TOWN OF CASTLETON, VERMONT

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

TOWN OF CASTLETON, VERMONT

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Batchelder Associates, PC

INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen
Town of Castleton, Vermont
Castleton, Vermont

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Castleton, Vermont, ("Town") as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Town'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, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual special revenue fund financial statements, and schedule of revenue and expenses-budget (non-GAAP budgetary basis) are presented for purposes of additional analysis and are not a required part of the basic financial statements. A separate report has been issued for the schedule of expenditures of federal awards. The report

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has been issued separately and issued as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual special revenue fund financial statements 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 combining and individual special revenue fund financial statements and the 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 September 11, 2013, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing 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 Town's internal control over financial reporting and compliance.

Batchelder Associates, PC.

Batchelder Associates, PC
Barre, Vermont
September 11, 2013
VT License #945

TOWN OF CASTLETON, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

As management of the Town of Castleton, Vermont ("Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found at the beginning of this report.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by $6,226,348 *(net assets).* Of this amount, $1,956,062 *(unrestricted net assets)* may be used by the various funds of the Town to meet the Town's ongoing obligations to its citizens and creditors.
- The Town's total net assets decreased by $112,003. Of this amount, net assets attributable to governmental activities increased by $63,583, and net assets attributable to business-type activities decreased by $175,585.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of $1,689,350, an increase of $17,239 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was $22,527.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private sector business.

The *Statement of Net Position* presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues *(governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, public works, health and social services, recreation and parks and conservation and development. The business-type activities of the Town include the wastewater operations.

The government-wide financial statements are designed to include not only the Town itself *(known as the primary government),* but also any legally separate entities for which the Town is financially accountable *(known as component units*). The Town has no such entities that qualify as component units.

The government-wide financial statements can be found in Exhibits A and B of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains four individual governmental funds, including the General Fund, two Special Revenue Funds and one Capital Projects Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Projects Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found in Exhibits C through E of this report.

Proprietary funds - The Town maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its Sewer Fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer Fund, of which is considered to be a major fund of the Town of Castleton.

The basic proprietary fund financial statements can be found in Exhibits F through H of this report.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The Town has no current fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information to provide additional financial information not included in the basic financial statements. This supplementary information includes combining statements for various funds, and budgetary comparison statements. The supplementary information can be found immediately following the notes to the financial statements in this report.

Government-wide Financial Analysis

TOWN OF CASTLETON, VERMONT'S NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	$ 2,287,143	$ 3,007,142	$ 490,535	$ 560,623	$ 2,777,678	$ 3,567,765
Capital assets, non-depreciable	911,889	911,889	104,493	104,493	1,016,382	1,016,382
Capital assets, depreciable	1,902,454	1,505,108	1,845,855	2,027,502	3,748,309	3,532,610
Total Assets	5,101,486	5,424,139	2,440,883	2,692,618	7,542,369	8,116,757
Long-term liabilities outstanding	566,932	-	536,263	618,557	1,103,195	618,557
Other liabilities	171,102	1,124,270	41,724	35,580	212,826	1,159,850
Total Liabilities	738,034	1,124,270	577,987	654,137	1,316,021	1,778,407
Net Assets						
Invested in capital assets, net of related debt	2,555,292	2,416,997	1,420,156	1,513,438	3,975,448	3,930,435
Restricted	294,838	1,172,180			294,838	1,172,180
Unrestricted	1,513,322	710,692	442,740	525,043	1,956,062	1,235,735
Total Net Assets	$ 4,363,452	$ 4,299,869	$ 1,862,896	$ 2,038,481	$ 6,226,348	$ 6,338,350

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by $6,226,348 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (63.8%) reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The unrestricted net assets of $1,956,062 may be used to meet the government's ongoing obligations to citizens and creditors. Included in unrestricted net assets are amounts that management has assigned for particular purposes, such as capital reserve funds and reserves for expenditures in subsequent years.

At the end of the current fiscal year, the Town is able to report positive balances in all categories of net assets for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental activities - Governmental activities increased the Town's net assets by $63,583 during the current fiscal year. Investment in capital assets, net of related debt, decreased by $2,106,966. This decrease resulted due to capital assets being reported at historical costs without regard to depreciation in prior years. The capital assets were restated in 2013 to reflect prior and current year depreciation.

TOWN OF CASTLETON, VERMONT'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
REVENUES						
Program revenues						
Charges for services	$ 355,923	$ 374,988	$ 445,374	$ 631,249	$ 801,297	$ 1,006,237
Operating grants and contributions		1,034,676	-	-	-	1,034,676
Capital grants and contributions	785,618	-	25,178	-	810,796	-
General revenues						
Property taxes	1,886,252	1,618,133	-	-	1,886,252	1,618,133
Unrestricted investment earnings	1,149	4,652	733	584	1,882	5,236
Other revenues	80,801	69,953	50,956	525	131,757	70,478
Total Revenues	3,109,743	3,102,402	522,241	632,358	3,631,984	3,734,760
EXPENSES						
Governmental activities						
General government	744,734	812,799	-	-	744,734	812,799
Public safety	534,118	416,684	-	-	534,118	416,684
Public works	1,514,733	1,348,093	-	-	1,514,733	1,348,093
Health and social services	72,663	62,625	-	-	72,663	62,625
Recreation and parks	185,708	99,603	-	-	185,708	99,603
Conservation and development	-	-	-	-	-	-
Cultural	-	300,638	-	-	-	300,638
Interest on long-term debt	5,704	178	-	-	5,704	178
Business-type activities						
Water and wastewater	-	-	686,326	660,758	686,326	660,758
Total Expenses	3,057,660	3,040,620	686,326	660,758	3,743,986	3,701,378
Change in net assets before transfers	52,083	61,782	(164,085)	(28,400)	(112,002)	33,382
Special Item Adjustments	-	-	-	-	-	-
Transfers	11,500	10,000	(11,500)	(10,000)	-	-
Change in net assets	63,583	71,782	(175,585)	(38,400)	(112,002)	33,382
Net assets-beginning of year, as restated	4,299,869	4,228,087	2,038,481	2,076,881	23,518,364	6,304,968
Net assets - end of year	$ 4,363,452	$ 4,299,869	$ 1,862,896	$ 2,038,481	$ 23,406,362	$ 6,338,350

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds **-** The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of $1,689,350, a decrease of $1,317,792 in comparison to the prior year. Of the fund balances, $1,371,985 has been assigned by the Town for various purposes, and $22,527 is unassigned and $294,838 is restricted.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year unassigned fund balance was a $22,527, and assigned fund balances were $343,569. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and operating transfers. Total fund balance represents 17.7 percent of that same amount. The fund balance of the Town's general fund decreased by $3,563 during the current fiscal year

Special revenue funds consist primarily of grant funds and the library. Total Special fund balances are $176,975 of which is attributable to the Library and restricted.

Proprietary funds - The Town's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer Fund amounted to $442,740 which is a decrease of $82,303 from the prior year. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

Differences between budgeted amounts and actual amounts can be briefly summarized as follows:

- The Town recognized increased debt principal of $259,051 due to the lease of two vehicles.

Capital Asset and Debt Administration

Capital Assets as of June 30, 2013 and 2012

	Government Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	$ 911,889	$ 911,889	$ 104,492	$ 104,493	$ 1,016,381	$ 1,016,382
Land and land improvements	203,974	214,710	-	-	203,974	214,710
Buildings and improvements	817,037	872,768	774,925	903,649	1,591,962	1,776,417
Collection systems	-	-	1,017,698	1,076,671	1,017,698	1,076,671
Vehicles and equipment	881,443	600,954	53,233	47,182	934,676	648,136
Total assets	$ 2,814,343	$ 2,600,321	$ 1,950,348	$ 2,131,995	$ 4,764,691	$ 4,732,316

Capital assets - The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2013 amount to $3,975,448 (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings and improvements, vehicles and equipment, roads and bridges, and wastewater distribution and collection systems.

Major capital asset events during the current fiscal year included the following: Capital lease of two major vehicles.

Additional information on the Town's net assets can be found in Note V of the notes to financial statements.

Long-term debt - At the end of the current year, the Town had total long-term debt outstanding of $789,243 of this amount, $530,192 represents bonded debt backed by the full faith and credit of the Town, and $259,051 represents Capital leases for the purchase of two new vehicles.

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Bonds payable	$ -	$ -	$ 530,192	$ 618,557	$ 530,192	$ 618,557
Capital lease payable	259,051	-	-	-	259,051	-
	$ 259,051	$ -	$ 530,192	$ 618,557	$ 789,243	$ 618,557

The Town's total debt decreased by $170,686 during the year, reflecting repayments on existing debt of the same.

State statutes limit the amount of bonded debt any governmental entity may issue to 10 times its total assessed valuation. The current debt limit for the Town is $87,698,090 which is significantly in excess of the Town's outstanding bonded debt. Bonds are issued through the Vermont Municipal Bond Bank. The Town issues no bonded debt on its own behalf and does not maintain its own credit rating.

Additional information on the Town's long-term debt can be found in Note VII of the notes to financial statements.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for the Town is currently 5.8 percent, down from .40 percent one year ago. This compares with a 4.6 percent rate state-wide, up from 5.6 percent statewide one year ago.

Health insurance rates have increased significantly as a result of several factors affecting the healthcare industry.

Recent data on Vermont economic conditions indicate that the performance of the Vermont economy has generally outperformed the developments in the U.S. economy overall during the past 12 to 18 months.

All of these factors were considered in preparing the Town's budget for the 2013 fiscal year.

The Town approved a general fund budget for fiscal year 2013 in the amount of $2,670,632. This represents a decrease of $77,191 or 2.8 percent under the approved budget for the previous year.

Town Manager's Discussion:

Once again, we complete a year in line with the approved budget. We are still working each day recognizing the austere times that we all live. Precise budgeting and strict fiscal controls are the keystones of our business operation. Because of this type of management, the undesignated roll over amount this year is only $22,527.

The yearly road improvements included the Village side streets and drainage program along with the reclamation and paving of Creek and North Road, and the paving of Park, School and Castleton Meadows Roads. Peckham Industries, passed on the state's contract price to the Town for the paving of the side streets in the village, while they were paving Route 4A, the cost of this work was $55,000. The other paving was done by Wilk Paving, of Rutland, at a cost of $287,468.

The Town Manager, Accountant, CPA and Select Board members met with the Library Board and its staff to discuss the deficiencies with their financial procedures. To date the Library has only taken minor steps to correct these issues.

New guardrails were installed along East Hubbardton Road and at North Road at a cost of $14,368

An Outdoor Furnace was installed at the Town Garage at a cost of just under $30,000 for the unit and installation; this will be the primary heating source for the garage working alongside the existing oil furnace. The current 20 gallon of oil per day will drastically be reduced. The wood furnace needs about 15 to 20 cords a year. The Town has about 40 cords on site from storms and the Parker Hill work of Fire District #1. Storms and general clearing by the Highway crew will keep the wood coming.

Two new Highway trucks were purchased through a 5-year lease program. The yearly lease total for these vehicles is $67,666 which will be paid through the established reserve fund. The highway reserve will still be funded yearly however at a lesser amount; this cash strategy reduces the need for additional tax dollars to fund this department.

Repairs were made to the footing at Grady Bridge along Float Bridge Road. The Belden Company, of Rutland did this work for $62,550. This project was funded through a grant from FEMA and the State structures program.

The very old water line to the Fire Department building on Elm Street broke. R.F. Hall and Sons, of Castleton, repaired this at a cost of $15,000. This cost was included in the fire department's budget.

The operator and staff of the wastewater treatment facility continued its preventive maintenance and replacement program. The South Street pumps were replaced and at the plant, the electrical controls for the decanter were replaced.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Town Manager , Town Offices, P.O. Box 727, Castleton, Vermont 05735-0727.

Exhibit A

TOWN OF CASTLETON, VERMONT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 1,918,092	$ -	$ 1,918,092
Investments	144,178	-	144,178
Receivables (net of allowance for uncollectible accounts)			
Taxes receivable	313,204	-	313,204
Accounts receivable	75,072	39,464	114,536
Due from other governments	169,805	-	169,805
Prepaid expenses	117,863	-	117,863
Interfund balances	(451,071)	451,071	-
Total Current Assets	2,287,143	490,535	2,777,678
Capital Assets (net of accumulated depreciation)			
Land, non depreciable	911,889	104,493	1,016,382
Land and land improvements	429,420	-	429,420
Building and building improvements	1,823,866	6,349,393	8,173,259
Vehicles and equipment	1,882,670	224,575	2,107,245
Accumulated depreciation	(2,233,502)	(4,728,113)	(6,961,615)
Total Noncurrent Assets	2,814,343	1,950,348	4,764,691
Total Assets	5,101,486	2,440,883	7,542,369
LIABILITIES			
Accounts payable	114,139	40,670	154,809
Accrued payroll and benefits payable	20,710	1,054	21,764
Other accrued expenses	36,253	-	36,253
Non-current liabilities			
Compensated absences payable	47,089	6,071	53,160
Deferred revenue	260,792	-	260,792
Due within one year	63,063	88,365	151,428
Due in more than one year	195,988	441,827	637,815
Total Liabilities	738,034	577,987	1,316,021
NET POSITION			
Invested in capital assets, net of related debt	2,555,292	1,420,156	3,975,448
Restricted	294,838		294,838
Unrestricted	1,513,322	442,740	1,956,062
Total Net Position	$ 4,363,452	$ 1,862,896	$ 6,226,348

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

Exhibit B

TOWN OF CASTLETON, VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

		Progam Revenues			Net (Expense) Revenue & Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	$ 744,734	$ 51,764	$ -	$ 539,144	$ (153,826)	$ -	$ (153,826)
Public safety	534,118	19,834	-	119,754	(394,530)	-	(394,530)
Public works	1,514,733	248,509	-	15,170	(1,251,054)	-	(1,251,054)
Health and social services	72,663	35,816	-	-	(36,847)	-	(36,847)
Recreation and parks	185,708	-	-	550	(185,158)	-	(185,158)
Community development	0	-	-	111,000	111,000	-	111,000
Interest on long-term debt	5,704	-	-	-	(5,704)	-	(5,704)
Total governmental activities	3,057,660	355,923	0	785,618	(1,916,119)	-	(1,916,119)
Business-type activities							
Sewer	686,326	445,374		25,178	-	(215,774)	(215,774)
	686,326	445,374		25,178		(215,774)	(215,774)
Total Government and Business-type Activities	$ 3,743,986	$ 801,297	$ -	$ 810,796	(1,916,119)	(215,774)	(2,131,893)
		General revenues:					
		Property taxes			1,886,252	-	1,886,252
		Unrestricted investment earnings			1,149	733	1,882
		Other revenues			60,966	50,956	111,922
		Permits and licenses			19,835	-	19,835
		Transfers			11,500	(11,500)	-
		Total general revenues and transfers			1,979,702	40,189	2,019,891
		Change in net assets			63,583	(175,585)	(112,003)
							-
		Net position, beginning of year, as restated			4,299,869	2,038,481	6,338,350
		Net position, end of year			$ 4,363,452	$ 1,862,896	$ 6,226,348

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

Exhibit C

TOWN OF CASTLETON, VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Capital Projects Fund	Special Revenue Funds	Total Governmental Funds
ASSETS				
Cash and equivalents	$ 774,816	$ 1,049,120	$ 94,156	$ 1,918,092
Investments	-	-	144,178	144,178
Receivables (net of allowance for uncollectible accounts)				
Taxes receivable	313,204	-	-	313,204
Accounts receivable	75,072	-	-	75,072
Due from other governments	103,225	-	66,580	169,805
Due from other funds	39,799	-	32,988	72,787
Prepaid expenses	117,863	-	-	117,863
Total Assets	$ 1,423,979	$ 1,049,120	$ 337,902	$ 2,811,001
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$ 94,594	$ -	$ 19,544	$ 114,138
Accrued payroll and benefits payable	67,228	-	571	67,799
Other accrued expenses	36,253	-	-	36,253
Due to other funds	463,356	20,704	39,799	523,859
Deferred revenue	159,779	-	101,013	260,792
Deferred revenue - property taxes	118,810	-	-	118,810
Total Liabilities	940,020	20,704	160,927	1,121,651
Fund Balances				
Non-spendable				
Permanent fund principal	-	-	-	-
Prepaid expense	117,863	-	-	117,863
Restricted for				
Community development	-	-	176,975	176,975
Assigned for				
General government	118,575	-	-	118,575
Public safety	-	-	-	-
Public works	224,994	-	-	224,994
Park and recreation	-	-	-	-
Capital project funds	-	1,028,416	-	1,028,416
Unassigned	-	-	-	-
General government	22,527	-	-	22,527
Special revenue funds	-	-	-	-
Capital projects funds	-	-	-	-
Permanent fund	-	-	-	-
Total Fund Balances	483,959	1,028,416	176,975	1,689,350
Total Liabilities and Fund Balances	$ 1,423,979	$ 1,049,120	$ 337,902	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	$ 2,814,343
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	118,810
Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, ar not reported in the funds.	(259,051)
Net assets of governmental activities	$ 4,363,452

The notes to the financial statements are an intergral part of this statement

Exhibit D

TOWN OF CASTLETON, VERMONT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Capital Projects Fund	Special Revenue Funds	Total Governmental Funds
REVENUES				
Taxes	$ 1,736,783	$ -	$ -	$ 1,736,783
Tax penalties and interest	57,518	-	-	57,518
Permits and licenses	19,835	-	-	19,835
Intergovernmental revenues	539,144	-	246,474	785,618
Charges for current services	355,923	-	-	355,923
Fines and forfeits	-	-	-	-
Interest	817	324	8	1,149
Other revenues	13,486	25,400	22,080	60,966
Total Revenues	2,723,506	25,724	268,562	3,017,792
EXPENDITURES				
Current expenditures				
General government				
Administration	432,471	-	131,093	563,564
Elections and vital statistics	9,713	-	-	9,713
Finance	84,667	-	-	84,667
Valuation	37,179	-	309	37,488
Public safety				
Police	361,752	-	-	361,752
Fire	91,651	-	-	91,651
Emergency services	31,461	-	-	31,461
Public works	1,270,597	580	156,869	1,428,046
Health and social services	69,858	-	2,805	72,663
Culture and recreation				
Recreation and parks	61,442	-	-	61,442
Library	106,500	-	-	106,500
Conservation and development	3,894	-	-	3,894
Debt service expenditures				
Principal		61,962		61,962
Interest		5,704		5,704
Capital expenditures				-
General government				
Administration	4,912			4,912
Public safety				-
Fire		7,500		7,500
Police		30,840		30,840
Public works	30,087			30,087
Recreation and parks		18,207		18,207
Total expenditures	2,596,184	124,793	291,076	3,012,053
Excess (Deficiency) of Revenues Over (Under) Expenditures	127,322	(99,069)	(22,514)	5,739
OTHER FINANCING SOURCES (USES)				
Transfers in	-	151,385	20,704	172,089
Transfers out	(130,885)	(20,704)	(9,000)	(160,589)
Total Other Financing Sources (Uses)	(130,885)	130,681	11,704	11,500
Net Change in Fund Balances	(3,563)	31,612	(10,810)	17,239
Fund Balances, beginning of year	487,522	996,804	187,785	1,672,111
Fund Balances, end of year	$ 483,959	$ 1,028,416	$ 176,975	$ 1,689,350

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

TOWN OF CASTLETON, VERMONT
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30,2013

Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:

Net change in fund balance - total government funds (Exhibit D)	$ 17,239
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	$ (107,569)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	$ 91,951
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	$ 61,962
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not report as expenditures in governmental funds.	$ -
Change in net assets of governmental activities (Exhibit B)	$ 63,583

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

TOWN OF CASTLETON, VERMONT
STATEMENT OF NET ASSETS
PROPRIETARY FUND - ENTERPRISE FUND
JUNE 30, 2013

	Sewer Fund	Total Proprietary Funds
ASSETS		
Current Assets		
Cash and cash equivalents	$ -	$ -
Accounts receivable (net of allowance for uncollectible accounts)	39,464	39,464
Due from other goverments	-	-
Due from other funds	451,071	451,071
Total Current Assets	$ 490,535	$ 490,535
Non-current Assets		
Capital assets:		
Land and land improvements	104,493	104,493
Buildings and building improvements	6,349,393	6,349,393
Machinery and equipment	224,575	224,575
Construction in progress	-	-
Less accumulated depreciation	(4,728,113)	(4,728,113)
Total Noncurrent Assets	1,950,348	1,950,348
Total Assets	$ 2,440,883	$ 2,440,883
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 40,670	$ 40,670
Accrued payroll and benefits payable	7,125	7,125
Accrued interest payable	-	-
Bonds and notes payable - current portion	88,365	88,365
Total Current Liabilities	136,160	136,160
Noncurrent Liabilities		
Bonds and notes payable	441,827	441,827
Total Noncurrent Liabilities	441,827	441,827
Total Liabilities	577,987	577,987
Net Assets		
Invested in capital assets, net of related debt	1,420,156	1,420,156
Unrestricted	442,740	442,740
Total Net Assets	1,862,896	1,862,896
Total Liabilities and Net Assets	$ 2,440,883	$ 2,440,883

The notes to the financial statements are an intergral part of this statement

Exhibit G

TOWN OF CASTLETON, VERMONT
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
PROPRIETARY FUND - ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Sewer Fund	Total Proprietary Funds
OPERATING REVENUES		
Charges for services	$ 436,543	$ 436,543
Interest and penalties	8,831	8,831
Grant income	25,178	25,178
Miscellaneous income	50,956	50,956
Total Operating Revenues	521,508	521,508
OPERATING EXPENSES		
Personnel services	129,257	129,257
Administration expenses	12,262	12,262
Utilities	76,831	76,831
Contract services	186,302	186,302
Equipment operation	1,086	1,086
Repairs and maintenance	21,653	21,653
Materials and supplies	41,503	41,503
Insurance expense	18,285	18,285
Small equipment	-	-
Depreciation	199,147	199,147
Total Operating Expenses	686,326	686,326
Operating Income (Loss)	(164,818)	(164,818)
NONOPERATING REVENUES (EXPENSES)		
Interest income	733	733
Interest expense	-	-
Total Nonoperating Revenues (Expenses)	733	733
Income (Loss) Before Transfers	(164,085)	(164,085)
TRANSFERS		
Transfers in	-	-
Transfers out	(11,500)	(11,500)
Total Transfers	(11,500)	(11,500)
Change in Net Assets	(175,585)	(175,585)
Total Net Assets - July 1, 2012	2,038,481	2,038,481
Total Net Assets - June 30, 2013	$ 1,862,896	$ 1,862,896

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

Exhibit H

TOWN OF CASTLETON, VERMONT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Sewer Fund	Total Proprietary Funds
Cash Flows from Operating Activities		
Cash received for services	$ 466,653	$ 466,653
Other operating revenues	76,134	76,134
Cash payments to employees	(127,416)	(127,416)
Cash payments for operating services	(345,604)	(345,604)
Net Cash Provided (Used) by Operating Activities	69,767	69,767
Cash Flows from Noncapital Financing Activities		
Transfers to other funds	(10,000)	(10,000)
Net Cash Provided (Used) by Noncapital Financing Activities	(10,000)	(10,000)
Cash Flows from Capital and Related Financing Activities		
Capital purchases	(17,500)	(17,500)
Interfund transfers	45,365	45,365
Cash paid for interest	733	733
Cash Paid to Debt Principal	(88,365)	(88,365)
Net Cash Provided (Used) by Capital and Related Financing Activities	(59,767)	(59,767)
Net Increase in Cash and Cash Equivalents	-	-
Cash and Cash equivalents, July 1, 2012	-	-
Cash and Cash equivalents, June 30, 2013	$ -	$ -
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income	(164,818)	$ (164,818)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	199,147	199,147
Changes in Assets and Liabilities:		
(Increase) in accounts receivable	23,223	23,223
(Increase) in grants receivable	-	-
Increase in accounts payable	10,374	10,374
Increase in accrued expenses	1,841	1,841
Decrease in interfund receivables	-	-
Net Cash Provided (Used) by Operating Activtities	$ 69,767	$ 69,767

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

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Town of Castleton, Vermont ("Town") conform to generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The following is a summary of the more significant accounting policies employed in the preparation of these financial statements.

A. The Financial 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 organizations 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. There are no agencies or entities that should be combined with the financial statements of 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, liabilities, 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 Town. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of activities between funds; however, interfund services provided and used are not eliminated. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities and for each segment of the Town's business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's various enterprise funds are charges to customers for sales and

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town reports on the following major governmental funds:

General Fund - This is the general operating fund of the Town. It accounts for all financial resources of the general government, except those not accounted for in another fund.

Capital Projects Fund - This fund is a capital project fund used to track all revenue and expenditures related to capital expenditures and associated grants. Expenditures consist of various projects to restore, improve and create Town improvements.

The Town reports on the following major enterprise funds:

Sewer *Fund* - This fund accounts for the activities of the Town's wastewater treatment plants and collection systems.

The Town reports on the following non-major governmental fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Town has two special revenue funds: the Grant Fund used to record and report the income and expenses associated with the all Town grant revenue; the Library Fund used to record and report the library activities the Town provides.

C. 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 proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded 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 an 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.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

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 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, other postemployment benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. 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.

Property taxes, intergovernmental revenues and charges for current services associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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.

When expenditures are incurred for purposes for which both restricted and unrestricted amounts are available, it is the Town's policy to first consider restricted amounts to have been spent, followed by committed, assigned, and finally unassigned amounts.

All governmental business-type activities and enterprise funds of the Town follow Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board (APB) Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. As permitted under Statement of Governmental Accounting Standards No. 20, the Town has elected not to apply FASB Standards issued after November 30, 1989.

D. Measurement focus

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

Governmental fund financial statements are reported using the current financial resources measurement focus. This means that only current assets and current liabilities are generally reported on their balance sheets. Their reported fund balances (net current assets) are considered a measure of available spendable resources. 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 assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

E. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates used by the Town are the estimated useful lives used to calculate depreciation of property, plant and equipment and the estimated costs of other postemployment benefits.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, Liabilities and Equity

1. Cash

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

State statute does not restrict the types of investments the Town can make. All investments require the authorization of the Board of Selectmen. Investments in the Permanent Fund (Town Trust Fund) are valued at fair value. The investments are registered securities held by the Town or by its agent in the Town's name.

In accordance with GASB 31, "Accounting and Financial Reporting for Certain Investments," investments with readily determinable fair values are reported at their fair values on the balance sheet. Unrealized gains and losses are included in revenue.

3. Receivables

Accounts receivable are shown net of an allowance for uncollectible accounts for the estimated losses that will be incurred in the collection of the receivables. The estimated losses are based on the judgment of management and a review of the current status of existing receivables.

Transactions between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (for the current portion of the interfund loans) or "advances to/from other funds" (for the non-current portion of interfund loans. All other outstanding balances between funds are reported as "due to/from other funds."

Accounts receivable from other governments represent amounts due from the State of Vermont for grants reimbursements. Based on experience and because the receivables are in accordance with formal agreements, the Town has not established an allowance for uncollectible receivables.

The Town is responsible for assessing and collecting its own property taxes, as well as taxes for the State for school purposes. Property taxes are assessed based on property valuations as of April 1 annually. Taxes are levied during September and are due and payable during November each year.

During the tax year ended June 30, 2013, taxes became due and payable as of July 1st. Taxes paid after due date are subject to an 8% penalty and 1% interest per month. Unpaid taxes become an enforceable lien on the property, and such properties are subject to tax sale by the delinquent tax collector.

As of June 30, 2013, delinquent taxes receivable were $313,204, which is net of $7,500 allowance of uncollectible accounts.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, Liabilities and Equity (continued)

3. Receivables (continued)

The tax rate for 2013 is as follows:

	Residential	Non-residential
General appropriation	0.3770	0.377
Voter exempt property	0.0050	0.0050
Total municipal tax rate	0.3820	0.3820
Education (CLA adjusted)	1.4712	1.5959
Total tax rate	1.8532	1.9779

4. Inventories

The Town does not record inventories of supplies as these amounts are not material in relation to the Town's results of operations. Accordingly, expenditures related to inventories are reported in governmental funds when purchased.

5. Capital Assets

Capital assets are reported at actual cost or estimated historical cost based on appraisals or deflated current replacement cost if purchased or constructed. Contributed assets are recorded at their estimated fair value at the time received. Major outlays for capital assets and improvements are capitalized as constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of any interest earned on the invested proceeds during the same period. Interest is not capitalized during the construction phase of capital assets used in governmental activities. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Capital assets reported in the government-wide and proprietary fund financial statements are depreciated in order that the cost of these assets will be charged to expenses over their estimated service lives, using the straight line method of calculating depreciation. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Estimated Service Life
Land improvements	10,000	10-50 years
Buildings and building improvements	20,000	10-75 years
Vehicles and equipment	5,000	3-25 years

Capital assets are not reported in the governmental fund type financial statements. Capital outlays in these funds are recorded as expenditures in the year they are paid.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, Liabilities and Equity (continued)

6. Compensated Balances

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick time. The accrual for unused vacation time, based on current pay rates, is recorded in the government-wide and proprietary fund financial statements, with the general fund being used to liquidate amounts recorded in the government-wide statements. Liability for unused vacation time is not reported in the governmental fund type financial statements unless they have matured. Payments for unused vacation time are recorded as expenditures in the year they are paid. No liability is reported for earned but unused sick time because it is not a vested benefit.

7. Long-term Liabilities

Long-term liabilities include bonds and capital leases payable. Long-term liabilities also include other obligations such as compensated absences and postemployment benefits. Long-term liabilities are reported in the government-wide and proprietary fund 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 assets and liabilities on their balance sheets.

8. Fund Equity

Fund balances and net assets are classified based upon any restrictions that have been placed on those balances or any tentative plans management may have made for those balances. Restrictions of net assets in government-wide and proprietary fund type financial statements represent amounts that cannot be appropriated or are legally restricted for a specific purpose by a grant, contract, or other binding agreement. Net assets of governmental fund type financial statements are classified as non-spendable (not in spendable form or legally required to remain intact); restricted (constraints on the use of resources are either externally imposed by creditors, grantors, or donors, or imposed by law through enabling legislation); committed (constraints on the use of resources are imposed by formal action of the voters at town meeting); assigned (reflecting the select board's intended use of the resources); and unassigned.

NOTE II. EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS

Governmental Fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, while government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. These differences in the measurement focus and basis of accounting lead to differences between the governmental fund financial statements and the government-wide financial statements, as follows:

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas government-wide statements report revenues when they are earned. Long-term expense differences arise because governmental funds report operating expenses (including interest) using the modified accrual basis of accounting, whereas government-wide statements report expenses using the accrual basis of accounting.

Capital-related differences arise because governmental funds report capital outlays as current period expenditures, whereas government-wide statements report depreciation expense as an expense. Further, governmental funds report the proceeds for the sale of capital assets as revenue, whereas government-wide statements repot the gain or loss from the sale of capital assets as revenue or expense.

Long-term debt transaction differences arise because governmental funds report bond proceeds as other financing sources and principal payments as expenditures, whereas government-wide statements report those transactions as increases and decreases in liabilities.

NOTE II. EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS (continued).

A. Governmental Funds Balance Sheet and the Statement of Net Position

Detailed explanation of the differences between governmental funds balance sheet and government-wide Statement of Net Position are as follows:

	Total Governmental Funds	Long-term Revenues/ Expenses	Capital-Related Items	Long-term Debt Transactions	Elimination of Due To/From	Statement of Net Position Total
ASSETS						
Cash	$ 2,062,270	$ -	$ -	$ -	$ -	$ 2,062,270
Receivable (net of allowance for	-	-	-	-	-	-
uncollectible accounts):	-	-	-	-	-	-
Taxes receivable	313,204	-	-	-	-	313,204
Accounts Receivable	75,072	-	-	-	-	75,072
Due from Other Governments	169,805	-	-	-	-	169,805
Due from Other Town Funds	72,787	-	-	-	(523,858)	(451,071)
Prepaid Expenses	117,863	-	-	-	-	117,863
Restricted assets:	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-
Notes and mortgages receivable	-	-	-	-	-	-
Capital assets	-	-	2,814,343	-	-	2,814,343
Total Assets	2,811,001	-	2,814,343	-	(523,858)	5,101,486
LIABILITIES						
Accounts Payable	114,139	-	-	-	-	114,139
Accrued Payroll	67,799	(47,089)	-	-	-	20,710
Accrued expenses	36,253	-	-	-	-	36,253
Due to Other Funds	523,858	-	-	-	(523,858)	-
Deferred Revenue	379,602	(118,810)	-	-	-	260,792
Noncurrent liabilities	-	47,089	-	259,051	-	306,140
Total Liabilities	1,121,651	(118,810)	-	259,051	(523,858)	738,034
NET ASSETS						
Invested in capital assets	-	-	2,814,343	(259,051)	-	2,555,292
Other	1,689,350	118,810	-	-	-	1,808,160
Total Net assets	$ 1,689,350	$ 118,810	$ 2,814,343	$ 259,051)	$ -	$ 4,363,452

NOTE II. EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS (continued)

B. Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and Statement of Activities

A detailed explanation of the differences between governmental funds statement of revenues, expenditures and changes in fund balances and government-wide statement of activities is as follows:

	Total Governmental Funds	Long-term Revenues/ Expenses	Capital-Related Items	Long-term Debt Transactions	Statement of Net Assets Total
REVENUES					
Taxes	$ 1,736,783	$ 91,951	$ -	$ -	$ 1,828,734
Tax penalties and interest	57,518	-	-	-	57,518
Permits and licenses	19,835	-	-	-	19,835
Intergovernmental	785,618	-	-	-	785,618
Charges for current services	355,923	-	-	-	355,923
Fines and forfeits	-	-	-	-	-
Interest	1,149	-	-	-	1,149
Other revenues	60,966	-	-	-	60,966
Total Revenues	3,017,792	91,951	-	-	3,109,743
EXPENDITURES					
Current expenditures					
General government					
Administration	563,564	-	49,302	-	612,866
Elections and vital statistics	9,713	-	-	-	9,713
Finance	84,667	-	-	-	84,667
Valuation	37,488	-	-	-	37,488
Public safety					
Police	361,752	-	49,254	-	411,006
Fire	91,651	-		-	91,651
Emergency services	31,461	-	-	-	31,461
Public works	1,428,046	-	86,687	-	1,514,733
Health and social services	72,663	-	-	-	72,663
Culture and recreation					
Recreation and parks	61,442	-	13,872	-	75,314
Library	106,500	-	-	-	106,500
Conservation and development	3,894	-	-	-	3,894
Debt service expenditures					
Principal	61,962	-	-	(61,962)	-
Interest	5,704	-	-	-	5,704
Capital expenditures					
General government					
Administration	4,912	-	-	(4,912)	-
Public safety					
Fire	7,500	-	-	(7,500)	-
Police	30,840	-	-	(30,840)	-
Public works	30,087			(30,087)	-
Recreation and parks	18,207	-	-	(18,207)	-
Total expenditures	3,012,053	-	199,115	(153,508)	3,057,660
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,739	91,951	(199,115)	153,508	52,083
OTHER FINANCING SOURCES (USES)					
Transfers in	172,089	-	-	-	172,089
Transfers out	(160,589)	-	-	-	(160,589)
Total Other Financing Sources (Uses)	11,500	-	-	-	11,500
Net Change in Fund Balances	$ 17,239	$ 91,951	$ (199,115)	$ 153,508	$ 63,583

NOTE III. Cash, Cash Equivalents, and Investments

At June 30, 2013 the carrying amount of the Town's deposits with financial institutions was $1,844,596 and the bank balances were $1,984,383. These deposits are held in checking accounts, saving accounts, and money market accounts. Of the funds on deposit, $250,000 was covered by the Federal Deposit Insurance Corporation (FDIC) and $1,594,596 was covered by a collateraliztion agreement.

At June 30, 2013, investments were valued at $175,532. Market value of investments, determined by quoted market prices at June 30, 2013 are as follows:

Municipal bonds	$ 27,839
Money market funds	147,693
Total investments	$ 175,532

The investments have not been rated as to credit risk.

GASB Statement No. 40 requires the Town's investments be categorized indicating the level of risk assumed by the town at year end. Category 1 includes investments that are insured or registered or securities that are held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments which are held by a trust department or agent in the Town's name. At June 30, 2013, all the Town's investments were in Category 1.

NOTE IV. Interfund Balances and Transfers

Interfund Balances:

Interfund balances at June 30, 2013 were as follows:

	Receivables	Payables
General fund	$ -	$ 423,557
Special services	-	19,095
Library	12,285	-
Capital project fund	-	20,704
Sewer fund	451,071	-
Total	$ 463,356	$ 463,356

NOTE IV. Interfund Balances and Transfers (continued)

The detail of interfund operating transfers recorded during the year ended June 30, 2013 is as follows:

	Transfers in			
	General Fund	Capital Project Fund	Special Revenue Fund	Sewer Fund
Transfers out:				
General	$ -	$ 130,885	$ -	$ -
Capital Project	-	-	20,704	-
Special Revenue	-	9,000	-	-
Sewer Fund	-	11,500	-	-
Total	$ -	$ 151,385	$ 20,704	$ -

Transfers are used to 1) reimburse the General Fund, Special Services, Library and Sewer Fund for activity expensed in support of the sourcing funds.

NOTE V. Capital Asset Activity

A. Government-Wide Capital Assets

Capital asset activity of the Town for the year ended is as follows:

Governmental Activities	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	$ 911,889	$ -	$ -	$ 911,889
Capital assets being depreciated:				
Highway equipment	583,481	346,379	12,000	917,860
General equipment	28,554	4,912	-	33,466
Fire equipment	565,196	7,500	15,000	557,696
Police equipment	135,282	30,839	-	166,121
Rec equipment	189,870	18,207	550	207,527
Transfer station	365,143	5,300	-	370,443
Land improvements	429,420	-	-	429,420
Buildings/improvements	1,453,423	-	-	1,453,423
Total capital assets, being depreciated	$ 3,750,369	$ 413,137	$ 27,550	$ 4,135,956

	Beginning Balances	Increases	Decreases	Ending Balances
Less Accumulated Depreciation:				
Highway equipment	$ 350,089	$ 61,991	$ 12,000	$ 400,079
General equipment	17,132	2,231	-	19,363
Fire equipment	339,118	38,180	15,000	362,297
Police equipment	81,169	11,075	-	92,244
Rec equipment	113,922	13,872	550	127,244
Transfer station	219,086	24,696	-	243,782
Land improvements	214,710	10,736	-	225,446
Buildings/improvements	726,712	36,336	-	763,047
	2,061,937	199,115	27,550	2,233,502
Being Depreciated, Net	1,688,432	214,022	-	1,902,453.63
Net Assets	$ 2,600,321	$ 214,022	$ -	$ 2,814,343

Depreciation expense was charged to governmental functions as follows:

General	$ 49,302
Highway	61,991
Public safety	49,254
Public works	24,696
Culture and recreation	13,872
Total 2013 governmental depreciation expense	$ 199,115

NOTE V. Capital Assets Activity (continued)

B. Business-Type Capital Assets

Business-type Activities	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	$ 104,493	$ -	$ -	$ 104,493
Capital assets being depreciated:				
Buildings	826,249	-	-	826,249
Sewer plant buildings and improvements	2,574,475	-	-	2,574,475
Collection system	2,948,669	-	-	2,948,669
Machinery and equipment	163,568	17,500	13,750	167,318
Vehicles	57,257	-	-	57,257
Total assets, being depreciated	6,570,218	17,500	13,750	6,573,968
Total accumulated depreciation	4,542,716	199,147	13,750	4,728,113
Total assets being depreciated, net	2,027,502	(181,647)	-	1,845,855
Business-type activities capital assets, net	$ 2,131,995	$ (181,647)	$ -	$ 1,950,348

Total business-type activities depreciation expense for 2013 is $199,147.

The Town accounts for its general long-term construction contracts by expensing activity in the year in which it occurs and for its proprietary fund long-term construction contracts by capitalizing expenses during the year and reporting that activity as construction in progress until projects are complete.

The gross amount of assets in the government-wide Statement of Net Position recorded under capital leases as of June 30, 2013 is $321,013. All assets are included in the general capital assets of the government and the amortization is fully reported in the expense on the government-wide statement of activities.

C. Operating Leases

The Town has leased storage space for road salt for one year commencing June 1, 2013 through May 31, 2014 at the annual rent of $3,600, payable in full on August 1, 2013.

C. Operating Leases (continued)

The following is a schedule of future lease payments under these leases:

During the year ended June 30, 2013	$	1,554
2014		1,056
Total	$	2,610

NOTE VII. Long-term Debt

Sewer Fund long-term debt activity for the year ended June 30, 2013 is as follows:

	6/30/12 Balance	Decreases	Increases	6/30/13 Balance	Due within one year
Bonds payable	$ 618,557	$ 88,365	$ -	$ 530,192	$ 88,365
Capital lease payable	-	61,962	321,013	259,051	63,063
Total	$ 618,557	$ 150,327	$ 321,013	$ 789,243	$ 151,428

Sewer Fund long-term debt is in the form of long-term notes and bonds. The proceeds of such debt are for improvement of the Town's wastewater systems.

Waste water abatement improvements bond to Vermont Municipal Bank, interest free, due in annual Installments of $88,365 starting July 1, 2000 through July 1, 2019	$ 530,192
Total long-term notes and bonds payable - Sewer Fund	530,192
Less current portion	(88,365)
Long-term portion	$ 441,827

General Fund long-term debt is in the form of two capital leases. The proceeds of such debt are for the purchase of two highway vehicles for the Town.

2.698%, $177,354 Lease-purchase agreement dated October 11, 2012, 2013 International 7600 truck. Five annual payments of $37,384.12, including principal and interest, with final payment October 29, 2016.	$143,121
2.698%, $143,659 Lease-purchase agreement dated October 16, 2012, International 7400 truck. Five annual payments of $30,281.70, including principal and interest, with final payment November 9, 2016.	115,930
	259,051
Total long-term notes and bonds payable - General Fund	
Less current portion	(63,063)
Long-term portion	$195,988

NOTE VII. Long-term Debt (continued).

The following is a summary of annual principal and interest debt service requirements to maturity:

Business-Type Activities:

	Principal	Interest	Total
Current Portion	$ 88,365	$ -	$ 88,365
2015	88,365	-	88,365
2016	88,365	-	88,365
2017	88,365	-	88,365
Thereafter	176,732	-	176,732
Total	$ 530,192	$ -	$ 530,192

General Fund:

	Principal	Interest	Total
Current Portion	$ 63,063	$ 4,603	$ 67,666
2015	64,184	3,483	67,667
2016	65,325	2,342	67,667
2017	66,479	1,181	67,660
Total	$ 259,051	$ 11,609	$ 270,660

For the year ended, combined short-term and long-term debt interest expense for all funds was $5,704.

NOTE VIII. Fund Balances Assigned

At the Town had assigned fund balances for the following purposes:

	General Fund	Capital Projects Fund	Non-Major Governmental Funds
General Government			
Record Restoration	$ 37,616	$ -	$ -
Tax Rate Buy Down	$ 80,959		
Public Works		-	-
Highway	$ 224,994	$ -	$ -
		-	-
Capital Projects	$ 1,028,416	$ -	$ -

At June 30, 2013 the Town had Restricted fund balances for the following purposes:

Prepaid Expenses	$ 117,863
Library Fund	$ 176,975

NOTE IX. Pension Plan

Vermont Municipal Employee Retirement System (VMERS)

Prior to 2010, new Town employees were eligible to participate in the Vermont Municipal Employees Retirement Systems (VMERS). Requirements for participation are weekly work hours of more than 24 hours per week and 1,040 hours per year.

There are four levels in the System: Group A, Group B, Group C, and Group D. The Town participates in Group B and C. Normal retirement for Group B members is age 62 and the completion of 5 years of creditable service. A member may receive reduced benefits at age 55 if they have 5 years of service and have made contributions for at least 2.5 years The system is an actuarial service, joint-contributory program. Both the members and the Town make contributions to the fund according to the following schedule:

	Group A	Group B	Group C	Group D
Employees' contributions (% of gross wages)	2.5%	4.5%	9.0%	11.0%
Town's contributions (% of gross wages)	4.0%	5.0%	6.0%	9.5%

Employee contributions are withheld pre-income tax and are remitted to the State of Vermont. The Town's total payroll during the year was $963,430 with $724,103 of this amount related to employees covered by VMERS. The Town's contribution to VMERS for fiscal year 2013 on behalf of employees was $36,206.

NOTE X. Other Notes

B. Risk management

The Town covers its significant risks of loss, which are identified with the assistance of insurance agents, by commercial insurance. There have been no significant reductions in insurance coverage or settlement amounts exceeding insurance coverage for the current three (3) prior years.

C. Commitment and contingencies

The Town participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are not subject to audit and adjustments by the grantor agencies; therefore, to the extent that the Town has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2013 may be impaired.

In the opinion of the Town, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying general purpose financial statements for such contingencies.

There are pending asserted and un-asserted claims against the Town arising principally in the normal course of operations. The Town estimates that the potential claims against it would not have a material adverse effect on the general purpose financial statements of the Town and, accordingly, no provision for losses has been recorded.

The Town has facilities which are not in compliance with the requirements of the Americans with Disabilities Act of 1990. The Town is considering alternatives to become compliant with the requirements, the cost of which, are not currently known. Improvements or additions to facilities subject the Town to various levels of compliance. The Town made some improvements to the Town Hall building subsequent to year end which improved compliance at that location.

D. Other post-employment benefits

The Town provides post-employment health and life insurance benefits under its union agreement. Employees who retire with ten or more years of service are eligible until they are able to receive social security benefits. Currently, three employees meet the eligibility requirements. The Town funds the benefits on a pay as you go basis. Eligible employees with ten years of service pay 0% of the insurance premiums with the Town subsidizing the remaining cost. In addition, the Town increases its percent of the premium cost by 2.5% for each year of service after ten, up to 100% coverage for those employees with over thirty years of service or more. The Town expended (net of participant contributions) $49 of these post-employment benefits during the fiscal year ended June 30, 2013.

E. Joint venture

The Town is a member of the Rutland County Solid Waste District which provides solid waste management services for sixteen member municipalities. The Town appoints one of the eighteen members of the Board of Supervisors o the District. None of the members has an equity interest in the District. The District issues separate financial statements which are available from their offices located at 2 Green Hills Lane, Rutland, Vermont.

The Town's ongoing financial commitment to the District is primarily satisfied through fees charged by the District for solid waste generated at the Town's transfer station. As of December 31, 2012, the last available audited financial statements indicated the District had an unreserved fund balance of $ 237,600 in its General Fund, and an unrestricted deficit of $ 395,258 in its Proprietary Fund. The Proprietary Fund deficit approximates the balance of deferred revenue received for a long term operating lease agreement on its materials recycling facility.

TOWN OF CASTLETON, VERMONT
SCHEDULE OF REVNUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
JUNE 30, 2013

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	$ 1,649,315	$ 1,736,783	$ 87,468
Tax penalties and interest	50,000	57,518	7,518
Permits and licenses	22,000	19,835	(2,165)
Intergovernmental	499,500	539,144	39,644
Charges for current services	355,916	355,923	7
Fines and forfeits	-	-	-
Interest	900	817	(83)
Other revenues	8,000	13,486	5,486
Total Revenues	2,585,631	2,723,506	137,875
EXPENDITURES			
Current expenditures			
General government			
Administration	416,015	432,471	(16,456)
Elections and vital statistics	10,944	9,713	1,231
Finance	85,860	84,667	1,193
Valuation	55,634	37,179	18,455
Public safety			
Police	332,915	361,752	(28,837)
Fire and ambulance	83,192	91,651	(8,459)
Emergency services	33,468	31,461	2,007
Public works	1,351,761	1,270,597	81,164
Health and social services	71,936	69,858	2,078
Recreation and parks	68,848	61,442	7,406
Library	106,500	106,500	-
Conservation and development	5,750	3,894	1,856
Debt service expenditures			
Principal	-	-	-
Interest	-	-	-
Capital expenditures	-		
General government			
Administration	-	4,912	(4,912)
Public safety			
Police	-	-	-
Public works	15,000	30,087	(15,087)
Total Expenditures	2,637,823	2,596,184	41,639
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(110,000)	(130,885)	20,885
Total other financing sources (uses)	(110,000)	(130,885)	20,885
Budgeted Fiscal Year 2012 Surplus	162,192	-	-
Net change in fund balances	$ -	$ (3,563)	$ 200,399

The notes to the financial statements are an intergral part of this statement

TOWN OF CASTLETON, VERMONT
COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS
JUNE 30, 2013

	Special Revenue Funds		
	Special Revenue Funds	Library	Total Special Revenue Funds
ASSETS			
Cash	$ -	$ 94,156	$ 94,156
Investments	-	144,178	144,178
Receivables (net of allowances for uncollectible accounts):	-	-	-
Accounts receivable	-	-	-
Due from other governments	66,580	-	66,580
Due from other funds	-	12,284	12,284
Total Assets	$ 66,580	$ 250,618	$ 317,198
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 19,544	$ -	$ 19,544
Accrued payroll		571	571
Deferred revenue	27,941	73,072	101,013
Due to other funds	19,095	-	19,095
Total Liabilities	66,580	73,643	140,223
Fund balances			
Non-spendable			
Permanent			-
Restricted for community development	-	176,975	176,975
Assigned	-	-	-
Public safety	-	-	-
Recreation and parks	-	-	-
Unassigned			-
Total Fund Balances	-	176,975	176,975
Total Liabilities and Fund Balances	$ 66,580	$ 250,618	$ 317,198

TOWN OF CASTLETON, VERMONT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Special Revenue Funds		
	Special Revenue Funds	Library	Total Special Revenue Funds
REVENUES			
Charges for services	$ -	$ 111,000	$ 111,000
Grant revenue	135,474	2,050	137,524
Donations	10,000	4,012	14,012
Interest Income	-	8	8
Other	2,805	3,213	6,018
Total Revenues	148,279	120,283	268,562
EXPENDITURES			
Current expenditures			
General government			
Administration	-	131,093	131,093
Valuation	309	-	309
Public safety	-	-	-
Public works	156,869	-	156,869
Health and social services	2,805	-	2,805
Recreation and parks	-	-	-
Community development development	-	-	-
Total Expenditures	159,983	131,093	291,076
Excess (deficiency) of revenues over (under) expenditures	(11,704)	(10,810)	(22,514)
Other Financing Sources (Uses)			
Transfers in (out)	11,704	-	11,704
Total other Financing Sources (Uses)	11,704	-	11,704
Net change in fund balances	-	(10,810)	(10,810)
Fund balances, beginning	-	187,785	187,785
Fund balances, ending	$ -	$ 176,975	$ 176,975

Batchelder Associates, PC

January 5, 2014

Select Board
Town of Castleton, Vermont
P.O. Box 727
Castleton, VT 05735-0727

We have audited the financial statements of the Town of Castleton, Vermont as of and for the year ended June 30, 2013 and have issued our report thereon dated September 11, 2013. We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Town of Castleton, Vermont for the year ended June 30, 2013; we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. During our audit, we found no matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Town of Castleton, Vermont's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended solely for the information and use of Board of Selectmen and management and is not intended to be and should not be used by anyone other than these specified parties. This letter refers to conditions which came to our attention which are recommendations to improve and enhance the internal controls of your accounting system. These recommendations are not a reflection upon the integrity or capabilities of any personnel.

RECOMMENDATIONS:

Castleton Free Library:

Records for the Castleton Free Library are incorporated into the reporting of the Town of Castleton's audit report and financial accounting system. The Library is documented as a non-profit, Vermont Corporation, however is not tax exempt for Federal Income Tax purposes. The Library does not follow the same requirements and internal control procedures that are in place for the Town of Castleton. This lack of controls in the accounting procedures and authorizations exposes the Town of Castleton to future weaknesses and reporting conditions.

Bonnie K. Batchelder ❧ Certified Public Accountant

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Note: We did meet with the Library staff and Board to review these recommendations. We supplied information to the Board and Staff on acceptable practices to implement. We encouraged these changes to take place immediately and to be retroactive to July 1, 2012 where appropriate, however, this again has only been done in limited instances. Among other requests, a Form 990 submitted by the library needs to be submitted to the Town for review and reconciliation to the Town records. Currently these records do not reconcile.

- There remains a lack of controls over purchasing / disbursements.
- Void of authorizations in some cases
- Useage of expense sheets inconsistent
- Late payments of routine monthly invoices, while incurring late charges.
- Checks written to cash
- Checks written to and signed by same person

This was a recommendation during the June 30, 2009, 2010, 2011 and 2012 audit. There is a significant difference in accounting procedures between the Town and the Library. Significant changes need to be addressed and put into place prior to the June 30, 2014 audit. At a minimum, we will need to see a clear segregation of duties and a duplicate set of internal control procedures as followed by the Town.

NEMRC Chart of Account:

There are some general ledger accounts which are not being included in totals on the trial balance. In discussing with accounting, it is a project to reclass the activity to accounts which will accumulate properly during the upcoming fiscal year.

Other:

- Void checks greater than one year

The Town records are very well organized and complete. Records are easy to find and always readily available to us during field work and upon request. We would like to extend a special thank you to Melanie Combs for the great and thorough job she does in preparation of the audit and audit follow up.

This report is solely for the information and use of the Town of Castleton, Vermont's management and Board of Selectmen. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Brian K Batchelder

Batchelder Associates, PC
September 11, 2013