

TOWN OF CASTLETON, VERMONT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2016

TOWN OF CASTLETON, VERMONT

JUNE 30, 2016

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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, 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, 2016, 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 error or fraud.

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 Opinions on Governmental Activities and the Discretely Presented Component Unit

The Town has not prepared a detailed listing of capital assets for governmental activities and 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 governmental activities and the discretely presented component unit is not known.

Qualified Opinions

In our opinion, except for the possible effects of the matters discussed in the “Basis for Qualified Opinions on Governmental Activities and the Discretely Presented Component Unit” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities and the discretely presented component unit of the Town of Castleton, VT as of June 30, 2016, 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 business-type activities, each major fund and the aggregate remaining fund information of the Town of Castleton, VT as of June 30, 2016, 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.

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, schedules of pension information on page 26 and budgetary comparison information on 30 to 31 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 3, 2016, 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 the 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

Montpelier, VT
November 3, 2016

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2016

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, 2016. Please read it in conjunction with Town's financial statements.

Financial Highlights

- The Town's governmental activities net position increased by \$337,994 because of this year's operations.
- The Town's business-type activities net position increased by \$3,820 because of this year's operations.
- The General Fund reported a net change in fund balance of \$307,837 because of this year's operations.
- The unassigned fund balance for the General Fund was a surplus of \$193,120 as of June 30, 2016

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 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 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, 2016

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 a proprietary 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 \$4,202,687, to \$4,540,681. The business-type activities net position of the Town increased from \$1,873,914 to \$1,877,734. 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 \$1,195,783 at June 30, 2016.

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

	Governmental Activities		Business-Type Activities		Total Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 2,629,594	\$ 2,121,455	\$ 396,926	\$ 364,557	\$ 3,026,520	\$ 2,486,012
Capital assets, net	<u>4,397,455</u>	<u>4,143,747</u>	<u>1,805,122</u>	<u>1,980,179</u>	<u>6,202,577</u>	<u>6,123,926</u>
Total assets	7,027,049	6,265,202	2,202,048	2,344,736	9,229,097	8,609,938
Deferred outflows	<u>160,856</u>	<u>44,788</u>	<u>15,831</u>	<u>4,408</u>	<u>176,687</u>	<u>49,196</u>
Current liabilities	554,594	370,856	107,418	187,379	662,012	558,235
Noncurrent liabilities	<u>2,090,212</u>	<u>1,656,801</u>	<u>232,727</u>	<u>280,186</u>	<u>2,322,939</u>	<u>1,936,987</u>
Total liabilities	2,644,806	2,027,657	340,145	467,565	2,984,951	2,495,222
Deferred inflows	<u>2,418</u>	<u>79,646</u>	<u>-</u>	<u>7,665</u>	<u>2,418</u>	<u>87,311</u>
Net position						
Net investment in capital assets	2,235,432	2,382,989	1,511,926	1,620,118	3,747,358	4,003,107
Restricted	1,109,466	564,030	-	-	1,109,466	564,030
Unrestricted	<u>1,195,783</u>	<u>1,255,668</u>	<u>365,808</u>	<u>253,796</u>	<u>1,561,591</u>	<u>1,509,464</u>
	\$ <u>4,540,681</u>	\$ <u>4,202,687</u>	\$ <u>1,877,734</u>	\$ <u>1,873,914</u>	\$ <u>6,418,415</u>	\$ <u>6,076,601</u>

Government-wide Statement of Activities – For the year ending June 30, 2016, governmental activities reported total revenues of \$3,231,923 and total expenses of \$2,948,978 and transfers-in of \$55,679 resulting in a change in net position \$337,994. For the year ending June 30, 2016, business-type activities reported total revenues of \$690,675 and total expenses of \$631,176 and transfers-out of \$55,679 resulting in a change in net position \$3,820.

TOWN OF CASTLETON, VERMONT
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Prior period restatement - The Town has restated beginning net position of the governmental activities of the government-wide financial statements from \$4,261,031 to \$4,202,687 a decrease of \$58,344 and the beginning net position of the Wastewater Fund from \$1,879,657 to \$1,873,914, a decrease of \$5,743 to record the change in accounting for the Town's proportionate share of the VMERS pension plan.

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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 472,394	\$ 439,483	\$ 682,754	\$ 570,764	\$ 1,155,148	\$ 1,010,247
Operating grants and contributions	667,992	1,091,888	-	-	667,992	1,091,888
General revenues:						
Property taxes	2,059,608	1,987,780	-	-	2,059,608	1,987,780
Proceeds from sale of capital assets	23,621	160,190			23,621	160,190
Investment income	1,353	489	164	195	1,517	684
Miscellaneous	<u>6,325</u>	<u>2,859</u>	<u>7,757</u>	<u>4,326</u>	<u>14,082</u>	<u>7,185</u>
Total revenues	<u>3,231,293</u>	<u>3,682,689</u>	<u>690,675</u>	<u>575,285</u>	<u>3,921,968</u>	<u>4,257,974</u>
Expenses:						
General government	684,370	837,552	-	-	684,370	837,552
Public safety	640,859	634,769	-	-	640,859	634,769
Public works	1,150,376	1,423,779			1,150,376	1,423,779
Culture and recreation	197,130	189,226	-	-	197,130	189,226
Cemetery	25,590	20,151	-	-	25,590	20,151
Depreciation, unallocated	199,275	199,275	-	-	199,275	199,275
Interest on long-term debt	51,378	5,194	-	-	51,378	5,194
Wastewater operations	<u>-</u>	<u>-</u>	<u>631,176</u>	<u>666,696</u>	<u>631,176</u>	<u>666,696</u>
Total expenses	<u>2,948,978</u>	<u>3,309,946</u>	<u>631,176</u>	<u>666,696</u>	<u>3,580,154</u>	<u>3,976,642</u>
Transfers						
Transfers in (out)	<u>55,679</u>	<u>(186,010)</u>	<u>(55,679)</u>	<u>186,010</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>337,994</u>	<u>186,733</u>	<u>3,820</u>	<u>94,599</u>	<u>341,814</u>	<u>281,332</u>
Net position, beginning of year, (as restated)	<u>4,202,687</u>	<u>4,015,954</u>	<u>1,873,914</u>	<u>1,779,315</u>	<u>6,076,601</u>	<u>5,795,269</u>
Net position, end of year	\$ <u>4,540,681</u>	\$ <u>4,202,687</u>	\$ <u>1,877,734</u>	\$ <u>1,873,914</u>	\$ <u>6,418,415</u>	\$ <u>6,076,601</u>

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

- Increased in PILOT revenue over what was anticipated
- Fees for services increased over what was anticipated
- Conservative spending practices
- Increased attention to budget maintenance

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

- User fees were increased to fund increased maintenance cost
- Increased attention to budget maintenance

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2016

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, 2016, the Town's governmental funds reported combined ending fund balances of \$2,208,059. Of this \$78,255 was nonspendable, \$1,109,466 was restricted, \$676,893 was committed for specific purposes, \$150,025 was assigned and \$193,420 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, 2016, was \$812,555 of which \$193,420 was unassigned. The General Fund had an increase in fund balance of \$307,837 for the year ending June 30, 2016, compared to a budgeted increase of \$15,817.

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, 2016, was \$1,395,504 of which \$620,277 was restricted, \$620,202 was committed and \$115,025 was assigned. The Capital Project Fund had an increase in fund balance of \$183,449 for the year ending June 30, 2016.

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, 2016, was \$0. The Special Revenue Fund had no increase or decrease in fund balance for the year ending June 30, 2016.

Proprietary funds – Proprietary funds are used to report activities which rely to a significant extent on fees and charges for support. The major proprietary 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, 2016, was \$1,877,734 of which \$365,808 was unrestricted. The Wastewater Fund had an increase in net position of \$3,820 for the year ending June 30, 2016.

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 ending June 30, 2016, actual General Fund revenues were \$3,022,163 compared to budgeted amounts of \$2,997,943. Differences in actual versus budgeted revenues were primarily the results of the following items:

- Increased in PILOT revenue over what was anticipated
- Fees for services increased over what was anticipated
- Increased in zoning permits revenue over what was anticipated
- Increased in recreation revenue over what was anticipated

For the year ending June 30, 2016, actual General Fund expenditures were \$2,610,737 compared to budgeted amounts of \$2,888,126. Differences in actual versus budgeted expenditures were primarily the results of the following items:

- Increased attention to budget maintenance allowed for expenses to be less than what was anticipated in many department lines

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2016

Capital Assets and Debt Administration

Capital assets governmental activities – As of June 30, 2016, the Town had \$4,397,455 net of accumulated depreciation, invested in capital assets including land, buildings and improvements, vehicles and equipment for governmental activities. The amount represents a \$253,708 increase from the prior year. Significant new capital asset additions consisted of the following:

- Completion of the public safety building
- Land acquisition for the pending new Town office building
- Sale of a town highway truck that was at the end of its useful life
- Work that was done to restore the causeway on Float Bridge Road

Capital assets business-type activities – As of June 30, 2016, the Town had \$1,805,122, 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 \$175,057 decrease from the prior year. Significant new capital asset additions consisted of the following:

- Work that was completed on Route 30 North (which is a positive offset)
- The wastewater treatment plant and infrastructure are aging (which is a large negative offset)

Debt governmental activities – As of June 30, 2016, the Town's governmental activities outstanding debt, consisting of bonds payable, capital leases payable, VMERS net pension liability, and accrued compensated absences, was \$2,460,105, an increase of \$620,282 over the prior year. Significant new debt additions consisted of the following:

- Construction loan for a new Town office
- The recognition of the Town pension plan liability for the first time

Debt business-type activities – As of June 30, 2016, the Town's business-type activities outstanding debt, consisting of bonds payable, notes payable, VMERS net pension liability and accrued compensated absences, was \$322,412 a decrease of \$46,139 over the prior year. Significant new debt additions consisted of the following:

- Reduction in principle on SRF bond notes
- The recognition of the Town pension plan liability for the first time
- Creation of a ten-year capital plan for the WWTP infrastructure

Economic Factors and Next Year's Budgets and Rates

The Town's elected and appointed officials considered many factors when setting the fiscal year 2017 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 2017 General Fund operating expenditure budget of \$3,023,471, exclusive of social service appropriations and other special articles. This represents an increase of 3.0% over the fiscal year 2016 General Fund operating expenditure budget of \$2,935,317, exclusive of social service appropriations and other special articles. The Select Board has approved an overall municipal tax rate, to include local tax agreements, of \$0.4833 per \$100 of assessed property for fiscal year 2017.

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, 2016

	Primary Government			Component
	Governmental Activities	Business-type Activities	Totals	Unit Castleton Free Library
Assets				
Cash and cash equivalents	\$ 2,366,362	\$ -	\$ 2,366,362	\$ 37,762
Cash held with fiscal agent	12,132	-	12,132	-
Investments	-	-	-	248,847
Property taxes, penalty and interest receivable, net of allowance	372,212	77,727	449,939	-
Accounts receivable, net of allowance	98,332	-	98,332	-
Note receivable	-	21,500	21,500	-
Prepaid expenses	78,255	-	78,255	-
Due from Town	-	-	-	11,410
Internal balances	<u>(297,699)</u>	<u>297,699</u>	<u>-</u>	<u>-</u>
Total current assets	<u>2,629,594</u>	<u>396,926</u>	<u>3,026,520</u>	<u>298,019</u>
Noncurrent assets:				
Capital assets	7,271,300	7,141,263	14,412,563	-
(Accumulated depreciation)	<u>(2,873,845)</u>	<u>(5,336,141)</u>	<u>(8,209,986)</u>	<u>-</u>
Total noncurrent assets	<u>4,397,455</u>	<u>1,805,122</u>	<u>6,202,577</u>	<u>-</u>
Total assets	<u>7,027,049</u>	<u>2,202,048</u>	<u>9,229,097</u>	<u>298,019</u>
Deferred outflows of resources				
Pension related - VMERS	<u>160,856</u>	<u>15,831</u>	<u>176,687</u>	<u>-</u>
Liabilities				
Current liabilities:				
Accounts payable	77,894	17,121	95,015	-
Accrued payroll and benefits	16,235	612	16,847	513
Grant advances	27,164	-	27,164	-
Prepaid transfer station fees	6,670	-	6,670	-
Other liabilities	45,328	-	45,328	-
Bonds, notes and capital leases payable, current portion	369,893	89,685	459,578	-
Due to Castleton Free Library	<u>11,410</u>	<u>-</u>	<u>11,410</u>	<u>-</u>
Total current liabilities	<u>554,594</u>	<u>107,418</u>	<u>662,012</u>	<u>513</u>
Noncurrent liabilities:				
Net pension liability - VMERS	243,596	23,975	267,571	-
Accrued compensated absences	54,486	5,241	59,727	-
Bonds, notes and capital leases payable, less current portion	<u>1,792,130</u>	<u>203,511</u>	<u>1,995,641</u>	<u>-</u>
Total noncurrent liabilities	<u>2,090,212</u>	<u>232,727</u>	<u>2,322,939</u>	<u>-</u>
Total liabilities	<u>2,644,806</u>	<u>340,145</u>	<u>2,984,951</u>	<u>513</u>
Deferred inflows of resources				
Prepaid property taxes	<u>2,418</u>	<u>-</u>	<u>2,418</u>	<u>-</u>
Net position				
Net investment in capital assets	2,235,432	1,511,926	3,747,358	-
Restricted	1,109,466	-	1,109,466	84,439
Unrestricted	<u>1,195,783</u>	<u>365,808</u>	<u>1,561,591</u>	<u>213,067</u>
Total net position	<u>\$ 4,540,681</u>	<u>\$ 1,877,734</u>	<u>\$ 6,418,415</u>	<u>\$ 297,506</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, 2016

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			
					Governmental Activities	Business-type Activities	Totals	
Governmental activities								
General government	\$ 684,370	\$ 85,729	\$ 402,605	\$ -	\$ (196,036)	\$ -	\$ (196,036)	\$ -
Public safety	640,859	56,238	48,346	-	(536,275)	-	(536,275)	-
Highways and streets	911,347	24,190	217,041	-	(670,116)	-	(670,116)	-
Culture and recreation	197,130	56,695	-	-	(140,435)	-	(140,435)	-
Solid waste	239,029	249,542	-	-	10,513	-	10,513	-
Cemetery	25,590	-	-	-	(25,590)	-	(25,590)	-
Depreciation, unallocated	199,275	-	-	-	(199,275)	-	(199,275)	-
Interest on long-term debt	51,378	-	-	-	(51,378)	-	(51,378)	-
Total governmental activities	<u>2,948,978</u>	<u>472,394</u>	<u>667,992</u>	<u>-</u>	<u>(1,808,592)</u>	<u>-</u>	<u>(1,808,592)</u>	<u>-</u>
Business-type activities								
Wastewater operations	<u>631,176</u>	<u>682,754</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,578</u>	<u>51,578</u>	<u>-</u>
Total primary government	\$ <u>3,580,154</u>	\$ <u>1,155,148</u>	\$ <u>667,992</u>	\$ <u>-</u>	<u>(1,808,592)</u>	<u>51,578</u>	<u>(1,757,014)</u>	<u>-</u>
Component unit								
Castleton Fee Library	<u>\$ 104,120</u>	<u>\$ -</u>	<u>\$ 117,247</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,127</u>
General revenues								
Property taxes, penalties and interest					2,059,608	-	2,059,608	-
Proceeds from sale capital assets					23,621	-	23,621	-
Investment income					1,353	164	1,517	6,113
Miscellaneous					6,325	7,757	14,082	374
Total general revenues					<u>2,090,907</u>	<u>7,921</u>	<u>2,098,828</u>	<u>6,487</u>
Transfers in (out)					<u>55,679</u>	<u>(55,679)</u>	<u>-</u>	<u>-</u>
Change in net position					337,994	3,820	341,814	19,614
Net position, beginning of year (as restated)					<u>4,202,687</u>	<u>1,873,914</u>	<u>6,076,601</u>	<u>277,892</u>
Net position, end of year					<u>\$ 4,540,681</u>	<u>\$ 1,877,734</u>	<u>\$ 6,418,415</u>	<u>\$ 297,506</u>

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

TOWN OF CASTLETON, VERMONT
Balance Sheet - Governmental Funds
June 30, 2016

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 974,041	\$ 1,392,321	\$ -	\$ 2,366,362
Cash held with fiscal agent	-	12,132	-	12,132
Property taxes, penalty and interest receivable, net of allowance	372,212	-	-	372,212
Accounts receivable, net of allowance	15,809	-	82,523	98,332
Prepaid expenditures	78,255	-	-	78,255
Due from other funds	-	16,339	-	16,339
Total assets	<u>\$ 1,440,317</u>	<u>\$ 1,420,792</u>	<u>\$ 82,523</u>	<u>\$ 2,943,632</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities:				
Accounts payable	\$ 52,606	\$ 25,288	\$ -	\$ 77,894
Accrued payroll and benefits	16,235	-	-	16,235
Grant advances	-	-	27,164	27,164
Prepaid transfer station fees	6,670	-	-	6,670
Other liabilities	45,328	-	-	45,328
Due to Castleton Free Library	11,410	-	-	11,410
Due to other funds	258,679	-	55,359	314,038
Total liabilities	<u>390,928</u>	<u>25,288</u>	<u>82,523</u>	<u>498,739</u>
Deferred inflows of resources:				
Prepaid property taxes	2,418	-	-	2,418
Unavailable property taxes	234,416	-	-	234,416
Total deferred inflows of resources	<u>236,834</u>	<u>-</u>	<u>-</u>	<u>236,834</u>
Fund balances:				
Nonspendable	78,255	-	-	78,255
Restricted	449,189	660,277	-	1,109,466
Committed	56,691	620,202	-	676,893
Assigned	35,000	115,025	-	150,025
Unassigned	193,420	-	-	193,420
Total fund balances	<u>812,555</u>	<u>1,395,504</u>	<u>-</u>	<u>2,208,059</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,440,317</u>	<u>\$ 1,420,792</u>	<u>\$ 82,523</u>	<u>\$ 2,943,632</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, 2016

Total fund balances - governmental funds \$ 2,208,059

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 government funds balance sheet:

Capital assets	7,271,300
Accumulated depreciation	(2,873,845)

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	234,416
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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

(82,740)

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

(2,216,509)

Net position - governmental activities \$ 4,540,681

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, 2016

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 1,989,368	\$ -	\$ -	\$ 1,989,368
Property taxes - penalties & interest	50,904	-	-	50,904
Intergovernmental	517,170	-	141,944	659,114
Licenses, permits & fines	44,762	-	-	44,762
Charges for services	414,529	-	13,104	427,633
Contributions	-	-	8,878	8,878
Investment income	1,255	98	-	1,353
Miscellaneous	4,175	2,150	-	6,325
Total revenues	<u>3,022,163</u>	<u>2,248</u>	<u>163,926</u>	<u>3,188,337</u>
Expenditures				
General government	632,711	27,119	15,572	675,402
Public safety	533,685	-	61,451	595,136
Highway and streets	869,677	-	4,272	873,949
Culture and recreation	191,955	-	5,175	197,130
Solid waste	239,029	-	-	239,029
Cemetery	25,590	-	-	25,590
Capital outlay	-	447,789	72,213	520,002
Debt service:				
Principal	75,000	99,735	-	174,735
Interest	43,090	8,288	-	51,378
Total expenditures	<u>2,610,737</u>	<u>582,931</u>	<u>158,683</u>	<u>3,352,351</u>
Excess of revenues or (expenditures)	<u>411,426</u>	<u>(580,683)</u>	<u>5,243</u>	<u>(164,014)</u>
Other financing sources (uses)				
Proceeds from notes payable	-	576,000	-	576,000
Proceeds from sale of capital assets	-	23,621	-	23,621
Transfers in (out)	(103,589)	164,511	(5,243)	55,679
Total other financing sources (uses)	<u>(103,589)</u>	<u>764,132</u>	<u>(5,243)</u>	<u>655,300</u>
Net change in fund balances	307,837	183,449	-	491,286
Fund balances, beginning of year	<u>504,718</u>	<u>1,212,055</u>	<u>-</u>	<u>1,716,773</u>
Fund balances, end of year	\$ <u>812,555</u>	\$ <u>1,395,504</u>	\$ <u>-</u>	\$ <u>2,208,059</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, 2016

Net change in fund balances - governmental funds \$ 491,286

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	520,002
Current year depreciation	(266,294)

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. (24,396)

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 note payable	(576,000)
Principal payments on bonds and notes payable	75,000
Principal payments on capital lease	99,735
Increase in accrued compensated absences	(676)

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	19,337
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Change in net position - governmental activities \$ 337,994

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

TOWN OF CASTLETON, VERMONT
Statement of Net Position - Proprietary Fund
June 30, 2016

	<u>Wastewater Fund</u>
Assets	
Current assets:	
Sewer fees receivable, net of allowance of \$7,000	\$ 77,727
Note receivable	21,500
Due from other funds	<u>297,699</u>
Total current assets	<u>396,926</u>
Noncurrent assets:	
Capital assets	7,141,263
(Accumulated depreciation)	<u>(5,336,141)</u>
Total noncurrent assets	<u>1,805,122</u>
Total assets	<u>2,202,048</u>
Deferred outflows of resources	
Pension related - VMERS	<u>15,831</u>
Liabilities	
Current liabilities:	
Accounts payable	17,121
Accrued payroll and benefits	612
Bonds and notes payable - current portion	<u>89,685</u>
Total current liabilities	<u>107,418</u>
Noncurrent liabilities:	
Accrued compensated absences	5,241
Net pension liability - VMERS	23,975
Bonds and notes payable - less current portion	<u>203,511</u>
Total noncurrent liabilities	<u>232,727</u>
Total liabilities	<u>340,145</u>
Net position	
Net investment in capital assets	1,511,926
Unrestricted	<u>365,808</u>
Total net position	<u>\$ 1,877,734</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, 2016

	<u>Wastewater Fund</u>
Operating revenues	
Charges for services	\$ 675,125
Penalties and interest on delinquent accounts	7,629
Miscellaneous	<u>7,757</u>
Total operating revenues	<u>690,511</u>
 Operating expenses	
Personnel services	132,114
Purchased and contract services	141,409
Administrative expenses	23,996
Supplies	42,182
Utilities	84,006
Depreciation	207,040
Miscellaneous	<u>429</u>
Total operating expenses	<u>631,176</u>
 Operating income	 <u>59,335</u>
 Nonoperating revenues (expenses)	
Investment income	 <u>164</u>
 Transfers	
Transfers in (out)	 <u>(55,679)</u>
 Change in net position	 3,820
Net position, beginning of year (as restated)	<u>1,873,914</u>
Net position, end of year	\$ <u>1,877,734</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, 2016

	<u>Wastewater Fund</u>
Cash flows from operating activities	
Cash received from customers	\$ 660,215
Cash paid to suppliers	(370,419)
Cash paid to employees for services	<u>(133,360)</u>
Net cash provided by operating activities	<u>156,436</u>
 Cash flows from capital and related financing activities	
Interfund transfers	(55,679)
Acquisition and construction of capital assets	(31,983)
Loan repayments	(88,365)
Increase (decrease) in balance due to/from other funds	<u>19,427</u>
Net cash provided by capital and related financing activities	<u>(156,600)</u>
 Cash flows from investing activities	
Investment income	<u>164</u>
Net cash provided by investing activities	<u>164</u>
 Net increase in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	\$ <u><u>-</u></u>
 Reconciliation of operating income to net cash provided by operating activities	
Operating income (loss)	\$ 59,335
Adjustment to reconcile operating income to net cash provided by operating activities:	
Deprecation expense	207,040
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(30,296)
(Increase) decrease in deferred outflows - VMERS	(19,088)
Increase (decrease) accounts payable	(80,621)
Increase (decrease) accrued payroll	(483)
Increase (decrease) accrued compensated absences	(763)
Increase (decrease) other liabilities	(177)
Increase (decrease) net pension liability - VMERS	<u>21,489</u>
Net cash provided by operating activities	\$ <u><u>156,436</u></u>

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

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2016

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 and 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 unit of government under reporting criteria established by the GASB. Those criteria include separate legal standing, separate elected governing body, and fiscal independence from other governmental entities. 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, 2016

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 earned 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, 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, 2016

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 historically collections and estimated future cash receipts. As of June 30, 2016, the Town has recorded an allowance of \$7,500, \$70,261 and \$7,000 against General Fund property taxes receivable, General Fund accounts 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. 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 - 20 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, 2016 were payable in four installments due September 30, 2015, November 30, 2015, February 29, 2016 and May 31, 2016.

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, 2016, the Town collected and distributed \$6,257,115 in educational property taxes as instructed by the State of Vermont.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2016

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 government that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting.

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.

- N. New accounting standard implemented - The Town has implemented GASB No. 68, *Accounting and Financial Reporting for Pensions*, for the year ending June 30, 2016. The impact on these financial statements is to include the Town's proportionate share of the Vermont Municipal Employees' Retirement System's net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense on government-wide and proprietary fund net position and activities. Governmental fund financial statements have not been affected by this change.

The Town has implemented GASB No. 72, *Fair Value Measurement and Application*, for the year ending June 30, 2016. The impact on these financial statements is to report investments at fair value and donated capital assets at acquisition value and present additional disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques.

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, 2016, the Town's bank balance was \$2,494,863; the corresponding carrying amount of the Town's cash was \$2,416,256 which included \$37,762 of cash reported by the component unit, Castleton Free Library. Of the Town's total bank balance, \$552,516 was covered by the FDIC, \$1,616,338 was collateralized by securities held by the pledging financial institution and \$326,009 was uninsured and uncollateralized.

3. Investments

The Town is not restricted by state statute as to the type of investments that it is authorized to hold. The Town has not adopted a formal investment policy. As of June 30, 2016, the Town's component unit, Castleton Free Library, reported total investments of \$248,847.

The classification and fair value of investments held at June 30, 2016 were as follows:

<u>Investment</u>	<u>Level 1</u>
Money market funds	\$ 42,910
Mutual funds - equity & fixed income	<u>205,937</u>
	\$ <u>248,847</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 on 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.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2016

3. Investments (continued)

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, 2016,

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, 2016.

4. Capital assets

Changes in governmental activities capital assets consisted of the following:

	Balance July 1, <u>2015</u>	Increase	Decrease	Balance June 30, <u>2016</u>
Capital assets, not depreciated:				
Land	\$ 911,889	\$ 100,000	\$ -	\$ 1,011,889
Construction in process	<u>-</u>	<u>46,309</u>	<u>-</u>	<u>46,309</u>
	<u>911,889</u>	<u>146,309</u>	<u>-</u>	<u>1,058,198</u>
Capital assets, depreciated:				
Land improvements	429,420	-	-	429,420
Buildings & improvements	3,362,051	301,481	-	3,663,532
Equipment, machinery and vehicles	2,114,184	-	66,246	2,047,938
Infrastructure	<u>-</u>	<u>72,212</u>	<u>-</u>	<u>72,212</u>
	<u>5,905,655</u>	<u>373,693</u>	<u>66,246</u>	<u>6,213,102</u>
Less accumulated depreciation	<u>2,673,797</u>	<u>266,294</u>	<u>66,246</u>	<u>2,873,845</u>
Total capital assets depreciated, net	<u>3,231,858</u>	<u>107,399</u>	<u>-</u>	<u>3,339,257</u>
Capital assets, net, governmental activities	\$ <u>4,143,747</u>	\$ <u>253,708</u>	\$ <u>-</u>	\$ <u>4,397,455</u>

Depreciation expense in the governmental activities totaling \$266,294 was allocated as following; \$199,275 unallocated, \$36,940 public safety, \$30,079 highway.

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

	Balance July 1, <u>2015</u>	Increase	Decrease	Balance June 30, <u>2016</u>
Capital assets, not depreciated:				
Land	\$ <u>104,493</u>	\$ -	\$ -	\$ <u>104,493</u>
Capital assets, depreciated:				
Buildings	826,249	-	-	826,249
Sewer buildings and improvements	2,574,475	-	-	2,574,475
Collection system	3,348,188	31,983	-	3,380,171
Machinery and equipment	208,118	-	-	208,118
Vehicles	<u>47,757</u>	<u>-</u>	<u>-</u>	<u>47,757</u>
	<u>7,004,787</u>	<u>31,983</u>	<u>-</u>	<u>7,036,770</u>
Less accumulated depreciation	<u>5,129,101</u>	<u>207,040</u>	<u>-</u>	<u>5,336,141</u>
Total capital assets depreciated, net	<u>1,875,686</u>	<u>(175,057)</u>	<u>-</u>	<u>1,700,629</u>
Capital assets, net, business-type activities	\$ <u>1,980,179</u>	\$ <u>(175,057)</u>	\$ <u>-</u>	\$ <u>1,805,122</u>

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2016

5. Long-term liabilities

Long-term liabilities consisted of the following at June 30, 2016:

Governmental activities:

General obligation bond payable 2014 Series 3, issued for fire station construction, annual principal payments and semiannual interest payments, variable interest rates from 0.5% to 4.0%, through November 2034	\$ 1,425,000
Note payable, issued for Town Office construction, annual principal payments of \$192,000 beginning April 27, 2017 through April 26, 2019, interest rate of 1.65%	576,000
Capital lease payable, highway equipment, annual principal and interest payments of \$30,282, interest rate of 2.7%, through November 2016	29,487
Capital lease payable, highway equipment, annual principal and interest payments of \$37,384, interest rate of 2.7%, through October 2016	36,402
Capital lease payable, highway equipment, annual principal and interest payments of \$30,468, interest rate of 3.2%, through February 2019	85,848
Capital lease payable, police equipment, annual principal and interest payments of \$9,889, interest rate of 6.5%, through March 2017	9,286
Net pension liability - VMERS	243,596
Accrued compensated absences	<u>54,486</u>
	\$ <u>2,460,105</u>

Business-type activities:

Note payable, VT EPA RF1-032, for wastewater improvements, annual principal payments of \$88,365, no interest, through July 2019	\$ 265,096
Note payable, wastewater improvements annual principal payments of \$1,320 no interest, through December 2020	6,600
Note payable, wastewater improvements annual principal payments of \$4,300 no interest, through December 2024	21,500
Net pension liability - VMERS	23,975
Accrued compensated absences	<u>5,241</u>
	\$ <u>322,412</u>

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2016

5. Long-term liabilities (continued)

Changes in long-term liabilities for the year ended June 30, 2016 were as follows:

	Balance July 1, <u>2015</u>	Additions	Retirements	Balance June 30, <u>2016</u>	Due Within One Year
Governmental activities:					
Bonds payable	\$ 1,500,000	\$ -	\$ 75,000	\$ 1,425,000	\$ 75,000
Note payable	-	576,000	-	576,000	192,000
Capital leases payable	260,758	-	99,735	161,023	102,893
Net pension liability - VMERS	25,255	218,341	-	243,596	-
Accrued compensated absences	<u>53,810</u>	<u>676</u>	<u>-</u>	<u>54,486</u>	<u>-</u>
	\$ <u>1,839,823</u>	\$ <u>795,017</u>	\$ <u>174,735</u>	\$ <u>2,460,105</u>	\$ <u>369,893</u>
Business-type activities:					
Bonds payable	\$ 353,461	\$ -	\$ 88,365	\$ 265,096	\$ 88,365
Notes payable	6,600	21,500	-	28,100	1,320
Net pension liability - VMERS	2,486	21,489	-	23,975	-
Accrued compensated absences	<u>6,004</u>	<u>-</u>	<u>763</u>	<u>5,241</u>	<u>-</u>
	\$ <u>368,551</u>	\$ <u>42,989</u>	\$ <u>89,128</u>	\$ <u>322,412</u>	\$ <u>89,685</u>

Annual maturities of the bonds and notes payable at June 30, 2016 were as follows:

Governmental Activities:		
Year ending June 30,	<u>Principal</u>	<u>Interest</u>
2017	\$ 267,000	\$ 51,891
2018	267,000	47,977
2019	267,000	43,716
2020	75,000	39,174
2021	75,000	37,518
2022-2026	375,000	155,769
2027-2031	375,000	92,907
2032-2036	<u>300,000</u>	<u>23,676</u>
	\$ <u>2,001,000</u>	\$ <u>492,628</u>
Business-type activities:		
Year ending June 30,	<u>Principal</u>	<u>Interest</u>
2017	\$ 89,686	\$ -
2018	89,685	-
2019	89,685	-
2020	1,320	-
2021	5,620	-
2022-2026	<u>17,200</u>	<u>-</u>
	\$ <u>293,196</u>	\$ <u>-</u>

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2016

5. Long-term liabilities (continued)

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, 2016, were as follows:

2017		\$	108,023
2018			30,468
2019			<u>30,468</u>
Total minimum lease payments			168,959
Less: amount representing interest			<u>(7,936)</u>
Present value of minimum lease payments		\$	<u>161,023</u>

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 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%, 9.875% (10.00% effective January 1, 2016), and 11.35% of gross wages for Groups A, B, C and D, respectively. The municipal employer contributes 4.0%, 5.5%, 7.125% (7.25% effective January 1, 2016), 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 \$52,358 to VMERS for the year ended June 30, 2016. The Town contributed \$49,886 to VMERS for the year ended June 30, 2016.

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/retirement/muni-financial-reports.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2016

6. Pension plan – Vermont Municipal Employee’s Retirement System (continued)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At June 30, 2016, the Town reported a liability of \$267,571 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the total pension liability as of July 1, 2014 to June 30, 2015. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of contributions to the pension plan relative to the projected contributions of all participating municipalities, actuarially determined. At June 30, 2015, the Town’s proportion was 0.3471%, which was an increase of 0.0431% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$26,796, related to VMERS. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to VMERS from the following sources:

	<u>Deferred Outflows</u> <u>of Resources</u>	<u>Deferred Inflows</u> <u>of Resources</u>
Net difference between expected and actual experience	\$ 8,457	\$ -
Changes in assumptions	53,287	-
Net difference between projected and actual earnings on pension plan investments	51,693	-
Changes in proportional share of contributions	13,364	-
Town contributions subsequent to the measurement date	<u>49,886</u>	<u>-</u>
	<u>\$ 176,687</u>	<u>\$ -</u>

\$49,886 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, 2016. 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 in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement; inflation 3.00% to 3.25% per year, salary increases 5.0%, interest rate of 6.25% to 9.0%. Mortality rates were based on the 1995 Buck Mortality Tables for males or females, as appropriate, and RP-2000 Disabled Life Tables for disabled retirees. The actuarial assumptions used on the June 30, 2015 valuation were based on the results of an actuarial experience study that was performed for the five-year period ending June 30, 2010.

The long-term expected rate of return of pension plan investments was determined using best-estimate ranges of future real rates of return for each major asset class using an economic model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variable and the asset classes. Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of June 30, 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected</u> <u>Rate of Return</u>
Equity	8.61%
Fixed income	1.91%
Alternatives	6.93%
Multi-strategy	4.88%

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2016

6. Pension plan – Vermont Municipal Employee’s Retirement System (continued)

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long term inflation rate of 3.0%.

Discount rate – The discount rate used to measure the total pension liability was 7.95%. 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.

The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.95%, as well as what the Town’s proportionate share would be if it were calculated using a discount rate that is one percent lower (6.95%) or one percent higher (8.95%) than the current rate:

	1 % Decrease <u>(6.95%)</u>	Current Discount Rate <u>(7.95%)</u>	1 % Increase <u>(8.95%)</u>
Town’s proportionate share of the net pension liability	\$ 534,455	\$ 267,571	43,845

Required supplemental information – Implementation of GASB Statement No. 68 requires reporting of ten years of historical pension information by employers. This information will be built up by year for the next ten years. The required information for the two most recent fiscal years is as follows:

Schedule of Town’s Proportionate Share of the Net Pension Liability
(Data determined based on the measurement date for each fiscal year presented)

	<u>2016</u>	<u>2015</u>
Town’s proportion of the net pension liability	0.3471%	0.3040%
Town’s proportionate share of the net pension liability	\$ 267,571	\$ 27,741
Town’s covered-employee payroll	\$ 817,047	\$ 772,752
Town’s proportionate share of the net pension liability as a percentage of its covered-employee payroll	32.75%	3.59%
Plan fiduciary net position as a percentage of the total pension liability	87.42%	98.32%

There were no benefit changes since June 30, 2014. The discount rate used to measure the net pension liability was lowered from 8.23% to 7.95% due to the adoption by the Board of Trustees of a 7.95% expected future rate of return on assets for funding purposes.

Schedule of Town Contributions

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 49,886	\$ 48,514
Contributions in relation to the contractually required contribution	<u>(49,886)</u>	<u>(48,514)</u>
Contribution deficiency (excess)	\$ -	\$ -
Town’s covered employee payroll	<u>837,059</u>	<u>817,047</u>
Contributions as a percentage of covered employee payroll	5.960%	5.938%

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2016

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 \$0 for these post-employment benefits during the fiscal year ending June 30, 2016.

8. Interfund balances

Interfund receivable and payables balances at June 30, 2016 were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental activities:		
General Fund	\$ -	\$ 258,679
Capital Project Fund	16,339	-
Special Revenue Fund	<u>-</u>	<u>55,359</u>
	16,339	314,038
Business-type activities:		
Wastewater Fund	<u>297,699</u>	<u>-</u>
	\$ <u>314,038</u>	\$ <u>314,038</u>

The interfund payable from the General Fund and Special Revenue Fund to the Capital Project Fund and Wastewater Fund represent amounts received by the Capital Project Fund and Wastewater fund that have not yet been reimbursed by the applicable fund.

9. Interfund transfers

Interfund transfers for the year ended June 30, 2016 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental activities:		
General Fund	\$ -	\$ 103,589
Capital Project Fund	164,511	-
Special Revenue Fund	<u>-</u>	<u>5,243</u>
	164,511	108,832
Business-type activities:		
Wastewater Fund	<u>-</u>	<u>55,679</u>
	\$ <u>164,511</u>	\$ <u>164,511</u>

Transfers from the General Fund, Special Revenue 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.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2016

10. Governmental fund equity

As of June 30, 2016, governmental fund balances consisted of the following:

	General Fund	Capital Project Fund	Special Revenue Fund	Total Governmental Funds
Nonspendable:				
Prepays	\$ <u>78,255</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>78,255</u>
Restricted for:				
Highway operations	449,189	-	-	449,189
Capital improvements - fire station	-	12,133	-	12,133
Capital improvements - Town Office	-	576,009	-	576,009
Municipal records preservation	-	44,204	-	44,204
Reappraisal	<u>-</u>	<u>27,931</u>	<u>-</u>	<u>27,931</u>
	<u>449,189</u>	<u>660,277</u>	<u>-</u>	<u>1,109,466</u>
Committed to:				
Capital improvements - Town Office	56,691	-	-	56,691
Castleton Emergency Response Team	-	25,873	-	25,873
Lake improvements	-	595	-	595
Public buildings	-	9,520	-	9,520
Recreation - Crystal Beach	-	21,714	-	21,714
Recreation - Dewey Field	-	900	-	900
Sidewalks	-	67,593	-	67,593
Transfer station	-	73,642	-	73,642
Vehicles & equipment - fire	-	168,534	-	168,534
Vehicles & equipment - highway	-	46,629	-	46,629
Vehicles & equipment - police	-	14,936	-	14,936
Weed harvesting	-	17,733	-	17,733
Wastewater treatment facility	<u>-</u>	<u>172,533</u>	<u>-</u>	<u>172,533</u>
	<u>56,691</u>	<u>620,202</u>	<u>-</u>	<u>676,893</u>
Assigned to:				
Capital improvements - police vehicles	35,000	-	-	35,000
Capital improvements - Town Office	<u>-</u>	<u>115,025</u>	<u>-</u>	<u>115,025</u>
	<u>35,000</u>	<u>115,025</u>	<u>-</u>	<u>150,025</u>
Unassigned	<u>193,420</u>	<u>-</u>	<u>-</u>	<u>193,420</u>
Total fund balances	\$ <u>812,555</u>	\$ <u>1,395,504</u>	\$ <u>-</u>	\$ <u>2,208,059</u>

11. 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.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2016

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 funds 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. Commitments

On July 25, 2016, the Town accepted a construction bid in the amount of \$701,000 for construction of the new Town Office building.

14. Prior period restatement

The Town has restated beginning net position of the governmental activities of the government-wide financial statements from \$4,261,031 to \$4,202,687 a decrease of \$58,344 and the beginning net position of the Wastewater Fund from \$1,879,657 to \$1,873,914, a decrease of \$5,743 to record the change in accounting for the Town's proportionate share of the VMERS pension plan.

**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 Town of Castleton, VT, as of and for the year ended June 30, 2016, 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 3, 2016 in which our opinions over governmental activities and the discretely presented component unit were qualified and our opinions over the business-type activities, each major fund and the aggregate remaining fund information were unmodified.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency, 2016-001, described in the accompanying schedule of findings, to be a material weakness.

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. We consider the deficiencies, 2016-002 and 2016-003, 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

Montpelier, VT
November 3, 2016

TOWN OF CASTLETON, VERMONT
Schedule of Revenues and Expenditures
Budget and Actual - General Fund
For the Year Ended June 30, 2016
(Page 1 of 2)

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 2,009,944	\$ 2,009,944	\$ 1,989,368	\$ (20,576)
Property taxes - penalties & interest	35,000	35,000	50,904	15,904
Intergovernmental	493,162	493,162	517,170	24,008
Licenses, permits & fines	47,500	47,500	44,762	(2,738)
Charges for services	406,237	406,237	414,529	8,292
Investment income	500	500	1,255	755
Miscellaneous	5,600	5,600	4,175	(1,425)
Total revenues	<u>2,997,943</u>	<u>2,997,943</u>	<u>3,022,163</u>	<u>24,220</u>
Expenditures				
Legislating	25,608	25,608	20,492	5,116
Ordinances & proceedings	1,215	1,215	3,562	(2,347)
Managing municipalities	144,431	144,431	144,618	(187)
Conducting elections	7,488	7,488	5,422	2,066
Collecting & distributing funds	46,575	46,575	44,991	1,584
Accounting	80,157	80,157	76,174	3,983
Auditing	18,000	18,000	10,600	7,400
Tax listing	18,800	18,800	21,009	(2,209)
Tax collecting	39,997	39,997	38,744	1,253
Document recording	67,460	67,460	61,012	6,448
Legal services	20,000	20,000	15,505	4,495
Municipal planning & zoning	38,259	38,259	30,188	8,071
General government buildings	69,575	69,575	54,802	14,773
General government equipment	16,200	16,200	16,666	(466)
Police department	434,722	434,722	377,902	56,820
Police station	-	-	4,825	(4,825)
Emergency medical services	36,218	36,218	33,110	3,108
Volunteer fire department	211,619	211,619	206,801	4,818
Emergency management	850	850	-	850
Highway administration	392,914	392,914	238,273	154,641
Summer maintenance	-	-	54,762	(54,762)
Capital projects	243,250	243,250	247,711	(4,461)
Traffic control	7,000	7,000	6,388	612
Winter maintenance	123,250	123,250	180,180	(56,930)
Sidewalks	10,000	10,000	3,280	6,720
Storm drainage services	20,500	20,500	3,848	16,652
Bridges	30,000	30,000	5,911	24,089
Highway garage	51,625	51,625	37,366	14,259
Town mechanic	102,772	102,772	91,958	10,814
Town lands	3,500	3,500	2,516	984
Historical cemeteries	2,000	2,000	590	1,410
Hillside cemetery	25,000	25,000	25,000	-
<i>continued</i>				

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

TOWN OF CASTLETON, VERMONT
Schedule of Revenues and Expenditures
Budget and Actual - General Fund
For the Year Ended June 30, 2016
(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	46,808	46,808	46,808	-
Health, regulation & inspecting	1,706	1,706	1,610	96
Animal control	1,059	1,059	626	433
Constables	29,445	29,445	29,136	309
Transfer station	283,437	283,437	239,029	44,408
Recreation administration	12,369	12,369	13,290	(921)
Dewey Field	7,191	7,191	7,613	(422)
Hydeville Field	2,357	2,357	1,347	1,010
Swim program	989	989	821	168
Crystal Beach	47,993	47,993	44,515	3,478
Youth sports	6,327	6,327	5,683	644
Special events	6,400	6,400	6,021	379
Adult recreation	501	501	6	495
Memorial Day decorations	1,200	1,200	1,159	41
Library administration	111,500	111,500	111,500	-
Prevention/control forest fires	750	750	455	295
Tree Warden	6,109	6,109	2,583	3,526
Other governments	33,000	33,000	34,329	(1,329)
Total expenditures	<u>2,888,126</u>	<u>2,888,126</u>	<u>2,610,737</u>	<u>277,389</u>
Excess of revenues or (expenditures)	<u>109,817</u>	<u>109,817</u>	<u>411,426</u>	<u>301,609</u>
Other financing sources (uses)				
Transfers in (out)	<u>(94,000)</u>	<u>(94,000)</u>	<u>(103,589)</u>	<u>(9,589)</u>
Net change in fund balances	<u>\$ 15,817</u>	<u>\$ 15,817</u>	<u>\$ 307,837</u>	<u>\$ 292,020</u>

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

TOWN OF CASTLETON, VERMONT
Schedule of Findings
For the Year Ended June 30, 2016

2016-001 Capital Assets

Condition: The Town has not prepared a comprehensive listing of currently owned general capital assets; land, buildings, equipment, and infrastructure in sufficient detail to determine each asset's cost, current year depreciation and accumulated depreciation. However, as of November 2016, the Town is currently in the process of creating the capital asset listing.

Criteria: As required by GASB 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, properly identifying and recording capital assets is a fundamental requirement of governmental financial reporting.

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

Effect: The Town's financial statements is not presented in accordance with GAAP.

Recommendation: The Town should create and maintain a listing of general capital assets including the asset description, cost, current year and accumulated depreciation.

Management's response / corrective action plan: The Town acknowledges that this is a very time consuming project that has not been updated in some time. It is also in the Town's interest to report to the best of its abilities to illustrate the most complete, and transparent financial position. The Town is currently working on updating the listing of general capital assets to include description, cost, current year and accumulated depreciation. It is projected that this will be completed in January 2017.

2016-002 Sewer Fees

Condition: One employee is primarily responsible for the billing and collection of sewer fees.

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 functions.

Effect: Town's assets could be misappropriated.

Recommendation: We recommend that the Town assign the functions of billing and collection of sewer fees to different employees. Alternatively, an individual who is not part of the billing and collection process, could reconcile the revenue to the independently produced engineer's consumption unit report.

Management's response / corrective action plan: The Town acknowledges that this process does take resources to ensure the highest of standards. In moving forward the Town will continue to be resourceful in meeting or exceeding standards at the most cost efficient manner. The Town will be adding to the town Accountant responsibilities the task of reconciling the revenue to the independently produced engineers' consumption ECU master report.

2016-003 Transfer Station / Town Beach

Condition: The Town's receives limited amounts of cash at the transfer station and town beach for certain types of fees for which there are limited internal controls. Starting in July 2015, the Town adopted a policy of not accepting cash at the transfer station and town beach except in limited circumstances.

TOWN OF CASTLETON, VERMONT
Schedule of Findings
For the Year Ended June 30, 2016

2016-003 Transfer Station / Town Beach (Continued)

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 Town beach 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. The number of bag sticker sheets disbursed should be reconciled to the revenue and documented. Refuse should not be accepted unless each bag has a sticker. 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: To ensure internal controls standard are met, and to reduce risk, starting in July 2015 the Town implemented the practice and goal to reduce/eliminate the amount of cash received at the most remote locations. These locations are the transfer station and at Crystal Beach. Thus far, the transfer station has been successful at this task. The beach is working to this end. The process of utilizing bag stickers on all bags was recommended last year and has been implemented this year. Stickers are placed on all bags. This process allows for expanded analysis which will also aid in inventory control, cash flow reporting, budget projections, and cost benefit analysis of the program. It is projected that it will show cost saving opportunities for to the users.