

TOWN OF CASTLETON, VERMONT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORTS
JUNE 30, 2017

TOWN OF CASTLETON, VERMONT

JUNE 30, 2017

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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, 2017, 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, 2017, 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, 2017, 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, 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 December 7, 2017 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

Montpelier, VT
December 7, 2017

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2017

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, 2017. Please read it in conjunction with the Town's financial statements.

Financial Highlights

- The Town's governmental activities net position increased by \$685,918 because of this year's operations.
- The Town's business-type activities net position decreased by \$104,818 because of this year's operations.
- The General Fund reported a net decrease in fund balance of \$94,116 because of this year's operations.
- The unassigned fund balance for the General Fund was a surplus of \$51,161 as of June 30, 2017

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2017

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 \$3,658,723 (as restated) to \$4,344,641. The business-type activities net position of the Town decreased from \$1,877,734 to \$1,772,916. 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 \$948,825 at June 30, 2017.

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

	Governmental Activities		Business-Type Activities		Total Government	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 1,910,440	\$ 2,629,594	\$ 427,497	\$ 396,926	\$ 2,337,937	\$ 3,026,520
Capital assets, net	<u>4,400,484</u>	<u>4,397,455</u>	<u>1,595,557</u>	<u>1,805,122</u>	<u>5,996,041</u>	<u>6,202,577</u>
Total assets	6,310,924	7,027,049	2,023,054	2,202,048	8,333,978	9,229,097
Deferred outflows	<u>249,827</u>	<u>160,856</u>	<u>24,587</u>	<u>15,831</u>	<u>274,414</u>	<u>176,687</u>
Current liabilities	431,931	554,594	120,214	107,418	552,145	662,012
Noncurrent liabilities	<u>1,736,407</u>	<u>2,090,212</u>	<u>153,949</u>	<u>232,727</u>	<u>1,890,356</u>	<u>2,322,939</u>
Total liabilities	2,168,338	2,644,806	274,163	340,145	2,442,501	2,984,951
Deferred inflows	<u>47,772</u>	<u>2,418</u>	<u>562</u>	<u>-</u>	<u>48,334</u>	<u>2,418</u>
Net position						
Net investment in capital assets	2,801,775	2,235,432	1,392,046	1,511,926	4,193,821	3,747,358
Restricted	594,041	1,109,466	-	-	594,041	1,109,466
Unrestricted	<u>948,825</u>	<u>1,195,783</u>	<u>380,870</u>	<u>365,808</u>	<u>1,329,695</u>	<u>1,561,591</u>
	\$ <u>4,344,641</u>	\$ <u>4,540,681</u>	\$ <u>1,772,916</u>	\$ <u>1,877,734</u>	\$ <u>6,117,557</u>	\$ <u>6,418,415</u>

Government-wide Statement of Activities – For the year ended June 30, 2017, governmental activities reported total revenues of \$3,689,801 and total expenses of \$3,058,243 and transfers-in of \$54,360 resulting in a change in net position of \$685,918. For the year ended June 30, 2017, business-type activities reported total revenues of \$645,241 and total expenses of \$695,699 and transfers-out of \$54,360 resulting in a decrease in net position of \$104,818.

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Prior period restatement - The Town has restated the beginning net position of the governmental activities of the government-wide financial statements from \$4,540,681 to \$3,658,723, a decrease of \$881,958 to properly report governmental activities net capital assets.

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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 463,344	\$ 472,394	\$ 641,754	\$ 682,754	\$ 1,105,098	\$ 1,155,148
Operating grants and contributions	873,066	667,992	-	-	873,066	667,992
General revenues:						
Property taxes	2,343,415	2,059,608	-	-	2,343,415	2,059,608
Proceeds from sale of capital assets	2,244	23,621	-	-	2,244	23,621
Investment income	4,857	1,353	483	164	5,340	1,517
Miscellaneous	<u>2,875</u>	<u>6,325</u>	<u>3,004</u>	<u>7,757</u>	<u>5,879</u>	<u>14,082</u>
Total revenues	<u>3,689,801</u>	<u>3,231,293</u>	<u>645,241</u>	<u>690,675</u>	<u>4,335,042</u>	<u>3,921,968</u>
Expenses:						
General government	734,291	684,370	-	-	734,291	684,370
Public safety	745,365	640,859	-	-	745,365	640,859
Public works	1,299,572	1,150,376	-	-	1,299,572	1,150,376
Culture and recreation	196,995	197,130	-	-	196,995	197,130
Cemetery	25,000	25,590	-	-	25,000	25,590
Depreciation, unallocated	-	199,275	-	-	-	199,275
Interest on long-term debt	57,020	51,378	-	-	57,020	51,378
Wastewater operations	<u>-</u>	<u>-</u>	<u>695,699</u>	<u>631,176</u>	<u>695,699</u>	<u>631,176</u>
Total expenses	<u>3,058,243</u>	<u>2,948,978</u>	<u>695,699</u>	<u>631,176</u>	<u>3,753,942</u>	<u>3,580,154</u>
Transfers						
Transfers in (out)	<u>54,360</u>	<u>55,679</u>	<u>(54,360)</u>	<u>(55,679)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>685,918</u>	<u>337,994</u>	<u>(104,818)</u>	<u>3,820</u>	<u>581,100</u>	<u>341,814</u>
Net position, beginning of year, (as restated)	<u>3,658,723</u>	<u>3,320,729</u>	<u>1,877,734</u>	<u>1,873,914</u>	<u>5,536,457</u>	<u>5,194,643</u>
Net position, end of year	\$ <u>4,344,641</u>	\$ <u>3,658,723</u>	\$ <u>1,772,916</u>	\$ <u>1,877,734</u>	\$ <u>6,117,557</u>	\$ <u>5,536,457</u>

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

- Increase in actual PILOT and interest earned over amounts anticipated
- New revenue source from rental income
- Conservative spending practices

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

- Refining user fee calculation to more accurately reflect number of equivalent units
- Decrease in sludge disposal by outside parties at wastewater treatment facility
- Increased expenses due to unforeseen/emergency repairs

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
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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, 2017, the Town's governmental funds reported combined ending fund balances of \$1,434,455. Of this \$138,460 was nonspendable, \$594,041 was restricted, \$611,407 was committed for specific purposes, \$39,386 was assigned and \$51,161 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, 2017, was \$718,439 of which \$51,161 was unassigned. The General Fund had a decrease in fund balance of \$94,116 for the year ended June 30, 2017, 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, 2017, was \$716,016 of which \$85,223 was restricted, \$611,407 was committed and \$19,386 was assigned. The Capital Project Fund had a decrease in fund balance of \$679,488 for the year ended June 30, 2017.

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, 2017, was \$0. The Special Revenue Fund had no increase or decrease in fund balance for the year ended June 30, 2017.

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, 2017, was \$1,772,916 of which \$380,870 was unrestricted. The Wastewater Fund had a decrease in net position of \$104,818 for the year ended June 30, 2017.

General Fund Budgetary Highlights

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

For the year ended June 30, 2017, actual General Fund revenues were \$3,288,767 compared to budgeted amounts of \$3,275,205. Differences in actual versus budgeted revenues were primarily the results of the following items:

- Increase in PILOT revenue-actual over anticipated
- Increase in interest revenue-actual over anticipated
- Increase in rental income & police department fees- actual over anticipated

For the year ended June 30, 2017, actual General Fund expenditures were \$3,243,260 compared to budgeted amounts of \$3,200,205. Differences in actual versus budgeted expenditures were primarily the results of the following items:

- Purchase of police vehicle
- Unrealized expenditures related to personal services & benefits due to unresolved union contract

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2017

Capital Assets and Debt Administration

Capital assets governmental activities – As of June 30, 2017, the Town had \$4,400,484 net of accumulated depreciation, invested in capital assets including land, buildings and improvements, vehicles and equipment for governmental activities. The amount represents a \$884,987 increase from the prior year as restated. Significant new capital asset additions consisted of the following:

- Completion of new Town Offices
- Retaining wall at Transfer Station
- Public service building parking lot paved & generator purchased/installed

Capital assets business-type activities – As of June 30, 2017, the Town had \$1,595,557, 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 \$209,565 decrease from the prior year. There were no new business-type activities capital asset additions for the year ended June 30, 2017.

Debt governmental activities – As of June 30, 2017, the Town's governmental activities outstanding debt, consisting of bonds payable, capital leases payable, VMERS net pension liability, and accrued compensated absences, was \$2,030,594, a decrease of \$429,511 over the prior year. There were no new governmental activities debt additions for the year ended June 30, 2017.

Debt business-type activities – As of June 30, 2017, the Town's business-type activities outstanding debt, consisting of bonds payable, notes payable, VMERS net pension liability and accrued compensated absences, was \$243,634 a decrease of \$78,778 over the prior year. There were no new governmental activities debt additions for the year ended June 30, 2017.

Economic Factors and Next Year's Budgets and Rates

The Town's elected and appointed officials considered many factors when setting the fiscal year 2018 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 2018 General Fund operating expenditure budget of \$3,330,025. This represents an increase of 1.67% over the fiscal year 2017 General Fund operating expenditure budget of \$3,275,205. The Select Board has approved an overall municipal tax rate, to include local tax agreements, of \$0.4779 per \$100 of assessed property for fiscal year 2018.

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, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Totals	Castleton Free Library
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,591,110	\$ -	\$ 1,591,110	\$ 52,670
Investments	-	-	-	266,855
Property taxes, penalty and interest receivable, net of allowance	479,162	-	479,162	-
Accounts receivable, net of allowance	15,899	84,721	100,620	-
Grants receivable	23,772	-	23,772	-
Prepaid expenses	138,460	-	138,460	-
Due from Castleton Free Library	4,813	-	4,813	(4,813)
Internal balances	(342,776)	342,776	-	-
Total current assets	<u>1,910,440</u>	<u>427,497</u>	<u>2,337,937</u>	<u>314,712</u>
Noncurrent assets:				
Capital assets	5,906,516	7,141,263	13,047,779	-
(Accumulated depreciation)	(1,506,032)	(5,545,706)	(7,051,738)	-
Total noncurrent assets	<u>4,400,484</u>	<u>1,595,557</u>	<u>5,996,041</u>	<u>-</u>
Total assets	<u>6,310,924</u>	<u>2,023,054</u>	<u>8,333,978</u>	<u>314,712</u>
Deferred outflows of resources				
Pension related - VMERS	<u>249,827</u>	<u>24,587</u>	<u>274,414</u>	<u>-</u>
Liabilities				
Current liabilities:				
Accounts payable	62,104	28,651	90,755	206
Accrued payroll and benefits	42,614	837	43,451	524
Grant advances	20,918	-	20,918	-
Sewer fees received in advance	-	1,041	1,041	-
Other liabilities	12,108	-	12,108	-
Bonds, notes and capital leases payable, current portion	<u>294,187</u>	<u>89,685</u>	<u>383,872</u>	<u>-</u>
Total current liabilities	<u>431,931</u>	<u>120,214</u>	<u>552,145</u>	<u>730</u>
Noncurrent liabilities:				
Net pension liability - VMERS	384,568	37,849	422,417	-
Accrued compensated absences	47,317	2,274	49,591	-
Bonds, notes and capital leases payable, less current portion	<u>1,304,522</u>	<u>113,826</u>	<u>1,418,348</u>	<u>-</u>
Total noncurrent liabilities	<u>1,736,407</u>	<u>153,949</u>	<u>1,890,356</u>	<u>-</u>
Total liabilities	<u>2,168,338</u>	<u>274,163</u>	<u>2,442,501</u>	<u>730</u>
Deferred inflows of resources				
(Increase) decrease in deferred outflows -	42,061	-	42,061	-
Pension related - VMERS	<u>5,711</u>	<u>562</u>	<u>6,273</u>	<u>-</u>
Total deferred inflows of resources	<u>47,772</u>	<u>562</u>	<u>48,334</u>	<u>-</u>
Net position				
Net investment in capital assets	2,801,775	1,392,046	4,193,821	-
Restricted	594,041	-	594,041	92,798
Unrestricted	<u>948,825</u>	<u>380,870</u>	<u>1,329,695</u>	<u>221,184</u>
Total net position	<u>\$ 4,344,641</u>	<u>\$ 1,772,916</u>	<u>\$ 6,117,557</u>	<u>\$ 313,982</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, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Totals	
					Governmental Activities	Business-type Activities		
Governmental activities								
General government	\$ 734,291	\$ 88,223	\$ 445,716	\$ -	\$ (200,352)	\$ -	\$ (200,352)	\$ -
Public safety	745,365	59,873	70,829	-	(614,663)	-	(614,663)	-
Highways and streets	1,048,212	20,746	356,121	-	(671,345)	-	(671,345)	-
Culture and recreation	196,995	47,861	400	-	(148,734)	-	(148,734)	-
Solid waste	251,360	246,641	-	-	(4,719)	-	(4,719)	-
Cemetery	25,000	-	-	-	(25,000)	-	(25,000)	-
Interest on long-term debt	57,020	-	-	-	(57,020)	-	(57,020)	-
Total governmental activities	<u>3,058,243</u>	<u>463,344</u>	<u>873,066</u>	<u>-</u>	<u>(1,721,833)</u>	<u>-</u>	<u>(1,721,833)</u>	<u>-</u>
Business-type activities								
Wastewater operations	<u>695,699</u>	<u>641,754</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(53,945)</u>	<u>(53,945)</u>	<u>-</u>
Total primary government	<u>\$ 3,753,942</u>	<u>\$ 1,105,098</u>	<u>\$ 873,066</u>	<u>\$ -</u>	<u>(1,721,833)</u>	<u>(53,945)</u>	<u>(1,775,778)</u>	<u>-</u>
Component unit								
Castleton Fee Library	<u>\$ 122,379</u>	<u>\$ -</u>	<u>\$ 119,773</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,606)</u>
			General revenues					
			Property taxes, penalties and interest		2,343,415	-	2,343,415	-
			Proceeds from sale of capital assets		2,244	-	2,244	-
			Investment income		4,857	483	5,340	18,011
			Miscellaneous		2,875	3,004	5,879	1,071
			Total general revenues		<u>2,353,391</u>	<u>3,487</u>	<u>2,356,878</u>	<u>19,082</u>
			Transfers in (out)		<u>54,360</u>	<u>(54,360)</u>	<u>-</u>	<u>-</u>
			Change in net position		685,918	(104,818)	581,100	16,476
			Net position, beginning of year (as restated)		<u>3,658,723</u>	<u>1,877,734</u>	<u>5,536,457</u>	<u>297,506</u>
			Net position, end of year		<u>\$ 4,344,641</u>	<u>\$ 1,772,916</u>	<u>\$ 6,117,557</u>	<u>\$ 313,982</u>

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

TOWN OF CASTLETON, VERMONT
Balance Sheet - Governmental Funds
June 30, 2017

	General Fund	Capital Project Fund	Special Revenue Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 895,056	\$ 696,054	\$ -	\$ 1,591,110
Property taxes, penalty and interest receivable, net of allowance	479,162	-	-	479,162
Accounts receivable	15,899	-	-	15,899
Grants receivable	-	-	23,772	23,772
Prepaid expenditures	138,460	-	-	138,460
Due from Castleton Free Library	4,813	-	-	4,813
Due from other funds	-	21,893	366	22,259
Total assets	<u>\$ 1,533,390</u>	<u>\$ 717,947</u>	<u>\$ 24,138</u>	<u>\$ 2,275,475</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities:				
Accounts payable	\$ 56,953	\$ 1,931	\$ 3,220	\$ 62,104
Accrued payroll and benefits	42,614	-	-	42,614
Grant advances	-	-	20,918	20,918
Other liabilities	12,108	-	-	12,108
Due to other funds	365,035	-	-	365,035
Total liabilities	<u>476,710</u>	<u>1,931</u>	<u>24,138</u>	<u>502,779</u>
Deferred inflows of resources:				
Property taxes received in advance	42,061	-	-	42,061
Unavailable property taxes	296,180	-	-	296,180
Total deferred inflows of resources	<u>338,241</u>	<u>-</u>	<u>-</u>	<u>338,241</u>
Fund balances:				
Nonspendable	138,460	-	-	138,460
Restricted	508,818	85,223	-	594,041
Committed	-	611,407	-	611,407
Assigned	20,000	19,386	-	39,386
Unassigned	51,161	-	-	51,161
Total fund balances	<u>718,439</u>	<u>716,016</u>	<u>-</u>	<u>1,434,455</u>
Total liabilities, deferred inflows (Increase) decrease in deferred outflc	<u>\$ 1,533,390</u>	<u>\$ 717,947</u>	<u>\$ 24,138</u>	<u>\$ 2,275,475</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, 2017

Total fund balances - governmental funds \$ 1,434,455

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	5,906,516
Accumulated depreciation	(1,506,032)

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	296,180
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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

(140,452)

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

(1,646,026)

Net position - governmental activities \$ 4,344,641

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, 2017

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 2,219,670	\$ -	\$ -	\$ 2,219,670
Property taxes - penalties & interest	61,982	-	-	61,982
Intergovernmental	555,275	20,706	286,410	862,391
Licenses, permits & fines	41,009	-	-	41,009
Charges for services	405,183	-	17,151	422,334
Contributions	-	-	10,675	10,675
Investment income	2,773	2,084	-	4,857
Miscellaneous	2,875	-	-	2,875
Total revenues	<u>3,288,767</u>	<u>22,790</u>	<u>314,236</u>	<u>3,625,793</u>
Expenditures				
Current:				
General government	654,742	7,800	5,100	667,642
Public safety	578,929	-	75,359	654,288
Highway and streets	969,179	6,437	6,511	982,127
Culture and recreation	189,559	-	5,575	195,134
Solid waste	247,160	-	-	247,160
Cemetery	25,000	-	-	25,000
Capital outlay	66,380	776,245	221,691	1,064,316
Debt service:				
Principal	460,421	102,893	-	563,314
Interest	51,890	5,130	-	57,020
Total expenditures	<u>3,243,260</u>	<u>898,505</u>	<u>314,236</u>	<u>4,456,001</u>
Excess of revenues or (expenditures)	<u>45,507</u>	<u>(875,715)</u>	<u>-</u>	<u>(830,208)</u>
Other financing sources (uses)				
Proceeds from sale of capital assets	-	2,244	-	2,244
Transfers in (out)	(139,623)	193,983	-	54,360
Total other financing sources (uses)	<u>(139,623)</u>	<u>196,227</u>	<u>-</u>	<u>56,604</u>
Net change in fund balances	(94,116)	(679,488)	-	(773,604)
Fund balances, beginning of year	<u>812,555</u>	<u>1,395,504</u>	<u>-</u>	<u>2,208,059</u>
Fund balances, end of year	\$ <u>718,439</u>	\$ <u>716,016</u>	\$ <u>-</u>	\$ <u>1,434,455</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, 2017

Net change in fund balances - governmental funds \$ (773,604)

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	1,064,316
Current year depreciation	(179,329)

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. (57,712)

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	563,314
Decrease in accrued compensated absences	7,169

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	<u>61,764</u>
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(Increase) decrease in deferred outflows - VMERS \$ 685,918

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

TOWN OF CASTLETON, VERMONT
Statement of Net Position - Proprietary Fund
June 30, 2017

	Wastewater Fund
Assets	
Current assets:	
Sewer fees receivable, net of allowance of \$7,000	\$ 84,721
Due from other funds	342,776
Total current assets	427,497
Noncurrent assets:	
Capital assets	7,141,263
(Accumulated depreciation)	(5,545,706)
Total noncurrent assets	1,595,557
Total assets	2,023,054
Deferred outflows of resources	
Pension related - VMERS	24,587
Liabilities	
Current liabilities:	
Accounts payable	28,651
Accrued payroll and benefits	837
Sewer fees received in advance	1,041
Bonds and notes payable - current portion	89,685
Total current liabilities	120,214
Noncurrent liabilities:	
Accrued compensated absences	2,274
Net pension liability - VMERS	37,849
Bonds and notes payable - less current portion	113,826
Total noncurrent liabilities	153,949
Total liabilities	274,163
Deferred inflows of resources	
Pension related - VMERS	562
Net position	
Net investment in capital assets	1,392,046
Unrestricted	380,870
(Increase) decrease in deferred outflows - VMERS	\$ 1,772,916

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, 2017

	<u>Wastewater Fund</u>
Operating revenues	
Charges for services	\$ 630,680
Penalties and interest on delinquent accounts	11,074
Miscellaneous	<u>3,004</u>
Total operating revenues	<u>644,758</u>
Operating expenses	
Personnel services	144,845
Purchased and contract services	190,760
Administrative expenses	28,294
Supplies	39,984
Utilities	75,998
Depreciation	209,565
Miscellaneous	<u>6,253</u>
Total operating expenses	<u>695,699</u>
Operating loss	<u>(50,941)</u>
Nonoperating revenues	
Investment income	<u>483</u>
Transfers	
Transfers in (out)	<u>(54,360)</u>
Change in net position	(104,818)
Net position, beginning of year	<u>1,877,734</u>
Net position, end of year	\$ <u>1,772,916</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, 2017

	Wastewater Fund
Cash flows from operating activities	
Cash received from customers	\$ 638,805
Cash paid to suppliers	(324,079)
Cash paid to employees for services	(147,587)
Net cash provided by operating activities	167,139
Cash flows from noncapital financing activities	
Decrease in amounts due from other funds	(45,077)
Cash flows from capital and related financing activities	
Interfund transfers	(54,360)
Loan proceeds	21,500
Loan repayments	(89,685)
Net cash used by capital and related financing activities	(122,545)
Cash flows from investing activities	
Investment income	483
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	\$ (50,941)
Adjustment to reconcile operating loss to net cash provided by operating activities:	
Deprecation expense	209,565
Change in assets, liabilities, deferred inflows and deferred outflows:	
(Increase) decrease in accounts receivable	(6,994)
(Increase) decrease in deferred outflows - VMERS	(8,756)
Increase (decrease) accounts payable	11,530
Increase (decrease) accrued payroll	225
Increase (decrease) accrued compensated absences	(2,967)
Increase (decrease) fees received in advance	1,041
Increase (decrease) deferred inflows - VMERS	562
Increase (decrease) net pension liability - VMERS	13,874
Net cash provided by operating activities	\$ 167,139

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

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2017

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, 2017

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, 2017

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, 2017, 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. Capital assets of the Town are depreciated using the straight-line method over the following useful lives: The Town’s governmental activities infrastructure assets include capital outlays for projects occurring after July 1, 2014.

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, 2017 were payable in four installments due August 31, 2016, November 30, 2016, February 28, 2017 and May 31, 2017.

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, 2017, the Town collected and distributed \$6,313,307 in educational property taxes as instructed by the State of Vermont.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2017

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, 2017, the Town's bank balance was \$1,711,735; the corresponding carrying amount of the Town's cash was \$1,643,781 which included \$52,670 of cash reported by the component unit, Castleton Free Library. Of the Town's total bank balance, \$309,417 was covered by the FDIC, \$1,402,318 was collateralized by securities held by the pledging financial institution and \$0 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's investment policy primary objectives are the security of principal, liquidity as needed to meet project expenditures and then return on investment, in that order of priority. As of June 30, 2017, the Town's component unit, Castleton Free Library, reported total investments of \$266,855.

The classification and fair value of investments held at June 30, 2017 were as follows:

<u>Investment</u>	<u>Level 1</u>
Money market funds	\$ 42,931
Mutual funds - equity & fixed income	<u>223,924</u>
	<u>\$ 266,855</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, 2017.

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, 2017.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2017

4. Capital assets

Changes in governmental activities capital assets consisted of the following:

	Balance July 1, <u>2016</u>	Increase	Decrease	Balance June 30, <u>2017</u>
Capital assets, not depreciated:				
Land	\$ 622,844	\$ -	\$ -	\$ 622,844
Construction in process	<u>46,309</u>	<u>31,936</u>	<u>46,309</u>	<u>31,936</u>
	<u>669,153</u>	<u>31,936</u>	<u>46,309</u>	<u>654,780</u>
Capital assets, depreciated:				
Land improvements	-	-	-	-
Buildings & improvements	1,923,590	822,553	-	2,746,143
Equipment, machinery and vehicles	2,164,845	61,099	-	2,225,944
Infrastructure	<u>84,612</u>	<u>195,037</u>	<u>-</u>	<u>279,649</u>
	<u>4,173,047</u>	<u>1,078,689</u>	<u>-</u>	<u>5,251,736</u>
Less accumulated depreciation	<u>1,326,703</u>	<u>179,329</u>	<u>-</u>	<u>1,506,032</u>
Total capital assets depreciated, net	<u>2,846,344</u>	<u>899,360</u>	<u>-</u>	<u>3,745,704</u>
Capital assets, net, governmental activities	\$ <u>3,515,497</u>	\$ <u>931,296</u>	\$ <u>46,309</u>	\$ <u>4,400,484</u>

Depreciation expense in the governmental activities totaling \$179,329 was allocated as following; \$91,077 public safety, \$1,861 recreation, \$66,085 highway, \$4,200 solid waste, and \$16,106 general.

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

	Balance July 1, <u>2016</u>	Increase	Decrease	Balance June 30, <u>2017</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	3,380,171	-	-	3,380,171
Machinery and equipment	208,118	-	-	208,118
Vehicles	<u>47,757</u>	<u>-</u>	<u>-</u>	<u>47,757</u>
	<u>7,036,770</u>	<u>-</u>	<u>-</u>	<u>7,036,770</u>
Less accumulated depreciation	<u>5,336,141</u>	<u>209,565</u>	<u>-</u>	<u>5,545,706</u>
Total capital assets depreciated, net	<u>1,700,629</u>	<u>(209,565)</u>	<u>-</u>	<u>1,491,064</u>
Capital assets, net, business-type activities	\$ <u>1,805,122</u>	\$ <u>(209,565)</u>	\$ -	\$ <u>1,595,557</u>

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2017

5. Long-term liabilities

Long-term liabilities consisted of the following at June 30, 2017:

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	\$ 1,350,000
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%	190,580
Capital lease payable, highway equipment, annual principal and interest payments of \$30,468, interest rate of 3.2%, through February 2019	58,129
Net pension liability - VMERS	384,568
Accrued compensated absences	<u>47,317</u>
	\$ <u>2,030,594</u>

Business-type activities:

Note payable, VT EPA RF1-032, for wastewater improvements, annual principal payments of \$88,365, no interest, through July 2019	\$ 176,731
Note payable, wastewater improvements annual principal payments of \$1,320 no interest, through December 2020	5,280
Note payable, wastewater improvements annual principal payments of \$4,300 no interest, through December 2024	21,500
Net pension liability - VMERS	37,849
Accrued compensated absences	<u>2,274</u>
	\$ <u>243,634</u>

Changes in governmental activities long-term liabilities for the year ended June 30, 2017 were as follows:

	Balance July 1, <u>2016</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>2017</u>	Due Within <u>One Year</u>
Governmental activities:					
Bond payable	\$ 1,425,000	\$ -	\$ 75,000	\$ 1,350,000	\$ 75,000
Note payable	576,000	-	385,420	190,580	190,580
Capital leases payable	161,023	-	102,894	58,129	28,607
Net pension liability - VMERS	243,596	140,972	-	384,568	-
Accrued compensated absences	<u>54,486</u>	<u>-</u>	<u>7,169</u>	<u>47,317</u>	<u>-</u>
	\$ <u>2,460,105</u>	\$ <u>140,972</u>	\$ <u>570,483</u>	\$ <u>2,030,594</u>	\$ <u>294,187</u>

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2017

5. Long-term liabilities (continued)

Changes in business-type activities long-term liabilities for the year ended June 30, 2017 were as follows:

	Balance July 1, <u>2016</u>	Additions	Retirements	Balance June 30, <u>2017</u>	Due Within <u>One Year</u>
Business-type activities:					
Notes payable	\$ 293,196	\$ -	\$ 89,685	\$ 203,511	\$ 89,685
Net pension liability - VMERS	23,975	13,874	-	37,849	-
Accrued compensated absences	<u>5,241</u>	<u>-</u>	<u>2,967</u>	<u>2,274</u>	<u>-</u>
	\$ <u>322,412</u>	\$ <u>13,874</u>	\$ <u>92,652</u>	\$ <u>243,634</u>	\$ <u>89,685</u>

Annual maturities of the bonds and notes payable at June 30, 2017 were as follows:

Governmental Activities:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>
2018	\$ 265,580	\$ 44,786
2019	75,000	40,548
2020	75,000	39,174
2021	75,000	37,518
2022	75,000	35,625
2023-2027	375,000	144,054
2028-2032	375,000	79,295
2033-2037	<u>225,000</u>	<u>13,378</u>
	\$ <u>1,540,580</u>	\$ <u>434,378</u>

Business-type activities:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>
2018	\$ 89,685	\$ -
2019	89,685	-
2020	1,321	-
2021	5,620	-
2022	4,300	-
2023-2026	<u>12,900</u>	<u>-</u>
	\$ <u>203,511</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, 2017, were as follows:

2018	\$ 30,468
2019	<u>30,468</u>
Total minimum lease payments	60,936
Less: amount representing interest	<u>(2,807)</u>
Present value of minimum lease payments	\$ <u>58,129</u>

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2017

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 \$53,702 to VMERS for the year ended June 30, 2017. The Town contributed \$50,948 to VMERS for the year ended June 30, 2017.

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, 2017, the Town reported a liability of \$422,417 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015 to June 30, 2016. 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, 2016, the Town’s proportion was 0.32823%, which was a decrease of 0.01883% from its proportion measured as of June 30, 2015.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2017

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

For the year ended June 30, 2017, the Town recognized pension expense of \$114,342, related to VMERS. At June 30, 2017, 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>
Net difference between expected and actual experience	\$ 8,678	\$ -
Changes in assumptions	67,839	-
Net difference between projected and actual earnings on pension plan investments	136,968	-
Changes in proportional share of contributions	9,981	6,273
Town contributions subsequent to the measurement date	<u>50,948</u>	<u>-</u>
	<u>\$ 274,414</u>	<u>\$ 6,273</u>

\$50,948 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, 2017. 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, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement; inflation 3.00% per year, salary increases 5.0%, interest rate of 7.95%. Mortality rates were based on RP-2000 tables. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study that was performed for the five-year period ended June 30, 2014.

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, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Rate of Return</u>
Equity	8.54%
Fixed income	2.36%
Alternatives	8.35%
Multi-strategy	4.90%

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.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2017

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 7.95%, 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	\$ 701,254	\$ 422,417	188,948

Required supplementary 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 three most recent fiscal years is as follows:

Schedule of Town’s Proportionate Share of the Net Pension Liability
(Data presented as of the measurement date)

	2016	2015	2014
Town’s proportion of the net pension liability	0.32823%	0.34706%	0.30396%
Town’s proportionate share of the net pension liability	\$ 422,417	\$ 267,571	\$ 27,741
Town’s covered payroll	\$ 837,059	\$ 817,047	\$ 772,752
Town’s proportionate share of the net pension liability as a percentage of its covered payroll	50.46%	32.75%	3.59%
Plan fiduciary net position as a percentage of the total pension liability	80.95%	87.42%	98.32%

There were no benefit changes since June 30, 2015. The actuarial assumptions regarding the incidence of mortality, terminations, retirements, and disabilities were changed in accordance with findings of an experience study covering the five-year period ending June 30, 2014.

Schedule of Town Contributions

	2017	2016	2015
Contractually required contribution	\$ 50,948	\$ 49,886	\$ 48,514
Contributions in relation to the contractually required contribution	<u>(50,948)</u>	<u>(49,886)</u>	<u>(48,514)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Town’s covered payroll	<u>850,236</u>	<u>837,059</u>	<u>817,047</u>
Contributions as a percentage of covered payroll	5.99%	5.96%	5.94%

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2017

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 \$3,421 for these post-employment benefits during the fiscal year ended June 30, 2017.

8. Interfund balances

Interfund receivable and payables balances at June 30, 2017 were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental activities:		
General Fund	\$ -	\$ 365,035
Capital Project Fund	21,893	-
Special Revenue Fund	<u>366</u>	<u>-</u>
	22,259	365,035
Business-type activities:		
Wastewater Fund	<u>342,776</u>	<u>-</u>
	\$ <u>365,035</u>	\$ <u>365,035</u>

The interfund payable from the General Fund to the Capital Project Fund, Special Revenue 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, 2017 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental activities:		
General Fund	\$ -	\$ 139,623
Capital Project Fund	<u>193,983</u>	<u>-</u>
	193,983	139,623
Business-type activities:		
Wastewater Fund	<u>-</u>	<u>54,360</u>
	\$ <u>193,983</u>	\$ <u>193,983</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.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2017

10. Governmental fund equity

As of June 30, 2017, governmental fund balances consisted of the following:

	General Fund	Capital Project Fund	Special Revenue Fund	Total Governmental Funds
Nonspendable:				
Prepays	\$ <u>138,460</u>	\$ _____	\$ _____	\$ <u>138,460</u>
Restricted for:				
Highway operations	508,818	-	-	508,818
Municipal records preservation	-	36,511	-	36,511
Reappraisal	<u>-</u>	<u>48,712</u>	<u>-</u>	<u>48,712</u>
	<u>508,818</u>	<u>85,223</u>	<u>-</u>	<u>594,041</u>
Committed to:				
Castleton Emergency Response Team	-	2,832	-	2,832
Lake improvements	-	596	-	596
Public buildings	-	7,202	-	7,202
Recreation - Crystal Beach	-	21,772	-	21,772
Recreation - Dewey Field	-	903	-	903
Sidewalks	-	67,774	-	67,774
Transfer station	-	78,849	-	78,849
Vehicles & equipment - fire	-	168,986	-	168,986
Vehicles & equipment - highway	-	2,026	-	2,026
Vehicles & equipment - police	-	15,236	-	15,236
Weed harvesting	-	17,780	-	17,780
Wastewater treatment facility	<u>-</u>	<u>227,451</u>	<u>-</u>	<u>227,451</u>
	<u>-</u>	<u>611,407</u>	<u>-</u>	<u>611,407</u>
Assigned to:				
Capital improvements - police vehicles	20,000	-	-	20,000
Capital improvements - Town Office	<u>-</u>	<u>19,386</u>	<u>-</u>	<u>19,386</u>
	<u>20,000</u>	<u>19,386</u>	<u>-</u>	<u>39,386</u>
Unassigned	<u>51,161</u>	<u>-</u>	<u>-</u>	<u>51,161</u>
Total fund balances	\$ <u>718,439</u>	\$ <u>716,016</u>	\$ _____	\$ <u>1,434,455</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.

12. 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.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2017

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 governmental activities of the government-wide financial statements from \$4,540,681 to \$3,658,723, a decrease of \$881,958 to properly report governmental activities net capital assets.

15. Expenditures in excess of budget

For the year ended June 30, 2017, General Fund expenditures exceeded budget appropriations by \$43,055. This was primarily due to unbudgeted expenditures for debt reduction payments for the new Town Office.

TOWN OF CASTLETON, VERMONT
Schedule of Revenues and Expenditures
Budget and Actual - General Fund
For the Year Ended June 30, 2017
(Page 1 of 2)

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 2,267,727	\$ 2,267,727	\$ 2,219,670	\$ (48,057)
Property taxes - penalties & interest	47,000	47,000	61,982	14,982
Intergovernmental	512,661	512,661	555,275	42,614
Licenses, permits & fines	45,400	45,400	41,009	(4,391)
Charges for services	399,967	399,967	405,183	5,216
Investment income	400	400	2,773	2,373
Miscellaneous	2,050	2,050	2,875	825
Total revenues	<u>3,275,205</u>	<u>3,275,205</u>	<u>3,288,767</u>	<u>13,562</u>
Expenditures				
Legislating	26,807	26,807	20,918	5,889
Ordinances & proceedings	1,565	1,565	1,446	119
Managing municipalities	158,470	158,470	150,036	8,434
Conducting elections	11,535	11,535	9,312	2,223
Collecting & distributing funds	41,117	41,117	37,281	3,836
Accounting	82,970	82,970	81,334	1,636
Bad debt	-	-	6,412	(6,412)
Auditing	12,000	12,000	9,950	2,050
Tax listing	19,934	19,934	23,653	(3,719)
Tax collecting	39,705	39,705	43,178	(3,473)
Document recording	68,694	68,694	59,604	9,090
Legal services	20,000	20,000	9,606	10,394
Municipal planning & zoning	40,898	40,898	28,424	12,474
General government buildings	271,709	271,709	461,624	(189,915)
General government equipment	17,200	17,200	15,414	1,786
Police department	438,505	438,505	444,684	(6,179)
Police station	11,065	11,065	11,049	16
Emergency medical services	36,218	36,218	33,601	2,617
Volunteer fire department	213,999	213,999	209,556	4,443
Emergency management	10,100	10,100	11,380	(1,280)
Highway administration	354,532	354,532	197,306	157,226
Summer maintenance	98,665	98,665	136,722	(38,057)
Capital projects	182,123	182,123	264,600	(82,477)
Traffic control	7,000	7,000	9,583	(2,583)
(Increase) decrease in deferred outflows - VMEF	133,094	133,094	199,975	(66,881)
Sidewalks	45,000	45,000	4,106	40,894
Storm drainage services	10,500	10,500	209	10,291
Bridges	40,000	40,000	19,751	20,249
Highway garage	50,325	50,325	37,785	12,540
Town mechanic	106,399	106,399	99,142	7,257
Town lands	3,500	3,500	2	3,498
Historical cemeteries	2,000	2,000	-	2,000
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, 2017
(Page 2 of 2)

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance Favorable (Unfavorable)
<i>continued</i>				
Health, education & social services	50,308	50,308	50,308	-
Health, regulation & inspecting	1,704	1,704	1,695	9
Animal control	1,060	1,060	634	426
Constables	34,721	34,721	34,602	119
Transfer station	294,600	294,600	265,064	29,536
Recreation administration	13,667	13,667	13,668	(1)
Dewey Field	2,663	2,663	4,274	(1,611)
Hydeville Field	1,610	1,610	1,604	6
Swim program	986	986	838	148
Crystal Beach	54,416	54,416	46,144	8,272
Youth sports	6,628	6,628	5,262	1,366
Special events	5,808	5,808	4,397	1,411
Adult recreation	359	359	13	346
Memorial Day decorations	1,200	1,200	1,858	(658)
Library administration	111,500	111,500	111,500	-
Prevention/control forest fires	750	750	-	750
Tree Warden	3,596	3,596	54	3,542
Other governments	34,000	34,000	38,702	(4,702)
Total expenditures	<u>3,200,205</u>	<u>3,200,205</u>	<u>3,243,260</u>	<u>(43,055)</u>
Excess of revenues or (expenditures)	<u>75,000</u>	<u>75,000</u>	<u>45,507</u>	<u>(29,493)</u>
Other financing sources (uses)				
Transfers in (out)	<u>(75,000)</u>	<u>(75,000)</u>	<u>(139,623)</u>	<u>(64,623)</u>
Net change in fund balances	\$ <u> -</u>	\$ <u> -</u>	\$ <u> (94,116)</u>	\$ <u> (94,116)</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The 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, 2017, 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 December 7, 2017 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, 2017-001 and 2017-002, 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

Montpelier, VT
December 7, 2017

TOWN OF CASTLETON, VERMONT
Schedule of Findings
For the Year Ended June 30, 2017

2017-001 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: The Town will continue to work toward fulfillment of the recommendation.

2017-002 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: The Town will continue to work toward fulfillment of the recommendation.