

TOWN OF CASTLETON, VERMONT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORTS
JUNE 30, 2019

TOWN OF CASTLETON, VERMONT

JUNE 30, 2019

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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, 2019, 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, 2019, 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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages, 3 to 8, the budgetary comparison information on pages 30 and 31, the schedule of proportionate share of the net pension liability on page 32, and the schedule of pension contributions on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Castleton, VT's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 19, 2020 on our consideration of the Town of Castleton, VT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Castleton, VT's internal control over financial reporting and compliance.

Pace & Hawley, LLC

Berlin, VT
March 19, 2020

TOWN OF CASTLETON, VERMONT
Management's Discussion and Analysis
June 30, 2019

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, 2019. Please read it in conjunction with the Town's financial statements.

Financial Highlights

- The Town's governmental activities net position increased by \$842,200 because of this year's operations.
- The Town's business-type activities net position increased by \$18,149 because of this year's operations.
- The General Fund reported a net increase in fund balance of \$65,365 because of this year's operations.
- The unassigned fund balance for the General Fund was a surplus of \$170,441 as of June 30, 2019.

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.

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Management's Discussion and Analysis
June 30, 2019

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

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

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

Notes to Financial Statements

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

Financial Analysis of the Government as a Whole

Government-wide Net Position – The following analysis focuses on the net position, and the changes in net position of the Town as a whole. The governmental activities net position of the Town increased from \$5,050,520 to \$5,892,720. The business-type activities net position of the Town increased from \$1,769,179 to \$1,787,328. 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 \$1,301,138 at June 30, 2019.

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

	Governmental Activities		Business-Type Activities		Total Government	
	2019	2018	2019	2018	2019	2018
Current assets	\$ 2,962,110	\$ 2,474,151	\$ 671,694	\$ 451,129	\$ 3,633,804	\$ 2,925,280
Capital assets, net	4,812,819	4,326,461	1,783,585	1,496,107	6,596,404	5,822,568
Total assets	7,774,929	6,800,612	2,455,279	1,947,236	10,230,208	8,747,848
Deferred outflows	176,998	191,640	14,351	15,538	191,349	207,178
Current liabilities	455,857	275,439	347,772	118,962	803,629	394,401
Noncurrent liabilities	1,568,047	1,597,362	332,965	72,997	1,901,012	1,670,359
Total liabilities	2,023,904	1,872,801	680,737	191,959	2,704,641	2,064,760
Deferred inflows	35,303	68,931	1,565	1,636	36,868	70,567
Net position						
Net investment in						
capital assets	3,612,819	3,021,939	1,183,866	1,364,971	4,796,685	4,386,910
Restricted	978,763	1,054,932	-	-	978,763	1,054,932
Unrestricted	1,301,138	973,649	603,462	404,208	1,904,600	1,377,857
	\$ 5,892,720	\$ 5,050,520	\$ 1,787,328	\$ 1,769,179	\$ 7,680,048	\$ 6,819,699

Government-wide Statement of Activities – For the year ended June 30, 2019, governmental activities reported total revenues of \$4,099,329 and total expenses of \$3,308,596 and transfers-in of \$51,467 resulting in a change in net position of \$842,200. For the year ended June 30, 2019, business-type activities reported total revenues of \$709,294 and total expenses of \$639,678 and transfers-out of \$51,467 resulting in an increase in net position of \$18,149.

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Management's Discussion and Analysis
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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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues:						
Program revenues:						
Charges for services	\$ 554,373	\$ 462,064	\$ 704,467	\$ 641,266	\$ 1,258,840	\$ 1,103,330
Operating grants and contributions	1,242,020	936,432	-	-	1,242,020	936,432
General revenues:						
Property taxes	2,167,382	2,327,210	-	-	2,167,382	2,327,210
Proceeds from sale of capital assets	97,439	-	-	-	97,439	-
Investment income	31,182	11,219	3,358	1,313	34,540	12,532
Miscellaneous	6,933	3,789	1,469	3,419	8,402	7,208
Total revenues	<u>4,099,329</u>	<u>3,740,714</u>	<u>709,294</u>	<u>645,998</u>	<u>4,808,623</u>	<u>4,386,712</u>
Expenses:						
General government	658,140	687,089	-	-	658,140	687,089
Public safety	830,086	825,843	-	-	830,086	825,843
Highways and streets	1,205,952	1,043,225	-	-	1,205,952	1,043,225
Culture and recreation	204,963	192,321	-	-	204,963	192,321
Solid waste	340,961	268,736	-	-	340,961	268,736
Cemetery	27,000	25,004	-	-	27,000	25,004
Interest on long-term debt	41,494	46,335	-	-	41,494	46,335
Wastewater operations	-	-	639,678	615,361	639,678	615,361
Total expenses	<u>3,308,596</u>	<u>3,088,553</u>	<u>639,678</u>	<u>615,361</u>	<u>3,948,274</u>	<u>3,703,914</u>
Transfers						
Transfers in (out)	<u>51,467</u>	<u>53,718</u>	<u>(51,467)</u>	<u>(53,718)</u>	-	-
Increase (decrease) in net position	<u>842,200</u>	<u>705,879</u>	<u>18,149</u>	<u>(23,081)</u>	<u>860,349</u>	<u>682,798</u>
Net position, beginning of year,	<u>5,050,520</u>	<u>4,344,641</u>	<u>1,769,179</u>	<u>1,792,260</u>	<u>6,819,699</u>	<u>6,136,901</u>
Net position, end of year	<u>\$ 5,892,720</u>	<u>\$ 5,050,520</u>	<u>\$ 1,787,328</u>	<u>\$ 1,769,179</u>	<u>\$ 7,680,048</u>	<u>\$ 6,819,699</u>

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

- Revenues - There has not been much in the way of large changes to our revenue stream. The Town of Castleton has applied for, and received more grants than usual, so this could be considered the largest contributing factor. The Select Board did raise the fee for permits at the transfer station, but the annual increase was a modest \$6,310. Another modest \$8,036 increase came from revenue the Town receives from the police department speed enforcement complaints (tickets). The Town applies for and is awarded a couple of different grants through the Governor's Highway Safety Program for DUI and speed enforcement, and also receives revenue back through the State of Vermont for the complaints that happened in the Town.
- Expenses - Repair and maintenance of vehicles and equipment. Some of the older police vehicles and highway/transfer station equipment is getting old and requires more maintenance to keep the safe and operational.
- Expenses - Maintenance of the highway garage and transfer station have been deferred over several years and the lack of preventive-type maintenance has reached a crescendo and needed to be completed, both over structural concerns and employee/patron safety.

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

- Revenues - No significant changes to how revenue is calculated and applied to users.
- Expenses - Improvements to the wastewater collection system. The last State-level inspection and upgrades were 20-years ago.
- Expenses - Repairs needed to the Wastewater Treatment Facility. The Board of Sewer Commissioners authorized funds to repair the roof on the operations building as well as replace the windows and doors.

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, 2019, the Town's governmental funds reported combined ending fund balances of \$2,248,451. Of this \$71,797 was nonspendable, \$978,763 was restricted, \$611,973 was committed for specific purposes, \$421,700 was assigned and \$164,218 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, 2019, was \$1,059,932 of which \$170,441 was unassigned. The General Fund had an increase in fund balance of \$65,365 for the year ended June 30, 2019, 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, 2019, was \$1,194,742 of which \$477,585 was restricted, \$611,973 was committed and \$105,184 was assigned. The Capital Project Fund had an increase in fund balance of \$280,004 for the year ended June 30, 2019.

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, 2019, was an unassigned deficit of \$6,223. The Special Revenue Fund had a decrease in fund balance of \$6,223 for the year ended June 30, 2019.

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, 2019, was \$1,787,328 of which \$603,462 was unrestricted. The Wastewater Fund had an increase in net position of \$18,149 for the year ended June 30, 2019.

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, 2019, actual General Fund revenues were \$3,335,609 compared to budgeted amounts of \$3,165,245. Differences in actual versus budgeted revenues were primarily the results of the following items:

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Management's Discussion and Analysis
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- \$28,195 more State of Vermont Education Property Tax Reconciliation than anticipated.
- \$10,369 more overall transfer station revenue than anticipated.
- \$8,036 more in police department revenue from miscellaneous fees.
- \$3,418 more in Town Clerk recording fees than anticipated.
- \$11,288 more in interest and dividends than anticipated due to an increase in the cash balance of approximately \$251,000 and increase in the interest rate of two accounts. The operating account went from 1.21% to 1.56% and the reserve account went from 1.61% to 1.82%.
- \$3,797 more than anticipated through a refund from VLCT.

For the year ended June 30, 2019, actual General Fund expenditures were \$3,134,352 compared to budgeted amounts of \$3,038,777. Differences in actual versus budgeted expenditures were primarily the results of the following items:

- \$8,008 over expenditures by the Police Department.
- \$11,350 over expenditures by Emergency Management. The Town of Castleton purchased a stand-by generator for our Emergency Evacuation Shelter. The Select Board assigned \$11,000 from the previous year to be applied to the generator purchase to make it whole.
- \$46,603 overspent reclaim/repave from capital project operating budget from the highway department.
- \$44,896 expended to purchase a mower/tractor from the City of Albany, NY. The Select Board authorized the purchase of the mower/tractor using funds from the highway department carryover unassigned fund balance.
- \$14,001 from the highway garage for garage and vehicle fuels.
- \$81,775 over expenditure from the highway department to complete the restoration of the western side causeway at Float Bridge.
- \$41,125 over expenditure at the transfer station. The bulk of that was \$19,120 for a new compactor bin and a new roll-off 40-yard open bin.

Capital Assets and Debt Administration

Capital assets governmental activities – As of June 30, 2019, the Town had \$4,812,819 net of accumulated depreciation, invested in capital assets including land, buildings and improvements, and vehicles and equipment for governmental activities. The amount represents a \$486,358 increase from the prior year. Significant new capital asset additions consisted of the following:

- Emergency stand-by-generator at the American Legion (Emergency Shelter)
- New Holland mower/tractor for roadside mowing
- 2800 linear feet of concrete sidewalks (Drake Road to Hydeville Plaza)

Capital assets business-type activities – As of June 30, 2019, the Town had \$1,783,585, net of accumulated depreciation, invested in capital assets including land, buildings and improvements, collection systems, and vehicles and equipment for business-type activities. The amount represents a \$287,478 increase from the prior year. Significant new capital asset additions consisted of the following:

- Route 30S wastewater collection system upgrades

Debt governmental activities – As of June 30, 2019, the Town's governmental activities outstanding debt, consisting of bonds payable, VMERS net pension liability, and accrued compensated absences, was \$1,643,047, a decrease of \$58,837 over the prior year. There were no new governmental activities debt additions for the year ended June 30, 2019.

Debt business-type activities – As of June 30, 2019, the Town's business-type activities outstanding debt, consisting of bonds payable, notes payable, VMERS net pension liability and accrued compensated absences, was \$633,919 an increase of \$471,235 over the prior year. Significant new business-type activities debt consisted of the following:

- Wastewater Improvements (Route 30S)

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Economic Factors and Next Year's Budgets and Rates

The Town's elected and appointed officials considered many factors when setting the fiscal year 2020 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 2020 General Fund operating expenditure budget of \$3,377,170. This represents an increase of 6.7% over the fiscal year 2019 General Fund operating expenditure budget of \$3,165,245.

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, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Totals	Castleton Free Library
Assets				
Current assets:				
Cash and cash equivalents	\$ 2,627,306	\$ -	\$ 2,627,306	\$ 51,046
Investments	-	-	-	294,833
Property taxes, penalty and interest receivable, net of allowance	447,104	-	447,104	-
Accounts receivable, net of allowance	6,814	75,894	82,708	-
Grants receivable	402,683	-	402,683	-
Prepaid expenses	71,797	-	71,797	5,282
Due from Castleton Free Library	2,206	-	2,206	-
Internal balances	(595,800)	595,800	-	-
Total current assets	<u>2,962,110</u>	<u>671,694</u>	<u>3,633,804</u>	<u>351,161</u>
Noncurrent assets:				
Capital assets	6,654,318	7,749,613	14,403,931	-
(Accumulated depreciation)	(1,841,499)	(5,966,028)	(7,807,527)	-
Total noncurrent assets	<u>4,812,819</u>	<u>1,783,585</u>	<u>6,596,404</u>	<u>-</u>
Total assets	<u>7,774,929</u>	<u>2,455,279</u>	<u>10,230,208</u>	<u>351,161</u>
Deferred outflows of resources				
Pension related - VMERS	<u>176,998</u>	<u>14,351</u>	<u>191,349</u>	<u>-</u>
Liabilities				
Current liabilities:				
Accounts payable	316,688	43,764	360,452	415
Accrued payroll and benefits	22,857	1,607	24,464	1,028
Grant advances	5,140	-	5,140	-
Sewer fees received in advance	-	1,447	1,447	-
Other liabilities	36,172	-	36,172	-
Due to Town of Castleton	-	-	-	2,206
Bonds and notes payable, current portion	<u>75,000</u>	<u>300,954</u>	<u>375,954</u>	<u>-</u>
Total current liabilities	<u>455,857</u>	<u>347,772</u>	<u>803,629</u>	<u>3,649</u>
Noncurrent liabilities:				
Net pension liability - VMERS	393,748	31,926	425,674	-
Accrued compensated absences	49,299	2,274	51,573	-
Bonds and notes payable, less current portion	<u>1,125,000</u>	<u>298,765</u>	<u>1,423,765</u>	<u>-</u>
Total noncurrent liabilities	<u>1,568,047</u>	<u>332,965</u>	<u>1,901,012</u>	<u>-</u>
Total liabilities	<u>2,023,904</u>	<u>680,737</u>	<u>2,704,641</u>	<u>3,649</u>
Deferred inflows of resources				
Property taxes received in advance	15,996	-	15,996	-
Pension related - VMERS	19,307	1,565	20,872	-
Total deferred inflows of resources	<u>35,303</u>	<u>1,565</u>	<u>36,868</u>	<u>-</u>
Net position				
Net investment in capital assets	3,612,819	1,183,866	4,796,685	-
Restricted	978,763	-	978,763	-
Unrestricted	<u>1,301,138</u>	<u>603,462</u>	<u>1,904,600</u>	<u>347,512</u>
Total net position	<u>\$ 5,892,720</u>	<u>\$ 1,787,328</u>	<u>\$ 7,680,048</u>	<u>\$ 347,512</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, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
Governmental activities							
General government	\$ 658,140	\$ 88,621	\$ 509,006	\$ (60,513)	\$ -	\$ (60,513)	\$ -
Public safety	830,086	143,502	85,504	(601,080)	-	(601,080)	-
Highways and streets	1,205,952	28,016	647,030	(530,906)	-	(530,906)	-
Culture and recreation	204,963	43,445	480	(161,038)	-	(161,038)	-
Solid waste	340,961	250,789	-	(90,172)	-	(90,172)	-
Cemetery	27,000	-	-	(27,000)	-	(27,000)	-
Interest on long-term debt	41,494	-	-	(41,494)	-	(41,494)	-
Total governmental activities	<u>3,308,596</u>	<u>554,373</u>	<u>1,242,020</u>	<u>(1,512,203)</u>	<u>-</u>	<u>(1,512,203)</u>	<u>-</u>
Business-type activities							
Wastewater operations	<u>639,678</u>	<u>704,467</u>	<u>-</u>	<u>-</u>	<u>64,789</u>	<u>64,789</u>	<u>-</u>
Total primary government	<u>\$ 3,948,274</u>	<u>\$ 1,258,840</u>	<u>\$ 1,242,020</u>	<u>(1,512,203)</u>	<u>64,789</u>	<u>(1,447,414)</u>	<u>-</u>
Component unit							
Castleton Fee Library	<u>\$ 113,340</u>	<u>\$ -</u>	<u>\$ 120,692</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,352</u>
General revenues							
Property taxes, penalties and interest				2,167,382	-	2,167,382	-
Sale of capital assets				97,439	-	97,439	-
Investment income				31,182	3,358	34,540	17,203
Miscellaneous				6,933	1,469	8,402	1,490
Total general revenues				<u>2,302,936</u>	<u>4,827</u>	<u>2,307,763</u>	<u>18,693</u>
Transfers in (out)				<u>51,467</u>	<u>(51,467)</u>	<u>-</u>	<u>-</u>
Change in net position				842,200	18,149	860,349	26,045
Net position, beginning of year				<u>5,050,520</u>	<u>1,769,179</u>	<u>6,819,699</u>	<u>321,467</u>
Net position, end of year				<u>\$ 5,892,720</u>	<u>\$ 1,787,328</u>	<u>\$ 7,680,048</u>	<u>\$ 347,512</u>

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

TOWN OF CASTLETON, VERMONT
Balance Sheet - Governmental Funds
June 30, 2019

	General Fund	Capital Project Fund	Special Revenue Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,441,988	\$ 1,185,318	\$ -	\$ 2,627,306
Property taxes, penalty and interest receivable, net of allowance	447,104	-	-	447,104
Accounts receivable	6,814	-	-	6,814
Grants receivable	-	-	402,683	402,683
Prepaid expenditures	71,797	-	-	71,797
Due from Castleton Free Library	2,206	-	-	2,206
Due from other funds	-	9,424	-	9,424
Total assets	<u>\$ 1,969,909</u>	<u>\$ 1,194,742</u>	<u>\$ 402,683</u>	<u>\$ 3,567,334</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities:				
Accounts payable	\$ 84,082	\$ -	\$ 232,606	\$ 316,688
Accrued payroll and benefits	22,857	-	-	22,857
Grant advances	-	-	5,140	5,140
Other liabilities	36,172	-	-	36,172
Due to other funds	434,064	-	171,160	605,224
Total liabilities	<u>577,175</u>	<u>-</u>	<u>408,906</u>	<u>986,081</u>
Deferred inflows of resources:				
Property taxes received in advance	15,996	-	-	15,996
Unavailable property taxes	316,806	-	-	316,806
Total deferred inflows of resources	<u>332,802</u>	<u>-</u>	<u>-</u>	<u>332,802</u>
Fund balances:				
Nonspendable	71,797	-	-	71,797
Restricted	501,178	477,585	-	978,763
Committed	-	611,973	-	611,973
Assigned	316,516	105,184	-	421,700
Unassigned	170,441	-	(6,223)	164,218
Total fund balances	<u>1,059,932</u>	<u>1,194,742</u>	<u>(6,223)</u>	<u>2,248,451</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,969,909</u>	<u>\$ 1,194,742</u>	<u>\$ 402,683</u>	<u>\$ 3,567,334</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, 2019

Total fund balances - governmental funds	\$ 2,248,451
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Amounts reported for governmental activities in the government-wide statement of net position are different because:

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

Capital assets	6,654,318
Accumulated depreciation	(1,841,499)

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	316,806
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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

	(236,057)
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Long-term liabilities, including notes payable, bonds payable and capital leases, are not due and payable in the current year and therefore are not reported in the governmental funds balance sheet

	<u>(1,249,299)</u>
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Net position - governmental activities	\$ <u>5,892,720</u>
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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, 2019

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 2,136,301	\$ -	\$ -	\$ 2,136,301
Property taxes - penalties & interest	59,453	-	-	59,453
Intergovernmental	648,795	20,732	557,955	1,227,482
Licenses, permits & fines	41,736	-	-	41,736
Charges for services	427,103	-	85,535	512,638
Contributions	-	-	14,537	14,537
Investment income	15,288	15,894	-	31,182
Miscellaneous	6,933	-	-	6,933
Total revenues	<u>3,335,609</u>	<u>36,626</u>	<u>658,027</u>	<u>4,030,262</u>
Expenditures				
Current:				
General government	615,873	10,952	17	626,842
Public safety	627,865	-	138,614	766,479
Highway and streets	1,065,967	-	26,443	1,092,410
Culture and recreation	195,632	-	7,480	203,112
Solid waste	336,761	-	-	336,761
Cemetery	27,000	-	-	27,000
Capital outlay	149,706	-	491,696	641,402
Debt service:				
Principal	75,000	29,522	-	104,522
Interest	40,548	946	-	41,494
Total expenditures	<u>3,134,352</u>	<u>41,420</u>	<u>664,250</u>	<u>3,840,022</u>
Excess of revenues or (expenditures)	<u>201,257</u>	<u>(4,794)</u>	<u>(6,223)</u>	<u>190,240</u>
Other financing sources (uses)				
Proceeds from sale of capital assets	-	97,439	-	97,439
Transfers in (out)	<u>(135,892)</u>	<u>187,359</u>	<u>-</u>	<u>51,467</u>
Total other financing sources (uses)	<u>(135,892)</u>	<u>284,798</u>	<u>-</u>	<u>148,906</u>
Net change in fund balances	65,365	280,004	(6,223)	339,146
Fund balances, beginning of year	<u>994,567</u>	<u>914,738</u>	<u>-</u>	<u>1,909,305</u>
Fund balances, end of year	<u>\$ 1,059,932</u>	<u>\$ 1,194,742</u>	<u>\$ (6,223)</u>	<u>\$ 2,248,451</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, 2019

Net change in fund balances - governmental funds \$ 339,146

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	641,402
Current year depreciation	(155,044)

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. (57,894)

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	104,522
Increase in accrued compensated absences	(1,560)

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

Decrease in unavailable property taxes	<u>(28,372)</u>
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Changes in net position - governmental activities \$ 842,200

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

TOWN OF CASTLETON, VERMONT
Statement of Net Position - Proprietary Fund
June 30, 2019

	Wastewater Fund
Assets	
Current assets:	
Sewer fees receivable, net of allowance	\$ 75,894
Due from other funds	<u>595,800</u>
Total current assets	<u>671,694</u>
Noncurrent assets:	
Capital assets	7,749,613
(Accumulated depreciation)	<u>(5,966,028)</u>
Total noncurrent assets	<u>1,783,585</u>
Total assets	<u>2,455,279</u>
Deferred outflows of resources	
Pension related - VMERS	<u>14,351</u>
Liabilities	
Current liabilities:	
Accounts payable	43,764
Accrued payroll and benefits	1,607
Sewer fees received in advance	1,447
Bonds and notes payable - current portion	<u>300,954</u>
Total current liabilities	<u>347,772</u>
Noncurrent liabilities:	
Accrued compensated absences	2,274
Net pension liability - VMERS	31,926
Bonds and notes payable - less current portion	<u>298,765</u>
Total noncurrent liabilities	<u>332,965</u>
Total liabilities	<u>680,737</u>
Deferred inflows of resources	
Pension related - VMERS	<u>1,565</u>
Net position	
Net investment in capital assets	1,183,866
Unrestricted	<u>603,462</u>
Total net position	<u>\$ 1,787,328</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, 2019

	<u>Wastewater Fund</u>
Operating revenues	
Charges for services	\$ 694,499
Penalties and interest on delinquent accounts	9,968
Miscellaneous	<u>1,469</u>
Total operating revenues	<u>705,936</u>
 Operating expenses	
Personnel services	139,888
Purchased and contract services	133,416
Administrative expenses	21,520
Supplies	41,029
Utilities	81,205
Depreciation	<u>222,620</u>
Total operating expenses	<u>639,678</u>
 Operating income	 <u>66,258</u>
 Nonoperating revenues	
Investment income	<u>3,358</u>
 Transfers	
Transfers in (out)	<u>(51,467)</u>
 Change in net position	 18,149
Net position, beginning of year	<u>1,769,179</u>
Net position, end of year	\$ <u>1,787,328</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, 2019

	Wastewater Fund
Cash flows from operating activities	
Cash received from customers	\$ 727,802
Cash paid to suppliers	(253,059)
Cash paid to employees for services	(140,210)
Net cash provided by operating activities	334,533
Cash flows from noncapital financing activities	
(Increase) decrease in amounts due from other funds	(244,908)
Cash flows from capital and related financing activities	
Interfund transfers	(51,467)
Acquisition of capital assets	(510,098)
Loan proceeds	558,268
Loan repayments	(89,686)
Net cash used by capital and related financing activities	(92,983)
Cash flows from investing activities	
Investment income	3,358
Net increase in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	\$ -
Reconciliation of operating loss to net cash provided by operating activities	
Operating income	\$ 66,258
Adjustment to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	222,620
Change in assets, liabilities, deferred inflows and deferred outflows:	
(Increase) decrease in accounts receivable	24,343
(Increase) decrease in deferred outflows - VMERS	1,187
Increase (decrease) accounts payable	19,417
Increase (decrease) accrued payroll	603
Increase (decrease) accrued compensated absences	(925)
Increase (decrease) fees received in advance	(2,478)
Increase (decrease) deferred inflows - VMERS	(70)
Increase (decrease) net pension liability - VMERS	3,578
Net cash provided by operating activities	\$ 334,533

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

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2019

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, 2019

1. Summary of significant accounting policies (continued)

The Town reports the following major proprietary fund:

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

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

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

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

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

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

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

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

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

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

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2019

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, 2019, the Town has recorded an allowance of \$7,500 and \$7,000 against General Fund property taxes receivable and Wastewater Fund sewer fees receivable, respectively.
- J. Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure are reported in the applicable governmental or business-type activities columns in the government-wide statements and in the proprietary fund financial statements. Capital assets are defined by the Town as assets with an initial individual cost of \$10,000 or more and a minimum useful life of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Donated capital assets are recorded at acquisition value at the date of donation. The Town's governmental activities infrastructure assets include capital outlays for projects occurring after July 1, 2014. Capital assets of the Town are depreciated using the straight-line method over the following useful lives:

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

- K. Property taxes - Property taxes attach as an enforceable lien on property owned as of April 1st. Property taxes for the fiscal year ended June 30, 2019 were payable in four installments due August 31, 2018, November 30, 2018, February 28, 2019 and May 31, 2019.

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, 2019, the Town collected and distributed \$6,388,482 in educational property taxes as instructed by the State of Vermont.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2019

1. Summary of significant accounting policies (continued)

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

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

2. Cash

The Town maintains cash balances which may, at times throughout the year, exceed amounts covered by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2019, the Town's bank balance was \$2,579,002; the corresponding carrying amount of the Town's cash was \$2,678,352 which included \$51,046 of cash reported by the component unit, Castleton Free Library. Of the Town's total bank balance, \$500,025 was covered by the FDIC, \$2,078,977 was collateralized by securities held by the pledging financial institution and \$0 was uninsured and uncollateralized.

3. Investments

As of June 30, 2019, the Town's component unit, Castleton Free Library, reported total investments of \$294,833.

The classification and fair value of investments held at June 30, 2019 were as follows:

<u>Investment</u>	<u>Level 1</u>
Money market funds	\$ 43,487
Mutual funds - equity & fixed income	<u>251,346</u>
	<u>\$ 294,833</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, 2019.

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, 2019.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2019

4. Capital assets

Changes in governmental activities capital assets consisted of the following:

	Balance July 1, <u>2018</u>	<u>Increase</u>	<u>Decrease</u>	Balance June 30, <u>2019</u>
Capital assets, not depreciated:				
Land	\$ 622,844	\$ -	\$ -	\$ 622,844
Construction in process	<u>52,441</u>	<u>6,634</u>	<u>-</u>	<u>59,075</u>
	<u>675,285</u>	<u>6,634</u>	<u>-</u>	<u>681,919</u>
Capital assets, depreciated:				
Buildings & improvements	2,746,143	21,500	-	2,767,643
Equipment, machinery and vehicles	2,262,800	104,672	-	2,367,472
Infrastructure	<u>328,688</u>	<u>508,596</u>	<u>-</u>	<u>837,284</u>
	<u>5,337,631</u>	<u>634,768</u>	<u>-</u>	<u>5,972,399</u>
Less accumulated depreciation	<u>1,686,455</u>	<u>155,044</u>	<u>-</u>	<u>1,841,499</u>
Total capital assets depreciated, net	<u>3,651,176</u>	<u>479,724</u>	<u>-</u>	<u>4,130,900</u>
Capital assets, net, governmental activities	\$ <u>4,326,461</u>	\$ <u>486,358</u>	\$ <u>-</u>	\$ <u>4,812,819</u>

Depreciation expense in the governmental activities totaling \$155,044 was allocated as following; \$63,607 public safety, \$1,851 recreation, \$84,595 highway, \$4,200 solid waste, and \$791 general.

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

	Balance July 1, <u>2018</u>	<u>Increase</u>	<u>Decrease</u>	Balance June 30, <u>2019</u>
Capital assets, not depreciated:				
Land	\$ <u>104,493</u>	<u>-</u>	<u>-</u>	\$ <u>104,493</u>
Capital assets, depreciated:				
Buildings	826,249	-	-	826,249
Sewer buildings and improvements	2,592,665	-	-	2,592,665
Collection system	3,438,220	510,098	-	3,948,318
Machinery and equipment	208,118	-	-	208,118
Vehicles	<u>69,770</u>	<u>-</u>	<u>-</u>	<u>69,770</u>
	<u>7,135,022</u>	<u>510,098</u>	<u>-</u>	<u>7,645,120</u>
Less accumulated depreciation	<u>5,743,408</u>	<u>222,620</u>	<u>-</u>	<u>5,966,028</u>
Total capital assets depreciated, net	<u>1,391,614</u>	<u>287,478</u>	<u>-</u>	<u>1,679,092</u>
Capital assets, net, business-type activities	\$ <u>1,496,107</u>	\$ <u>287,478</u>	\$ <u>-</u>	\$ <u>1,783,585</u>

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2019

5. Long-term liabilities

Long-term liabilities consisted of the following at June 30, 2019:

Governmental activities:	
General obligation bond payable, fire station construction, \$75,000 annual principal payments and semiannual interest payments, variable interest rates from 0.5% to 4.0%, through November 2034	\$ 1,200,000
Net pension liability - VMERS	393,748
Accrued compensated absences	<u>49,299</u>
	<u>\$ 1,643,047</u>
Business-type activities:	
Note payable, wastewater improvements annual principal payments of \$1,320 no interest, through December 2020	\$ 2,640
Note payable, wastewater improvements annual principal payments of \$4,300 no interest, through December 2024	21,500
Bond payable, sewer line upgrade, annual principal and 2% administrative fee payments of \$17,600 no interest, through December 2038	575,579
Net pension liability - VMERS	31,926
Accrued compensated absences	<u>2,274</u>
	<u>\$ 633,919</u>

Changes in governmental activities long-term liabilities for the year ended June 30, 2019 were as follows:

	Balance July 1, <u>2018</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>2019</u>	Due Within <u>One Year</u>
Governmental activities:					
Bond payable	\$ 1,275,000	\$ -	\$ 75,000	\$ 1,200,000	\$ 75,000
Capital leases payable	29,522	-	29,522	-	-
Net pension liability - VMERS	349,623	44,125	-	393,748	-
Accrued compensated absences	<u>47,739</u>	<u>1,560</u>	-	<u>49,299</u>	-
	<u>\$ 1,701,884</u>	<u>\$ 45,685</u>	<u>\$ 104,522</u>	<u>\$ 1,643,047</u>	<u>\$ 75,000</u>

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2019

5. Long-term liabilities (continued)

Changes in business-type activities long-term liabilities for the year ended June 30, 2019 were as follows:

	Balance July 1, <u>2018</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>2019</u>	Due Within <u>One Year</u>
Business-type activities:					
Notes payable	\$ 113,826	\$ -	\$ 89,686	\$ 24,140	\$ 1,320
Bond payable	17,311	558,268	-	575,579	299,634
Net pension liability - VMERS	28,348	3,578	-	31,926	-
Accrued compensated absences	<u>3,199</u>	<u>-</u>	<u>925</u>	<u>2,274</u>	<u>-</u>
	\$ <u>162,684</u>	\$ <u>561,846</u>	\$ <u>90,611</u>	\$ <u>633,919</u>	\$ <u>300,954</u>

Annual maturities of the bonds and notes payable at June 30, 2019 were as follows:

Governmental Activities:		
Year ending June 30,	<u>Principal</u>	<u>Interest</u>
2020	\$ 75,000	\$ 39,174
2021	75,000	37,518
2022	75,000	35,625
2023	75,000	33,530
2024	75,000	31,271
2025-2029	375,000	119,195
2030-2034	375,000	51,234
2035	<u>75,000</u>	<u>1,497</u>
	\$ <u>1,200,000</u>	\$ <u>349,044</u>
Business-type activities:		
Year ending June 30,	<u>Principal</u>	<u>Interest</u>
2020	\$ 300,954	\$ -
2021	17,701	-
2022	16,623	-
2023	16,869	-
2024	17,121	-
2025-2029	72,353	-
2030-2034	75,136	-
2035-2039	<u>82,962</u>	<u>-</u>
	\$ <u>599,719</u>	\$ <u>-</u>

The business-type activities principal balance due for the year ending June 30, 2020 includes actual payments of \$13,164 and \$287,790 in anticipated loan forgiveness resulting in a principal balance due of \$300,954.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2019

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 2.625%, 5.000%, 10.125%, and 11.475% of gross wages for Groups A, B, C and D, respectively, for the year ended June 30, 2019. The municipal employer contributes 4.125%, 5.625%, 7.375%, and 9.975% of gross wages for Groups A, B, C and D, respectively, for the year ended June 30, 2019.

Employees of the Town are covered under Group B and Group C. Town employees contributed \$59,236 to VMERS for the year ended June 30, 2019. The Town contributed \$54,690 to VMERS for the year ended June 30, 2019.

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, 2019, the Town reported a liability of \$425,674 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The Town’s proportion of the net pension liability was based on the Town’s proportional share of employer contributions to the total contributions to VMERS during the fiscal year. At June 30, 2018, the Town’s proportion was 0.30260%, which was a decrease of 0.00937% from its proportion measured as of June 30, 2017.

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2019

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

For the year ended June 30, 2019, the Town recognized pension expense of \$117,276, related to VMERS. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to VMERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 36,974	\$ 6,807
Changes in assumptions	47,138	-
Difference between projected and actual earnings on pension plan investments	49,334	-
Changes in proportional share of contributions	3,213	14,065
Town contributions subsequent to the measurement date	54,690	-
	<u>\$ 191,349</u>	<u>\$ 20,872</u>

\$54,690 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized in pension expense over a period of 5 years.

Actuarial assumptions – The total pension liability, as of June 30, 2018, was based on a June 30, 2017 actuarial valuation using the following actuarial assumptions: investment rate of return 7.50%, salary increases 5.00%, inflation 2.50%, cost of living adjustments 1.15% to 1.30%. Mortality rates were based on RP-2006 and RP-2014 tables.

The long-term expected rate of return of pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of June 30, 2018, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
US equity	18.00%	6.10%
Non-US equity	16.00%	7.45%
Global equity	9.00%	6.74%
Fixed income	26.00%	2.25%
Real estate	8.00%	5.11%
Private markets	15.00%	7.60%
Hedge funds	8.00%	3.86%
	100.00%	

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

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2019

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

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

	1 % Decrease <u>(6.50%)</u>	Discount Rate <u>(7.50%)</u>	1 % Increase <u>(8.50%)</u>
Town's proportionate share of the net pension liability	\$ 720,996	\$ 425,674	\$ 185,496

7. Other post-employment benefits

The Town provides post-employment health insurance benefits under its union agreement. Employees who retire with ten or more years of service are eligible for health insurance coverage until they are able to receive social security benefits. 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 \$7,663 for these post-employment benefits during the fiscal year ended June 30, 2019.

8. Interfund balances

Interfund receivable and payables balances at June 30, 2019 were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental activities:		
General Fund	\$ -	\$ 434,064
Capital Project Fund	9,424	-
Special Revenue Fund	<u>-</u>	<u>171,160</u>
	9,424	605,224
Business-type activities:		
Wastewater Fund	<u>595,800</u>	<u>-</u>
	<u>\$ 605,224</u>	<u>\$ 605,224</u>

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

9. Interfund transfers

Interfund transfers for the year ended June 30, 2019 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental activities:		
General Fund	\$ -	\$ 135,892
Capital Project Fund	<u>187,359</u>	<u>-</u>
	187,359	135,892
Business-type activities:		
Wastewater Fund	<u>-</u>	<u>51,467</u>
	<u>\$ 187,359</u>	<u>\$ 187,359</u>

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2019

9. Interfund transfers (continued)

Transfers from the General Fund and Wastewater Fund to the Capital Project Fund were for voter approved articles authorizing the reserve of funds, and other revenue sources with stipulations on their use for capital improvements or related projects.

10. Risk management

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

11. Governmental fund equity

As of June 30, 2019, governmental fund balances consisted of the following:

	General Fund	Capital Project Fund	Special Revenue Fund	Total Governmental Funds
Nonspendable:				
Prepays	\$ 71,797	\$ -	\$ -	\$ 71,797
Restricted for:				
Highway operations	501,178	-	-	501,178
Municipal records preservation	-	46,894	-	46,894
Wastewater treatment facility	-	339,096	-	339,096
Reappraisal	-	91,595	-	91,595
	<u>501,178</u>	<u>477,585</u>	<u>-</u>	<u>978,763</u>
Committed to:				
Lake improvements	-	610	-	610
Recreation - Crystal Beach	-	22,257	-	22,257
Recreation - Dewey Field	-	923	-	923
Sidewalks	-	69,285	-	69,285
Transfer station	-	90,739	-	90,739
Vehicles & equipment - fire	-	271,758	-	271,758
Vehicles & equipment - highway	-	120,670	-	120,670
Vehicles & equipment - police	-	17,555	-	17,555
Weed harvesting	-	18,176	-	18,176
	<u>-</u>	<u>611,973</u>	<u>-</u>	<u>611,973</u>
Assigned to:				
Capital improvements - Town Office	-	105,184	-	105,184
Capital improvements	106,554	-	-	106,554
Budget-FY2020	209,962	-	-	209,962
	<u>316,516</u>	<u>105,184</u>	<u>-</u>	<u>421,700</u>
Unassigned	170,441	-	(6,223)	164,218
Total fund balances	\$ <u>1,059,932</u>	\$ <u>1,194,742</u>	\$ <u>(6,223)</u>	\$ <u>2,248,451</u>

TOWN OF CASTLETON, VERMONT
Notes to Financial Statements
June 30, 2019

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.

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. Excess expenditures over budget

For the year ended June 30, 2019, General Fund expenditures exceeded budget appropriations by \$95,575. This was primarily due to unanticipated winter highway maintenance and transfer station costs.

15. Deficit fund balance

The Town anticipates eliminating the June 30, 2019 fund balance deficit in the Special Revenue Fund of \$6,223 by receiving grant proceeds in future years.

16. Subsequent event

Subsequent to fiscal year-end, the Town borrowed \$252,915 to finance the purchase of highway equipment.

TOWN OF CASTLETON, VERMONT
Schedule of Revenues and Expenditures
Budget and Actual - General Fund
For the Year Ended June 30, 2019
(Page 1 of 2)

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 2,090,251	\$ 2,090,251	\$ 2,136,301	\$ 46,050
Property taxes - penalties & interest	61,000	61,000	59,453	(1,547)
Intergovernmental	572,500	572,500	648,795	76,295
Licenses, permits & fines	39,850	39,850	41,736	1,886
Charges for services	395,594	395,594	427,103	31,509
Investment income	4,000	4,000	15,288	11,288
Miscellaneous	2,050	2,050	6,933	4,883
Total revenues	<u>3,165,245</u>	<u>3,165,245</u>	<u>3,335,609</u>	<u>170,364</u>
Expenditures				
Legislating	25,375	25,375	21,861	3,514
Ordinances & proceedings	2,565	2,565	1,478	1,087
Managing municipalities	167,916	167,916	135,760	32,156
Conducting elections	11,782	11,782	8,802	2,980
Collecting & distributing funds	42,467	42,467	39,723	2,744
Accounting	86,009	86,009	82,210	3,799
Auditing	12,000	12,000	10,200	1,800
Tax listing	25,138	25,138	25,985	(847)
Tax collecting	35,566	35,566	34,966	600
Document recording	72,081	72,081	65,749	6,332
Legal services	20,000	20,000	17,979	2,021
Municipal planning & zoning	40,100	40,100	27,855	12,245
General government buildings	30,450	30,450	26,386	4,064
Public safety buildings	150,330	150,330	147,955	2,375
General government equipment	20,700	20,700	18,248	2,452
Police department	450,690	450,690	461,576	(10,886)
Emergency medical services	36,218	36,218	31,936	4,282
Volunteer fire department	93,247	93,247	73,915	19,332
Emergency management	11,350	11,350	22,700	(11,350)
Highway administration	356,910	356,910	196,527	160,383
Summer maintenance	71,486	71,486	66,024	5,462
Capital projects	220,346	220,346	266,949	(46,603)
Traffic control	6,000	6,000	2,036	3,964
Winter maintenance	142,182	142,182	280,720	(138,538)
Sidewalks	45,000	45,000	57,998	(12,998)
Storm drainage services	10,000	10,000	743	9,257
Bridges	10,000	10,000	91,775	(81,775)
Highway garage	58,282	58,282	72,283	(14,001)
Town mechanic	104,490	104,490	148,305	(43,815)
Town lands	3,500	3,500	751	2,749
Historical cemeteries	5,000	5,000	-	5,000
Hillside cemetery	27,000	27,000	27,000	-
<i>continued</i>				

TOWN OF CASTLETON, VERMONT
Schedule of Revenues and Expenditures
Budget and Actual - General Fund
For the Year Ended June 30, 2019
(Page 2 of 2)

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance Favorable (Unfavorable)
<i>continued</i>				
Health, education & social services	53,033	53,033	53,033	-
Health, regulation & inspecting	1,506	1,506	1,472	34
Animal control	1,060	1,060	3,153	(2,093)
Constables	36,119	36,119	30,643	5,476
Transfer station	295,636	295,636	336,761	(41,125)
Recreation administration	14,186	14,186	13,609	577
Dewey Field	2,988	2,988	2,824	164
Hydeville Field	1,998	1,998	1,088	910
Swim program	1,025	1,025	951	74
Crystal Beach	63,985	63,985	51,607	12,378
Youth sports	9,913	9,913	6,894	3,019
Special events	5,584	5,584	5,030	554
Adult recreation	50	50	7	43
Memorial Day decorations	2,150	2,150	2,122	28
Library administration	111,500	111,500	111,500	-
Prevention/control forest fires	1,000	1,000	1,925	(925)
Tree Warden	2,864	2,864	6,088	(3,224)
Other governments	40,000	40,000	39,250	750
Total expenditures	<u>3,038,777</u>	<u>3,038,777</u>	<u>3,134,352</u>	<u>(95,575)</u>
Excess of revenues or (expenditures)	<u>126,468</u>	<u>126,468</u>	<u>201,257</u>	<u>74,789</u>
Other financing sources (uses)				
Transfers in (out)	<u>(126,468)</u>	<u>(126,468)</u>	<u>(135,892)</u>	<u>(9,424)</u>
Net change in fund balances	\$ <u>-</u>	\$ <u>-</u>	\$ <u>65,365</u>	\$ <u>65,365</u>

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

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

Notes to schedule:

Data presented as of the measurement date. Historical information prior to implementation of GASB 68 is not required.
The plan provisions used in the measurement of the net pension liability are the same as those used in the actuarial valuation as of June 30, 2017, except for the changes in member contribution rates

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

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

Notes to schedule:

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

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

The Select board
Town of Castleton, 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, 2019, 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 March 19, 2020 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, described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002, that we consider 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 and questioned costs. The Town of Castleton, VT's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Pace & Hawley, LLC

Berlin, VT
March 19, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Select Board
Town of Castleton, VT

Report on Compliance for Each Major Federal Program

We have audited the Town of Castleton, VT's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Town of Castleton, VT's major federal program for the year ended June 30, 2019. The Town of Castleton, VT's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Town of Castleton, VT's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Castleton, VT's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Town of Castleton, VT's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Castleton, VT complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on the major federal program is not modified with respect to these matters.

The Town of Castleton VT's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Castleton, VT's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Town of Castleton, VT is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Castleton, VT's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Castleton, VT's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

The Town of Castleton, VT's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Castleton, VT's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Pace & Hawley, LLC

Berlin, VT
March 19, 2020

TOWN OF CASTLETON, VERMONT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Grant Amount	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Transportation					
Passed through State of Vermont Agency of Transportation:					
Highway Planning and Construction	20.205	08126-EH0020	\$ 346,000	\$ -	\$ 5,194
Highway Planning and Construction	20.205	08131-CA0359	<u>445,940</u>	<u>-</u>	<u>406,834</u>
			791,940	-	412,028
Passed through Rutland County Sheriff's Department:					
State and Community Highway Safety	20.600	GR1321	21,481	-	21,481
Minimum Penalties for Repeat Offenders For Driving While Intoxicated	20.608	GR1321	<u>22,076</u>	<u>-</u>	<u>22,076</u>
<i>Total U.S. Department of Transportation</i>			<u>835,497</u>	<u>-</u>	<u>455,585</u>
U.S. Environmental Protection Agency					
Clean Water State Revolving Fund Cluster					
Passed through State of Vermont Agency of Natural Resources:					
Capitalization Grants for Clean Water State Revolving Loan Funds	66.458	06140-RF1-201	<u>465,700</u>	<u>-</u>	<u>452,530</u>
<i>Total U.S. Environmental Protection Agency</i>			<u>465,700</u>	<u>-</u>	<u>452,530</u>
U.S. Department of Homeland Security					
Direct program:					
Assistance to Firefighters Grant	97.044	n/a	<u>34,464</u>	<u>-</u>	<u>34,464</u>
<i>Total U.S. Department of Homeland Security</i>			<u>34,464</u>	<u>-</u>	<u>34,464</u>
			\$ <u>1,335,661</u>	\$ <u>-</u>	\$ <u>942,579</u>

See accompanying notes to schedule of expenditures of federal awards

TOWN OF CASTLETON, VERMONT
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

- A. Basis of presentation – The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards of the Town of Castleton, VT under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).
- B. Summary of significant accounting policies - The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town and is presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. both measurable and available. Available means collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred if measurable.
- C. Indirect cost rate - The Town did not elect to use the 10% de minimis cost rate.
- D. Clean water state revolving loan cluster - For the year ended June 30, 2019, the Town received \$465,205 in federal loan proceeds from the State of Vermont Agency of Natural Resources related to the capitalization grants for the clean water state revolving loan funds program. The Town incurred federal expenditures of \$452,530 under this loan during the year ended June 30, 2019.

TOWN OF CASTLETON, VERMONT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

A. Summary of auditor's results

The Uniform Guidance requires the following summary of auditor's results to be included in the schedule of findings.

1. The auditor's report expressed a qualified opinion on the discretely presented component unit and unmodified opinions on all other opinion units of the financial statements of the Town of Castleton, VT.
2. Material weaknesses in internal control over financial reporting: None
3. Significant deficiencies in internal control over financial reporting: 2019-002 and 2019-003
4. Noncompliance material to the financial statements: None
5. Type of report issued on compliance with requirements applicable to the major program: Unmodified
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a): 2019-001
7. Material weaknesses in internal control over compliance applicable to each major program: None
8. Significant deficiencies in internal control over compliance applicable to each major program: 2019-001
9. The major program(s) for 2019: Clean Water State Revolving Fund Cluster.
10. For the determination of major federal programs in accordance with the 2 CFR section 200.518(b)(1) the dollar threshold used to distinguish between Type A (larger) and Type B (smaller) programs was \$750,000.
11. For auditing purposes under the Uniform Guidance, the Town was not classified as a low-risk auditee.

TOWN OF CASTLETON, VERMONT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

B. Audit findings - Federal Awards

Finding Number: 2019-001 Activities Allowable, Allowable Cost and Cash Management

Federal program: Capitalization Grants for Clean Water State Revolving Loan Funds (Part of Clean Water State Revolving Fund Cluster)

CFDA number: 66.458

Federal agency: U. S. Environmental Protection Agency

Type of finding: Significant deficiency in internal control over compliance

Criteria: Per CFR section 200.302(b)(6), 200.302(b)(7), and 200.112 a non-federal awarding agency must establish written policies related to the following; receipt of payment of federal funds, determination of allowability of costs in accordance with Subpart E-Cost Principles and conflicts of interest, respectively.

Condition: The Town has not formally adopted certain financial and cash management policies as identified in the code of federal regulations.

Cause: Town personnel were unaware of this requirement

Effect: Transactions could occur that did not comply with federal regulations

Questioned costs: \$0

Perspective information: Auditor requested Town policies through inquiry of Town personnel.

Recommendation: Auditor recommends that the Town obtain an understanding of the required written policies in the Code of Federal Regulations as applicable to its Federal Programs, create and formally adopt those required policies.

Views of responsible officials: The Town Manager does not dispute that the Town should have written policies for receipt of payment of federal funds and the determination of allowability of costs, but since neither the Town Manager or Accountant were aware of the requirement, it will take time to seek out assistance from an entity that is familiar with the process and has written policies in place to review with the Town of Castleton.

C. Audit findings – Financial Statements

2019-002 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.

Perspective information: The Town's sewer fees represent a majority of the revenue recorded in the Sewer Fund.

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

TOWN OF CASTLETON, VERMONT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

C. Audit findings – Financial Statements (continued)

Views of responsible officials: The Town Manager agrees that there should be separation on how sewer fee revenues are billed, collected, and recorded. The fix plan will be to use the newly hired accounting assistant to either do the billing or recording to mitigate the risk of misappropriation of Town assets.

2019-003 Transfer Station

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

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

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

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

Perspective information: For the year ended June 30, 2019, transfer station revenue was \$277,429.

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

Views of responsible officials: The Town Manager is reviewing current internal controls to see where improvements may be required and feasible.

TOWN OF CASTLETON, VERMONT
Schedule of Prior Audit Findings
For the Year Ended June 30, 2019

A. Prior Audit findings - Federal Awards

The Town was not required to complete a Single Audit for the year ended June 30, 2018. Accordingly, there are no prior audit findings related to federal awards.

B. Prior Audit findings - Financial Statements

Prior audit findings, 2018-001 and 2018-002, have been repeated as current year findings 2019-002 and 2019-003, respectively.

TOWN OF CASTLETON, VERMONT
Corrective Action Plan
For the Year Ended June 30, 2019

Corrective action plan

Finding Number: 2019-001

Name of responsible official: Michael A. Jones

Anticipated completion date: April 30, 2020

Corrective action: The Town Manager will seek a consultant familiar with CFR Section 200.302(b)(6), 200.302 (b)(7), and 200.112 to help the Accountant and Town Manager the understand what is required and assist establishing written policies related to receipt of payment of federal funds, determination of allowability of costs in accordance with Subpart E-Cost Principles and conflicts of interest, respectively.

Finding Number: 2019-002

Name of responsible official: Michael A. Jones

Anticipated completion date: April 30, 2020

Corrective action: The Town Manager spoke to the Accountant and discussed some options to reassign either the billing or payment posting to our new accounting assistant. This seems like a relatively simple fix, however; the assistant is new to the job and I would not want to add anything new to her duties and responsibilities until the end of April 2020.

Finding Number: 2019-003

Name of responsible official: Michael A Jones

Anticipated completion date: April 6, 2020

Corrective action: Begin weighing the bins before the leave Castleton and record the weight as compared to the weight receipts at the facility where the material gets disposed. The only change to what we are doing currently is the weighing of the bins before they depart the transfer station. The Town of Castleton also contracted to install a camera system at the transfer station. One camera will be directed at the cash register and one directed at the service window. There will be one outside camera that will be directed at the parking area and steps leading to the operations building.