

TOWN OF CASTLETON, VERMONT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORTS
JUNE 30, 2020

TOWN OF CASTLETON, VERMONT

JUNE 30, 2020

TABLE OF CONTENTS

| | <u>Page(s)</u> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Independent Auditor's Report | 1 - 2 |
| Management's Discussion and Analysis | 3 - 8 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 9 |
| Statement of Activities | 10 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds..... | 11 |
| Reconciliation of the Balance Sheet - Governmental Funds to the Government-wide Statement of Net Position..... | 12 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds..... | 13 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Government-wide Statement of Activities | 14 |
| Statement of Net Position - Proprietary Fund..... | 15 |
| Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund..... | 16 |
| Statement of Cash Flows - Proprietary Fund..... | 17 |
| Notes to Financial Statements..... | 18 - 29 |
| Required Supplemental Information Other than Management's Discussion and Analysis: | |
| Schedule of Revenues and Expenditures - Budget and Actual Budgetary Basis - General Fund..... | 30 - 31 |
| Schedule of Proportionate Share of Net Pension Liability | 32 |
| Schedule of Pension Contributions..... | 33 |
| Internal Control and Compliance: | |
| 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 <i>Government Auditing Standards</i> | 34 - 35 |
| Schedule of Findings..... | 36 |

INDEPENDENT AUDITOR'S REPORT

The Select Board
Town of Castleton, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Castleton, Vermont, as of and for the year ended June 30, 2020, 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.

Basis for Qualified Opinion on the Discretely Presented Component Unit

The Town has not prepared a detailed listing of capital assets for the discretely presented component unit, Castleton Free Library. Therefore, we have been unable to perform sufficient audit procedures on the balances recorded. The amount by which this situation would affect the assets, net position, and expenses of the discretely presented component unit is not known.

Qualified Opinion

In our opinion, except for the possible effect of the matter discussed in the "Basis for Qualified Opinion on the Discretely Presented Component Unit" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely presented component unit of the Town of Castleton, Vermont as of June 30, 2020, and changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to in the first paragraph 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 of Castleton, Vermont as of June 30, 2020, 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 Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 8, the budgetary comparison information on pages 30 and 31, the schedule of proportionate share of the net pension liability on page 32, and the schedule of pension contributions on page 33 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 2, 2021 on our consideration of the Town of Castleton, Vermont's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Castleton, Vermont's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Castleton, Vermont's internal control over financial reporting and compliance.

Pace & Hawley, LLC

Berlin, Vermont
March 2, 2021

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2020

This discussion and analysis of the Town of Castleton, Vermont's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2020. Please read it in conjunction with the Town's financial statements.

Financial Highlights

- The Town's governmental activities net position decreased by \$17,858 because of this year's operations.
- The Town's business-type activities net position increased by \$362,049 because of this year's operations.
- The General Fund reported a net decrease in fund balance of \$32,016 because of this year's operations.
- The unassigned fund balance for the General Fund was a surplus of \$279,747 as of June 30, 2020.

Overview of the Financial Statements

Management's discussion and analysis introduces the Town's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements present a long-term view and are designed to provide the reader with a broad overview of the Town's finances. Governmental and proprietary fund financial statements report the Town's operations in more detail than the government-wide financial statements by providing information about the Town's most significant funds.

Government-wide Financial Statements

One of the most important questions to ask about the Town's finances: "Is the Town as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the Town as a whole and about the activities in a way that helps answer this question. The statements are prepared similar to the private sector using the accrual basis of accounting. Under this basis of accounting, all of the current year's revenues and expenses are reported when earned or incurred regardless of when cash is paid or received.

The statement of net position is used to report all that the entity owns and owes. The difference between the two is reported as net position. This classification of net position is broken into three categories, the first being the portion of net investment in capital assets to indicate that this amount is not accessible for other purposes. A second portion of net position reflects resources not accessible for general use because their use is subject to restrictions enforceable by third parties. Any remaining net position is classified as unrestricted.

The statement of activities is used to report all changes in a Town's net position from one year to another. The statement is presented using a net cost format designed to highlight the portion of each functional activity that must be financed from the Town's own resources. The statement first reports all direct costs associated with each functional activity, then reports dedicated outside resources (program revenues) as a direct reduction to arrive at the programs net cost to the Town.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the Town as a whole. Some funds are required to be established by state law. The Town's Select Board may establish other funds to help them control and manage money for particular purposes, or to show that it is meeting legal responsibilities for using certain taxes, grants, and other monies. This Town uses governmental and proprietary type funds.

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2020

Governmental Funds - Most of the Town's operations are reported in the governmental funds. These funds place their focus on near-term financing needs. Financial assets include cash as well as other assets that will convert to cash in the course of their ordinary lives. Governmental funds do not report capital assets, because such assets will be used in operations rather than be converted to cash and therefore are not available to spend. The Town reports three governmental funds; the General Fund, the Capital Project Fund and the Special Revenue Fund.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary Funds – The Wastewater Fund is classified as an enterprise fund, which is a fund that is used to account for activity for which a fee is charged to external users for goods or services.

Notes to Financial Statements

Notes to Financial Statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin on page 18 of this report.

Financial Analysis of the Government as a Whole

Government-wide Net Position – The following analysis focuses on the net position, and the changes in net position of the Town as a whole. The governmental activities net position of the Town decreased from \$5,892,720 to \$5,874,862. The business-type activities net position of the Town increased from \$1,787,328 to \$2,149,377. The governmental activities unrestricted net position, the part of net position that can be used to finance operations without constraints externally imposed by creditors or imposed by law through constitutional provisions or enabling legislation stood at \$1,288,773 at June 30, 2020.

The following is a summary of the Town's government-wide net position as of June 30:

| | Governmental Activities | | Business-Type Activities | | Total Government | |
|------------------------|-------------------------|--------------|--------------------------|--------------|------------------|--------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Current assets | \$ 2,954,490 | \$ 2,962,110 | \$ 802,112 | \$ 671,694 | \$ 3,756,602 | \$ 3,633,804 |
| Capital assets, net | 4,863,291 | 4,812,819 | 1,710,056 | 1,783,585 | 6,573,347 | 6,596,404 |
| Total assets | 7,817,781 | 7,774,929 | 2,512,168 | 2,455,279 | 10,329,949 | 10,230,208 |
| Deferred outflows | 155,590 | 176,998 | 12,615 | 14,351 | 168,205 | 191,349 |
| Current liabilities | 339,555 | 455,857 | 34,283 | 347,772 | 373,838 | 803,629 |
| Noncurrent liabilities | 1,718,604 | 1,568,047 | 339,104 | 332,965 | 2,057,708 | 1,901,012 |
| Total liabilities | 2,058,159 | 2,023,904 | 373,387 | 680,737 | 2,431,546 | 2,704,641 |
| Deferred inflows | 40,350 | 35,303 | 2,019 | 1,565 | 42,369 | 36,868 |
| Net position | | | | | | |
| Net investment in | | | | | | |
| capital assets | 3,513,516 | 3,612,819 | 1,392,392 | 1,183,866 | 4,905,908 | 4,796,685 |
| Restricted | 1,072,573 | 978,763 | - | - | 1,072,573 | 978,763 |
| Unrestricted | 1,288,773 | 1,301,138 | 756,985 | 603,462 | 2,045,758 | 1,904,600 |
| | \$ 5,874,862 | \$ 5,892,720 | \$ 2,149,377 | \$ 1,787,328 | \$ 8,024,239 | \$ 7,680,048 |

Government-wide Statement of Activities – For the year ended June 30, 2020, governmental activities reported total revenues of \$3,441,612 and total expenses of \$3,544,564 and transfers-in of \$95,103 resulting in decrease in net position of \$17,858. For the year ended June 30, 2020, business-type activities reported total revenues of \$994,206 and total expenses of \$537,054 and transfers-out of \$95,103 resulting in an increase in net position of \$362,049.

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2020

The following is a summary of the Town's governmental and business-type activities for the year ending June 30:

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total Government</u> | |
|--------------------------------------------|--------------------------------|---------------------|---------------------------------|---------------------|-------------------------|---------------------|
| | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 527,767 | \$ 554,373 | \$ 688,641 | \$ 704,467 | \$ 1,216,408 | \$ 1,258,840 |
| Operating grants and contributions | 769,650 | 1,242,020 | - | - | 769,650 | 1,242,020 |
| Capital grants and contributions | - | - | 297,994 | - | 297,994 | - |
| General revenues: | | | | | | |
| Property taxes | 2,108,408 | 2,167,382 | - | - | 2,108,408 | 2,167,382 |
| Gain (loss) on sale of capital assets | (10,009) | 97,439 | - | - | (10,009) | 97,439 |
| Investment income | 26,632 | 31,182 | 5,045 | 3,358 | 31,677 | 34,540 |
| Miscellaneous | 9,155 | 6,933 | 2,526 | 1,469 | 11,681 | 8,402 |
| Total revenues | <u>3,431,603</u> | <u>4,099,329</u> | <u>994,206</u> | <u>709,294</u> | <u>4,425,809</u> | <u>4,808,623</u> |
| Expenses: | | | | | | |
| General government | 760,858 | 658,140 | - | - | 760,858 | 658,140 |
| Public safety | 907,991 | 830,086 | - | - | 907,991 | 830,086 |
| Highways and streets | 1,283,242 | 1,205,952 | - | - | 1,283,242 | 1,205,952 |
| Culture and recreation | 218,258 | 204,963 | - | - | 218,258 | 204,963 |
| Solid waste | 306,398 | 340,961 | - | - | 306,398 | 340,961 |
| Cemetery | 28,644 | 27,000 | - | - | 28,644 | 27,000 |
| Interest on long-term debt | 39,173 | 41,494 | - | - | 39,173 | 41,494 |
| Wastewater operations | - | - | 537,054 | 639,678 | 537,054 | 639,678 |
| Total expenses | <u>3,544,564</u> | <u>3,308,596</u> | <u>537,054</u> | <u>639,678</u> | <u>4,081,618</u> | <u>3,948,274</u> |
| Transfers | | | | | | |
| Transfers in (out) | <u>95,103</u> | <u>51,467</u> | <u>(95,103)</u> | <u>(51,467)</u> | <u>-</u> | <u>-</u> |
| Increase (decrease) in net position | | | | | | |
| | <u>(17,858)</u> | <u>842,200</u> | <u>362,049</u> | <u>18,149</u> | <u>344,191</u> | <u>860,349</u> |
| Net position, beginning of year, | | | | | | |
| | <u>5,892,720</u> | <u>5,050,520</u> | <u>1,787,328</u> | <u>1,769,179</u> | <u>7,680,048</u> | <u>6,819,699</u> |
| Net position, end of year | | | | | | |
| | <u>\$ 5,874,862</u> | <u>\$ 5,892,720</u> | <u>\$ 2,149,377</u> | <u>\$ 1,787,328</u> | <u>\$ 8,024,239</u> | <u>\$ 7,680,048</u> |

Some of the significant changes in governmental activities revenues and expenses were as follows:

- Revenues – The largest (\$32,029) out of the \$45,066 variance is attributed to property taxes collection. The Town collected \$32,029 more than anticipated.
- Expenses – Highway Administration shows that \$151,948 favorable variance. The total for personnel expenses within the highway department budget shows up in areas other than administration. Personnel expenses are accounted for under summer maintenance, capital projects, traffic control, winter maintenance, highway garage, and town mechanic. At its face value, the Highway Administration line is misleading.

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2020

- Expenses – Some of the larger unfavorable variances come from winter maintenance (\$97,417), bridges (\$67,600), highway garage (\$60,506), and Crystal Beach (\$31,693). The Town used their own capital to complete the restoration of the western side of the Float Bridge causeway. The funds necessary to complete the project came from the unassigned highway department carryover. The Select Board expenditure of funds to make emergency repairs to the floor at the highway garage. The concrete was cracking around each of the overhead bay doors because the ground beneath the doors was being undermined by stormwater. Related repairs included contracting with Lyle Fabrication to fabricate and weld the bottom four feet of the ridged frame columns and end wall columns due to rotting. This was not in the operating budget, but the Select Board approved the expenditure of capital to make needed emergency repairs. The unfavorable variance from Crystal Beach was due to a reduction in patrons visiting the beach during the COVID-19 pandemic. The Town closed the beach to anybody not a resident for a few weeks, and then limited admission to the beach to just Vermont residents for another couple of weeks. These actions also reduced anticipated revenue.

Some of the significant changes in business-type activities revenues and expenses were as follows:

- Revenues – The largest increase to revenue can be attributed to a \$297,994 federal grant for upgrades to the wastewater collections system on Route 30 South.
- Expenses – The last payment of ~(\$89,000) for the last 20-year wastewater treatment facility was made in 2019 and were not calculated into the operating budget.
- Expenses – The amount of money put into the operating budget for sewer reserves was increased to \$100,000.
- Expenses – The Town is reaping the benefit of applying net metering solar credits to the electricity bills of the Wastewater Treatment Facility. This has reduced the annual operating costs of electricity.

Financial Analysis of the Town's Governmental Funds

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

Governmental funds – Governmental fund financial reporting focuses on short-term spendable resources and balances of spendable resources at year-end. The major governmental funds of the Town are the General Fund, Capital Project Fund and Special Revenue Fund.

As of June 30, 2020, the Town's governmental funds reported combined ending fund balances of \$2,449,586. Of this \$77,118 was nonspendable, \$1,072,573 was restricted, \$804,370 was committed for specific purposes, \$303,178 was assigned and \$192,347 was unassigned.

General Fund - The General Fund is the primary operating fund of the Town and supports the majority of the services provided by the Town. Total fund balance of the General Fund as of June 30, 2020, was \$1,027,916 of which \$279,747 was unassigned. The General Fund had a decrease in fund balance of \$32,016 for the year ended June 30, 2020, compared to a net budgeted decrease in fund balance of \$209,961.

Capital Project Fund – The Capital Project Fund is used to account for funds restricted or committed for capital projects, capital equipment or related purposes. Total fund balance of the Capital Project Fund as of June 30, 2020, was \$1,497,959 of which \$587,272 was restricted, \$804,370 was committed and \$106,317 was assigned. The Capital Project Fund had an increase in fund balance of \$303,217 for the year ended June 30, 2020.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of special revenue sources (other than major capital improvements) that are legally restricted to expenditures for specified purposes. Total fund balance of the Special Revenue Fund as of June 30, 2020, was a deficit of \$76,289. The Special Revenue Fund had a decrease in fund balance of \$70,066 for the year ended June 30, 2020.

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2020

Enterprise funds – Enterprise funds are used to report activities which rely to a significant extent on fees and charges for support. The major enterprise fund of the Town is the Wastewater Fund.

Wastewater Fund - The Wastewater Fund is used to account for the Town's wastewater facility and operations. Total net position of the Wastewater Fund as of June 30, 2020, was \$2,149,377 of which \$756,985 was unrestricted. The Wastewater Fund had an increase in net position of \$362,049 for the year ended June 30, 2020.

General Fund Budgetary Highlights

The schedule comparing the Town's original budget and actual results are included on pages 30 – 31 of the following report.

For the year ended June 30, 2020, actual General Fund revenues were \$3,212,275 compared to budgeted revenues of \$3,167,209. Differences in actual versus budgeted revenues were primarily the results of the following items:

- \$26,327 more collected in taxes, penalties, and interest than anticipated. Mostly due to changes/adjustments in filing status.
- \$5,000 less collected in licenses, permits, and fees than anticipated.
- \$9,000 more received in PILOT Program monies than anticipated.
- \$4,000 more received in State Aid to Highway monies than anticipated.
- \$6,500 less collected in Transfer Station revenue than anticipated. The Town continues to remain in the red on recyclables and MSW bag fees. The new fee structure approved by the Select Board for FY2020-21 was implemented to close the gap on MSW bag fees.
- Crystal Beach revenues were down, primarily due to COVID-19 related restrictions. Day passes to the beach and sporting program revenue attributed most of the shortfalls in the Recreations Department anticipated revenues.

For the year ended June 30, 2020, actual General Fund expenditures were \$3,050,219 compared to budgeted expenditures of \$3,212,170. Differences in actual versus budgeted expenditures were primarily the results of the following items:

- Police Department had a \$48,000 surplus.
- The Transfer Station had a \$37,000 surplus.
- Constables had an \$8,700 surplus. We operated with only one Constable.
- Legal services had a \$23,910 budget surplus. No union contract negotiations or civil litigation.
- The Assessor (Tax listing) had a \$14,986 surplus. We did not hire an Assessor Clerk.

Capital Assets and Debt Administration

Capital assets governmental activities – As of June 30, 2020, the Town had \$4,863,291 net of accumulated depreciation, invested in capital assets including land, buildings and improvements, and vehicles and equipment for governmental activities. The amount represents a \$50,472 increase from the prior year. Significant new capital asset additions consisted of the following:

- \$90,000 for Crystal Beach (A new mower/tractor and paving of the parking lot)
- \$245,000 for two new dump trucks within the Highway Department. The Town has purchased two new trucks with plow packages and will sell three dump trucks with plow packages. The Town also purchased a new police cruiser at \$47,871.

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2020

Capital assets business-type activities – As of June 30, 2020, the Town had \$1,710,056, net of accumulated depreciation, invested in capital assets including land, buildings and improvements, collection systems, and vehicles and equipment for business-type activities. The amount represents a \$73,529 decrease from the prior year. Significant new capital asset additions consisted of the following:

- New generator for the Route 4A Pump Station for \$20,500.

Debt governmental activities – As of June 30, 2020, the Town's governmental activities outstanding debt, consisting of bonds payable, notes payable, VMERS net pension liability, and accrued compensated absences, was \$1,868,868, an increase of \$225,821 over the prior year. Significant new governmental activities debt consisted of the following:

- \$76,280 for payment on a new Ram 5500 dump truck and plow system.
- \$148,495 for payment on a new International 7400D dump truck and plow system.

Debt business-type activities – As of June 30, 2020, the Town's business-type activities outstanding debt, consisting of bonds payable, notes payable, VMERS net pension liability and accrued compensated absences, was \$357,633 a decrease of \$276,286 over the prior year. Significant new business-type activities debt consisted of the following:

- \$294,844 of the total amount of the Route 30 South sewer collection system upgrades was forgiven under the State Revolving Fund Loan Program.

Economic Factors and Next Year's Budgets and Rates

The Town's elected and appointed officials considered many factors when setting the fiscal year 2021 budget, tax rates, and fees that will be charged for the business-type activities. Some of these factors are the economy, wages and unemployment in the region and the fees charged in other municipalities as well as the capital improvements authorized by voters.

The Select Board recommends a fiscal year 2021 General Fund operating expenditures and transfers budget of \$3,418,269. This represents an increase of 1.22% over the fiscal year 2020 General Fund operating expenditures and transfers budget of \$3,377,170.

Request 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 government's finances. Questions concerning any of the information provided in this report or requests for additional information should be directed to Town of Castleton, P.O. Box 727, Castleton, VT 05735.

TOWN OF CASTLETON, VERMONT
Statement of Net Position
June 30, 2020

| | Primary Government | | | Component Unit |
|----------------------------------------------------------------------|----------------------------|-----------------------------|---------------------|---------------------------|
| | Governmental Activities | Business-type Activities | Totals | Castleton Free Library |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 3,131,355 | \$ - | \$ 3,131,355 | \$ 55,274 |
| Investments | - | - | - | 301,776 |
| Property taxes, penalty and interest receivable, net of allowance | 436,738 | - | 436,738 | - |
| Accounts receivable, net of allowance | 7,323 | 61,580 | 68,903 | - |
| Grants receivable | 42,328 | - | 42,328 | - |
| Prepaid expenses | 77,118 | - | 77,118 | - |
| Due from Castleton Free Library | 160 | - | 160 | - |
| Internal balances | (740,532) | 740,532 | - | - |
| Total current assets | <u>2,954,490</u> | <u>802,112</u> | <u>3,756,602</u> | <u>357,050</u> |
| Noncurrent assets: | | | | |
| Capital assets | 6,923,592 | 7,770,109 | 14,693,701 | 2,756 |
| (Accumulated depreciation) | (2,060,301) | (6,060,053) | (8,120,354) | - |
| Total noncurrent assets | <u>4,863,291</u> | <u>1,710,056</u> | <u>6,573,347</u> | <u>2,756</u> |
| Total assets | <u>7,817,781</u> | <u>2,512,168</u> | <u>10,329,949</u> | <u>359,806</u> |
| Deferred outflows of resources | | | | |
| Pension related - VMERS | <u>155,590</u> | <u>12,615</u> | <u>168,205</u> | <u>-</u> |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 131,263 | 12,095 | 143,358 | 1,288 |
| Accrued payroll and benefits | 37,823 | 2,257 | 40,080 | 1,332 |
| Sewer fees received in advance | - | 1,402 | 1,402 | - |
| Other liabilities | 20,205 | - | 20,205 | - |
| Due to Town of Castleton | - | - | - | 160 |
| Bonds and notes payable, current portion | <u>150,264</u> | <u>18,529</u> | <u>168,793</u> | <u>-</u> |
| Total current liabilities | <u>339,555</u> | <u>34,283</u> | <u>373,838</u> | <u>2,780</u> |
| Noncurrent liabilities: | | | | |
| Net pension liability - VMERS | 456,794 | 37,038 | 493,832 | - |
| Accrued compensated absences | 62,299 | 2,931 | 65,230 | - |
| Bonds and notes payable, less current portion | <u>1,199,511</u> | <u>299,135</u> | <u>1,498,646</u> | <u>-</u> |
| Total noncurrent liabilities | <u>1,718,604</u> | <u>339,104</u> | <u>2,057,708</u> | <u>-</u> |
| Total liabilities | <u>2,058,159</u> | <u>373,387</u> | <u>2,431,546</u> | <u>2,780</u> |
| Deferred inflows of resources | | | | |
| Property taxes received in advance | 15,445 | - | 15,445 | - |
| Pension related - VMERS | <u>24,905</u> | <u>2,019</u> | <u>26,924</u> | <u>-</u> |
| Total deferred inflows of resources | <u>40,350</u> | <u>2,019</u> | <u>42,369</u> | <u>-</u> |
| Net position | | | | |
| Net investment in capital assets | 3,513,516 | 1,392,392 | 4,905,908 | 2,756 |
| Restricted | 1,072,573 | - | 1,072,573 | - |
| Unrestricted | <u>1,288,773</u> | <u>756,985</u> | <u>2,045,758</u> | <u>354,270</u> |
| Total net position | <u>\$ 5,874,862</u> | <u>\$ 2,149,377</u> | <u>\$ 8,024,239</u> | <u>\$ 357,026</u> |

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

TOWN OF CASTLETON, VERMONT
Statement of Activities
For the Year Ended June 30, 2020

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Change in Net Position | | | Component Unit |
|-----------------------------------------|---------------------|-------------------------|------------------------------------------|----------------------------------------|-----------------------------------------------------|-----------------------------|---------------------|-------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Totals | |
| | | | | | Governmental Activities | Business-type Activities | | |
| Governmental activities | | | | | | | | |
| General government | \$ 760,858 | \$ 103,098 | \$ 486,879 | \$ - | \$ (170,881) | \$ - | \$ (170,881) | \$ - |
| Public safety | 907,991 | 97,621 | 59,977 | - | (750,393) | - | (750,393) | - |
| Highways and streets | 1,283,242 | 43,320 | 215,829 | - | (1,024,093) | - | (1,024,093) | - |
| Culture and recreation | 218,258 | 34,289 | 6,965 | - | (177,004) | - | (177,004) | - |
| Solid waste | 306,398 | 249,439 | - | - | (56,959) | - | (56,959) | - |
| Cemetery | 28,644 | - | - | - | (28,644) | - | (28,644) | - |
| Interest on long-term debt | 39,173 | - | - | - | (39,173) | - | (39,173) | - |
| Total governmental activities | <u>3,544,564</u> | <u>527,767</u> | <u>769,650</u> | <u>-</u> | <u>(2,247,147)</u> | <u>-</u> | <u>(2,247,147)</u> | <u>-</u> |
| Business-type activities | | | | | | | | |
| Wastewater operations | <u>537,054</u> | <u>688,641</u> | <u>-</u> | <u>297,994</u> | <u>-</u> | <u>449,581</u> | <u>449,581</u> | <u>-</u> |
| Total primary government | <u>\$ 4,081,618</u> | <u>\$ 1,216,408</u> | <u>\$ 769,650</u> | <u>\$ 297,994</u> | <u>(2,247,147)</u> | <u>449,581</u> | <u>(1,797,566)</u> | <u>-</u> |
| Component unit | | | | | | | | |
| Castleton Fee Library | <u>\$ 117,721</u> | <u>\$ -</u> | <u>\$ 118,884</u> | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,163</u> |
| General revenues | | | | | | | | |
| Property taxes, penalties and interest | | | | | 2,108,408 | - | 2,108,408 | - |
| Investment income | | | | | 26,632 | 5,045 | 31,677 | 7,057 |
| Miscellaneous | | | | | 9,155 | 2,526 | 11,681 | 1,294 |
| Total general revenues | | | | | <u>2,144,195</u> | <u>7,571</u> | <u>2,151,766</u> | <u>8,351</u> |
| Special item | | | | | | | | |
| (Loss) on disposition of capital assets | | | | | <u>(10,009)</u> | <u>-</u> | <u>(10,009)</u> | <u>-</u> |
| Transfers in (out) | | | | | <u>95,103</u> | <u>(95,103)</u> | <u>-</u> | <u>-</u> |
| Change in net position | | | | | <u>(17,858)</u> | <u>362,049</u> | <u>344,191</u> | <u>9,514</u> |
| Net position, beginning of year | | | | | <u>5,892,720</u> | <u>1,787,328</u> | <u>7,680,048</u> | <u>347,512</u> |
| Net position, end of year | | | | | <u>\$ 5,874,862</u> | <u>\$ 2,149,377</u> | <u>\$ 8,024,239</u> | <u>\$ 357,026</u> |

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

TOWN OF CASTLETON, VERMONT
Balance Sheet - Governmental Funds
June 30, 2020

| | General Fund | Capital Project Fund | Special Revenue Fund | Total Governmental Funds |
|-------------------------------------------------------------------------|---------------------|----------------------------|----------------------------|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 1,723,462 | \$ 1,407,893 | \$ - | \$ 3,131,355 |
| Property taxes, penalty and interest receivable, net of allowance | 436,738 | - | - | 436,738 |
| Accounts receivable | 7,323 | - | - | 7,323 |
| Grants receivable | - | - | 42,328 | 42,328 |
| Prepaid expenditures | 77,118 | - | - | 77,118 |
| Due from Castleton Free Library | 160 | - | - | 160 |
| Due from other funds | - | 97,251 | - | 97,251 |
| Total assets | <u>\$ 2,244,801</u> | <u>\$ 1,505,144</u> | <u>\$ 42,328</u> | <u>\$ 3,792,273</u> |
| Liabilities, deferred inflows of resources and fund balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 95,790 | \$ 7,185 | \$ 28,288 | \$ 131,263 |
| Accrued payroll and benefits | 37,823 | - | - | 37,823 |
| Other liabilities | 20,205 | - | - | 20,205 |
| Due to other funds | 747,454 | - | 90,329 | 837,783 |
| Total liabilities | <u>901,272</u> | <u>7,185</u> | <u>118,617</u> | <u>1,027,074</u> |
| Deferred inflows of resources: | | | | |
| Property taxes received in advance | 15,445 | - | - | 15,445 |
| Unavailable property taxes | 300,168 | - | - | 300,168 |
| Total deferred inflows of resources | <u>315,613</u> | <u>-</u> | <u>-</u> | <u>315,613</u> |
| Fund balances: | | | | |
| Nonspendable | 77,118 | - | - | 77,118 |
| Restricted | 474,190 | 587,272 | 11,111 | 1,072,573 |
| Committed | - | 804,370 | - | 804,370 |
| Assigned | 196,861 | 106,317 | - | 303,178 |
| Unassigned | 279,747 | - | (87,400) | 192,347 |
| Total fund balances | <u>1,027,916</u> | <u>1,497,959</u> | <u>(76,289)</u> | <u>2,449,586</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 2,244,801</u> | <u>\$ 1,505,144</u> | <u>\$ 42,328</u> | <u>\$ 3,792,273</u> |

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

TOWN OF CASTLETON, VERMONT
Reconciliation of the Balance Sheet - Governmental Funds
to the Government-wide Statement of Net Position
June 30, 2020

| | |
|------------------------------------------|--------------|
| Total fund balances - governmental funds | \$ 2,449,586 |
|------------------------------------------|--------------|

Amounts reported for governmental activities in the government-wide statement of net position are different because:

Capital assets used in governmental funds are not current financial resources and therefore are not reported in the governmental funds balance sheet:

| | |
|--------------------------|-------------|
| Capital assets | 6,923,592 |
| Accumulated depreciation | (2,060,301) |

Unavailable property taxes are recorded as a deferred inflow of resources in the governmental funds financial statement because property taxes which are not collected within 60 days of year-end are not available financial resources:

| | |
|----------------------------|---------|
| Unavailable property taxes | 300,168 |
|----------------------------|---------|

Deferred outflows of resources, deferred inflows of resources and the net pension liability related to the Town's proportionate share of the VMERS pension plan are not reported in the governmental funds balance sheet

| | |
|--|-----------|
| | (326,109) |
|--|-----------|

Long-term liabilities, including notes payable, bonds payable and capital leases, are not due and payable in the current year and therefore are not reported in the governmental funds balance sheet

| | |
|--|--------------------|
| | <u>(1,412,074)</u> |
|--|--------------------|

| | |
|----------------------------------------|---------------------|
| Net position - governmental activities | \$ <u>5,874,862</u> |
|----------------------------------------|---------------------|

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

TOWN OF CASTLETON, VERMONT
Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
For the Year Ended June 30, 2020

| | <u>General Fund</u> | <u>Capital Project Fund</u> | <u>Special Revenue Fund</u> | <u>Total Governmental Funds</u> |
|---------------------------------------|-------------------------|-------------------------------------|-------------------------------------|-----------------------------------------|
| Revenues | | | | |
| Property taxes | \$ 2,067,522 | \$ - | \$ - | \$ 2,067,522 |
| Property taxes - penalties & interest | 57,523 | - | - | 57,523 |
| Intergovernmental | 603,546 | 20,757 | 134,609 | 758,912 |
| Licenses, permits & fines | 56,044 | - | - | 56,044 |
| Charges for services | 406,637 | - | 65,086 | 471,723 |
| Contributions | - | - | 10,739 | 10,739 |
| Investment income | 13,138 | 13,494 | - | 26,632 |
| Miscellaneous | 7,865 | 1,290 | - | 9,155 |
| Total revenues | <u>3,212,275</u> | <u>35,541</u> | <u>210,434</u> | <u>3,458,250</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 657,461 | 11,557 | 8,039 | 677,057 |
| Public safety | 650,397 | - | 119,265 | 769,662 |
| Highway and streets | 983,921 | - | 152,946 | 1,136,867 |
| Culture and recreation | 213,665 | - | 250 | 213,915 |
| Solid waste | 302,198 | - | - | 302,198 |
| Cemetery | 28,644 | - | - | 28,644 |
| Capital outlay | 99,760 | 234,717 | - | 334,477 |
| Debt service: | | | | |
| Principal | 75,000 | 38,140 | - | 113,140 |
| Interest | 39,173 | - | - | 39,173 |
| Total expenditures | <u>3,050,219</u> | <u>284,414</u> | <u>280,500</u> | <u>3,615,133</u> |
| Excess of revenues or (expenditures) | <u>162,056</u> | <u>(248,873)</u> | <u>(70,066)</u> | <u>(156,883)</u> |
| Other financing sources (uses) | | | | |
| Proceeds from notes payable | - | 262,915 | - | 262,915 |
| Transfers in (out) | <u>(194,072)</u> | <u>289,175</u> | <u>-</u> | <u>95,103</u> |
| Total other financing sources (uses) | <u>(194,072)</u> | <u>552,090</u> | <u>-</u> | <u>358,018</u> |
| Net change in fund balances | (32,016) | 303,217 | (70,066) | 201,135 |
| Fund balances, beginning of year | <u>1,059,932</u> | <u>1,194,742</u> | <u>(6,223)</u> | <u>2,248,451</u> |
| Fund balances, end of year | \$ <u>1,027,916</u> | \$ <u>1,497,959</u> | \$ <u>(76,289)</u> | \$ <u>2,449,586</u> |

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

TOWN OF CASTLETON, VERMONT
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds to the
Government-wide Statement of Activities
For the Year Ended June 30, 2020

Net change in fund balances - governmental funds \$ 201,135

Amounts reported for governmental activities in the government-wide statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is depreciated over their estimated useful lives:

| | |
|--------------------------------------|-----------|
| Expenditures for capital assets | 334,477 |
| Current year depreciation | (273,996) |
| (Loss) on disposal of capital assets | (10,009) |

The Town's contribution to VMERS is recorded as an expenditure in the governmental funds. However, in the statement of activities pension expense is actuarially determined. (90,052)

Proceeds from long-term debt provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net position:

| | |
|--------------------------------------------|-----------|
| Proceeds from notes payable | (262,915) |
| Principal payments on bonds, notes payable | 113,140 |
| Increase in accrued compensated absences | (13,000) |

Revenues in the statement of activities that do not provide current financial resources (property taxes not collected within 60 days of fiscal year end) are not reported as revenues in the governmental funds statements:

| | |
|----------------------------------------|-----------------|
| Decrease in unavailable property taxes | <u>(16,638)</u> |
|----------------------------------------|-----------------|

Changes in net position - governmental activities \$ (17,858)

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

TOWN OF CASTLETON, VERMONT
Statement of Net Position - Proprietary Fund
June 30, 2020

| | Wastewater Fund |
|------------------------------------------------|---------------------|
| Assets | |
| Current assets: | |
| Sewer fees receivable, net of allowance | \$ 61,580 |
| Due from other funds | <u>740,532</u> |
| Total current assets | <u>802,112</u> |
| Noncurrent assets: | |
| Capital assets | 7,770,109 |
| (Accumulated depreciation) | <u>(6,060,053)</u> |
| Total noncurrent assets | <u>1,710,056</u> |
| Total assets | <u>2,512,168</u> |
| Deferred outflows of resources | |
| Pension related - VMERS | <u>12,615</u> |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | 12,095 |
| Accrued payroll and benefits | 2,257 |
| Sewer fees received in advance | 1,402 |
| Bonds and notes payable - current portion | <u>18,529</u> |
| Total current liabilities | <u>34,283</u> |
| Noncurrent liabilities: | |
| Accrued compensated absences | 2,931 |
| Net pension liability - VMERS | 37,038 |
| Bonds and notes payable - less current portion | <u>299,135</u> |
| Total noncurrent liabilities | <u>339,104</u> |
| Total liabilities | <u>373,387</u> |
| Deferred inflows of resources | |
| Pension related - VMERS | <u>2,019</u> |
| Net position | |
| Net investment in capital assets | 1,392,392 |
| Unrestricted | <u>756,985</u> |
| Total net position | <u>\$ 2,149,377</u> |

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

TOWN OF CASTLETON, VERMONT
Statement of Revenues, Expenses and Changes
in Fund Net Position - Proprietary Fund
For the Year Ended June 30, 2020

| | <u>Wastewater Fund</u> |
|-----------------------------------------------|----------------------------|
| Operating revenues | |
| Charges for services | \$ 679,716 |
| Penalties and interest on delinquent accounts | 8,925 |
| Miscellaneous | <u>2,526</u> |
| Total operating revenues | <u>691,167</u> |
| Operating expenses | |
| Personnel services | 160,164 |
| Purchased and contract services | 115,724 |
| Administrative expenses | 30,235 |
| Supplies | 53,415 |
| Utilities | 83,491 |
| Depreciation | <u>94,025</u> |
| Total operating expenses | <u>537,054</u> |
| Operating income | <u>154,113</u> |
| Nonoperating revenues | |
| Intergovernmental grant | 297,994 |
| Investment income | <u>5,045</u> |
| | <u>303,039</u> |
| Transfers | |
| Transfers in (out) | <u>(95,103)</u> |
| Change in net position | 362,049 |
| Net position, beginning of year | <u>1,787,328</u> |
| Net position, end of year | \$ <u>2,149,377</u> |

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

TOWN OF CASTLETON, VERMONT
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2020

| | Wastewater Fund |
|--------------------------------------------------------------------------------------|--------------------|
| Cash flows from operating activities | |
| Cash received from customers | \$ 705,436 |
| Cash paid to suppliers | (314,534) |
| Cash paid to employees for services | (151,555) |
| Net cash provided by operating activities | 239,347 |
| Cash flows from noncapital financing activities | |
| (Increase) decrease in amounts due from other funds | (144,732) |
| Cash flows from capital and related financing activities | |
| Interfund transfers | (95,103) |
| Acquisition of capital assets | (20,496) |
| Loan proceeds | 29,914 |
| Loan repayments | (13,975) |
| Net cash (used) by capital and related financing activities | (99,660) |
| Cash flows from investing activities | |
| Investment income | 5,045 |
| Net increase in cash and cash equivalents | - |
| Cash and cash equivalents, beginning of year | - |
| Cash and cash equivalents, end of year | \$ - |
| Reconciliation of operating loss to net cash provided by operating activities | |
| Operating income | \$ 154,113 |
| Adjustment to reconcile operating loss to net cash provided by operating activities: | |
| Depreciation expense | 94,025 |
| Change in assets, liabilities, deferred inflows and deferred outflows: | |
| (Increase) decrease in accounts receivable | 14,314 |
| (Increase) decrease in deferred outflows - VMERS | 1,736 |
| Increase (decrease) accounts payable | (31,669) |
| Increase (decrease) accrued payroll | 650 |
| Increase (decrease) accrued compensated absences | 657 |
| Increase (decrease) fees received in advance | (45) |
| Increase (decrease) deferred inflows - VMERS | 454 |
| Increase (decrease) net pension liability - VMERS | 5,112 |
| Net cash provided by operating activities | \$ 239,347 |

Additional non-cash disclosures:

The Town recognized \$297,994 in intergovernmental grant loan forgiveness during the year ended June 30, 2020.

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

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2020

1. Summary of significant accounting policies

The Town of Castleton, Vermont (the Town) is a unit of local government organized under the statutes of the State of Vermont. The Town operates under a Select Board / Town Manager form of government and provides the following services: public safety, highways and streets, solid waste, culture and recreation, public improvements, planning and zoning, and general and administrative services.

The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements of the Town have been prepared in conformity with generally accepted accounting principles as applied to governmental entities. The following is a summary of the Town's more significant accounting policies:

A. Reporting entity - The Town is a primary government under reporting criteria established by the GASB. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units and evaluated them against the criteria established by the GASB. Based on the application of these criteria, the Castleton Free Library is defined as a discretely presented component unit when defining the Town for financial reporting purposes. The Castleton Free Library is a non-profit corporation formed for the purpose of providing a free library to the community. The library is administered by a five-member Board of Trustees and does not separately issue financial statements.

B. Basis of presentation -

Fund accounting: The accounts of the Town are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Government-wide statements: The statement of net position and the statement of activities present financial information about the Town's governmental and business-type activities as well as its discretely presented component unit. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The discretely presented component unit is shown separately from activities of the primary government.

Fund financial statements: Fund financial statements are presented according to each fund category; governmental and proprietary. Separate financial statements are provided for each of these categories. Major governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining funds are aggregated and reported as non-major funds.

The Town reports the following major governmental funds:

General Fund - The General Fund is used to account for the primary activity of the Town. Property tax revenues and other sources of revenue used to finance the fundamental operations of the Town are included in this fund. This fund is charged with all costs of operating the government for which a separate fund has not been established.

Capital Project Fund - The Capital Project Fund is used to account for financial resources restricted, committed or assigned for capital projects or capital equipment.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of special revenue sources (other than major capital improvements) that are legally restricted to expenditures for specified purposes.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2020

1. Summary of significant accounting policies (continued)

The Town reports the following major proprietary fund:

Wastewater Fund - The Wastewater Fund is used to account for the Town's wastewater facility and operations.

- C. Measurement focus and basis of accounting - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. Measurement focus refers to what items are reported on the financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when they occur, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this model, revenues are recognized when both measurable and available for use. Expenditures are recorded when the liability has occurred if measurable. Measurable means that 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. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the fiscal year and other revenues to be available if they are collected within 6 months of the end of the fiscal year. Expenditures related to principal and interest on general long-term debt that has not matured, compensated absences, and claims and judgments are recorded only when payment is due.

The proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

- D. Governmental fund equity - In the fund financial statements, governmental fund balance is presented in five possible categories:

Nonspendable – Resources which cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

Restricted – Resources with constraints placed on the use of resources which are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed – Resources which are subject to limitations the government imposes upon itself at its highest level of decision-making authority, and that remain binding unless removed in the same manner. For the purposes of defining the committed fund balance category, the Town considers the taxpayers, through voted Town Articles, its highest level of decision-making authority.

Assigned – Resources neither restricted nor committed for which a government has a stated intended use as established by the Select Board or a body or official to which the Select Board has delegated the authority to assign amounts for specific purposes.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2020

1. Summary of significant accounting policies (continued)

Unassigned – Resources which cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include any negative residual balance resulting from expenditures exceeding amounts restricted, committed or assigned for a specific purpose.

The Town has not formalized a policy which identifies which fund balance classification is affected when an expenditure has been incurred for purposes for which restricted, committed, assigned or unassigned amounts could be used.

- E. Budgetary accounting - The operating budget of the General Fund is prepared by the Town on the modified accrual basis of accounting. The budget is approved at Town Meeting and the Select Board sets the tax rate based on the grand list and approved budget.
- F. Estimates - The preparation of the financial statements require 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, expenditures, or expenses during the reported period. Actual results could differ from those estimates.
- G. Cash and cash equivalents - Cash and cash equivalents consists of cash and short-term investments with an original maturity of three months or less.
- H. Investments - Investments are recorded at fair value. Unrealized gains and losses in the value of investments are included in revenue.
- I. Receivables - The Town has recorded an allowance for doubtful accounts based on historical collections and estimated future cash receipts. As of June 30, 2020, the Town has recorded an allowance of \$7,500 and \$7,000 against General Fund property taxes receivable and Wastewater Fund sewer fees receivable, respectively.
- J. Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure are reported in the applicable governmental or business-type activities columns in the government-wide statements and in the proprietary fund financial statements. Capital assets are defined by the Town as assets with an initial individual cost of \$10,000 or more and a minimum useful life of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Donated capital assets are recorded at acquisition value at the date of donation. The Town's governmental activities infrastructure assets include capital outlays for projects occurring after July 1, 2014. Capital assets of the Town are depreciated using the straight-line method over the following useful lives:

| | |
|-----------------------------------|---------------|
| Infrastructure | 50 years |
| Equipment, machinery and vehicles | 5 - 25 years |
| Building and improvements | 25 - 50 years |

- K. Property taxes - Property taxes attach as an enforceable lien on property owned as of April 1st. Property taxes for the fiscal year ended June 30, 2020 were payable in four installments due August 31, 2019, November 30, 2019, February 29, 2020 and May 31, 2020.

The Town serves as an agent for the State of Vermont and as such, bills, collects and remits education property taxes according to state statutes. Amounts received for such purposes are considered an agency function and are not recorded as Town revenues. During the year ended June 30, 2020, the Town collected and distributed \$6,662,056 in educational property taxes as instructed by the State of Vermont.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2020

1. Summary of significant accounting policies (continued)

- L. Interfund balances and transfers - Interfund receivables and payables represent transactions incurred within the fund for other funds. These accounts are expected to be eliminated in the normal course of operations. Interfund transfers represent flows of cash or goods from one fund to another fund without a requirement for repayment.
- M. Deferred outflows/inflows of resources - In addition to assets and liabilities, deferred outflows of resources and deferred inflows of resources, if applicable, are reported as separate sections in the statements of net position and the balance sheets. A deferred outflow of resources is a consumption of net assets by the Town that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets by the Town that is applicable to a future reporting period.

The Town has recorded, in the General Fund, unavailable property taxes which have not been collected within 60 days following year-end and they are not considered available for current year operations.

2. Cash

The Town maintains cash balances which may, at times throughout the year, exceed amounts covered by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2020, the Town's bank balance was \$3,272,127; the corresponding carrying amount of the Town's cash was \$3,186,629 which included \$55,274 of cash reported by the component unit, Castleton Free Library. Of the Town's total bank balance, \$564,187 was covered by the FDIC, \$2,707,940 was collateralized by securities held by the pledging financial institution and \$0 was uninsured and uncollateralized.

3. Investments

As of June 30, 2020, the Town's component unit, Castleton Free Library, reported total investments of \$301,776.

The classification and fair value of investments held as of June 30, 2020 were as follows:

| <u>Investment</u> | <u>Level 1</u> |
|--------------------------------------|-------------------|
| Money market funds | \$ 43,629 |
| Mutual funds - equity & fixed income | <u>258,147</u> |
| | <u>\$ 301,776</u> |

The Town classifies its investments into Level 1, which refers to investments traded in an active market; Level 2, which refers to investments not traded in an active market but for which observable market inputs are readily available; and Level 3, which refers to investments not traded in an active market and for which no significant observable market inputs are available. Generally, Level 3 investments are valued based upon information provided by fund managers, including audited financial statements of the investment fund. The levels relate to valuation only and do not necessarily indicate a measure of risk.

Interest rate risk - Changes in market interest rates will affect the fair value of an interest-earning investment over time. The Town does not have a policy regarding interest rate risk. Maturities of interest-earning investments were not available as of June 30, 2020.

Credit risk - The Town's investment in fixed income mutual funds is subject to credit risk. Credit risk is the risk that the bond issuer will not fulfill its obligation. The Town does not have an investment policy regarding credit risk. The rating of the Castleton Free Library's investment in corporate bonds was unavailable as of June 30, 2020.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2020

4. Capital assets

Changes in governmental activities capital assets consisted of the following:

| | Balance July 1, <u>2019</u> | <u>Increase</u> | <u>Decrease</u> | Balance June 30, <u>2020</u> |
|----------------------------------------------|-----------------------------------|------------------|------------------|------------------------------------|
| Capital assets, not depreciated: | | | | |
| Land | \$ 622,844 | \$ - | \$ 4,345 | \$ 618,499 |
| Construction in process | <u>59,075</u> | <u>-</u> | <u>-</u> | <u>59,075</u> |
| | <u>681,919</u> | <u>-</u> | <u>4,345</u> | <u>677,574</u> |
| Capital assets, depreciated: | | | | |
| Buildings & improvements | 2,767,643 | 89,760 | 60,858 | 2,796,545 |
| Equipment, machinery and vehicles | 2,367,472 | 244,717 | - | 2,612,189 |
| Infrastructure | <u>837,284</u> | <u>-</u> | <u>-</u> | <u>837,284</u> |
| | <u>5,972,399</u> | <u>334,477</u> | <u>60,858</u> | <u>6,246,018</u> |
| Less accumulated depreciation | <u>1,841,499</u> | <u>273,996</u> | <u>55,194</u> | <u>2,060,301</u> |
| Total capital assets depreciated, net | <u>4,130,900</u> | <u>60,481</u> | <u>5,664</u> | <u>4,185,717</u> |
| Capital assets, net, governmental activities | \$ <u>4,812,819</u> | \$ <u>60,481</u> | \$ <u>10,009</u> | \$ <u>4,863,291</u> |

Depreciation expense in the governmental activities totaling \$273,996 was allocated as following; \$138,329 public safety, \$4,343 recreation, \$94,849 highway, \$4,200 solid waste, and \$32,275 general.

Changes in business-type activities capital assets consisted of the following:

| | Balance July 1, <u>2019</u> | <u>Increase</u> | <u>Decrease</u> | Balance June 30, <u>2020</u> |
|-----------------------------------------------|-----------------------------------|--------------------|-----------------|------------------------------------|
| Capital assets, not depreciated: | | | | |
| Land | \$ 104,493 | \$ - | \$ - | \$ 104,493 |
| Capital assets, depreciated: | | | | |
| Buildings | 826,249 | - | - | 826,249 |
| Sewer buildings and improvements | 2,592,665 | - | - | 2,592,665 |
| Collection system | 3,948,318 | - | - | 3,948,318 |
| Machinery and equipment | 208,118 | 20,496 | - | 228,614 |
| Vehicles | <u>69,770</u> | <u>-</u> | <u>-</u> | <u>69,770</u> |
| | <u>7,645,120</u> | <u>20,496</u> | <u>-</u> | <u>7,665,616</u> |
| Less accumulated depreciation | <u>5,966,028</u> | <u>94,025</u> | <u>-</u> | <u>6,060,053</u> |
| Total capital assets depreciated, net | <u>1,679,092</u> | <u>(73,529)</u> | <u>-</u> | <u>1,605,563</u> |
| Capital assets, net, business-type activities | \$ <u>1,783,585</u> | \$ <u>(73,529)</u> | \$ <u>-</u> | \$ <u>1,710,056</u> |

Changes in Castleton Free Library component unit capital assets consisted of the following:

| | Balance July 1, <u>2019</u> | <u>Increase</u> | <u>Decrease</u> | Balance June 30, <u>2020</u> |
|----------------------------------|-----------------------------------|-----------------|-----------------|------------------------------------|
| Capital assets, not depreciated: | | | | |
| Construction in process | \$ - | \$ 2,756 | \$ - | \$ 2,756 |

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2020

5. Long-term liabilities

Long-term liabilities consisted of the following as of June 30, 2020:

| | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Governmental activities: | |
| General obligation bond payable, fire station construction, \$75,000 annual principal payments and semiannual interest payments, variable interest rates from 0.5% to 4.0%, through November 2034 | \$ 1,125,000 |
| Note payable, highway equipment, annual principal payments of \$38,140 and accrued interest at rate of 1.75% through October 2021 | 76,280 |
| Note payable, highway equipment, annual principal payments of \$37,124 and accrued interest at rate of 2.25% through July 2023 | 148,495 |
| Net pension liability - VMERS | 456,794 |
| Accrued compensated absences | <u>62,299</u> |
| | <u>\$ 1,868,868</u> |
| Business-type activities: | |
| Note payable, wastewater improvements annual principal payments of \$1,320 no interest, through December 2020 | \$ 1,320 |
| Note payable, wastewater improvements annual principal payments of \$4,300 no interest, through December 2024 | 21,500 |
| Bond payable, sewer line upgrade, annual principal and 2% administrative fee payments of \$18,806 no interest, through December 2038 | 294,844 |
| Net pension liability - VMERS | 37,038 |
| Accrued compensated absences | <u>2,931</u> |
| | <u>\$ 357,633</u> |

Changes in governmental activities long-term liabilities for the year ended June 30, 2020 were as follows:

| | Balance July 1, <u>2019</u> | <u>Additions</u> | <u>Retirements</u> | Balance June 30, <u>2020</u> | Due Within <u>One Year</u> |
|-------------------------------|-----------------------------------|-------------------|--------------------|------------------------------------|----------------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 1,200,000 | \$ - | \$ 75,000 | \$ 1,125,000 | \$ 75,000 |
| Notes from direct borrowings | - | 262,915 | 38,140 | 224,775 | 75,264 |
| Net pension liability - VMERS | 393,748 | 63,046 | - | 456,794 | - |
| Accrued compensated absences | <u>49,299</u> | <u>13,000</u> | <u>-</u> | <u>62,299</u> | <u>-</u> |
| | <u>\$ 1,643,047</u> | <u>\$ 338,961</u> | <u>\$ 113,140</u> | <u>\$ 1,868,868</u> | <u>\$ 150,264</u> |

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2020

5. Long-term liabilities (continued)

Changes in business-type activities long-term liabilities for the year ended June 30, 2020 were as follows:

| | Balance July 1, <u>2019</u> | <u>Additions</u> | <u>Retirements</u> | Balance June 30, <u>2020</u> | Due Within <u>One Year</u> |
|-------------------------------|-----------------------------------|------------------|--------------------|------------------------------------|----------------------------------|
| Business-type activities: | | | | | |
| Notes and bonds | | | | | |
| from direct borrowings | \$ 599,719 | \$ 29,914 | \$ 311,969 | \$ 317,664 | \$ 18,529 |
| Net pension liability - VMERS | 31,926 | 5,112 | - | 37,038 | - |
| Accrued compensated absences | <u>2,274</u> | <u>657</u> | <u>-</u> | <u>2,931</u> | <u>-</u> |
| | <u>\$ 633,919</u> | <u>\$ 35,683</u> | <u>\$ 311,969</u> | <u>\$ 357,633</u> | <u>\$ 18,529</u> |

Annual maturities of the bonds and notes payable as of June 30, 2020 were as follows:

| Governmental Activities: | <u>General Obligation Bonds</u> | | <u>Notes and Bonds from Direct Borrowings</u> | |
|--------------------------|---------------------------------|-------------------|---------------------------------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| Year ending June 30, | | | | |
| 2021 | \$ 75,000 | \$ 37,518 | \$ 75,264 | \$ 3,950 |
| 2022 | 75,000 | 35,625 | 75,264 | 3,173 |
| 2023 | 75,000 | 33,530 | 37,124 | 1,671 |
| 2024 | 75,000 | 31,271 | 37,123 | 835 |
| 2025 | 75,000 | 28,899 | - | - |
| 2026-2030 | 375,000 | 106,212 | - | - |
| 2031-2035 | <u>375,000</u> | <u>36,815</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 1,125,000</u> | <u>\$ 309,870</u> | <u>\$ 224,775</u> | <u>\$ 9,629</u> |

| Business-type activities: | <u>Notes and Bonds from Direct Borrowings</u> | |
|---------------------------|---------------------------------------------------|-----------------|
| Year ending June 30, | <u>Principal</u> | <u>Interest</u> |
| 2021 | \$ 18,529 | \$ - |
| 2022 | 17,467 | - |
| 2023 | 17,730 | - |
| 2024 | 17,999 | - |
| 2025 | 18,273 | - |
| 2026-2030 | 74,160 | - |
| 2031-2035 | 81,889 | - |
| 2036-2039 | <u>71,617</u> | <u>-</u> |
| | <u>\$ 317,664</u> | <u>\$ -</u> |

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2020

6. Pension plan – Vermont Municipal Employees’ Retirement System

Plan description – The Vermont Municipal Employees’ Retirement System (VMERS) is a cost-sharing, multiple-employer defined benefit pension plan that is administered by the Vermont State Treasurer and its Board of Trustees. The plan was established effective July 1, 1975. The State statutory provisions, found in Title 24, V.S.A. Chapter 125, govern eligibility for benefits, service requirements, contribution requirements and benefit provisions. The general administration and responsibility for formulating administrative policy and procedures of the retirement System for its members and their beneficiaries is vested in the Board of Trustees. All assets are held in a single trust and are available to pay retirement benefits to all members. VMERS does not issue stand-alone financial reports, but instead are included as part of the State of Vermont’s Comprehensive Annual Financial Report (CAFR). The CAFR can be viewed on the State of Vermont’s Department of Finance and Management’s website.

Benefits – Full-time employees of participating municipalities are covered under VMERS. Municipalities elect coverage under Groups A, B, C or D provisions. VMERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are based on average final compensation, years of creditable service, age upon retirement, and on the benefit structure of the Group. Vesting occurs upon the attainment of five years of creditable service.

Contributions – Municipal employees participating in the plan are required to contribute 2.750%, 5.125%, 10.250%, and 11.600% of gross wages for Groups A, B, C and D, respectively, for the year ended June 30, 2020. The municipal employer contributes 4.250%, 5.750%, 7.500%, and 10.100% of gross wages for Groups A, B, C and D, respectively, for the year ended June 30, 2020.

Employees of the Town are covered under Group B and Group C. Town employees contributed \$57,456 to VMERS for the year ended June 30, 2020. The Town contributed \$54,101 to VMERS for the year ended June 30, 2020.

The State of Vermont has provided the following information to all employers participating in VMERS; net pension liability, each Town’s proportionate share of the net pension liability, expected rate of return on investments and discount rates. The information specific to the Town is based on its proportionate share of VMERS relative to all participating employers. Actuarial reports and schedules of employer allocations can be obtained by visiting the office of the Vermont State Treasurer at the following internet address: www.vermonttreasurer.gov.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – As of June 30, 2020, the Town reported a liability of \$493,832 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. The Town’s proportion of the net pension liability was based on the Town’s proportional share of employer contributions to the total contributions to VMERS during the fiscal year. At June 30, 2019, the Town’s proportion was 0.28464%, which was a decrease of 0.01796% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense of \$151,454, related to VMERS. As of June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to VMERS from the following sources:

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2020

6. Pension plan - Vermont Municipal Employees' Retirement System (continued)

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Difference between expected and actual experience | \$ 63,981 | \$ 4,269 |
| Changes in assumptions | 16,488 | - |
| Difference between projected and actual earnings on pension plan investments | 33,635 | - |
| Changes in proportional share of contributions | - | 22,655 |
| Town contributions subsequent to the measurement date | 54,101 | - |
| | <u>\$ 168,205</u> | <u>\$ 26,924</u> |

\$54,101 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized in pension expense over a period of 5 years.

Actuarial assumptions – The total pension liability, measured as of June 30, 2019, was based on a June 30, 2018 actuarial valuation using the following actuarial assumptions: investment rate of return 7.50%, salary increases 5.00%, inflation 2.50%, cost of living adjustments 1.15% to 1.30%. Mortality rates were based on RP-2006 tables.

The long-term expected rate of return of pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of June 30, 2019, are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Rate of Return</u> |
|---------------------------|------------------------------|----------------------------------------------|
| Global equity | 29.00% | 6.90% |
| US equity - large cap | 4.00% | 5.94% |
| US equity - small/mid cap | 3.00% | 6.72% |
| Non-US equity - large cap | 5.00% | 6.81% |
| Non-US equity - small cap | 2.00% | 7.31% |
| Emerging markets debt | 4.00% | 4.26% |
| Core bond | 14.00% | 1.79% |
| Non-core bonds | 6.00% | 3.22% |
| Short quality credit | 5.00% | 1.81% |
| Private credit | 5.00% | 6.00% |
| US TIPS | 3.00% | 1.45% |
| Core real estate | 5.00% | 4.26% |
| Non-core real estate | 3.00% | 5.76% |
| Private equity | 10.00% | 10.81% |
| Infrastructure/farmland | <u>2.00%</u> | 4.89% |
| | 100.00% | |

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2020

6. Pension plan - Vermont Municipal Employees' Retirement System (continued)

Discount rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions would continue to be made in accordance with the current funding policy at the rates set by the Board of Trustees.

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

| | <u>1 % Decrease</u> <u>(6.50%)</u> | <u>Current</u> <u>Discount Rate</u> <u>(7.50%)</u> | <u>1 % Increase</u> <u>(8.50%)</u> |
|------------------------------------------------------------|---------------------------------------|----------------------------------------------------------|---------------------------------------|
| Town's proportionate share of the net pension liability | \$ 809,810 | \$ 493,832 | \$ 232,260 |

7. Other post-employment benefits

The Town provides post-employment health insurance benefits under its union agreement. Employees who retire with ten or more years of service are eligible for health insurance coverage until they can receive Medicare benefits. The Town funds the benefits on a pay-as-you-go basis and has not recorded a liability in its financial statements. Eligible employees with ten years of service pay 50% 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. Employees hired after July 1, 2019 are not eligible for these benefits. The Town expended \$8,401 for these post-employment benefits during the fiscal year ended June 30, 2020.

8. Interfund balances

Interfund receivable and payables balances as of June 30, 2020 were as follows:

| | <u>Interfund</u> <u>Receivables</u> | <u>Interfund</u> <u>Payables</u> |
|---------------------------|----------------------------------------|-------------------------------------|
| Governmental activities: | | |
| General Fund | \$ - | \$ 747,454 |
| Capital Project Fund | 97,251 | - |
| Special Revenue Fund | - | 90,329 |
| | <u>97,251</u> | <u>837,783</u> |
| Business-type activities: | | |
| Wastewater Fund | <u>740,532</u> | <u>-</u> |
| | <u>\$ 837,783</u> | <u>\$ 837,783</u> |

The interfund payable from the General Fund and the Special Revenue Fund to the Capital Project Fund and Wastewater Fund represent amounts due to from each fund because of pooling cash in a common bank account.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2020

9. Interfund transfers

Interfund transfers for the year ended June 30, 2020 consisted of the following:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|---------------------------|---------------------|----------------------|
| Governmental activities: | | |
| General Fund | \$ - | \$ 194,072 |
| Capital Project Fund | <u>289,175</u> | <u>-</u> |
| | 289,175 | 194,072 |
| Business-type activities: | | |
| Wastewater Fund | <u>-</u> | <u>95,103</u> |
| | <u>\$ 289,175</u> | <u>\$ 289,175</u> |

Transfers from the General Fund and Wastewater Fund to the Capital Project Fund were for amounts budgeted to be reserved for specific purposes, and other revenue sources with stipulations on their use for capital improvements or related projects.

10. Risk management

The Town is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Town manages these risks through commercial insurance packages and participation in public entity risk pools covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured loss to the Town.

11. County Solid Waste Management District

The Town is a participating member in the Rutland County Solid Waste Management District (the District); which is a union municipal district that exists to cooperatively and comprehensively address the solid waste management interest of its 17-member towns. The District is governed by a Board of Supervisors composed of one representative from each of the participating municipalities. The District has primary liability for its future obligations, including operating costs and debt service. Municipalities have contingent liability through membership in the District.

12. Contingencies

The Town receives significant financial assistance from the State of Vermont through grants and other forms of state aid. Entitlement to these resources is generally based on compliance with terms and conditions of grant agreements and applicable state regulations, including the expenditure of the resources for eligible purposes. These resources are subject to audit by the granting authority in order to ensure compliance. Any disallowance as a result of these audits becomes a liability of the Town. Management believes that there are no significant contingent liabilities relating to compliance with grant agreements and applicable state regulations.

13. Deficit fund balance

The Town anticipates eliminating the June 30, 2020 fund balance deficit in the Special Revenue Fund of \$76,289 by receiving grant proceeds in future years once eligibility requirements are met.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2020

14. Governmental fund equity

As of June 30, 2020, governmental fund balances consisted of the following:

| | General Fund | Capital Project Fund | Special Revenue Fund | Total Governmental Funds |
|------------------------------------|---------------------|----------------------------|----------------------------|--------------------------------|
| Nonspendable: | | | | |
| Prepays | \$ 77,118 | \$ - | \$ - | \$ 77,118 |
| Restricted for: | | | | |
| Highway operations | 474,190 | - | - | 474,190 |
| Municipal records preservation | - | 38,863 | - | 38,863 |
| Wastewater treatment facility | - | 438,173 | - | 438,173 |
| Reappraisal | - | 110,236 | - | 110,236 |
| Various donations | - | - | 11,111 | 11,111 |
| | <u>474,190</u> | <u>587,272</u> | <u>11,111</u> | <u>1,072,573</u> |
| Committed to: | | | | |
| Public buildings | - | 8,000 | - | 8,000 |
| Castleton Emergency Response | - | 8,000 | - | 8,000 |
| Lake improvements | - | 616 | - | 616 |
| Recreation - Crystal Beach | - | 30,001 | - | 30,001 |
| Recreation - Dewey Field | - | 933 | - | 933 |
| Sidewalks | - | 70,031 | - | 70,031 |
| Transfer station | - | 96,734 | - | 96,734 |
| Vehicles & equipment - fire | - | 337,405 | - | 337,405 |
| Vehicles & equipment - highway | - | 246,080 | - | 246,080 |
| Vehicles & equipment - police | - | (11,802) | - | (11,802) |
| Weed harvesting | - | 18,372 | - | 18,372 |
| | <u>-</u> | <u>804,370</u> | <u>-</u> | <u>804,370</u> |
| Assigned to: | | | | |
| Capital improvements - Town Office | - | 106,317 | - | 106,317 |
| Capital improvements and repairs | 93,861 | - | - | 93,861 |
| Budget-FY2021 | 103,000 | - | - | 103,000 |
| | <u>196,861</u> | <u>106,317</u> | <u>-</u> | <u>303,178</u> |
| Unassigned | <u>279,747</u> | <u>-</u> | <u>(87,400)</u> | <u>192,347</u> |
| Total fund balances | \$ <u>1,027,916</u> | \$ <u>1,497,959</u> | \$ <u>(76,289)</u> | \$ <u>2,449,586</u> |

TOWN OF CASTLETON, VERMONT
Schedule of Revenues and Expenditures
Budget and Actual - General Fund
For the Year Ended June 30, 2020
(Page 1 of 2)

| | Original Budget | Final Budget | Actual Amounts Budgetary Basis | Variance Favorable (Unfavorable) |
|---------------------------------------|--------------------|------------------|--------------------------------------|----------------------------------------|
| Revenues | | | | |
| Property taxes | \$ 2,035,493 | \$ 2,035,493 | \$ 2,067,522 | \$ 32,029 |
| Property taxes - penalties & interest | 61,000 | 61,000 | 57,523 | (3,477) |
| Intergovernmental | 592,500 | 592,500 | 603,546 | 11,046 |
| Licenses, permits & fines | 62,990 | 62,990 | 56,044 | (6,946) |
| Charges for services | 403,176 | 403,176 | 406,637 | 3,461 |
| Investment income | 10,000 | 10,000 | 13,138 | 3,138 |
| Miscellaneous | 2,050 | 2,050 | 7,865 | 5,815 |
| Total revenues | <u>3,167,209</u> | <u>3,167,209</u> | <u>3,212,275</u> | <u>45,066</u> |
| Expenditures | | | | |
| Legislating | 25,707 | 25,707 | 21,782 | 3,925 |
| Ordinances & proceedings | 2,565 | 2,565 | 913 | 1,652 |
| Managing municipalities | 167,439 | 167,439 | 167,353 | 86 |
| Conducting elections | 9,064 | 9,064 | 8,300 | 764 |
| Collecting & distributing funds | 43,502 | 43,502 | 41,365 | 2,137 |
| Accounting | 88,394 | 88,394 | 85,803 | 2,591 |
| Auditing | 12,000 | 12,000 | 14,750 | (2,750) |
| Tax listing | 38,644 | 38,644 | 23,658 | 14,986 |
| Tax collecting | 38,375 | 38,375 | 36,629 | 1,746 |
| Document recording | 75,500 | 75,500 | 66,168 | 9,332 |
| Legal services | 30,000 | 30,000 | 6,090 | 23,910 |
| Municipal planning & zoning | 40,939 | 40,939 | 29,099 | 11,840 |
| General government buildings | 35,550 | 35,550 | 29,303 | 6,247 |
| Public safety buildings | 154,463 | 154,463 | 150,899 | 3,564 |
| General government equipment | 20,700 | 20,700 | 18,643 | 2,057 |
| Police department | 492,950 | 492,950 | 444,844 | 48,106 |
| Emergency medical services | 36,218 | 36,218 | 33,968 | 2,250 |
| Volunteer fire department | 98,299 | 98,299 | 89,700 | 8,599 |
| Emergency management | 11,000 | 11,000 | 13,380 | (2,380) |
| Highway administration | 353,486 | 353,486 | 201,538 | 151,948 |
| Summer maintenance | 82,160 | 82,160 | 88,912 | (6,752) |
| Capital projects | 192,800 | 192,800 | 184,755 | 8,045 |
| Traffic control | 6,000 | 6,000 | 2,810 | 3,190 |
| Winter maintenance | 137,700 | 137,700 | 235,116 | (97,416) |
| Sidewalks | 45,000 | 45,000 | 28,429 | 16,571 |
| Storm drainage services | 12,000 | 12,000 | 11,236 | 764 |
| Bridges | 10,000 | 10,000 | 77,600 | (67,600) |
| Highway garage | 62,325 | 62,325 | 122,831 | (60,506) |
| Town mechanic | 132,610 | 132,610 | 100,416 | 32,194 |
| Town lands | 3,600 | 3,600 | 2,506 | 1,094 |
| Historical cemeteries | 5,000 | 5,000 | 644 | 4,356 |
| Hillside cemetery | 28,000 | 28,000 | 28,000 | - |
| <i>continued</i> | | | | |

TOWN OF CASTLETON, VERMONT
Schedule of Revenues and Expenditures
Budget and Actual - General Fund
For the Year Ended June 30, 2020
(Page 2 of 2)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts Budgetary Basis</u> | <u>Variance Favorable (Unfavorable)</u> |
|---------------------------------------|----------------------------|-------------------------|-----------------------------------------------|-------------------------------------------------|
| <i>continued</i> | | | | |
| Health, education & social services | 53,033 | 53,033 | 53,033 | - |
| Health, regulation & inspecting | 1,449 | 1,449 | 1,365 | 84 |
| Animal control | 5,186 | 5,186 | 1,374 | 3,812 |
| Constables | 40,526 | 40,526 | 31,779 | 8,747 |
| Transfer station | 339,453 | 339,453 | 302,198 | 37,255 |
| Recreation administration | 20,143 | 20,143 | 19,255 | 888 |
| Dewey Field | 7,257 | 7,257 | 3,769 | 3,488 |
| Hydeville Field | 3,897 | 3,897 | 1,605 | 2,292 |
| Swim program | 2,001 | 2,001 | 1,066 | 935 |
| Crystal Beach | 59,704 | 59,704 | 91,397 | (31,693) |
| Youth sports | 9,913 | 9,913 | 3,731 | 6,182 |
| Special events | 5,584 | 5,584 | 3,533 | 2,051 |
| Adult recreation | 50 | 50 | - | 50 |
| Memorial Day decorations | 9,650 | 9,650 | 7,850 | 1,800 |
| Library administration | 111,500 | 111,500 | 111,500 | - |
| Prevention/control forest fires | 1,000 | 1,000 | 1,000 | - |
| Tree Warden | 9,834 | 9,834 | 9,005 | 829 |
| Other governments | 40,000 | 40,000 | 39,319 | 681 |
| Total expenditures | <u>3,212,170</u> | <u>3,212,170</u> | <u>3,050,219</u> | <u>161,951</u> |
| Excess of revenues or (expenditures) | <u>(44,961)</u> | <u>(44,961)</u> | <u>162,056</u> | <u>207,017</u> |
| Other financing sources (uses) | | | | |
| Transfers in (out) | <u>(165,000)</u> | <u>(165,000)</u> | <u>(194,072)</u> | <u>(29,072)</u> |
| Net change in fund balances | \$ <u>(209,961)</u> | \$ <u>(209,961)</u> | \$ <u>(32,016)</u> | \$ <u>177,945</u> |

TOWN OF CASTLETON, VERMONT
Schedule of Proportionate Share of the Net Pension Liability
June 30,

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---------------------------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| VMERS | | | | | | |
| Town's proportion of the net pension liability | 0.28464% | 0.30260% | 0.31197% | 0.32823% | 0.34706% | 0.30396% |
| Town's proportionate share of the net pension liability | \$ 493,832 | \$ 425,674 | \$ 377,971 | \$ 422,417 | \$ 267,571 | \$ 27,741 |
| Town's covered payroll | \$ 879,669 | \$ 884,076 | \$ 850,236 | \$ 837,059 | \$ 817,047 | \$ 772,752 |
| Town's proportionate share of the net pension liability as a percentage of its covered payroll | 56.14% | 48.15% | 44.45% | 50.46% | 32.75% | 3.59% |
| Plan fiduciary net position as a percentage of the total pension liability | 80.35% | 82.60% | 83.64% | 80.95% | 87.42% | 98.32% |

Notes to schedule:

Data presented as of the measurement date. Historical information prior to implementation of GASB 68 is not required.
The plan provisions used in the measurement of the net pension liability are the same as those used in the actuarial valuation as of June 30, 2018.

TOWN OF CASTLETON, VERMONT
Schedule of Pension Contributions
For the year ended June 30,

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|-------------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| VMERS | | | | | | |
| Contractually required contribution | \$ 54,101 | \$ 54,690 | \$ 53,001 | \$ 50,948 | \$ 49,886 | \$ 48,514 |
| Contributions in relation to the contractually required contribution | <u>(54,101)</u> | <u>(54,690)</u> | <u>(53,001)</u> | <u>(50,948)</u> | <u>(49,886)</u> | <u>(48,514)</u> |
| Contribution deficiency (excess) | \$ <u>-</u> |
| Town's covered payroll | <u>862,041</u> | <u>879,669</u> | <u>884,076</u> | <u>850,236</u> | <u>837,059</u> | <u>817,047</u> |
| Contributions as a percentage of covered payroll | 6.276% | 6.217% | 5.995% | 5.992% | 5.960% | 5.938% |

Notes to schedule:

Historical information prior to implementation of GASB 68 is not required.

**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 Select Board
Town of Castleton, Vermont

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Castleton, Vermont, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of Castleton, Vermont's basic financial statements and have issued our report thereon dated March 2, 2021 in which our opinion over the discretely presented component unit was qualified.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2020-001 and 2020-002, that we consider to be significant deficiencies.

Compliance and Other Matters

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

Response to Findings

Town of Castleton, Vermont's response to the findings identified in our audit is described in the accompanying schedule of findings. The Town of Castleton, Vermont's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pace & Hawley, LLC

Berlin, Vermont
March 2, 2021

TOWN OF CASTLETON, VERMONT
Schedule of Findings
June 30, 2020

2020-001 Sewer Fees

Condition: One employee is primarily responsible for billing sewer customers, collecting payments, and applying receipts to open receivables.

Criteria: In general, creating invoices, collecting payments, and applying those receipts against open invoices are functions that should be performed by separate individuals. Absent such segregation of duties, extensive mitigating controls are necessary to prevent and detect misappropriation of assets.

Cause: The Town's limited number of personnel creates a challenge to properly segregate all processes related to sewer fee revenue and related receivables.

Effect: Town's assets could be misappropriated.

Recommendation: We recommend that the Town assign the functions of billing sewer fees, collecting payments and posting those payments to receivables to different employees.

Management's response: The Town Manager has reviewed the procedures the Town of Castleton uses for billing sewer customers, collecting sewer payments and how receipts are applied to open receivables and looked for any Town assets that show any level of misappropriation or the potential for fraud. Starting in March 2021, before sewer bills are sent to customers, the Delinquent Tax Collector shall review the master sewer allocation list and compare the list with the letters generated by the Tax Collector Administrative Assistant to be sure the letters and the master list match. At the end of the fiscal year, following these procedures we will generate 10-12 monthly letters documenting that the internal controls were completed. These internal controls will also allow corrections to any deficiencies found during the monthly review before mailing the letters.

2020-002 Transfer Station

Condition: The Town's controls at the Transfer Station could be circumvented by the employee receiving payments.

Criteria: In general, the collection of cash creates a situation in which controls must be consistently monitored and evaluated.

Cause: Town personnel had other significant responsibilities and did not have sufficient time to devote to this activity.

Effect: Town's assets could be misappropriated before being deposited into Town's accounts.

Perspective information: For the year ended June 30, 2020, transfer station revenue was \$277,429.

Recommendation: We recommend that the Town evaluate its current internal control processes at the transfer station and implement further internal controls as necessary. Non-financial data should be evaluated against the specific revenue line items, regularly and consistently, to assess whether all cash/checks that were received have been deposited. Additionally, the amount of refuse material accepted at the transfer station should be compared to the amount transferred to the landfill or recycling center and analytically compared to the revenue received.

Management's response: The Town Manager had security cameras installed at the Transfer Station and he reviewed the Town's internal controls for collecting and accounting for stickers, cash, and charge accounts. The Town has assumed risk by allowing customers to use cash to pay for activity at the Transfer Station. The Town does have some internal controls to help mitigate fraud by employees, however, it does recognize that our internal controls are not foolproof or the "perfect solution". The largest impediment to implementing greater internal controls is personnel. Additionally, the Transfer Station is not near the Town Office, so having patrons pay in cash at the Town Office is not realistic, especially when the Town Office is closed on Saturdays. The Town acknowledges your findings but shall continue with the current internal controls until such time a better solution is determined.