 and FY2015 were \$14,014,000 and \$14,954,840, respectively. The PTT increase makes up the majority of the increase in general revenues.

Expenses -

Disbursement information presented in the fund financial statement, Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, includes the disbursements of awards in the form of loans, and is a more meaningful representation of award disbursement than the accrual basis Government-wide Statement of Activities which does not present loan activity. Total program expenses on the accrual basis for FY2014 and FY2015 were \$19,824,281 and \$15,110,849, details of which are described below. However, it should be noted that Functions/Programs expenses for housing (federally and non-federally funded) and lead hazard reduction programs do not fully illustrate program activities as they do not include loan activity.

Programs -

Comparison of programs' expenses and revenues (presented on the accrual basis of accounting) for the current and prior year are presented in the following table:

	<u>Program Expenses</u>		<u>Program Revenues</u>	
	<u>FY2014</u>	<u>FY2015</u>	<u>FY2014</u>	<u>FY2015</u>
FUNCTIONS/PROGRAMS:				
Conservation - federally funded	\$ 4,099,525	\$ 2,721,813	\$ 4,099,525	\$ 2,721,186
Conservation - non-federally funded	\$ 6,340,340	\$ 5,989,643	\$ 688,808	\$ 1,320,501
Housing - federally funded	\$ 1,476,954	\$ 738,177	\$ 4,644,844	\$ 4,213,075
Housing - non-federally funded	\$ 4,421,251	\$ 3,596,677	\$ 246,138	\$ 533,485
AmeriCorps	\$ 717,463	\$ 715,499	\$ 553,903	\$ 524,580
Lead Hazard Reduction and HHVT	\$ 1,751,365	\$ 1,323,584	\$ 1,581,968	\$ 1,545,116
Flood Hazard Mitigation	\$ 1,000,000	\$ -	\$ -	\$ -
Depreciation expense	\$ 17,383	\$ 25,457	\$ -	\$ -

Housing - non-federally funded - The VHCB's housing program provides funds to nonprofit housing groups for acquisition, rehabilitation and development of housing properties. The non-federally funded program resources support housing units created utilizing general revenues targeted by the Board for this program.

Housing - federally funded - The VHCB's federally funded housing program complements the non-federally funded housing program and operates under the same principles, with added layers of applicable regulatory

requirements. Federal funds expended for housing include HUD's HOME program, EDI/SPG, and HOPWA. Many of these federal funding sources are available to the VHCB in part due to the leveraging of non-federal funds that can be matched to the federal resources.

The decrease in Housing program expenses (non-federally and federally funded) is mainly due to the decrease in federal resources, and somewhat affected by the timing of project activities.

Conservation - non-federally funded - For conservation activities the VHCB generally provides grants to nonprofit groups or government entities to assist in the purchase of a perpetual interest in real estate (an easement or purchase of land in fee). This category also includes the non-federal program activities of the Farm & Forest Viability Program. The non-federal program utilized Mitigation funds' revenues, limited foundation funding, and general revenues targeted by the Board for this program.

Conservation - federally funded - The VHCB's federally funded conservation program complements the non-federally funded conservation easement program and operates under the same principles, with added layers of applicable regulatory requirements. Federal program revenues in FY2015 represent funding from the NRCS Farm and Ranch Lands Protection Program. As with the housing funds, these federal dollars require matching funds and are leveraged by the non-federal conservation funds.

Conservation expense and revenue compared to the prior year have decreased; due to a combination of a downward trend in funding and the timing of closings.

Lead Hazard Reduction Program and HHVT - The VHCB runs these two HUD programs to provide funds to housing developers, private landlords, and low-income homeowners to address the hazards of lead-based paint in existing housing and/or to identify and mitigate health and safety hazards in homes. The Lead program is largely funded with federal HUD dollars, but does have several other non-federal funding sources as well. Lower expenses in FY2015 are a result of the two programs winding down.

Flood Hazard Mitigation - This FY2014 expense of \$1,000,000 represents the second disbursement of a two-part commitment made to the Vermont Agency of Commerce & Community Development to provide matching funds as part of the Tropical Storm Irene recovery.

Operating Budget

Actual operating expenditures in FY2015 were favorable, falling below 9% of the approved budget. Within the operating budget, VHCB budgets and accounts for both the administrative costs associated with managing the activities of VHCB, as well as the direct staff and related costs of running several programs. The portion representing administrative expenditures (on the modified accrual basis) represents approximately 9% of overall organizational expenditures, consistent with prior years. The portion of operating expenditures supported with federal funds remained at 32%.

Summary

The challenges presented by tight economic times are being felt by the Board both in regards to the limited resources available, and the increasing project pipeline demand for affordable housing and conservation preservation. Economic pressures are affecting the state revenue picture, as well as decreasing federal resources. The Board continues to strive to best utilize resources to leverage a variety of funds, while assisting with the needs of Vermonters in providing affordable housing and conserving our landscape and historic sites.

VERMONT HOUSING & CONSERVATION BOARD
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2015

	<u>Governmental Activities</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
ASSETS:	
Current assets:	
Cash - checking	\$ 163,223
Cash - State accounts	12,723,316
Miscellaneous receivables	96,653
Grant reimbursements receivable	2,628,323
Loans receivable - current portion	300,104
Total current assets	<u>15,911,619</u>
Noncurrent assets:	
Long-term loans receivable net of allowance of \$8,079,235	167,984,506
Interest receivable - long-term loans	23,402,168
Capital assets net of accumulated depreciation of \$147,360	162,474
Total noncurrent assets	<u>191,549,148</u>
Total assets	207,460,767
DEFERRED OUTFLOWS OF RESOURCES:	
Unexpended awards	<u>17,324,551</u>
Total assets and deferred outflows of resources	<u>\$ 224,785,318</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
LIABILITIES:	
Current liabilities	
Accounts payable and accrued liabilities	\$ 387,944
Due to the State of Vermont	2,303,009
Total current liabilities	<u>2,690,953</u>
Noncurrent liabilities	
Long-term debt	271,695
Total liabilities	<u>2,962,648</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred grant revenue - Project commitments	<u>17,324,551</u>
NET POSITION:	
Net investment in capital assets	162,474
Restricted for -	
Project commitments	11,517,294
Loans receivable and programs	192,485,064
Unrestricted	333,287
Total net position	<u>204,498,119</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 224,785,318</u>

The notes to financial statements are an integral part of this statement.

**VERMONT HOUSING & CONSERVATION BOARD
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Expenses</u>	<u>Program Revenues</u> Grants and Contributions	<u>Net (Expense) Revenue and Change in Net Position</u>
FUNCTIONS/PROGRAMS:			
Governmental activities -			
Conservation - federally funded	\$ 2,721,812	\$ 2,721,186	\$ (626)
Conservation - non-federally funded	5,989,643	1,320,501	(4,669,142)
Housing - federally funded	738,177	4,213,075	3,474,898
Housing - non-federally funded	3,596,677	533,485	(3,063,192)
AmeriCorps	715,499	524,580	(190,919)
Lead Hazard Reduction and HHVT	1,323,584	1,545,116	221,532
Depreciation expense	<u>25,457</u>	<u>-</u>	<u>(25,457)</u>
Total governmental activities	\$ <u>15,110,849</u>	\$ <u>10,857,943</u>	<u>(4,252,906)</u>
GENERAL REVENUES:			
Property transfer tax			14,954,840
Interest income			13,741
Loan interest			1,950,013
Miscellaneous			<u>227,189</u>
Total general revenues			<u>17,145,783</u>
CHANGE IN NET POSITION			12,892,877
NET POSITION, July 1, 2014			<u>191,605,242</u>
NET POSITION, June 30, 2015			\$ <u>204,498,119</u>

The notes to financial statements are an integral part of this statement.

**VERMONT HOUSING & CONSERVATION BOARD
FUND BALANCE SHEET - GOVERNMENTAL FUNDS**

JUNE 30, 2015
(Page 1 of 3)

	General Fund	HOME	Farmland Preservation Program	Other Governmental Funds	Total Governmental Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
ASSETS:					
Cash - checking	\$ 163,223	\$ -	\$ -	\$ -	\$ 163,223
Cash - State accounts	10,148,734	-	-	2,574,582	12,723,316
Due from other funds	363,929	-	-	149,910	513,839
Miscellaneous receivables	41,969	-	-	54,684	96,653
Grant reimbursements receivable	-	34,108	2,172,324	421,891	2,628,323
Long-term loans receivable	<u>114,566,127</u>	<u>53,740,325</u>	<u>-</u>	<u>8,057,393</u>	<u>176,363,845</u>
Total assets	125,283,982	53,774,433	2,172,324	11,258,460	192,489,199
DEFERRED OUTFLOWS OF RESOURCES:					
Unexpended awards	<u>4,578,953</u>	<u>5,885,773</u>	<u>2,062,500</u>	<u>4,797,325</u>	<u>17,324,551</u>
Total assets and deferred outflows of resources	<u>\$ 129,862,935</u>	<u>\$ 59,660,206</u>	<u>\$ 4,234,824</u>	<u>\$ 16,055,785</u>	<u>\$ 209,813,750</u>

**LIABILITIES, DEFERRED INFLOWS
OF RESOURCES AND FUND EQUITY**

LIABILITIES:					
Accrued liabilities and payables	\$ 368,099	\$ -	\$ -	\$ 19,845	\$ 387,944
Due to other funds	123,991	34,108	-	355,740	513,839
Due to the State of Vermont	-	-	2,172,324	130,685	2,303,009
Long-term debt	-	-	-	271,695	271,695
Total liabilities	<u>492,090</u>	<u>34,108</u>	<u>2,172,324</u>	<u>777,965</u>	<u>3,476,487</u>

The notes to financial statements are an integral part of this statement.

**VERMONT HOUSING & CONSERVATION BOARD
FUND BALANCE SHEET - GOVERNMENTAL FUNDS**

JUNE 30, 2015
(Page 2 of 3)

	General Fund	HOME	Farmland Preservation Program	Other Governmental Funds	Total Governmental Funds
DEFERRED INFLOWS OF RESOURCES:					
Deferred revenue - Loans	114,566,127	53,740,325	-	7,785,698	176,092,150
Deferred grant revenue - Project commitments	<u>4,578,953</u>	<u>5,885,773</u>	<u>2,062,500</u>	<u>4,797,325</u>	<u>17,324,551</u>
Total deferred inflows of resources	<u>119,145,080</u>	<u>59,626,098</u>	<u>2,062,500</u>	<u>12,583,023</u>	<u>193,416,701</u>
FUND BALANCES:					
Committed for projects	9,892,478	-	-	1,624,816	11,517,294
Restricted for programs	-	-	-	1,069,981	1,069,981
Assigned	247,971	-	-	-	247,971
Unassigned	85,316	-	-	-	85,316
Total fund balances	<u>10,225,765</u>	<u>-</u>	<u>-</u>	<u>2,694,797</u>	<u>12,920,562</u>
Total liabilities, deferred inflows of resources and fund equity	<u>\$ 129,862,935</u>	<u>\$ 59,660,206</u>	<u>\$ 4,234,824</u>	<u>\$ 16,055,785</u>	<u>\$ 209,813,750</u>

The notes to financial statements are an integral part of this statement.

VERMONT HOUSING & CONSERVATION BOARD
FUND BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2015
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RECONCILIATION OF THE FUND BALANCE SHEET - GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION:

Amount reported on Fund Balance Sheet - total fund balances \$ 12,920,562

Amounts reported for governmental activities in the Statement of Net Position are different because -

Capital assets used in governmental funds are not financial resources and are therefore not reported in the funds. (Capital assets of \$309,834 are net of accumulated depreciation of \$147,360.) 162,474

Loans receivable are not available financial resources and are therefore offset by deferred revenue in the governmental funds. In the government-wide financial statements, loans receivable are included in net position and not deferred. 168,012,915

Accrued interest receivable for loans and securities is not recorded under the modified accrual basis of accounting. 23,402,168

Net position of governmental activities - Statement of Net Position \$ 204,498,119

The notes to financial statements are an integral part of this statement.

VERMONT HOUSING & CONSERVATION BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

(Page 1 of 2)

	<u>General Fund</u>	<u>HOME</u>	<u>Farmland Preservation Program</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:					
State & Federal Grant revenue	\$ 306,896	\$ 3,543,063	\$ 2,635,574	\$ 3,721,331	\$ 10,206,864
AmeriCorps sponsor share	-	-	-	170,713	170,713
Intergovernmental-State - Property transfer tax	14,954,840	-	-	-	14,954,840
Loan repayments - principal	53,808	4,635	-	325,737	384,180
- interest	7,127	-	-	6,912	14,039
Return of prior year's expenditure	156,000	-	-	110	156,110
Interest income	13,007	-	-	734	13,741
Mitigation funds	-	-	-	480,367	480,367
Other	21,644	-	-	49,435	71,079
Total revenues	<u>15,513,322</u>	<u>3,547,698</u>	<u>2,635,574</u>	<u>4,755,339</u>	<u>26,451,933</u>
EXPENDITURES:					
Grants	5,778,977	52,500	2,635,574	1,041,141	9,508,192
Loans	3,994,004	3,235,203	-	187,704	7,416,911
Project related expenditures	377,955	15,117	-	2,472,966	2,866,038
Operating -					
Personnel and related costs	1,391,533	195,302	-	1,031,155	2,617,990
Operating expenditures	201,568	35,171	-	187,803	424,542
Contracted services	19,754	14,405	-	-	34,159
Capital outlay	22,300	-	-	-	22,300
Total expenditures	<u>11,786,091</u>	<u>3,547,698</u>	<u>2,635,574</u>	<u>4,920,769</u>	<u>22,890,132</u>
EXCESS OF REVENUES OR (EXPENDITURES)	3,727,231	-	-	(165,430)	3,561,801
OTHER FINANCING SOURCES (USES):					
Operating transfers in (out)	(898,635)	-	-	898,635	-
NET CHANGE IN FUND BALANCES	2,828,596	-	-	733,205	3,561,801
FUND BALANCES, July 1, 2014	<u>7,397,169</u>	<u>-</u>	<u>-</u>	<u>1,961,592</u>	<u>9,358,761</u>
FUND BALANCES, June 30, 2015	<u>\$ 10,225,765</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,694,797</u>	<u>\$ 12,920,562</u>

The notes to financial statements are an integral part of this statement.

**VERMONT HOUSING & CONSERVATION BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

(Page 2 of 2)

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT
OF ACTIVITIES:**

Net change in fund balances - total governmental funds \$ 3,561,801

Amounts reported for governmental activities in the Statement of Activities are different because -

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded the capital outlays that were charged in the governmental funds. (3,157)

Governmental funds report loans disbursed and lending activities as expenditures. Under accrual basis of accounting, these transactions are not reported on the Statement of Activities. 8,519,399

Governmental funds report Loan repayments - principal as current year revenue when received. Under accrual basis of accounting, these receipts are not reported on the Statement of Activities. (384,180)

Governmental funds do not report accrued interest income from loans under the modified accrual basis of accounting. 1,935,973

An allowance for bad debt expense and loan forgiveness is not reflected in the governmental funds but is included in government-wide expenses. (736,959)

Change in net position of governmental activities - Statement of Activities \$ 12,892,877

The notes to financial statements are an integral part of this statement.

VERMONT HOUSING & CONSERVATION BOARD
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015
(Page 1 of 2)

	<u>Original and Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Over (Under)</u>
OPERATING EXPENDITURES:			
Personnel -			
Wages	\$ 1,883,965	\$ 1,790,120	\$ 93,845
Internships	19,200	7,859	11,341
FICA	145,592	133,300	12,292
Unemployment tax	13,958	7,310	6,648
Health insurance	495,970	427,856	68,114
Dental insurance	49,507	46,051	3,456
Workers' compensation	6,198	6,344	(146)
Life insurance	5,774	5,934	(160)
Disability insurance - short-term	10,168	11,591	(1,423)
Disability insurance - long-term	5,595	6,375	(780)
Pension (Note 6)	<u>186,177</u>	<u>175,250</u>	<u>10,927</u>
Total personnel	<u>2,822,104</u>	<u>2,617,990</u>	<u>204,114</u>
Contracted services	<u>56,900</u>	<u>34,159</u>	<u>22,741</u>
Operating costs -			
Business insurance	2,100	1,940	160
Telephone	14,980	13,408	1,572
Postage and mailings	7,852	5,627	2,225
Printing and developing	2,300	2,196	104
Occupancy	201,855	193,608	8,247
Travel	64,620	53,094	11,526
Repairs and maintenance - equipment	18,216	14,579	3,637
Conferences and registration	15,785	9,264	6,521
Advertising	3,900	3,537	363
Dues and subscriptions	5,105	6,366	(1,261)
Miscellaneous	750	39	711
Office supplies	11,280	10,695	585
Audit	21,500	19,000	2,500
Legal	11,920	13,579	(1,659)
Computer related expenses	79,507	60,910	18,597
Meetings and facilities	3,850	1,760	2,090
Expendable furniture and fixtures	4,000	3,385	615
Capital outlay	<u>17,500</u>	<u>14,307</u>	<u>3,193</u>
Total operating costs	<u>487,020</u>	<u>427,294</u>	<u>59,726</u>

The notes to financial statements are an integral part of this statement.

VERMONT HOUSING & CONSERVATION BOARD
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015
(Page 2 of 2)

	Original and Final <u>Budget</u>	Actual (Budgetary Basis) <u> </u>	Variance Over (Under) <u> </u>
OPERATING EXPENDITURES (continued):			
Board expenses -			
Travel	6,375	2,938	3,437
Meals	5,520	3,052	2,468
Per diem	6,100	2,250	3,850
Retreat	<u>3,500</u>	<u>3,315</u>	<u>185</u>
Total Board expenses	<u>21,495</u>	<u>11,555</u>	<u>9,940</u>
Total administrative expenditures	\$ <u>3,387,519</u>	3,090,998	\$ <u>296,521</u>
ADJUSTMENTS (Note 1E):			
Less: operating expenditures billed to Special Revenue Funds		<u>(1,463,836)</u>	
Operating expenditures remaining in General Fund		1,627,162	
Add: Information technology capital outlay		7,993	
Add: Nonbudgeted - General Fund grant, loan, and direct project expenditures		<u>10,150,936</u>	
TOTAL EXPENDITURES - GENERAL FUND		\$ <u>11,786,091</u>	

The notes to financial statements are an integral part of this statement.

VERMONT HOUSING & CONSERVATION BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. Summary of Significant Accounting Policies:

- A. Reporting Entity - The Vermont Housing & Conservation Board (the Board) was established by the Vermont Legislature in May of 1987 with the dual goals of “creating affordable housing for Vermonters, and conserving and protecting Vermont’s agricultural land, forestland, historic properties, important natural areas and recreational lands.”

The Board makes grants and loans to nonprofit organizations including land trusts, conservation groups and housing coops, and to municipalities and qualifying state agencies. The majority of state funding received by the Board is a dedicated portion of the Property Transfer Tax. The Legislature approves the appropriations to the Board annually.

The eleven-member Board consists of seven citizen members and four ex-officio members who are heads of designated state agencies. Six members, including three ex-officio members, are appointed by the Governor. The remaining members, except for the Director of the Vermont Housing Finance Agency, are appointed by the Legislature.

The financial statements of the Vermont Housing & Conservation Board have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing *Governmental Accounting and Financial Reporting Standards* which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes U.S. GAAP for governmental units. The more significant of these accounting policies are described below.

The criteria of oversight responsibility, special financing relationships and scope of public service were used in determining the agencies or entities which comprise the Board for financial reporting purposes. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations and accountability for fiscal matters. Given that certain of these criteria apply to the relationship between the Board and the State of Vermont for the state’s financial reporting purposes, the Board is considered a component unit of the State of Vermont. These statements present only the component unit financial statements of the Board.

- B. Basic Financial Statements - The basic financial statements include both government-wide and fund financial statements. This financial reporting model focuses on the Board as a whole (in the government-wide financial statements) and on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize primary activities of the Board as governmental. In the government-wide financial statements, the governmental activities are consolidated and report the flow of economic resources on a full accrual basis, including all assets, liabilities, deferred outflows or inflows of resources, as well as revenues and expenses of the period. The effect of interfund activity has been eliminated from the government-wide financial statements.

VERMONT HOUSING & CONSERVATION BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. Summary of Significant Accounting Policies (continued):

B. Basic Financial Statements (continued) -

The Government-wide Statement of Activities reflects both the gross and net costs per functional category which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses by related program revenues and operating grants that are specifically restricted for the relative function. The net cost is funded by general revenues (property transfer tax, interest income from loans and other interest income). Programs and grants are charged their share of overhead and administrative costs based on the Board's cost allocation and indirect rate plan.

This government-wide focus on all economic resources applied on an accrual basis demonstrates the sustainability of the Board as an entity by reporting the aggregate financial position and the change in financial position resulting from the activities of the fiscal period. The emphasis of the fund financial statements is on the major funds in the governmental category. Nonmajor funds are summarized into a single column.

The governmental funds in the fund financial statements are presented with a focus on current financial resources applied on a modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources, and to demonstrate how the Board's actual experience conforms to the budget. Since the fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented with each fund financial statement, which briefly explains the difference between the fund financial statements and the government-wide statements.

- C. Basis of Presentation - The accounts of the Board 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, deferred outflows/inflows of resources, fund balances, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they have been restricted and the means by which spending activities are controlled.

Government Auditing Standards sets forth minimum criteria for the determination of major funds. The Board reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund consists of the Operating and Trust Funds of the Board. The Trust Fund includes revenues collected through the state and repayments on loans receivable. Expenditures from the Trust Fund include project grants and loans and transfers to the Operating Fund for operations funding.

HOME Fund - The Board, a subrecipient through the State of Vermont, administers U.S. Department of Housing and Urban Development (HUD) HOME program funds. The purpose of this program is to create affordable housing, with the focus of the Board's program being acquisition and rehabilitation of multi-family, lower income rental units and mobile home parks. The Board awards HOME funds to qualifying organizations for development of specific projects. The Board currently administers several funding years of the HOME Program.

VERMONT HOUSING & CONSERVATION BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. Summary of Significant Accounting Policies (continued):

C. Basis of Presentation (continued) -

Farmland Preservation Program - The Board has received federal awards from the Natural Resources Conservation Service (NRCS) Farm and Ranch Lands Protection Program for use in purchasing conservation easements on farmland.

- D. Basis of Accounting - Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The government-wide financial statements are presented on an accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis.

Accrual Basis - Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual Basis - Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

In determining when to recognize intergovernmental revenues (grants and subsidies), the legal and contractual requirements of the individual programs are used as guidance. The basis for this revenue recognition is that related monies must be expended on the specific purpose or project before amounts are recognized as revenues. Expenditures are recognized in the period in which the liability is incurred.

- E. Budgets and Budgetary Accounting - An annual budget of operating expenditures, inclusive of all of the funds, is prepared by the staff, reviewed by the Finance Committee, and approved by the Board. All operating expenditures are paid for from the General Fund and allowable charges are subsequently reimbursed from the grant funds.

The Board does not formally budget for specific grants and loans but rather develops internal targets for utilization of total available resources. Decisions regarding specific project commitments are determined by the Board based on the quality of applications, potential for leverage, community need, timely response to unpredictable circumstances, unique opportunity, eligibility criteria, and availability of funds.

The data in the budgetary statement of expenditures is presented to be consistent with the operating budget approved by the Board. The adjustments included at the end of that statement are necessary to reconcile the budgeted expenditures to the complete listing of expenditures presented in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

VERMONT HOUSING & CONSERVATION BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. Summary of Significant Accounting Policies (continued):

- F. Accounting for Loans - The Board often awards loans to nonprofits to assist in project development. In the fund financial statements loans are recorded as expenditures in the fund from which the sources were disbursed. Loans receivable that carry future restrictions on repayment proceeds are recorded in the fund from which the resources were derived; all others are recorded in the General Fund. In the fund financial statements, long-term loans are reported as an asset, and an offsetting deferred inflow of resources for long-term loans is carried in the applicable fund. When payments on loans are received, loans receivable and deferred inflow are both reduced, and the receipt of interest and principal are recorded as income. In the government-wide financial statements, loans are classified as current or noncurrent and reflect an allowance for bad debt, as well as interest receivable. The effect of these assets is recognized in net position as restricted.
- G. Fund Balance - In the fund financial statements, fund balances of the governmental funds are classified in the following applicable categories: Committed for projects includes amounts that can be used only for specific purposes determined by the highest level of decision making authority, the Board, as a result of resolutions passed at Board meetings; Restricted for programs includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation; Assigned fund balance includes amounts that are intended to be used by management for specific purposes as authorized by the Board; Unassigned fund balance is the residual classification for the Board's General Fund and includes all spendable amounts not contained in another classification.
- H. Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts assets, liabilities and deferred outflows/inflows of resources as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.
- I. Risk Management - The Board 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 others; and natural disasters. The Board manages these risks through commercial insurance packages covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Board. There were no settlements in excess of the insurance coverage in any of the past three fiscal years.
- J. Capital Assets - Furniture and equipment are stated at cost, are capitalized based on the nature of the item, and are depreciated over the estimated useful life of the asset. Maintenance and repair costs are not capitalized. Depreciation expense is calculated using the straight-line method over the estimated lives of the assets which are:

Computer equipment	3 years
Office furniture and equipment	3-7 years
Leasehold improvements	15 years

VERMONT HOUSING & CONSERVATION BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. Summary of Significant Accounting Policies (continued):

K. Deferred Outflows/Inflows of Resources - -

In addition to assets and liabilities, deferred outflows of resources and deferred inflows of resources, are reported as separate sections in the Government-wide Statement of Net Position and the Balance Sheet - Governmental Funds. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources in the current period. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources in the current period. The Board reports Unexpended awards (committed for projects) as deferred outflows of resources and Deferred grant revenue - Project commitments as deferred inflows of resources. The Board also reports Deferred revenue - Loans as deferred inflows of resources on the governmental funds balance sheet.

2. Cash Accounts:

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. The Board does not have a deposit policy for custodial credit risk. The majority of the Board's deposits is maintained within the State of Vermont's Treasury and is collateralized by the State of Vermont. There were no other significant cash deposits that were not either FDIC insured or collateralized at June 30, 2015.

3. Loans Receivable:

The Board loans money to various organizations and towns for project development. The interest rates vary from no interest to 11.58% interest. The length of the loans varies from 1 year to 40 years, with the majority being longer term. Maturities for the loans receivable are as follows:

Year ended June 30,		
2016	\$	300,104
2017		33,827
2018		78,721
2019		188,089
2020		201,182
Thereafter		<u>175,561,922</u>
	\$	<u>176,363,845</u>

The conditions of some of these obligations include the possibility of converting loans to grants, or converting the maturity of a construction loan to long-term financing. The above projections are based on current loan agreements.

The Board shares interests in several loans with the Vermont Housing Finance Agency (VHFA). The Board will service and remit VHFA's portion of the loans when payments become due in future years.

VERMONT HOUSING & CONSERVATION BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

3. Loans Receivable (continued):

In the government-wide statements, loans receivable have been reduced by an allowance of \$8,079,235 to reflect the estimated amount of loans that will not be collected either because of forgiveness or due to doubtful accounts. This estimate is calculated in part by using historical experience for each type of loan from inception of the loan program, and it also includes amounts for existing loans that management considers uncollectible.

4. Capital Assets:

Capital assets are recorded at cost. The capital asset activity for the year was as follows:

	Balance July 1, <u>2014</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>2015</u>	Accumulated Depreciation <u>June 30, 2015</u>
Leasehold improvements	\$ 225,145	\$ -	\$ -	\$ 225,145	\$ 100,631
Furniture and equipment	<u>63,656</u>	<u>22,300</u>	<u>(1,267)</u>	<u>84,689</u>	<u>46,729</u>
	<u>\$ 288,801</u>	<u>\$ 22,300</u>	<u>\$ (1,267)</u>	<u>\$ 309,834</u>	<u>\$ 147,360</u>

Depreciation expense of \$25,457 was not allocated because leasehold improvements and furniture and equipment were used by all functions.

5. Project Commitments:

The Board awards are made subject to eligibility, policy, and grant restrictions. The Board meets periodically to award resources to specific projects. For small awards or for restricted funds, this process may be delegated to the Board's staff. Fund Balances Committed for Projects and Deferred Grant Revenue for Project Commitments represent the outstanding balance of specific project awards not yet disbursed. Awards of the General Fund resources are recognized as a commitment of the fund balance or a restriction of net position. Awards of restricted funds that will be subsequently reimbursed to the Board are recorded as deferred grant revenue, a deferred inflow, and a corresponding deferred outflow. Unexpended awards, is recorded to account for the Board's commitment to expend these funds in future periods. Disbursement of each award is contingent upon a variety of conditions being met. When the disbursement occurs, the Fund Balance Committed for Projects and/or the deferred grant revenue account is reduced.

Board awards during the year are summarized on the following page.

VERMONT HOUSING & CONSERVATION BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

5. Project Commitments (continued):

<u>Fund Balances Committed for Projects:</u>	<u>Balance</u> <u>July 1,</u> <u>2014</u>	<u>FY2015</u> <u>New</u> <u>Awards</u>	<u>Reallocation</u> <u>Among</u> <u>Funds</u>	<u>Decommitment</u> <u>of Prior Year</u> <u>Awards</u>	<u>FY2015</u> <u>Net</u> <u>Disbursements</u>	<u>Balance</u> <u>June 30,</u> <u>2015</u>
Trust Funds	\$ 7,132,000	\$ 4,518,548	\$ 8,593,115	\$ (311,974)	\$ (10,039,211)	\$ 9,892,478
Manufactured Homes Initiative	40,000	25,000	-	-	(55,000)	10,000
MacArthur Foundation	34,950	-	-	-	(14,980)	19,970
Act 250 Mitigation Funds	85,983	179,252	395,629	(47,787)	(461,574)	151,503
Housing Mitigation	102,791	-	-	-	(47,704)	55,087
Lead Loan Repayment Fund	2,744	5,061	-	(744)	(2,000)	5,061
Farm & Forest Viability Program	647,514	1,251,475	-	-	(797,510)	1,101,479
Economic Development Initiative	3,343	276,903	1,470	-	-	281,716
Lead Match	6,650	-	-	-	(6,650)	-
Total	<u>\$ 8,055,975</u>	<u>\$ 6,256,239</u>	<u>\$ 8,990,214</u>	<u>\$ (360,505)</u>	<u>\$ (11,424,629)</u>	<u>\$ 11,517,294</u>
<u>Deferred Grant Revenue for Project Commitments:</u>						
Trust Funds	\$ 8,742,611	\$ 4,901,086	\$ (9,064,744)	\$ -	\$ -	\$ 4,578,953
Capital Appropriation	-	3,688,851	-	-	-	3,688,851
HOME	5,418,635	3,758,316	-	-	(3,291,178)	5,885,773
Economic Development Initiative	485,819	-	(1,470)	-	(267,647)	216,702
Lead	135,844	419,542	-	(1,393)	(416,423)	137,570
Healthy Homes	781,952	-	-	-	(370,952)	411,000
Farm & Forest Viability Program	27,437	326,553	-	-	(86,435)	267,555
ISTEA	4,685	-	-	(4,685)	-	-
NRCS	2,766,750	2,008,000	76,000	(207,176)	(2,635,574)	2,008,000
Regional Conservation Partnership Program	-	54,500	-	-	-	54,500
Housing Mitigation	75,647	-	-	-	-	75,647
Total	<u>\$ 18,439,380</u>	<u>\$ 15,156,848</u>	<u>\$ (8,990,214)</u>	<u>\$ (213,254)</u>	<u>\$ (7,068,209)</u>	<u>\$ 17,324,551</u>

VERMONT HOUSING & CONSERVATION BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

6. Pension:

The Board participates in a defined contribution retirement plan. The annual contribution, in the amount of \$175,250 for fiscal year 2015, is based on 10% of the salaries paid on a cash basis to eligible, participating employees during the year. An employee becomes a participant in the plan and eligible for contribution by working a minimum of 1,000 hours in the plan year. There are no “years of service” or “minimum age” requirements for eligibility. Of the \$1,789,737 total wages paid on a cash basis for the year, \$1,752,500 were eligible wages. Individuals employed before July 1, 1991 vested at 25% per year beginning at the time of employment and became fully vested after four years. Individuals employed after July 1, 1991 vest at 20% per year beginning with the second year and are fully vested after six years.

Employees are eligible to participate in the State of Vermont’s deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The plan, available to all Board employees, permits them to defer a portion of their taxable salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or an unforeseeable emergency.

7. Grant Reimbursements Receivable:

Grant reimbursements receivable represents grant funding for which allowable operating or project costs have been incurred and are awaiting reimbursement or requisition of federal funds.

8. Long-term Debt:

VHFA Lead Hazard Reduction Program Agreement - The Board has two outstanding notes payable to the Vermont Housing Finance Agency (VHFA) totaling \$271,695. These funds were loaned to the Board to supplement the Lead Hazard Reduction Program and were used to make loans to Lead program recipients. Repayment of program recipient loans to the Board is triggered by transfer of property. The two notes are in the amounts of \$195,827 and \$75,868, and require repayment to VHFA beginning January 2021 and April 2038, respectively as corresponding program recipient repayments are received from those dates forward. Repayments from recipients prior to those dates are reused within the program.

9. Other Governmental Funds:

In addition to the grant programs presented in the major funds, the Board participated in a number of other federally assisted grant programs which are included in the Other Governmental Funds. The principal of these are:

Lead - HUD Lead Hazard Reduction funds are used for lead hazard control activities in apartments and homes owned by nonprofit housing organizations, private landlords, and homeowners.

Healthy Homes VT - HUD Healthy Homes grant is used to identify and mitigate health and safety hazards in Vermont homes.

AmeriCorps - This program utilizes federal awards in conjunction with cash and in-kind matching funds from the Board and local communities to place AmeriCorps members within nonprofit housing and conservation organizations around the state.

**VERMONT HOUSING & CONSERVATION BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

9. Other Governmental Funds (continued):

Farm & Forest Viability Program - This program utilizes a variety of federal awards in conjunction with funds from the Board and private foundations to provide Vermont farmers and agricultural and forestry related businesses with business planning services and technical assistance. Additional program support may include assistance with plan implementation and grants for capital projects when funding is available.

HOPWA - This is a federal HUD award for Housing Opportunities for Persons with AIDS that is administered by the Board and provides services and housing to persons with AIDS and their families.

10. Interfund Balances and Transfers:

Interfund balances at June 30, 2015 represent amounts due to the General Fund for operating reimbursements from other funds, and amounts due from the General Fund to the Other Governmental Funds, principally the AmeriCorps Program and the Lead Program.

The amount transferred during the year from the General Fund to the Other Governmental Funds of \$898,635 consists of a transfer of \$706,347 to the Farm & Forest Viability Program and transfers of \$192,288 to provide matching funds to the AmeriCorps Program.

11. Operating Lease:

The Board entered into a 15-year lease for its office space with the Vermont Economic Development Authority commencing July 1, 2008. The lease provides for a base rent of \$99,165 annually for the first ten years. The base annual rent in the final five years is \$123,956. As additional rent, the Board shall pay its pro-rata share of annual building operating expenses (currently estimated at \$89,235 per year). Future minimum lease payments are as follows:

Year ending June 30,	
2016	\$ 188,400
2017	188,400
2018	188,400
2019	213,191
2020	213,191
Thereafter	<u>639,573</u>
	<u>\$ 1,631,155</u>

VERMONT HOUSING & CONSERVATION BOARD
SCHEDULE OF EXPENDITURES
FUNCTIONS/PROGRAMS - MODIFIED ACCRUAL BASIS
FOR THE YEAR ENDED JUNE 30, 2015

Schedule 1

FUNCTIONS/PROGRAMS:

Conservation - federally funded	\$ 2,721,812
Conservation - non-federally funded	5,989,643
Housing - federally funded	4,215,780
Housing - non-federally funded	7,666,884
AmeriCorps	715,499
Lead Hazard Reduction and HHVT	1,558,214
Capital outlay	14,307
Information Technology Project	<u>7,993</u>
	<u>\$ 22,890,132</u>

**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***

The Board Members
Vermont Housing & Conservation Board
and the State Auditor:

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, each major fund and the aggregate remaining fund information of the Vermont Housing & Conservation Board (the Board), a component unit of the State of Vermont, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated November 19, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board'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. Given these limitations, 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 the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Montpelier, Vermont
November 19, 2015

*Wudgett, Jennett &
Krug-Werner, P.C.*

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

The Board Members
Vermont Housing & Conservation Board
and the State Auditor:

Report on Compliance for Each Major Federal Program

We have audited the Vermont Housing & Conservation Board's (the Board), a component unit of the State of Vermont, compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Board's major federal programs for the year ended June 30, 2015. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Board's compliance.

Opinion on Each Major Federal Program

In our opinion, the Vermont Housing & Conservation Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Montpelier, Vermont
November 19, 2015

*Mudgett, Jennett &
Krogh-Warren, P.C.*

**VERMONT HOUSING & CONSERVATION BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

(Page 1 of 2)

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Program or Award Amount</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture -				
Rural Development -				
Rural Business Enterprise Grants	10.769	03	129,998	37,219
Agricultural Marketing Service -				
Farmers' Markets and Local Food Promotion Program	10.168	14-LFPPX-VT-0171	100,000	25,327
Commodity Credit Corporation -				
Natural Resources Conservation Service -				
Farm and Ranch Land Protection Program - XII	10.913	73-1644-11-1	10,373,250	1,419,574
Farm and Ranch Land Protection Program - FFY2014-1	10.913	54-1644-14-01G35	2,982,450	1,155,000
Farm and Ranch Land Protection Program - FFY2014-2	10.913	54-1644-14-01G2X	61,000	<u>61,000</u>
				<u>2,635,574</u>
Total U.S. Department of Agriculture				<u>2,698,120</u>
U.S. Department of Housing and Urban Development -				
2009 EDI Special Project	14.246	B09SPVT0470	3,995,635	20,807
2010 EDI Special Project	14.246	B10SPVT0380	3,982,080	<u>246,840</u>
				<u>267,647</u>
Passed through Vermont Agency of Commerce and Community Development:				
HOME Program - FFY 06	14.239	M06SG500100	3,145,629	297,140
HOME Program - FFY 10	14.239	M10SG500100	3,674,051	54,309
HOME Program - FFY 11	14.239	M11SG500100	3,020,754	217,900
HOME Program - FFY 12	14.239	M12SG500100	2,702,700	682,235
HOME Program - FFY 13	14.239	M13SG500100	2,700,000	1,490,854
HOME Program - FFY 14	14.239	M14SG500100	2,720,734	548,740
HOME Program - Administration	14.239	M13SG500100	256,520	<u>256,520</u>
				<u>3,547,698</u>
Housing Opportunities for Persons with AIDS-VI	14.241	VTH110024	1,434,000	272,198
Housing Opportunities for Persons with AIDS-VII	14.241	VTH140021	1,473,017	<u>128,697</u>
				<u>400,895</u>

The accompanying notes are an integral part of this schedule.

**VERMONT HOUSING & CONSERVATION BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

(Page 2 of 2)

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Program or Award Amount</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development (continued) -				
Lead-Based Paint Hazard Reduction Program - VIII	14.900	VTLHB0569-13	2,300,000	<u>957,365</u>
Healthy Homes VT	14.913	VTHHP0010-12	1,713,122	<u>586,927</u>
Total U.S. Department of Housing and Urban Development				<u>5,760,532</u>
Northern Border Regional Commission	90.601	NBRC-14-G-VT-00005	114,940	<u>23,722</u>
Corporation for National and Community Service - AmeriCorps National Service Network -				
Passed through the Vermont Agency of Human Services Vermont Commission on National and Community Service:				
AmeriCorps Recovery - XVI	94.006	13ACHVT001	378,000	72,231
AmeriCorps Recovery - XVII	94.006	13AFHVT001	369,000	<u>281,636</u>
Total Corporation for National and Community Service				<u>353,867</u>
Total federal expenditures				\$ <u>8,836,241</u>

The accompanying notes are an integral part of this schedule.

**VERMONT HOUSING & CONSERVATION BOARD
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 JUNE 30, 2015**

1. Summary of significant accounting policies:

- A. Single Audit reporting entity - For purposes of complying with the Single Audit Act of 1984, as amended, the Board includes all funds and programs that are considered part of the primary governmental unit, as described in the basic financial statements as of and for the year ended June 30, 2015.
- B. Basis of presentation - The information in the accompanying schedule is presented in accordance with Office of Management and Budget (OMB) Circular A-133.
 - 1. Federal award - Pursuant to the Single Audit Act and OMB Circular A-133, federal award means federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities. The Board has received direct federal awards and awards which were passed through the State of Vermont.
 - 2. Federal financial assistance - In the Single Audit Act and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Federal financial assistance does not include direct federal cash payments to individuals.
 - 3. Major and nonmajor programs - OMB Circular A-133 establishes risk-based criteria for determining those major programs to be tested for compliance with program requirements. Nonmajor federal programs are included on the Schedule of Expenditures of Federal Awards but are subject to lower levels of testing.
- C. Basis of accounting - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Board and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

2. Subgrants:

The Board provided \$385,940 in federal awards to subrecipients as follows:

	<u>CFDA Number</u>	<u>Amount</u>
Housing Opportunities for Persons with AIDS	14.241	\$ <u>385,940</u>

**VERMONT HOUSING & CONSERVATION BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

I. Summary of Auditor's Results:

Financial Statements -

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified? *None reported*

Noncompliance material to financial statements noted? *No*

Federal Awards -

Internal control over major programs:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified? *None reported*

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? *No*

Identification of major programs:

- *U.S. Department of Housing and Urban Development passed through Vermont Agency of Commerce and Community Development:
CFDA 14.239 - HOME Program*

Dollar threshold used to distinguish between type A and type B programs: *\$300,000*

Auditee qualified as low-risk auditee? *Yes*

II. Audit Findings - Financial Statements:

There were no audit findings identified for the year ended June 30, 2015

III. Audit Findings - Federal Awards:

There were no audit findings identified for the year ended June 30, 2015.

**STATUS OF PRIOR AUDIT FINDINGS
AS OF JUNE 30, 2015**

There are no unresolved prior audit findings applicable to this auditee.