

TOWN OF CASTLETON, VERMONT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORTS
JUNE 30, 2018

TOWN OF CASTLETON, VERMONT

JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

The Select Board
Town of Castleton, VT

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, VT, as of and for the year ended June 30, 2018, 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, VT as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, VT as of June 30, 2018, 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 7, the budgetary comparison information on pages 29 and 30, the schedule of proportionate share of the net pension liability on page 31, and the schedule of pension contributions on page 32 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 November 8, 2018 on our consideration of the Town of Castleton, VT’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Castleton, VT’s internal control over financial reporting and compliance.

Pace & Hawley, LLC

Berlin, VT
November 8, 2018

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2018

This discussion and analysis of the Town of Castleton, VT's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2018. Please read it in conjunction with the Town's financial statements.

Financial Highlights

- The Town's governmental activities net position increased by \$705,879 because of this year's operations.
- The Town's business-type activities net position decreased by \$23,081 because of this year's operations.
- The General Fund reported a net increase in fund balance of \$276,128 because of this year's operations.
- The unassigned fund balance for the General Fund was a surplus of \$209,961 as of June 30, 2018

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
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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 17 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 increased from \$4,344,641 to \$5,050,520. The business-type activities net position of the Town decreased from \$1,792,260 (as restated) to \$1,769,179. 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 \$973,649 at June 30, 2018.

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

	Governmental Activities		Business-Type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
Current assets	\$ 2,474,151	\$ 1,910,440	\$ 451,129	\$ 427,497	\$ 2,925,280	\$ 2,337,937
Capital assets, net	4,326,461	4,400,484	1,496,107	1,614,901	5,822,568	6,015,385
Total assets	6,800,612	6,310,924	1,947,236	2,042,398	8,747,848	8,353,322
Deferred outflows	191,640	249,827	15,538	24,587	207,178	274,414
Current liabilities	275,439	431,931	118,962	120,214	394,401	552,145
Noncurrent liabilities	1,597,362	1,736,407	72,997	153,949	1,670,359	1,890,356
Total liabilities	1,872,801	2,168,338	191,959	274,163	2,064,760	2,442,501
Deferred inflows	68,931	47,772	1,636	562	70,567	48,334
Net position						
Net investment in						
capital assets	3,021,939	2,801,775	1,364,971	1,411,390	4,386,910	4,213,165
Restricted	1,054,932	594,041	-	-	1,054,932	594,041
Unrestricted	973,649	948,825	404,208	380,870	1,377,857	1,329,695
	\$ 5,050,520	\$ 4,344,641	\$ 1,769,179	\$ 1,792,260	\$ 6,819,699	\$ 6,136,901

Government-wide Statement of Activities – For the year ended June 30, 2018, governmental activities reported total revenues of \$3,740,714 and total expenses of \$3,088,553 and transfers-in of \$53,718 resulting in a change in net position of \$705,879. For the year ended June 30, 2017, governmental activities reported total revenues of \$3,686,998 and total expenses of \$3,015,361 and transfers-in of \$53,718 resulting in a change in net position of \$725,355. For the year ended June 30, 2018, business-type activities reported total revenues of \$645,998 and total expenses of \$615,361 and transfers-out of \$53,718 resulting in a decrease in net position of \$23,081.

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2018

Prior period restatement - The Town has restated beginning net position of the business-type activities from \$1,772,916 to \$1,792,260 to capitalize costs related to the Route 30 sewer upgrade project that were previously expensed.

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

	Governmental Activities		Business-Type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 462,064	\$ 463,344	\$ 641,266	\$ 641,754	\$ 1,103,330	\$ 1,105,098
Operating grants and contributions	936,432	873,066	-	-	936,432	873,066
General revenues:						
Property taxes	2,327,210	2,343,415	-	-	2,327,210	2,343,415
Proceeds from sale of capital assets	-	2,244	-	-	-	2,244
Investment income	11,219	4,857	1,313	483	12,532	5,340
Miscellaneous	3,789	2,875	3,419	3,004	7,208	5,879
Total revenues	<u>3,740,714</u>	<u>3,689,801</u>	<u>645,998</u>	<u>645,241</u>	<u>4,386,712</u>	<u>4,335,042</u>
Expenses:						
General government	687,089	734,291	-	-	687,089	734,291
Public safety	825,843	745,365	-	-	825,843	745,365
Public works	1,311,961	1,299,572	-	-	1,311,961	1,299,572
Culture and recreation	192,321	196,995	-	-	192,321	196,995
Cemetery	25,004	25,000	-	-	25,004	25,000
Interest on long-term debt	46,335	57,020	-	-	46,335	57,020
Wastewater operations	-	-	615,361	676,355	615,361	676,355
Total expenses	<u>3,088,553</u>	<u>3,058,243</u>	<u>615,361</u>	<u>676,355</u>	<u>3,703,914</u>	<u>3,734,598</u>
Transfers						
Transfers in (out)	53,718	54,360	(53,718)	(54,360)	-	-
Increase (decrease) in net position	<u>705,879</u>	<u>685,918</u>	<u>(23,081)</u>	<u>(85,474)</u>	<u>682,798</u>	<u>600,444</u>
Net position, beginning of year, (as restated)	<u>4,344,641</u>	<u>3,658,723</u>	<u>1,792,260</u>	<u>1,877,734</u>	<u>6,136,901</u>	<u>5,536,457</u>
Net position, end of year	<u>\$ 5,050,520</u>	<u>\$ 4,344,641</u>	<u>\$ 1,769,179</u>	<u>\$ 1,792,260</u>	<u>\$ 6,819,699</u>	<u>\$ 6,136,901</u>

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

- Increase in actual PILOT payments received and interest earned over amounts anticipated.
- New revenue source from rental income.
- Conservative spending/under expended departmental budgets. Personnel vacancies.

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

- Anticipated user fee revenue less than actual.
- Zero revenue from sludge disposal at WWTF by outside parties.
- Engineering costs related to upgrade.

TOWN OF CASTLETON, VERMONT
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June 30, 2018

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, 2018, the Town's governmental funds reported combined ending fund balances of \$1,909,305. Of this \$73,095 was nonspendable, \$1,054,932 was restricted, \$507,082 was committed for specific purposes, \$64,235 was assigned and \$209,961 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, 2018, was \$994,567 of which \$209,961 was unassigned. The General Fund had an increase in fund balance of \$276,128 for the year ended June 30, 2018, compared to a net budgeted change in fund balance of \$0.

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, 2018, was \$914,738 of which \$396,371 was restricted, \$507,082 was committed and \$11,285 was assigned. The Capital Project Fund had an increase in fund balance of \$198,722 for the year ended June 30, 2018.

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, 2018, was \$0. The Special Revenue Fund had no increase or decrease in fund balance for the year ended June 30, 2018.

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, 2018, was \$1,769,179 of which \$404,208 was unrestricted. The Wastewater Fund had a decrease in net position of \$23,081 for the year ended June 30, 2018. The Town has restated beginning net position of the Wastewater Fund from \$1,772,916 to \$1,792,260 to capitalize costs related to the Route 30 sewer upgrade project that were previously expensed.

General Fund Budgetary Highlights

The schedule comparing the Town's original budget and actual results are included on pages 29 – 30 of the following report.

For the year ended June 30, 2018, actual General Fund revenues were \$3,356,576 compared to budgeted amounts of \$3,329,925. Differences in actual versus budgeted revenues were primarily the results of the following items:

- Increase in PILOT – actual over anticipated.
- Increase in interest – actual over anticipated.
- Increase in rental income – actual over anticipated.

For the year ended June 30, 2018, actual General Fund expenditures were \$2,896,133 compared to budgeted amounts of \$3,204,985. Differences in actual versus budgeted expenditures were primarily the results of the following items:

- Various upgrades not completed: transfer station, emergency management, Crystal Beach
- Personnel vacancies & unresolved union contract issues related to finances

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2018

Capital Assets and Debt Administration

Capital assets governmental activities – As of June 30, 2018, the Town had \$4,326,461 net of accumulated depreciation, invested in capital assets including land, buildings and improvements, vehicles and equipment for governmental activities. The amount represents a \$74,023 decrease from the prior year. Significant new capital asset additions consisted of the following:

- Police cruiser
- Fencing at Transfer Station

Capital assets business-type activities – As of June 30, 2018, the Town had \$1,496,107, net of accumulated depreciation, invested in capital assets including land, buildings and improvements, collection systems, vehicles and equipment for business-type activities. The amount represents a \$118,794 decrease from the prior year. Significant new capital asset additions consisted of the following:

- New roof at WWTF
- New utility pickup truck

Debt governmental activities – As of June 30, 2018, the Town's governmental activities outstanding debt, consisting of bonds payable, capital leases payable, VMERS net pension liability, and accrued compensated absences, was \$1,704,884, a decrease of \$328,710 over the prior year. There were no new governmental activities debt additions for the year ended June 30, 2018.

Debt business-type activities – As of June 30, 2018, the Town's business-type activities outstanding debt, consisting of bonds payable, notes payable, VMERS net pension liability and accrued compensated absences, was \$162,684 a decrease of \$80,950 over the prior year. Significant new business-type activities debt consisted of the following:

- Wastewater improvements

Economic Factors and Next Year's Budgets and Rates

The Town's elected and appointed officials considered many factors when setting the fiscal year 2019 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 2019 General Fund operating expenditure budget of \$3,165,245. This represents a decrease of 4.95% over the fiscal year 2018 General Fund operating expenditure budget of \$3,329,925. The Select Board has approved an overall municipal tax rate, to include local tax agreements, of \$0.4438 per \$100 of assessed property for fiscal year 2019.

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, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Totals	Castleton Free Library
Assets				
Current assets:				
Cash and cash equivalents	\$ 2,133,324	\$ -	\$ 2,133,324	\$ 23,375
Investments	-	-	-	277,713
Property taxes, penalty and interest receivable, net of allowance	564,030	-	564,030	-
Accounts receivable, net of allowance	9,827	100,237	110,064	-
Grants receivable	44,767	-	44,767	-
Prepaid expenses	73,095	-	73,095	-
Due from Town of Castleton	-	-	-	21,198
Internal balances	(350,892)	350,892	-	-
Total current assets	<u>2,474,151</u>	<u>451,129</u>	<u>2,925,280</u>	<u>322,286</u>
Noncurrent assets:				
Capital assets	6,012,916	7,239,515	13,252,431	-
(Accumulated depreciation)	(1,686,455)	(5,743,408)	(7,429,863)	-
Total noncurrent assets	<u>4,326,461</u>	<u>1,496,107</u>	<u>5,822,568</u>	<u>-</u>
Total assets	<u>6,800,612</u>	<u>1,947,236</u>	<u>8,747,848</u>	<u>322,286</u>
Deferred outflows of resources				
Pension related - VMERS	191,640	15,538	207,178	-
Liabilities				
Current liabilities:				
Accounts payable	85,793	24,347	110,140	75
Accrued payroll and benefits	26,597	1,004	27,601	744
Grant advances	23,721	-	23,721	-
Sewer fees received in advance	-	3,925	3,925	-
Other liabilities	13,608	-	13,608	-
Due to Castleton Free Library	21,198	-	21,198	-
Bonds, notes and capital leases payable, current portion	104,522	89,686	194,208	-
Total current liabilities	<u>275,439</u>	<u>118,962</u>	<u>394,401</u>	<u>819</u>
Noncurrent liabilities:				
Net pension liability - VMERS	349,623	28,348	377,971	-
Accrued compensated absences	47,739	3,199	50,938	-
Bonds, notes and capital leases payable, less current portion	1,200,000	41,450	1,241,450	-
Total noncurrent liabilities	<u>1,597,362</u>	<u>72,997</u>	<u>1,670,359</u>	<u>-</u>
Total liabilities	<u>1,872,801</u>	<u>191,959</u>	<u>2,064,760</u>	<u>819</u>
Deferred inflows of resources				
Property taxes received in advance	48,751	-	48,751	-
Pension related - VMERS	20,180	1,636	21,816	-
Total deferred inflows of resources	<u>68,931</u>	<u>1,636</u>	<u>70,567</u>	<u>-</u>
Net position				
Net investment in capital assets	3,021,939	1,364,971	4,386,910	-
Restricted	1,054,932	-	1,054,932	-
Unrestricted	973,649	404,208	1,377,857	321,467
Total net position	<u>\$ 5,050,520</u>	<u>\$ 1,769,179</u>	<u>\$ 6,819,699</u>	<u>\$ 321,467</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, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Totals	
Governmental activities							
General government	\$ 687,089	\$ 86,687	\$ 503,396	\$ (97,006)	\$ -	\$ (97,006)	\$ -
Public safety	825,843	52,850	102,399	(670,594)	-	(670,594)	-
Highways and streets	1,043,225	21,164	330,637	(691,424)	-	(691,424)	-
Culture and recreation	192,321	49,996	-	(142,325)	-	(142,325)	-
Solid waste	268,736	251,367	-	(17,369)	-	(17,369)	-
Cemetery	25,004	-	-	(25,004)	-	(25,004)	-
Interest on long-term debt	46,335	-	-	(46,335)	-	(46,335)	-
Total governmental activities	<u>3,088,553</u>	<u>462,064</u>	<u>936,432</u>	<u>(1,690,057)</u>	<u>-</u>	<u>(1,690,057)</u>	<u>-</u>
Business-type activities							
Wastewater operations	<u>615,361</u>	<u>641,266</u>	<u>-</u>	<u>-</u>	<u>25,905</u>	<u>25,905</u>	<u>-</u>
Total primary government	\$ <u>3,703,914</u>	\$ <u>1,103,330</u>	\$ <u>936,432</u>	<u>(1,690,057)</u>	<u>25,905</u>	<u>(1,664,152)</u>	<u>-</u>
Component unit							
Castleton Fee Library	<u>\$ 122,581</u>	<u>\$ -</u>	<u>\$ 118,283</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,298)</u>
General revenues							
Property taxes, penalties and interest				2,327,210	-	2,327,210	-
Investment income				11,219	1,313	12,532	10,863
Miscellaneous				<u>3,789</u>	<u>3,419</u>	<u>7,208</u>	<u>920</u>
Total general revenues				<u>2,342,218</u>	<u>4,732</u>	<u>2,346,950</u>	<u>11,783</u>
Transfers in (out)				<u>53,718</u>	<u>(53,718)</u>	<u>-</u>	<u>-</u>
Change in net position				705,879	(23,081)	682,798	7,485
Net position, beginning of year (as restated)				<u>4,344,641</u>	<u>1,792,260</u>	<u>6,136,901</u>	<u>313,982</u>
Net position, end of year				<u>\$ 5,050,520</u>	<u>\$ 1,769,179</u>	<u>\$ 6,819,699</u>	<u>\$ 321,467</u>

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

TOWN OF CASTLETON, VERMONT
Balance Sheet - Governmental Funds
June 30, 2018

	General Fund	Capital Project Fund	Special Revenue Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,228,400	\$ 904,924	\$ -	\$ 2,133,324
Property taxes, penalty and interest receivable, net of allowance	564,030	-	-	564,030
Accounts receivable	9,827	-	-	9,827
Grants receivable	-	-	44,767	44,767
Prepaid expenditures	73,095	-	-	73,095
Due from other funds	-	10,464	-	10,464
Total assets	<u>\$ 1,875,352</u>	<u>\$ 915,388</u>	<u>\$ 44,767</u>	<u>\$ 2,835,507</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities:				
Accounts payable	\$ 73,959	\$ 650	\$ 11,184	\$ 85,793
Accrued payroll and benefits	26,597	-	-	26,597
Grant advances	-	-	23,721	23,721
Other liabilities	13,608	-	-	13,608
Due to Castleton Free Library	21,198	-	-	21,198
Due to other funds	351,494	-	9,862	361,356
Total liabilities	<u>486,856</u>	<u>650</u>	<u>44,767</u>	<u>532,273</u>
Deferred inflows of resources:				
Property taxes received in advance	48,751	-	-	48,751
Unavailable property taxes	345,178	-	-	345,178
Total deferred inflows of resources	<u>393,929</u>	<u>-</u>	<u>-</u>	<u>393,929</u>
Fund balances:				
Nonspendable	73,095	-	-	73,095
Restricted	658,561	396,371	-	1,054,932
Committed	-	507,082	-	507,082
Assigned	52,950	11,285	-	64,235
Unassigned	209,961	-	-	209,961
Total fund balances	<u>994,567</u>	<u>914,738</u>	<u>-</u>	<u>1,909,305</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,875,352</u>	<u>\$ 915,388</u>	<u>\$ 44,767</u>	<u>\$ 2,835,507</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, 2018

Total fund balances - governmental funds \$ 1,909,305

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	6,012,916
Accumulated depreciation	(1,686,455)

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	345,178
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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

(178,163)

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

(1,352,261)

Net position - governmental activities \$ 5,050,520

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, 2018

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 2,211,062	\$ -	\$ -	\$ 2,211,062
Property taxes - penalties & interest	67,150	-	-	67,150
Intergovernmental	614,887	20,698	277,467	913,052
Licenses, permits & fines	41,763	-	-	41,763
Charges for services	411,399	-	8,902	420,301
Contributions	-	-	23,380	23,380
Investment income	6,526	4,693	-	11,219
Miscellaneous	3,789	-	-	3,789
Total revenues	<u>3,356,576</u>	<u>25,391</u>	<u>309,749</u>	<u>3,691,716</u>
Expenditures				
Current:				
General government	615,656	16,401	233	632,290
Public safety	620,929	2,833	111,301	735,063
Highway and streets	828,198	-	148,116	976,314
Culture and recreation	182,487	-	7,968	190,455
Solid waste	264,536	-	-	264,536
Cemetery	25,004	-	-	25,004
Capital outlay	49,269	15,000	42,131	106,400
Debt service:				
Principal	265,580	28,607	-	294,187
Interest	44,474	1,861	-	46,335
Total expenditures	<u>2,896,133</u>	<u>64,702</u>	<u>309,749</u>	<u>3,270,584</u>
Excess of revenues or (expenditures)	<u>460,443</u>	<u>(39,311)</u>	<u>-</u>	<u>421,132</u>
Other financing sources (uses)				
Transfers in (out)	<u>(184,315)</u>	<u>238,033</u>	<u>-</u>	<u>53,718</u>
Total other financing sources (uses)	<u>(184,315)</u>	<u>238,033</u>	<u>-</u>	<u>53,718</u>
Net change in fund balances	276,128	198,722	-	474,850
Fund balances, beginning of year	<u>718,439</u>	<u>716,016</u>	<u>-</u>	<u>1,434,455</u>
Fund balances, end of year	<u>\$ 994,567</u>	<u>\$ 914,738</u>	<u>\$ -</u>	<u>\$ 1,909,305</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, 2018

Net change in fund balances - governmental funds \$ 474,850

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	106,400
Current year depreciation	(180,423)

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. (37,711)

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:

Principal payments on bonds, notes payable and capital leases	294,187
Increase in accrued compensated absences	(422)

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:

Increase in unavailable property taxes	48,998
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Changes in net position - governmental activities \$ 705,879

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

TOWN OF CASTLETON, VERMONT
Statement of Net Position - Proprietary Fund
June 30, 2018

	Wastewater Fund
Assets	
Current assets:	
Sewer fees receivable, net of allowance of \$7,000	\$ 100,237
Due from other funds	350,892
Total current assets	451,129
Noncurrent assets:	
Capital assets	7,239,515
(Accumulated depreciation)	(5,743,408)
Total noncurrent assets	1,496,107
Total assets	1,947,236
Deferred outflows of resources	
Pension related - VMERS	15,538
Liabilities	
Current liabilities:	
Accounts payable	24,347
Accrued payroll and benefits	1,004
Sewer fees received in advance	3,925
Bonds and notes payable - current portion	89,686
Total current liabilities	118,962
Noncurrent liabilities:	
Accrued compensated absences	3,199
Net pension liability - VMERS	28,348
Bonds and notes payable - less current portion	41,450
Total noncurrent liabilities	72,997
Total liabilities	191,959
Deferred inflows of resources	
Pension related - VMERS	1,636
Net position	
Net investment in capital assets	1,364,971
Unrestricted	404,208
Total net position	\$ 1,769,179

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, 2018

	<u>Wastewater Fund</u>
Operating revenues	
Charges for services	\$ 628,960
Penalties and interest on delinquent accounts	12,306
Miscellaneous	<u>3,419</u>
Total operating revenues	<u>644,685</u>
 Operating expenses	
Personnel services	139,822
Purchased and contract services	115,781
Administrative expenses	27,179
Supplies	49,222
Utilities	73,123
Depreciation	<u>210,234</u>
Total operating expenses	<u>615,361</u>
 Operating income	 <u>29,324</u>
 Nonoperating revenues	
Investment income	 <u>1,313</u>
 Transfers	
Transfers in (out)	 <u>(53,718)</u>
 Change in net position	 (23,081)
 Net position, beginning of year (as restated)	 <u>1,792,260</u>
 Net position, end of year	 \$ <u>1,769,179</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, 2018

	Wastewater Fund
Cash flows from operating activities	
Cash received from customers	\$ 632,053
Cash paid to suppliers	(268,987)
Cash paid to employees for services	(138,730)
Net cash provided by operating activities	224,336
Cash flows from noncapital financing activities	
(Increase) decrease in amounts due from other funds	(8,116)
Cash flows from capital and related financing activities	
Interfund transfers	(53,718)
Acquisition of capital assets	(91,440)
Loan proceeds	17,311
Loan repayments	(89,686)
Net cash used by capital and related financing activities	(217,533)
Cash flows from investing activities	
Investment income	1,313
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 loss	\$ 29,324
Adjustment to reconcile operating loss to net cash provided by operating activities:	
Deprecation expense	210,234
Change in assets, liabilities, deferred inflows and deferred outflows:	
(Increase) decrease in accounts receivable	(15,516)
(Increase) decrease in deferred outflows - VMERS	9,049
Increase (decrease) accounts payable	(4,304)
Increase (decrease) accrued payroll	167
Increase (decrease) accrued compensated absences	925
Increase (decrease) fees received in advance	2,884
Increase (decrease) deferred inflows - VMERS	1,074
Increase (decrease) net pension liability - VMERS	(9,501)
Net cash provided by operating activities	\$ 224,336

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

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2018

1. Summary of significant accounting policies

The Town of Castleton, VT (the Town) is a unit of local government organized under the statutes of the State of VT. 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, 2018

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: b) or 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, 2018

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, 2018, 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, 2018 were payable in four installments due August 31, 2017, November 30, 2017, February 28, 2018 and May 31, 2018.

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, 2018, the Town collected and distributed \$6,503,731 in educational property taxes as instructed by the State of Vermont.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2018

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 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, 2018, the Town's bank balance was \$2,174,605; the corresponding carrying amount of the Town's cash was \$2,156,699 which included \$23,375 of cash reported by the component unit, Castleton Free Library. Of the Town's total bank balance, \$529,613 was covered by the FDIC, \$1,644,992 was collateralized by securities held by the pledging financial institution and \$0 was uninsured and uncollateralized.

3. Investments

As of June 30, 2018, the Town's component unit, Castleton Free Library, reported total investments of \$277,713.

The classification and fair value of investments held at June 30, 2018 were as follows:

<u>Investment</u>	<u>Level 1</u>
Money market funds	\$ 43,134
Mutual funds - equity & fixed income	<u>234,579</u>
	<u>\$ 277,713</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, 2018.

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, 2018.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2018

4. Capital assets

Changes in governmental activities capital assets consisted of the following:

	Balance July 1, <u>2017</u>	<u>Increase</u>	<u>Decrease</u>	Balance June 30, <u>2018</u>
Capital assets, not depreciated:				
Land	\$ 622,844	\$ -	\$ -	\$ 622,844
Construction in process	<u>31,936</u>	<u>-</u>	<u>-</u>	<u>31,936</u>
	<u>654,780</u>	<u>-</u>	<u>-</u>	<u>654,780</u>
Capital assets, depreciated:				
Buildings & improvements	2,746,143	-	-	2,746,143
Equipment, machinery and vehicles	2,225,944	36,856	-	2,262,800
Infrastructure	<u>279,649</u>	<u>69,544</u>	<u>-</u>	<u>349,193</u>
	<u>5,251,736</u>	<u>106,400</u>	<u>-</u>	<u>5,358,136</u>
Less accumulated depreciation	<u>1,506,032</u>	<u>180,423</u>	<u>-</u>	<u>1,686,455</u>
Total capital assets depreciated, net	<u>3,745,704</u>	<u>(74,023)</u>	<u>-</u>	<u>3,671,681</u>
Capital assets, net, governmental activities	\$ <u>4,400,484</u>	\$ <u>(74,023)</u>	\$ <u>-</u>	\$ <u>4,326,461</u>

Depreciation expense in the governmental activities totaling \$180,423 was allocated as following; \$90,780 public safety, \$1,866 recreation, \$66,911 highway, \$4,200 solid waste, and \$16,666 general.

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

	Balance July 1, <u>2017</u>	<u>Increase</u>	<u>Decrease</u>	Balance June 30, <u>2018</u>
Capital assets, not depreciated:				
Land	\$ 104,493	\$ -	\$ -	\$ 104,493
Capital assets, depreciated:				
Buildings	826,249	-	-	826,249
Sewer buildings and improvements	2,574,475	18,190	-	2,592,665
Collection system	3,399,515	38,705	-	3,438,220
Machinery and equipment	208,118	-	-	208,118
Vehicles	<u>47,757</u>	<u>34,545</u>	<u>12,532</u>	<u>69,770</u>
	<u>7,056,114</u>	<u>91,440</u>	<u>12,532</u>	<u>7,135,022</u>
Less accumulated depreciation	<u>5,545,706</u>	<u>210,234</u>	<u>12,532</u>	<u>5,743,408</u>
Total capital assets depreciated, net	<u>1,510,408</u>	<u>(118,794)</u>	<u>-</u>	<u>1,391,614</u>
Capital assets, net, business-type activities	\$ <u>1,614,901</u>	\$ <u>(118,794)</u>	\$ <u>-</u>	\$ <u>1,496,107</u>

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2018

5. Long-term liabilities

Long-term liabilities consisted of the following at June 30, 2018:

Governmental activities:

General obligation bond payable, fire station construction, annual principal payments and semiannual interest payments, variable interest rates from 0.5% to 4.0%, through November 2034	\$ 1,275,000
Capital lease payable, highway equipment, annual principal and interest payments of \$30,468, interest rate of 3.2%, through February 2019	29,522
Net pension liability - VMERS	349,623
Accrued compensated absences	<u>47,739</u>
	<u>\$ 1,701,884</u>

Business-type activities:

Note payable, wastewater improvements annual principal payments of \$88,365 no interest, through July 2019	\$ 88,366
Note payable, wastewater improvements annual principal payments of \$1,320 no interest, through December 2020	3,960
Note payable, wastewater improvements annual principal payments of \$4,300 no interest, through December 2024	21,500
Note payable, wastewater improvements annual principal payments of \$3,560 no interest, through April 2026	17,311
Net pension liability - VMERS	28,348
Accrued compensated absences	<u>3,199</u>
	<u>\$ 162,684</u>

Changes in governmental activities long-term liabilities for the year ended June 30, 2018 were as follows:

	Balance July 1, <u>2017</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>2018</u>	Due Within <u>One Year</u>
Governmental activities:					
Bond payable	\$ 1,350,000	\$ -	\$ 75,000	\$ 1,275,000	\$ 75,000
Note payable	190,580	-	190,580	-	-
Capital leases payable	58,129	-	28,607	29,522	29,522
Net pension liability - VMERS	384,568	-	34,945	349,623	-
Accrued compensated absences	<u>47,317</u>	<u>422</u>	<u>-</u>	<u>47,739</u>	<u>-</u>
	<u>\$ 2,030,594</u>	<u>\$ 422</u>	<u>\$ 329,132</u>	<u>\$ 1,701,884</u>	<u>\$ 104,522</u>

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2018

5. Long-term liabilities (continued)

Changes in business-type activities long-term liabilities for the year ended June 30, 2018 were as following:

	Balance July 1, <u>2017</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>2018</u>	Due Within <u>One Year</u>
Business-type activities:					
Notes payable	\$ 203,511	\$ 17,311	\$ 89,685	\$ 131,137	\$ 89,686
Net pension liability - VMERS	37,849	-	9,501	28,348	-
Accrued compensated absences	<u>2,274</u>	<u>925</u>	<u>-</u>	<u>3,199</u>	<u>-</u>
	<u>\$ 243,634</u>	<u>\$ 18,236</u>	<u>\$ 99,186</u>	<u>\$ 162,684</u>	<u>\$ 89,686</u>

Annual maturities of the bonds and notes payable at June 30, 2018 were as follows:

Governmental Activities:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>
2019	\$ 75,000	\$ 40,548
2020	75,000	39,174
2021	75,000	37,518
2022	75,000	35,625
2023	75,000	33,530
2024-2028	375,000	131,829
2029-2033	375,000	65,398
2034-2035	<u>150,000</u>	<u>5,970</u>
	<u>\$ 1,275,000</u>	<u>\$ 389,592</u>

Business-type activities:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>
2019	\$ 89,686	\$ -
2020	1,320	-
2021	5,620	-
2022	7,860	-
2023	7,860	-
2024-2027	<u>18,791</u>	<u>-</u>
	<u>\$ 131,137</u>	<u>\$ -</u>

Capital lease - The Town has entered lease agreements to finance the acquisition of highway and police equipment. These lease agreements qualify as capital leases for accounting purposes. The costs of these assets are capitalized and depreciated on the government-wide statements. The present value of the minimum lease payments is recorded as a liability in governmental activities on the government-wide statements. Future minimum lease payments and the net present value as of June 30, 2018, were as follows:

2019	\$ <u>30,468</u>
Total minimum lease payments	30,468
Less: amount representing interest	<u>(946)</u>
Present value of minimum lease payments	<u>\$ 29,522</u>

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2018

6. Pension plan – Vermont Municipal Employee’s 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 2.5%, 4.875%, 10.0%, and 11.35% of gross wages for Groups A, B, C and D, respectively. The municipal employer contributes 4.0%, 5.5%, 7.25%, and 9.85% of gross wages for Groups A, B, C and D, respectively.

Employees of the Town are covered under Group B and Group C. Town employees contributed \$55,914 to VMERS for the year ended June 30, 2018. The Town contributed \$53,001 to VMERS for the year ended June 30, 2018.

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, 2018, the Town reported a liability of \$377,971 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. 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, 2017, the Town’s proportion was 0.31197%, which was a decrease of 0.01626% from its proportion measured as of June 30, 2016.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2018

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

For the year ended June 30, 2018, the Town recognized pension expense of \$91,335, related to VMERS. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to VMERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 5,499	\$ 9,357
Changes in assumptions	79,128	-
Difference between projected and actual earnings on pension plan investments	62,953	-
Changes in proportional share of contributions	6,597	12,459
Town contributions subsequent to the measurement date	53,001	-
	<u>\$ 207,178</u>	<u>\$ 21,816</u>

\$53,001 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, 2019. 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 4 years.

Actuarial assumptions – The total pension liability, as of June 30, 2017, was based on a June 30, 2016 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-2014 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, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
US equity	16.00%	6.07%
Non-US equity	16.00%	7.42%
Global equity	9.00%	6.85%
Fixed income	24.00%	2.41%
Real estate	8.00%	4.62%
Private markets	15.00%	7.80%
Hedge funds	8.00%	3.95%
Risk parity	4.00%	4.84%
	100.00%	

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

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2018

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

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:

	1 % Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1 % Increase <u>(8.50%)</u>
Town's proportionate share of the net pension liability	\$ 674,843	\$ 377,971	\$ 131,764

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 until they are able to receive social security benefits. Currently, no employees meet the eligibility requirements. The Town funds the benefits on a pay-as-you-go basis. Eligible employees with ten years of service pay 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. The Town expended \$6,853 for these post-employment benefits during the fiscal year ended June 30, 2018.

8. Interfund balances

Interfund receivable and payables balances at June 30, 2018 were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental activities:		
General Fund	\$ -	\$ 351,494
Capital Project Fund	10,464	-
Special Revenue Fund	<u>-</u>	<u>9,862</u>
	10,464	361,356
Business-type activities:		
Wastewater Fund	<u>350,892</u>	<u>-</u>
	<u>\$ 361,356</u>	<u>\$ 361,356</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 as a result of pooling cash in a common bank account.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2018

9. Interfund transfers

Interfund transfers for the year ended June 30, 2018 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental activities:		
General Fund	\$ -	\$ 184,315
Capital Project Fund	<u>238,033</u>	<u>-</u>
	238,033	184,315
Business-type activities:		
Wastewater Fund	<u>-</u>	<u>53,718</u>
	<u>\$ 238,033</u>	<u>\$ 238,033</u>

Transfers from the General Fund and Wastewater Fund to the Capital Project Fund were for voter approved articles authorizing the reserve of funds, 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. Rutland 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.

13. 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.

14. Prior period restatement

The Town has restated beginning net position of the Wastewater Fund and business-type activities from \$1,772,916 to \$1,792,260 to capitalize costs related to the Route 30 sewer upgrade project that were previously expensed.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2018

15. Commitments

The Town entered into a contractual agreement with a contractor to provide replace sewer along a specific section of Route 30. The contact amount is for \$494,725. The Town has incurred and capitalized \$58,049 of costs related to this project through June 30, 2018. The project is anticipated to be completed in fiscal year 2019. The project is funded by a \$540,000 general obligation note with a preliminary interest rate of 0.00% and a preliminary administrative fee of 2.00%. As of June 30, 2018, the Town has borrowed \$17,311 against this note. Repayment is scheduled to begin December 1, 2019 with annual principal payments through December 1, 2038.

16. Governmental fund equity

As of June 30, 2018, governmental fund balances consisted of the following:

	General <u>Fund</u>	Capital Project <u>Fund</u>	Special Revenue <u>Fund</u>	Total Governmental <u>Funds</u>
Nonspendable:				
Prepays	\$ 73,095	\$ -	\$ -	\$ 73,095
Restricted for:				
Highway operations	658,561	-	-	658,561
Municipal records preservation	-	46,232	-	46,232
Wastewater treatment facility	-	280,452	-	280,452
Reappraisal	-	69,687	-	69,687
	<u>658,561</u>	<u>396,371</u>	<u>-</u>	<u>1,054,932</u>
Committed to:				
Castleton Emergency Response Team	-	-	-	-
Lake improvements	-	600	-	600
Public buildings	-	-	-	-
Recreation - Crystal Beach	-	21,905	-	21,905
Recreation - Dewey Field	-	908	-	908
Sidewalks	-	68,190	-	68,190
Transfer station	-	84,346	-	84,346
Vehicles & equipment - fire	-	217,880	-	217,880
Vehicles & equipment - highway	-	78,086	-	78,086
Vehicles & equipment - police	-	17,278	-	17,278
Weed harvesting	-	17,889	-	17,889
	<u>-</u>	<u>507,082</u>	<u>-</u>	<u>507,082</u>
Assigned to:				
Capital improvements - Town Office	7,000	11,285	-	18,285
Vehicles & equipment - emergency mgmt	11,350	-	-	11,350
Tools & equipment - fire department	3,000	-	-	3,000
Tools & equipment - Forest Fire Warden	1,000	-	-	1,000
Transfer station	10,000	-	-	10,000
Office equipment - police department	3,600	-	-	3,600
Recreation - Crystal Beach	15,000	-	-	15,000
Professional services - Tree Warden	2,000	-	-	2,000
	<u>52,950</u>	<u>11,285</u>	<u>-</u>	<u>64,235</u>
Unassigned	<u>209,961</u>	<u>-</u>	<u>-</u>	<u>209,961</u>
Total fund balances	\$ <u>994,567</u>	\$ <u>914,738</u>	\$ <u>-</u>	\$ <u>1,909,305</u>

TOWN OF CASTLETON, VERMONT
Schedule of Revenues and Expenditures
Budget and Actual - General Fund
For the Year Ended June 30, 2018
(Page 1 of 2)

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 2,247,486	\$ 2,247,486	\$ 2,211,062	\$ (36,424)
Property taxes - penalties & interest	51,000	51,000	67,150	16,150
Intergovernmental	592,155	592,155	614,887	22,732
Licenses, permits & fines	44,450	44,450	41,763	(2,687)
Charges for services	391,284	391,284	411,399	20,115
Investment income	1,500	1,500	6,526	5,026
Miscellaneous	2,050	2,050	3,789	1,739
Total revenues	<u>3,329,925</u>	<u>3,329,925</u>	<u>3,356,576</u>	<u>26,651</u>
Expenditures				
Legislating	27,357	27,357	21,440	5,917
Ordinances & proceedings	4,065	4,065	2,752	1,313
Managing municipalities	166,703	166,703	153,522	13,181
Conducting elections	9,459	9,459	5,004	4,455
Collecting & distributing funds	41,834	41,834	35,637	6,197
Accounting	84,214	84,214	81,371	2,843
Auditing	12,000	12,000	10,200	1,800
Tax listing	25,138	25,138	25,153	(15)
Tax collecting	35,201	35,201	26,621	8,580
Document recording	73,452	73,452	65,748	7,704
Legal services	20,000	20,000	28,624	(8,624)
Municipal planning & zoning	42,891	42,891	26,642	16,249
General government buildings	232,303	232,303	215,273	17,030
Public safety buildings	155,804	155,804	149,829	5,975
General government equipment	18,300	18,300	17,425	875
Police department	442,682	442,682	459,003	(16,321)
Emergency medical services	36,218	36,218	32,388	3,830
Volunteer fire department	86,746	86,746	83,302	3,444
Emergency management	11,350	11,350	-	11,350
Highway administration	369,962	369,962	209,329	160,633
Summer maintenance	62,500	62,500	89,542	(27,042)
Capital projects	215,000	215,000	172,884	42,116
Traffic control	7,000	7,000	4,550	2,450
Winter maintenance	136,330	136,330	219,623	(83,293)
Sidewalks	45,000	45,000	656	44,344
Storm drainage services	12,000	12,000	14,353	(2,353)
Bridges	10,000	10,000	5,783	4,217
Highway garage	50,825	50,825	44,412	6,413
Town mechanic	102,607	102,607	80,355	22,252
Town lands	3,500	3,500	823	2,677
Historical cemeteries	2,000	2,000	4	1,996
Hillside cemetery	25,000	25,000	25,000	-
<i>continued</i>				

TOWN OF CASTLETON, VERMONT
Schedule of Revenues and Expenditures
Budget and Actual - General Fund
For the Year Ended June 30, 2018
(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	50,308	50,308	50,308	-
Health, regulation & inspecting	1,591	1,591	1,564	27
Animal control	1,060	1,060	612	448
Constables	36,408	36,408	34,905	1,503
Transfer station	297,518	297,518	278,659	18,859
Recreation administration	13,837	13,837	13,838	(1)
Dewey Field	3,718	3,718	4,015	(297)
Hydeville Field	2,398	2,398	1,668	730
Swim program	981	981	862	119
Crystal Beach	57,178	57,178	36,698	20,480
Youth sports	8,431	8,431	7,091	1,340
Special events	5,708	5,708	4,794	914
Adult recreation	310	310	20	290
Memorial Day decorations	2,000	2,000	2,000	-
Library administration	111,500	111,500	111,500	-
Prevention/control forest fires	1,000	1,000	-	1,000
Tree Warden	3,598	3,598	1,395	2,203
Other governments	40,000	40,000	38,956	1,044
Total expenditures	<u>3,204,985</u>	<u>3,204,985</u>	<u>2,896,133</u>	<u>308,852</u>
Excess of revenues or (expenditures)	<u>124,940</u>	<u>124,940</u>	<u>460,443</u>	<u>335,503</u>
Other financing sources (uses)				
Transfers in (out)	<u>(124,940)</u>	<u>(124,940)</u>	<u>(184,315)</u>	<u>(59,375)</u>
Net change in fund balances	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 276,128</u>	\$ <u> 276,128</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
VMERS				
Town's proportion of the net pension liability	0.31197%	0.32823%	0.34706%	0.30396%
Town's proportionate share of the net pension liability	\$ 377,971	\$ 422,417	\$ 267,571	\$ 27,741
Town's covered payroll	\$ 850,236	\$ 837,059	\$ 817,047	\$ 772,752
Town's proportionate share of the net pension liability as a percentage of its covered payroll	44.45%	50.46%	32.75%	3.59%
Plan fiduciary net position as a percentage of the total pension liability	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.

There were no changes in plan provisions since the last measurement date of June 30, 2016.

The following changes were effective June 30, 2017:

- Inflation was lowered from 3.00% to 2.50%.
- Investment return was lowered from 7.95% to 7.50%.
- Cost of living adjustments were lowered from 1.50% to 1.15% and 1.80% to 1.30%.
- Mortality tables were updated from variations of RP-2000 to variations of RP-2014.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
VMERS				
Contractually required contribution	\$ 53,001	\$ 50,948	\$ 49,886	\$ 48,514
Contributions in relation to the contractually required contribution	<u>53,001</u>	<u>(50,948)</u>	<u>(49,886)</u>	<u>(48,514)</u>
Contribution deficiency (excess)	\$ <u>106,002</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Town's covered payroll	<u>884,076</u>	<u>850,236</u>	<u>837,059</u>	<u>817,047</u>
Contributions as a percentage of covered payroll	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, VT

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, VT, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Castleton, VT's basic financial statements and have issued our report thereon dated November 8, 2018 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, VT'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, VT's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Castleton, VT'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, 2018-001 and 2018-002, described in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Castleton, VT'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, VT's response to the findings identified in our audit is described in the accompanying schedule of findings. The Town of Castleton, VT'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, VT
November 8, 2018

TOWN OF CASTLETON, VERMONT
Schedule of Findings
For the Year Ended June 30, 2018

2018-001 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 / corrective action plan: Management recognizes both the cause and effect of not segregating the billing, collecting, and posting payments, however, the Town Manager (Michael Jones) and Tax Collector secretary (Margaret Petty) work together to monitor receivables & payments. There has been discussion about having the Treasurer do the billing and Margaret do the collecting & posting. This is a good topic of discussion to have with the Select Board (Sewer Commission) about hiring an additional part-time employee to perform one of the tasks as to help mitigate risk associated with misappropriation, theft, or fraud of sewer fees/revenue. At this time however, this has not been budgeted for under the current (FY-19) budget year.

2018-002 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.

Recommendation: We recommend that the Town evaluate its current internal control processes at the transfer station and implement further controls as necessary. Non-financial data should be evaluated against the revenue, 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 / corrective action plan: Management is aware of the potential for an employee to perform illicit activities as it pertains to the billing, receiving, and properly accounting for cash, checks, and credit card payments at the Transfer Station. A first line of defense is to follow Town policies on ensuring there are stickers on bags before they are thrown into the compactor bin. If patrons throw trash into the compactor and then pay for the required amount at the operations building, a huge opportunity for theft/fraud presents itself. An employee can charge the patron for "X" amount, based on the number of bags of trash disposed of, but if the employee doesn't remove the number of stickers purchased by the patron from the on-hand stock of stickers, the employee can then pocket the money and nobody would be the wiser.

TOWN OF CASTLETON, VERMONT
Schedule of Findings
For the Year Ended June 30, 2018

2018-002 Transfer Station (Continued)

A comparison of the amount of refuse material accepted at the transfer station as to what was credited at the landfill (analytically) would prove challenging at best because the majority of what goes into the compactor bin is not weighed across our certified scale, it is paid for by the piece. One bag could be filled with dirty diapers and another filled with Styrofoam peanuts.

Management is going to install a camera on the inside and outside of the building to have constant monitoring of the cash register and the courtesy window where transactions take place. To alleviate the potential for fraud as it pertains to bags of rubbish being placed in the compactor bin without stickers already in place, at least one employee will be responsible to observe bags and stop them from being placed into the compactor bin until the stickers are purchased and placed on the bag(s). This has not been happening with any consistency.

Management will continue to revise and refine our policies to try and mitigate the risk for fraud or theft at the Transfer Station.