TOWN OF BOLTON, VERMONT

FINANCIAL STATEMENTS

JUNE 30, 2013
AND
INDEPENDENT AUDITOR'S REPORTS

TOWN OF BOLTON, VERMONT

JUNE 30, 2013

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Mudgett
Jennett &
Krogh-Wisner, P.C.
Certified Public Accountants #435

INDEPENDENT AUDITOR'S REPORT

The Board of Selectmen
Town of Bolton, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Bolton, Vermont (the Town) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's financial statements as listed in the table of contents.

As described in note 1 to the financial statements, the Town prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements on the modified cash basis of accounting described in note 1; 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.

141 Main Street • P.O. Box 937, Montpelier, Vermont 05601 • Phone (802) 229-9193

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Bolton, Vermont as of June 30, 2013 and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in accordance with the basis of accounting described in note 1.

Other Information

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements. The accompanying management's discussion and analysis is presented for purposes of additional analysis and is not a required part of the financial statements.

The management's discussion and analysis has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2013 on our consideration of the Town's internal control over financial reporting, on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Mudgett, Jennett &
Krogh-Wisner, P.C.

Montpelier, Vermont
September 9, 2013

TOWN OF BOLTON, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

The following is a discussion and analysis of the Town of Bolton's (*Town*) financial performance, including an overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013. Readers should consider this information in conjunction with the financial statements, which are located after this analysis. This discussion and analysis provides comparisons between FY 2012 and FY 2013.

FINANCIAL HIGHLIGHTS

Government-wide Highlights

The Town's assets exceeded its liabilities at June 30, 2013 by $938,057 compared to $896,580 at June 30, 2012, which represents an increase in net position of $41,477 or 4.6%. Net position for fiscal year 2012 increased $83,150.

Fund Highlights

At the end of the fiscal year, the Town's governmental funds reported an ending fund equity of $241,060, a decrease of $88,779 over the fund equity of $329,839 for the prior year. Of the total fund balance, $120,781 represents amounts restricted, committed or assigned for specific purposes as shown in note 5 of the financial statements. The result on remaining fund equity is an unassigned fund balance of $120,279. Of the total fund balance at June 30, 2012, $259,726 was restricted, committed or assigned for specific purposes leaving an unassigned fund balance of $70,113.

Long-term Debt

The Town's total long-term debt decreased during the fiscal year to $750,000, a decrease of $100,000 or 11.8%. During the year the Town did not obtain any new long-term debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Town's financial statements consist of two sections: 1) Management's Discussion and Analysis and 2) Financial Statements.

- **Management's Discussion and Analysis** - An introduction to the financial statements that is intended to be an easily read analysis of the Town's financial activities based on currently known facts, decisions or conditions.

- **Financial Statements** - This section of the report includes government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Town's financial position, which helps readers determine whether the Town's financial position has improved or deteriorated during the fiscal year. These statements include all non-fiduciary financial activity on the modified cash basis of accounting, as described in note 1.D. of the financial statements.

- **Statement of Net Position** - This statement presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may indicate whether the financial position of the Town is improving or deteriorating.

- **Statement of Activities** - This statement focuses on the programs of the Town and presents information showing how the Town's net position changed during the most recent fiscal year.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Town's funds are categorized as either governmental or fiduciary.

- **Governmental Funds** - The basic services provided by the Town are reported in the governmental funds. These statements provide a detailed, short-term view of the functions reported as governmental activities in the government-wide financial statements. The Town's only governmental fund is the General Fund.

- **Fiduciary Funds** - The Town also reports fiduciary funds, but does not include the fiduciary balances and activity in the government-wide financial statements because the resources of those funds are not available to support the Town's programs. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government.

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

The governmental activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same measurement focus. Because the focus of governmental funds is more limited than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison can help readers better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and change in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The following indicates some of the reporting differences between the government-wide financial statements and the governmental fund financial statements.

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Long-term liabilities, unless due and payable, are not included in the fund financial statements. These liabilities are only included in the government-wide statements.

- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures in the fund financial statements.
- Long-term debt proceeds provide current financial resources on the fund financial statements, but are recorded as long-term liabilities in the government-wide financial statements.

FINANCIAL ANALYSIS

Government-wide Financial Statements

The Town's combined assets exceeded its liabilities by $938,057 during fiscal year 2013. The net position of the governmental activities increased by $41,477 or 4.6% over the previous fiscal year.

Net Position as of June 30, 2012 and 2013

	2012 Governmental Activities	2013 Governmental Activities
Current Assets	$ 329,839	$ 241,060
Capital Assets, net	1,416,741	1,446,997
Total Assets	$ 1,746,580	$ 1,688,057
Current Liabilities	$ 94,500	$ 100,000
Noncurrent Liabilities	755,500	650,000
Total Liabilities	$ 850,000	$ 750,000
Net Position:		
Net investment in capital assets	$ 566,741	$ 696,997
Restricted	259,726	29,512
Unrestricted	70,113	211,548
Total Net Position	$ 896,580	$ 938,057

The largest portion of the Town's net position (74%) reflects its investment in capital assets (e.g., land, buildings and improvements, machinery and equipment), less any related outstanding debt used to acquire those assets. These assets are recorded net of depreciation in the financial statements. The Town uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the Town's net position (3%) represents resources that are subject to restrictions specifying how they may be used.

The remaining portion (23%) of the Town's net position is unrestricted.

The following condensed financial information was derived from the Government-wide Statement of Activities and provides detail regarding the change in net position.

Changes in Net Position for the Fiscal Years Ended June 30, 2012 and 2013

	2012 Governmental Activities	2013 Governmental Activities
Revenues:		
Program Revenues:		
Charges for Services	$ 22,700	$ 20,905
Grants and Contributions	239,600	232,597
Other	41,802	19,943
	304,102	273,445
General Revenues:		
Taxes - Town & School	2,241,832	2,321,322
Interest Income	662	565
	2,242,494	2,321,887
Total Revenues	2,546,596	2,595,332
Expenses:		
General Government	271,759	328,924
Education	1,534,011	1,563,350
Highway Department	521,267	550,203
Fire Department	114,387	87,346
Interest on Debt	22,022	24,032
Total Expenses	2,463,446	2,553,855
Increase (Decrease) in Net Position	83,150	41,477
Beginning Net Position, July 1	813,430	896,580
Ending Net Position, June 30	$ 896,580	$ 938,057

Total governmental activity expenses were $2,463,446 and $2,553,855 in fiscal years 2012 and 2013, respectively. The largest expenses were incurred for education and highway. The expenses do not include capital outlays, which are reflected instead as capital assets.

Program revenues are derived directly from the program itself or from parties outside the reporting government's taxpayers. They reduce the net cost of the function to be financed from the government's general revenues. Total program revenue from governmental activities was $304,102 in 2012 and $273,445 in 2013. Governmental program revenues come from charges for services, which include various licenses, permits and fees. Program revenues in the grants and contributions category include federal, state and local grants that are restricted for program use.

General revenues are all other revenue not categorized as program revenues and include property taxes and interest income. Total general revenues from governmental activities were $2,242,494 in fiscal 2012 and $2,321,887 in fiscal 2013. Approximately 99% of the Town's total general revenues came from taxes in 2012 and 2013.

Fund Financial Statements

The General Fund is the Town's only governmental fund. The fund balance for the General Fund decreased from $329,839 in FY 2012 to $241,060 in FY 2013, an $88,779 decrease. $120,781 represents amounts restricted, committed or assigned for specific purposes as shown in note 5 of the financial statements.

General Fund revenues were $249,782 more than budgeted. Significant variances consisted of delinquent taxes, penalties and interest collections of $73,147, as well as intergovernmental grant proceeds of $180,597, due partially to a highway paving grant from the State of Vermont.

General Fund expenditures were $338,561 more than budgeted. Significant variances consisted of capital outlay for the purchase of the Fischer property of $69,798, road maintenance and repair in the highway department of $102,769, FEMA storm damage repair of $55,877, related to tropical storm Irene, and capital outlay related to the truck purchase for the highway department.

Capital Assets

The following is a schedule of capital assets as of June 30, 2012 and 2013.

	2012	2013
Land	$ 261,480	$ 331,677
Fire Machinery and Equipment	519,508	519,508
Highway Machinery and Equipment	577,496	573,460
Buildings and Improvements	951,426	965,001
Infrastructure	346,518	346,518
Accumulated Depreciation	(1,239,687)	(1,289,167)
Total Net Capital Assets	$ 1,416,741	$ 1,446,997

The Town had $1,416,741 and $1,446,997 invested in capital assets, net of depreciation, on June 30, 2012 and June 30, 2013, respectively. Net increase between the two periods amounted to $30,256. Capital asset additions during FY 2013 consisted of renovations to the fire station, the purchase of a new truck for the Highway department, and the purchase of the Fischer property.

Long-term Debt

At the end of the fiscal year, the Town had $750,000 in long-term debt outstanding compared to $850,000 in the prior year, an approximate 11.8% decrease. A list of outstanding long-term debt follows:

	2012	2013
Bond payable - Notch Road Reconstruction	$ 340,000	$ 300,000
Municipal note - Fire Truck	100,000	80,000
Municipal note - Town Office Reconstruction	120,000	100,000
Municipal note - Fire Department Renovations	290,000	270,000
	$ 850,000	$ 750,000

Fiscal Year 2014 Budget

The Town's FY 2014 total operating budget is $805,000 (does not include school taxes). The Town's FY 2013 total operating budget was $782,200. The increase is $22,800 or 2.9% over the previous year. The FY 2014 net budget (less anticipated revenues) is $659,255. The FY 2013 net budget was $641,200. The increase of $18,055 is an increase of 2.8% in the amount to be raised by taxes.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all of its citizens, taxpayers, customers and creditors. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the Town of Bolton, 3045 Theodore Roosevelt Highway, Waterbury, VT 05676.

TOWN OF BOLTON, VERMONT
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities
ASSETS:	
Current assets -	
Cash and cash equivalents	$ 241,060
Noncurrent assets -	
Capital assets	2,736,164
less - accumulated depreciation	(1,289,167)
Total noncurrent assets	1,446,997
Total assets	1,688,057
LIABILITIES:	
Current liabilities -	
Current portion of long-term debt	100,000
Total current liabilities	100,000
Noncurrent liabilities -	
Long-term debt	650,000
Total noncurrent liabilities	650,000
Total liabilities	750,000
NET POSITION:	
Net investment in capital assets	696,997
Restricted	29,512
Unrestricted	211,548
Total net position	$ 938,057

The notes to financial statements are an integral part of this statement.

TOWN OF BOLTON, VERMONT
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

		Program Revenues			Net (Expense) Revenue and Change in Net Position
	Expenses	Grants and Contributions	Charges for Services	Other	
FUNCTIONS/PROGRAMS:					
Governmental activities -					
General Government	$ 328,924	$ 2,500	$ 19,419	$ 14,418	$ (292,587)
Education	1,563,350	-	-	-	(1,563,350)
Highway Department	550,203	230,097	1,486	5,525	(313,095)
Fire Department	87,346	-	-	-	(87,346)
Interest	24,032	-	-	-	(24,032)
Total governmental activities	$ 2,553,855	$ 232,597	$ 20,905	$ 19,943	(2,280,410)

GENERAL REVENUES - PROPERTY TAXES	2,321,322
- INTEREST INCOME	565
	2,321,887
CHANGE IN NET POSITION	41,477
NET POSITION, July 1, 2012	896,580
NET POSITION, June 30, 2013	$ 938,057

The notes to financial statements are an integral part of this statement.

TOWN OF BOLTON, VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013
(Page 1 of 2)

	General Fund
ASSETS	
Cash and cash equivalents	$ 241,060
LIABILITIES AND FUND EQUITY	
LIABILITIES	$ -
FUND BALANCES:	
Restricted	15,298
Committed	14,214
Assigned	91,269
Unassigned	120,279
Total fund balances	241,060
Total liabilities and fund equity	$ 241,060

The notes to financial statements are an integral part of this statement.

TOWN OF BOLTON, VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013
(Page 2 of 2)

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION:

Amount reported on Balance Sheet - Governmental Funds - total fund balance	$ 241,060
Amounts reported for governmental activities in the Government-wide Statement of Net Position are different because -	
Capital assets used in governmental funds are not financial resources and are therefore not reported in the funds.	
Capital assets	2,736,164
Accumulated depreciation	(1,289,167)
Long-term liabilities not due and payable in the current period are not reported in the funds.	
Long-term debt	(750,000)
Net Position of Governmental Activities - Government-wide Statement of Net Position	$ 938,057

The notes to financial statements are an integral part of this statement.

TOWN OF BOLTON, VERMONT
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013
(Page 1 of 2)

	General Fund
REVENUE COLLECTED:	
Property taxes	$ 2,248,175
Delinquent taxes, penalties and interest	73,147
Licenses, permits and fees	19,880
Intergovernmental	232,597
Interest	565
Miscellaneous	20,968
Total revenue collected	2,595,332
EXPENDITURES PAID:	
Current -	
General Government	303,390
Highway Department	513,025
Fire Department	61,477
Education	1,563,350
Capital outlay	118,837
Debt service - Principal	100,000
- Interest	24,032
Total expenditures paid	2,684,111
NET CHANGE IN FUND BALANCE	(88,779)
FUND BALANCE, July 1, 2012	329,839
FUND BALANCE, June 30, 2013	$ 241,060

The notes to financial statements are an integral part of this statement.

TOWN OF BOLTON, VERMONT
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013
(Page 2 of 2)

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES:

Net change in fund balance - total Governmental Funds	$ (88,779)
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 those assets is allocated over their estimated useful lives as depreciation expense.	
Capital outlay, net	117,261
Depreciation	(87,005)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.	
Debt service - Principal	100,000
Change in Net Position of Governmental Activities - Government-wide Statement of Activities	$ 41,477

The notes to financial statements are an integral part of this statement.

TOWN OF BOLTON, VERMONT
STATEMENT OF REVENUE AND EXPENDITURES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013
(Page 1 of 2)

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUE COLLECTED:			
Property taxes, net of school share ($1,563,350)	$ 730,200	$ 684,825	$ (45,375)
Delinquent taxes, penalties and interest	-	73,147	73,147
Licenses, permits and fees	-	19,880	19,880
Intergovernmental	52,000	232,597	180,597
Interest	-	565	565
Miscellaneous	-	20,968	20,968
Total revenue collected	782,200	1,031,982	249,782
EXPENDITURES PAID:			
General Government -			
Administration	97,300	102,664	(5,364)
Operational	28,600	53,300	(24,700)
Contracts	38,800	64,385	(25,585)
Refunds/overpayments	-	8,051	(8,051)
Insurance	23,000	29,464	(6,464)
Lister expense	20,500	21,484	(984)
Capital outlay	-	69,798	(69,798)
Miscellaneous	12,900	24,042	(11,142)
Debt service -			
Principal	80,000	80,000	-
Interest	19,200	18,730	470
	320,300	471,918	(151,618)
Highway Department -			
Administration	129,500	146,151	(16,651)
Debt service -			
Principal	6,700	-	6,700
Interest	17,000	-	17,000
Maintenance	78,700	58,426	20,274
Equipment	6,500	4,051	2,449

The notes to financial statements are an integral part of this statement.

TOWN OF BOLTON, VERMONT
STATEMENT OF REVENUE AND EXPENDITURES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013
(Page 2 of 2)

	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES PAID (CONTINUED):			
Highway Department (continued) -			
Chemicals	57,000	68,199	(11,199)
Vehicles	18,000	21,799	(3,799)
Road maintenance and repair	39,500	142,269	(102,769)
FEMA storm damage repair	-	55,877	(55,877)
Capital outlay	-	35,464	(35,464)
Reserves	10,000	-	10,000
Supplies	17,000	16,253	747
	379,900	548,489	(168,589)
Fire Department -			
Administration	36,200	45,016	(8,816)
Debt service -			
Principal	20,000	20,000	-
Interest	5,000	5,302	(302)
Capital outlay	-	13,575	(13,575)
Reserves	4,500	-	4,500
Communication	4,500	2,513	1,987
Supplies and equipment	6,500	7,231	(731)
Maintenance	5,300	6,717	(1,417)
	82,000	100,354	(18,354)
Total expenditures paid	782,200	1,120,761	(338,561)
NET CHANGE IN FUND BALANCE	$ -	$ (88,779)	$ (88,779)

The notes to financial statements are an integral part of this statement.

TOWN OF BOLTON, VERMONT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Cemetery Fund	Good Citizen Fund	Senior Meals Program Fund	Totals Fiduciary Funds
ASSETS:				
Cash and cash equivalents	$ 8,288	$ 1,679	$ 1,065	$ 11,032
LIABILITIES	-	-	1,065	1,065
NET POSITION:				
Restricted	8,288	1,679	-	9,967
Total net position	$ 8,288	$ 1,679	$ -	$ 9,967

The notes to financial statements are an integral part of this statement.

TOWN OF BOLTON, VERMONT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Cemetery Fund	Good Citizen Fund	Totals Fiduciary Funds
ADDITIONS:			
Interest	$ 14	$ 8	$ 22
DEDUCTIONS:			
Expenses	-	-	-
CHANGE IN NET POSITION	14	8	22
NET POSITION, July 1, 2012	8,274	1,671	9,945
NET POSITION, June 30, 2013	$ 8,288	$ 1,679	$ 9,967

The notes to financial statements are an integral part of this statement.

1. Summary of significant accounting policies:

The Town of Bolton, Vermont (the Town) is a unit of local government organized under the statutes of the State of Vermont. The Town is governed by a five-member Selectboard. The Town provides various services as authorized and funded by State government or Town voters.

A. Reporting entity - The Town's financial statements include all of the financial activity of the general government. The Town is a primary unit of government under reporting criteria established by the Governmental Accounting Standards Board (GASB). Those criteria include a separately elected governing body, separate legal standing, and fiscal independence from other state and local governmental entities. Based on these criteria, there are no other entities which are component units of the Town.

The financial statements of the Town have been prepared on the modified cash basis described in note 1.D., a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing *Governmental Accounting and Financial Reporting Standards* which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

B. Government-wide and fund financial statements - The financial statements include both government-wide and fund financial statements. The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. 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 Town has no business-type activities.

In the government-wide statement of net position, the financial position of the Town is consolidated and incorporates capital assets as well as long-term debt and obligations. The government-wide statement of activities reflects both the gross and net costs by category. Direct expenses that are clearly identifiable with the category are offset by program revenues of the category. Program revenues include charges for services provided by a particular function or program and grants that are restricted to meeting the operational or capital requirements of the particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major governmental funds are reported as separate columns in the fund financial statements.

C. Basis of presentation - The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenue and expenditures or expenses.

1. Summary of significant accounting policies (continued):

C. Basis of presentation (continued) -

The Town reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources, except those required to be accounted for in another fund.

The Town also reports fiduciary funds which are used to account for resources held for the benefit of parties outside the Town. The Town's fiduciary funds are the Cemetery Fund, Good Citizen Fund and Senior Meals Program Fund.

D. Measurement focus and basis of accounting - The government-wide financial statements, the governmental fund financial statements and the fiduciary fund financial statements are reported on a current financial resource measurement focus and the modified cash basis of accounting. Under this method of accounting, revenue and the related assets are recognized when received rather than when earned and expenditures are recognized when paid rather than when the obligation is incurred. Capital assets for governmental activities are recorded and depreciated over their estimated useful lives on the government-wide financial statements. Receivables, payables, accrued revenue and expenditures which may be material in amount, have not been recognized in the accompanying statements. Accordingly, these financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

E. Budgets and budgetary accounting - The Town follows these procedures in establishing the budgetary data for the General Fund:

1. The Highway Department and Fire Department give a budget to the Town Clerk/Treasurer who then prepares a preliminary operating budget for the General Fund for the Town's fiscal year and presents the proposed budget to the Selectboard. The Selectboard reviews the proposed budget. The Town Treasurer prepares the annual report to present to voters on Town Meeting Day held in March of each year.

2. Voters approve or amend the budget and authorize the Selectboard to levy property taxes. The municipal tax rate is then calculated by the Town Clerk/Treasurer and approved by the Selectboard, based on the budget approved by the voters and the grand list of property values in the Town.

3. The Selectboard approves any budget revisions.

F. Cash and cash equivalents - Cash and cash equivalents belonging to the Town are placed in the custody of the Town's Treasurer, an elected official of the Town. The Town considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

1. Summary of significant accounting policies (continued):

G. Capital assets - Capital assets, which include property, plant, equipment, and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The Town does not retroactively report infrastructure assets. The Town began capitalizing newly acquired or constructed general infrastructure assets as of July 1, 2009. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized when projects are 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. Capital assets of the Town are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	30 years
Machinery and equipment	7 - 10 years
Infrastructure	50 years

H. Compensated absences - The Town has a policy under which employees forfeit their unused vacation at the end of the year. Sick days may not be carried over to the next fiscal year.

I. Long-term obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements, governmental fund types recognize the amount of debt issued as other financing sources and the repayment of debt as debt service expenditures.

J. Retirement plan - The Town funds pension cost on a current basis. Town employees are members of the State administered Vermont Municipal Employees' Retirement System. The Town and its employees each contribute a statutory percentage of compensation to the system.

K. Fund balances - In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the fund financial statements, governmental funds may report five categories of fund balances: nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance includes amounts associated with inventory, prepaid expenditures, long-term loans or notes receivable, and trust fund principal to be held in perpetuity.

Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed fund balance includes amounts that can be used only for specific purposes determined by the Town's highest level of decision making authority, the voters, as a result of articles passed at Annual or Special Town Meetings.

Assigned fund balance includes amounts that are intended to be used by the Town for specific purposes as authorized by the Selectboard.

Unassigned fund balance is the residual classification for the government's General Fund and includes all spendable amounts not contained in another classification.

The Town's policy is to apply expenditures against fund balance in the order of restricted, committed, assigned and unassigned unless motions by the Selectboard specify otherwise.

1. Summary of significant accounting policies (continued):

L. Estimates - The preparation of financial statements requires 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 and expenditures during the reporting period. Actual results could differ from those estimates.

M. Risk management - The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; injuries to employees and others; and environmental liability. 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 losses to the Town. There have been no claims resulting from these risks in any of the past three fiscal years.

N. Property taxes - Property taxes attach as an enforceable lien on property owned as of April 1st. Elected listers establish a grand list of all property and the Selectboard sets the tax rate required to raise the tax revenue authorized by Town and School District voters and the Vermont Department of Education. General Fund taxes are levied as of April 1st and are collected in four equal installments due September 19th, November 15th, February 15th and May 15th.

O. New accounting standard - The Town has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* The impact on these financial statements was to change the term "Net Assets" to "Net Position." In the future, deferred outflows of resources and deferred inflows of resources, if applicable, would be reported in the statement of net position.

2. Custodial credit risk - deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2013, all of the Town's deposits of $261,040 were fully insured or collateralized.

3. Capital assets:

Capital asset activity of the governmental activities for the year ended June 30, 2013 is as follows:

	Balance July 1, 2012	Increase	Decrease	Balance June 30, 2013
Capital assets, not depreciated:				
Land	$ 261,480	$ 70,197	$ -	$ 331,677
Capital assets, depreciated:				
Fire machinery and equipment	519,508	-	-	519,508
Highway machinery and equipment	577,496	35,464	(39,500)	573,460
Buildings and improvements	951,426	13,575	-	965,001
Infrastructure	346,518	-	-	346,518
Total capital assets depreciated	2,394,948	49,039	(39,500)	2,404,487

3. Capital assets (continued):

	Balance July 1, 2012	Increase	Decrease	Balance June 30, 2013
Less accumulated depreciation for:				
Fire machinery and equipment	402,253	25,869	-	428,122
Highway machinery and equipment	453,069	28,273	(37,525)	443,817
Buildings and improvements	376,049	25,933	-	401,982
Infrastructure	8,316	6,930	-	15,246
Total accumulated depreciation	1,239,687	87,005	(37,525)	1,289,167
Total capital assets depreciated, net	1,155,261	(37,966)	(1,975)	1,115,320
Capital assets, net	$ 1,416,741	$ 32,231	$ (1,975)	$ 1,446,997

Depreciation expense of $87,005 for governmental activities was charged to expenses of the General Government ($25,933), Highway Department ($35,203) and the Fire Department ($25,869) based on capital assets assigned to those functions.

4. Debt:

Long-term - The Town is indebted at June 30, 2013 as follows:

Governmental activities -	
Bond payable, Vermont Municipal Bond Bank - 2010 Series 2, various interest rates, currently at 1.033%. Annual principal payment ranging from $20,000 to $40,000. Matures December 2020.	$ 300,000
Note payable to Merchants Bank for the purchase of a fire truck. Annual principal payments of $20,000 plus interest at 5.25% due through March 2017.	80,000
Note payable to Merchants Bank for the construction of new Town offices. Annual principal payments of $20,000 plus interest at 5.35% due through August 2017.	100,000
Note payable to Merchants Bank for fire station renovations. Annual principal payments of $14,500 plus interest at 3.61% due annually through November 2015 and a final payment of $226,500 due November 2016.	270,000
Total governmental activities	$ 750,000

4. Debt (continued):

Changes in long-term debt for the year ended June 30, 2013 are as follows:

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013	Due Within One Year
2010 Series 2 Bond	$ 340,000	$ -	$ 40,000	$ 300,000	$ 40,000
N/P - Merchants Bank, interest at 5.25%	100,000	-	20,000	80,000	20,000
N/P - Merchants Bank, interest at 5.35%	120,000	-	20,000	100,000	20,000
N/P - Merchants Bank, interest at 3.61%	290,000	-	20,000	270,000	20,000
	$ 850,000	$ -	$ 100,000	$ 750,000	$ 100,000

Debt service requirements to maturity are as follows:

	Principal	Interest
Years ending June 30,		
2014	$ 94,500	$ 25,576
2015	94,500	22,246
2016	94,500	18,760
2017	306,500	15,247
2018	60,000	4,056
2019-2021	100,000	3,338
	$ 750,000	$ 89,223

5. Fund balances:

For the year ended June 30, 2013, the changes in the General Fund's restricted, committed and assigned fund balances are as follows:

	Balance July 1, 2012	Increase	Decrease	Interest Earned	Balance June 30, 2013
Restricted:					
Public works - road cut repairs	$ 2,003	$ 1,025	$ 1,000	$ 7	$ 2,035
Restoration	3,322	-	1,506	6	1,822
Education Scholarship	4,431	-	-	15	4,446
Emberley Scholarship	1,805	-	-	6	1,811
Wheeler surplus	2,398	-	-	9	2,407
Watershed	2,769	-	-	8	2,777
Total restricted	$ 16,728	$ 1,025	$ 2,506	$ 51	$ 15,298

5. Fund balances (continued):

	Balance July 1, 2012	Increase	Decrease	Interest Earned	Balance June 30, 2013
Committed:					
Land conservation	$ 20,665	$ -	$ 6,500	$ 49	$ 14,214
Assigned:					
Hardship	$ 1,086	$ -	$ -	$ 4	$ 1,090
Public works - construction	2,814	-	2,814	-	-
Public works - bridges	1,145	-	1,145	-	-
Public works - equipment	40,993	-	35,464	19	5,548
Public works - buildings	10,023	-	-	34	10,057
Public works - resurfacing/guardrails	5,120	5,000	-	35	10,155
Public works - Notch Road surplus	25,112	-	-	86	25,198
Public works - FEMA surplus	87,252	10,510	87,251	36	10,547
Fire Department - equipment	31,312	-	8,405	80	22,987
Fire Department - hose	5,667	-	-	20	5,687
Fire Department - insurance reimb.	7,615	-	7,615	-	-
Generators	3,952	-	3,952	-	-
General government	242	-	242	-	-
Total assigned	$ 222,333	$ 15,510	$ 146,888	$ 314	$ 91,269

6. Pension plan:

Vermont Municipal Employees' Retirement System -

Plan description: The Town contributes to the Vermont Municipal Employees' Retirement System (VMERS) a cost-sharing multiple-employer public employee retirement system with defined benefit and defined contribution plans, administered by the State of Vermont. VMERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The State statutory provisions, found in Title 24, Chapter 125, of the V.S.A., govern eligibility for benefits, service requirements and benefit provisions. The general administration and responsibility for the proper operation of VMERS is vested in the Board of Trustees consisting of five members. VMERS issues annual financial information which is available and may be reviewed at the VMERS' office, 109 State Street, Montpelier, Vermont, 05609-6901 or by calling (802) 828-2305.

Funding policy: Defined Benefit Plan members are required to contribute 2.5% (Group A), 4.5% (Group B), 9.25% (Group C) or 11.00% (Group D) of their annual covered salary, and the Town is required to contribute 4% (Group A), 5% (Group B), 6.5% (Group C) or 9.5% (Group D) of the employees' compensation. Defined Contribution Plan members are required to contribute 5% of their annual covered salary and the Town is required to contribute an equal dollar amount. The contribution requirements of plan members and the Town are established and may be amended by the Board of Trustees. The Town's contributions to VMERS for the years ended June 30, 2013, 2012, and 2011 were $7,103, $6,873 and $6,580, respectively, which were equal to the required contributions for each year.

6. Pension plan (continued):

The July 1, 2012 actuarial valuation of VMERS reports asset market value of $417,443,451 and actuarial accrued liability of $488,571,748, leaving an actuarial shortfall of $71,128,297.

7. Budgetary basis of accounting:

These financial statements include totals for General Fund revenue and expenditures on the Town's budgetary accounting basis, which vary from the totals of revenue and expenditures recognized on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

	Revenues Collected	Expenditures Paid
Modified cash basis	$ 2,595,332	$ 2,684,111
School/state taxes	(1,563,350)	(1,563,350)
Budget basis	$ 1,031,982	$ 1,120,761

Mudgett
Jennett &
Krogh-Wisner, P.C.
Certified Public Accountants #435

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 Board of Selectmen
Town of Bolton, Vermont

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Bolton, Vermont (the Town) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's financial statements, and have issued our report thereon dated September 9, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and other deficiencies that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 13-1 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 13-2 to be a significant deficiency.

We also noted certain control deficiencies, that are reported as findings 13-3 and 13-4, which were not considered material weaknesses or significant deficiencies.

141 Main Street • P.O. Box 937, Montpelier, Vermont 05601 • Phone (802) 229-9193

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from 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*.

Town's Response to Findings

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Management's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Town's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Mudgett, Jennett & Krogh-Wisner, P.C.

Montpelier, Vermont
September 9, 2013

Material Weaknesses

13-1 Segregation of duties:

As reported in the prior year, we found that current procedures provide limited segregation of duties in the processing of cash receipts and disbursements. The Town Clerk/Treasurer deposits receipts at the bank, has sole access to the general ledger, signs checks and reconciles the bank statements. Segregation of duties between accounting and treasury functions is a material control and can prevent fraud. We recommend the Town segregate duties in these functions by designating an individual other than the Town Clerk/Treasurer to perform monthly bank reconciliations and other oversight tasks.

Management's response - Bank deposits are handled between the Town Clerk/Treasurer and the Assistant Town Clerk/Treasurer. The Assistant processes the miscellaneous cash receipts, prepares the deposit ticket and either the Town Clerk/Treasurer or the Assistant takes the deposit to the bank. Since the posting of taxes is handled through the NEMRC computer module on the Town Clerk/Treasurer's computer, the Town Clerk/Treasurer prepares the deposits for tax collections. The Town Clerk/Treasurer reconciles all bank statements. There are only two people in the office, making segregation of duties limited, but all work is reviewed by the Town Clerk/Treasurer through the reconciliation process.

Significant Deficiencies

13-2 Capital assets and long-term debt accounting:

As reported in the prior year, we proposed adjusting journal entries to record capital assets, depreciation and accumulated depreciation, and long-term debt. While capital outlays for property and equipment, as well as principal and interest payments have been properly recorded as operating expenditures, transactions and balances of capital assets, depreciation, and liabilities are not recorded in separate accounts in the general ledger. The presentation of this activity is required for complete financial reporting. We recommend that the Town record all capital assets and financing activity throughout the year.

Management's response - The Selectboard will consider developing a plan to record capital assets and financing in the general ledger on an annual basis.

Other Control Deficiencies

13-3 Warrants:

During the audit we noted that one warrant, which listed checks to election workers, was not signed by the Selectboard. The signed warrants are the Treasurer's authorization to disburse Town funds and are a key part of the Town's internal control over cash transactions. We recommend that the Town implement additional controls over the warrant process to ensure a complete record of authorized cash disbursements is maintained throughout the year.

Management's response - In the future the Treasurer will print warrants to be signed by the Selectboard at the time that the invoices are posted and the checks are printed.

13-4 Municipal tax rate:

During the audit we noted that the municipal portion of the Town's tax rate was calculated incorrectly and was based upon the original budget presented instead of the increased amount approved at Town Meeting. As a result the Town billed approximately $9,700 less in taxes than was authorized to fund the increased FY13 budget. We concluded that the Town did not have adequate controls in place related to the development of the municipal portion of the tax rate. We recommend that the Town evaluate the procedures for calculating the municipal tax rate and preparing property tax bills, and implement controls to document review and approval of the tax rate and the property taxes levied.

Management's response - In past years, the setting of the tax rate has been done by the Treasurer and Assessor prior to the Selectboard meeting where the rate is approved. In the future the chair of the Selectboard will be included to ensure additional review of the calculation prior to it being presented to the Selectboard for approval.