

TOWN OF FAYSTON, VERMONT
AUDIT REPORT AND FINANCIAL STATEMENTS
DECEMBER 31, 2012
TABLE OF CONTENTS

		<u>Page Number</u>
INDEPENDENT AUDITOR'S REPORT		1 - 2
FINANCIAL STATEMENTS		
Balance Sheet – Governmental Funds	Exhibit A	3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	Exhibit B	4
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	Exhibit C	5 - 8
Notes to Financial Statements		9 - 18
SUPPLEMENTAL SCHEDULES		
Schedule of Taxes Raised	Schedule 1	19
Summary of Cash Receipts and Cash Expenditures - Governmental Funds	Schedule 2	20
Combining Balance Sheet – Nonmajor Governmental Funds	Schedule 3	21
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	Schedule 4	22
INTERNAL CONTROL AND COMPLIANCE REPORT		
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		23 - 25

FOTHERGILL SEGALE & VALLEY

Certified Public Accountants



John E. (Jeff) Fothergill, CPA
Michael L. Segale, CPA
Sheila R. Valley, CPA
Teresa H. Kajenski, CPA
Donald J. Murray, CPA

INDEPENDENT AUDITOR'S REPORT

February 11, 2013

To the Selectboard
Town of Fayston, Vermont

We have audited the accompanying financial statements of each major fund, and the aggregate remaining fund information of the Town of Fayston, Vermont as of and for the year ended December 31, 2012, and the related notes to the financial statements which collectively comprise a portion of the Town of Fayston'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 the 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 *Governmental 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 of 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 Town'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 Town'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 Adverse Opinion

Management has not presented government-wide financial statements to display the financial position and the changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial

statements. The amounts that would be reported in government-wide financial statements for the Town's governmental activities are not reasonably determinable.

Management has not presented expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances, categorized by function as required by accounting principles generally accepted in the United States of America.

Adverse Opinions

In our opinion, because of the effects of matters described in the Basis for Adverse Opinion paragraphs, the financial statements referenced to previously do not present fairly, the financial position of the Town of Fayston, Vermont, as of December 31, 2012, or the respective changes in its financial position or the budget comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has not presented the Management's Discussion and Analysis that the Government Accounting Standards Board has determined is required to supplement, although not required to be a part of, the basic financial statements.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Fayston's basic financial statements. The Schedule of Taxes Raised, Summary of Cash Receipts and Expenditures and combining nonmajor fund financial statements on pages 19-22 are presented for purposes of additional analysis and are not required part of the financial statements.

This supplementary information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 February 11, 2013, on our consideration of the Town'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 on 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* and should be considered in assessing the results of our audit.

Respectfully submitted,

Fothergill Segale & Valley, CPAs
FOTHERGILL SEGALE & VALLEY, CPAs
Vermont Public Accountancy License #110

TOWN OF FAYSTON, VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

EXHIBIT A

	Major Funds			Total Governmental Funds
	General	Road Retreatment	Nonmajor Funds	
ASSETS				
Cash - checking and savings	\$ 1,520,546	\$ 0	\$ 14,532	\$ 1,535,078
Investments	0	0	136,218	136,218
Delinquent taxes receivable	141,795	0	0	141,795
Other receivables	6,855	0	0	6,855
Prepaid expenses	160	0	0	160
Due from other funds	0	988	452,397	453,385
Total assets	<u>\$ 1,669,356</u>	<u>\$ 988</u>	<u>\$ 603,147</u>	<u>\$ 2,273,491</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accrued payables	\$ 16,979	\$ 0	\$ 0	\$ 16,979
Due to State Education Fund	932,631	0	0	932,631
Deferred revenue - taxes	116,000	0	0	116,000
Property tax overpayments	503	0	0	503
Due to other funds	445,097	0	8,288	453,385
Total liabilities	<u>1,511,210</u>	<u>0</u>	<u>8,288</u>	<u>1,519,498</u>
Fund Balance				
Nonspendable - prepaid expenses	160	0	0	160
Restricted - Special Revenue Funds	0	0	184,506	184,506
Restricted - Permanent Funds	0	0	24,167	24,167
Assigned - Capital Project Funds	0	988	386,186	387,174
Unassigned	157,986	0	0	157,986
Total fund balances	<u>158,146</u>	<u>988</u>	<u>594,859</u>	<u>753,993</u>
Total liabilities and fund balances	<u>\$ 1,669,356</u>	<u>\$ 988</u>	<u>\$ 603,147</u>	<u>\$ 2,273,491</u>

TOWN OF FAYSTON, VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

EXHIBIT B

	Major Funds			Total Governmental Funds
	General	Road Retreatment	Nonmajor Funds	
REVENUES				
Property taxes	\$ 719,741	\$ 0	\$ 0	\$ 719,741
Fees, licenses and permits	36,030	0	0	36,030
State of Vermont - highway funds	66,307	0	0	66,307
State of Vermont - grants	0	0	26,505	26,505
Investment income	7,282	0	17,380	24,662
Other	119,284	0	11,358	130,642
Total revenues	<u>948,644</u>	<u>0</u>	<u>55,243</u>	<u>1,003,887</u>
EXPENDITURES				
Salaries - road crew	134,826	0	0	134,826
Employee benefits	115,974	0	0	115,974
Highway equipment	86,081	0	0	86,081
Highway supplies	45,811	0	0	45,811
Town garage	5,551	0	0	5,551
Officers' salaries	112,572	0	0	112,572
Officers' supplies	17,280	0	0	17,280
Taxes and assessments	90,208	0	0	90,208
Fire protection	30,998	0	0	30,998
Insurance	24,156	0	0	24,156
Town meeting and election	5,910	0	0	5,910
Municipal building	12,378	0	0	12,378
Planning / Board of Adjustment	37,955	0	0	37,955
Administrative	24,578	0	0	24,578
Cemetery	0	0	7,752	7,752
Road construction	0	274,047	88,105	362,152
Building construction	0	0	18,510	18,510
Furnishings	0	0	1,396	1,396
Total expenditures	<u>744,278</u>	<u>274,047</u>	<u>115,763</u>	<u>1,134,088</u>
EXCESS REVENUES (EXPENDITURES) BEFORE OTHER FINANCING SOURCES (USES)	204,366	(274,047)	(60,520)	(130,201)
OTHER FINANCING SOURCES (USES)				
Transfers from (to) other funds	(200,000)	55,000	145,000	0
NET CHANGE IN FUND BALANCES	4,366	(219,047)	84,480	(130,201)
FUND BALANCES - JANUARY 1, 2012	<u>153,780</u>	<u>220,035</u>	<u>510,379</u>	<u>884,194</u>
FUND BALANCES - DECEMBER 31, 2012	<u>\$ 158,146</u>	<u>\$ 988</u>	<u>\$ 594,859</u>	<u>\$ 753,993</u>

TOWN OF FAYSTON, VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

EXHIBIT C

	Budget	Actual	Favorable (Unfavorable) Variance
REVENUES			
Property taxes	\$ 668,615	\$ 719,741	\$ 51,126
State of Vermont - highway funds	65,000	66,307	1,307
GM Valley School	4,000	4,000	0
Fees, licenses and permits	28,600	36,030	7,430
Interest on taxes	15,000	29,274	14,274
Delinquent tax penalties	0	29,318	29,318
Interest on investments	8,000	7,282	(718)
Miscellaneous	47,800	56,692	8,892
Total revenues	837,015	948,644	111,629
EXPENDITURES			
Salaries			
Road crew	146,000	134,826	11,174
Employee Benefits			
Hospitalization	75,143	75,015	128
Retirement	12,000	11,570	430
Social Security	20,000	18,926	1,074
Uniforms	1,800	1,379	421
Dental	9,000	9,084	(84)
Total employee benefits	117,943	115,974	1,969
Highway Equipment			
Blades	5,000	4,501	499
Diesel	40,000	47,842	(7,842)
Repairs	15,000	14,132	868
Gasoline	1,000	446	554
Oil	2,000	1,926	74
Other parts	4,000	3,197	803
Rentals	7,000	8,298	(1,298)
Tires	6,000	5,739	261
Total highway equipment	80,000	86,081	(6,081)
Highway Supplies			
Calcium	10,000	8,298	1,702
Sand	10,000	8,820	1,180
Other supplies	1,000	1,408	(408)
Salt	30,000	27,285	2,715
Total highway supplies	51,000	45,811	5,189

TOWN OF FAYSTON, VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

EXHIBIT C

	Budget	Actual	Favorable (Unfavorable) Variance
Town Garage			
Electricity	400	544	(144)
Maintenance and repairs	4,500	3,515	985
Telephone	1,500	1,492	8
Total town garage	6,400	5,551	849
Officers' Salaries			
Town Clerk, Treasurer and Tax Collector	50,400	51,323	(923)
Assistant Clerk/Treasurer	21,000	19,883	1,117
Selectboard assistant	10,400	10,600	(200)
Listers	18,000	15,985	2,015
Delinquent tax collector	0	14,781	(14,781)
Total officers' salaries	99,800	112,572	(12,772)
Officers' Supplies			
Computer expenses	4,000	4,398	(398)
Equipment purchase	1,500	0	1,500
Listers	1,000	985	15
Selectmen	2,250	2,250	0
Postage	2,000	1,987	13
Equipment rental	3,100	2,113	987
Supplies	5,000	3,040	1,960
911 wages	1,000	157	843
Tax mapping	2,500	1,092	1,408
Bank charges	0	40	(40)
Seminars/Dues	2,500	1,218	1,282
Total officers' supplies	24,850	17,280	7,570
Taxes and Assessments			
Joslin Memorial Library	14,200	14,217	(17)
FES usage	20,000	20,000	0
Washington County	25,753	25,753	0
Recreation district	12,500	12,500	0
Donations	17,738	17,738	0
Total taxes and assessments	90,191	90,208	(17)
Fire Protection			
Waitsfield contract	30,150	30,998	(848)

TOWN OF FAYSTON, VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

EXHIBIT C

	Budget	Actual	Favorable (Unfavorable) Variance
Insurance			
Liability, etc.	17,127	15,058	2,069
Workers' compensation	8,060	8,060	0
Unemployment	1,038	1,038	0
Total insurance	26,225	24,156	2,069
Town Meeting and Election			
Election clerks	2,000	635	1,365
Supplies	2,500	2,000	500
Town Report	4,000	3,275	725
Total town meeting and election	8,500	5,910	2,590
Municipal Building			
Cleaning	1,900	1,876	24
Electricity	2,500	2,348	152
Heat	3,000	1,300	1,700
Other	500	671	(171)
Maintenance	6,000	3,413	2,587
Telephone	3,000	2,770	230
Total municipal building	16,900	12,378	4,522
Planning/Board of Adjustment			
Advertising	900	1,274	(374)
CVRPC	1,420	1,421	(1)
FNRC	1,000	1,000	0
MRVPD	21,010	21,010	0
ZA expense	2,000	4	1,996
Town plan	0	0	0
Planning/DRB resources	500	40	460
Supplies and postage	700	400	300
Computer equipment	300	0	300
Zoning administrator and asst.	16,000	12,806	3,194
Total planning/board of adjustment	43,830	37,955	5,875

TOWN OF FAYSTON, VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

EXHIBIT C

	Budget	Actual	Favorable (Unfavorable) Variance
Administration			
Pound	2,300	2,300	0
Legal	20,000	9,997	10,003
Consulting	1,500	990	510
Audit	6,250	6,250	0
Loan interest	600	0	600
Fire warden	300	300	0
Public safety	500	0	500
MRV solid waste alliance	2,706	2,706	0
Other	1,000	0	1,000
League of Cities and Towns	2,035	2,035	0
Total administration	37,191	24,578	12,613
Total expenditures	778,980	744,278	34,702
Transfers to Other Funds			
Road construction reserve	35,000	35,000	0
Bridge reserve	3,000	3,000	0
Culvert reserve	9,000	9,000	0
Equipment reserve	60,000	60,000	0
Fire equipment reserve	15,000	15,000	0
Road retreatment reserve	55,000	55,000	0
Record restoration reserve	8,000	8,000	0
Reappraisal reserve	5,000	5,000	0
FNRC Conservation Fund	10,000	10,000	0
Total transfers to other funds	200,000	200,000	0
Total expenditures and transfers to other funds	978,980	944,278	34,702
EXCESS REVENUES OVER (UNDER) EXPENDITURES AND TRANSFERS	\$ (141,965)	4,366	\$ 146,331
FUND BALANCE - JANUARY 1, 2012		153,780	
FUND BALANCE - DECEMBER 31, 2012		\$ 158,146	

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

The Town operates under a three-member Selectboard form of government. The Town's major operations include highways and streets, recreation, planning and zoning, and general administrative services.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town's financial statements are not prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town are discussed below.

The Town's management has elected to present only the financial statements of the major funds and the aggregate remaining fund information, which is not in conformity with generally accepted accounting principles, specifically GASB 34 and GASB 37. Therefore, government-wide financial statements that include accounting for capital assets, lease payables and notes payable are not included in the financial statements.

Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity are set forth in GASB 14 as amended by GASB 39, and Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards.

Based on the criteria, the Town has no component units.

Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenue and expenditures. The various funds are reported by generic classification within the financial statements.

The emphasis in fund financial statements is on the major funds. Nonmajor funds by category are summarized into a single column. GASB No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the governmental fund category) for the determination of major funds. The General Fund and the Road Retreatment Fund are the Town's major funds. The nonmajor funds are combined in a column in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following fund types are used by the Town:

Governmental Funds

The focus of the governmental funds' measurement (in the fund financial statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

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

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds).

Permanent Funds account for assets held by the Town pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

Basis of Accounting

Basis of accounting refers to the point at which revenue or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Modified Accrual

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end for property taxes and within six months for other revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*Cash and Cash Equivalents*

The Town has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agent. Additionally, each fund's equity in the Town's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

Investments

Investments are stated at fair value (quoted market price or the best available estimate).

Fund Balances

GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions" provides clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balances - Indicates the portion of fund equity that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.

Restricted fund balances - Indicates the portion of fund equity that is mandated for a specific purpose by external parties, constitutional provisions, or enabling legislation (e.g. federal and state grants, bondholders, trust and trustee accounts).

Committed fund balances - Indicates the portion of fund equity that is set aside for a specific purpose by the Selectboard. Formal action must be taken prior to the end of the fiscal year (e.g. capital projects, compensated absences). The same formal action must be taken to remove or change the limitations placed on the funds.

Assigned fund balances - Indicates the portion of fund equity that is set aside with the intent to be used for a specific purpose by the Selectboard or official that has been given the authority to assign funds (e.g. encumbrances, subsequent budgets). Assigned funds cannot cause a deficit in unassigned fund balance.

Unassigned fund balances - Indicates the portion of fund equity that has not been classified in the previous four categories. All funds in this category are considered spendable resources. This category provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Selectboard establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as special incentives). Assigned fund balance is established by the Selectboard through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service or other purposes).

When an expenditure is incurred that would qualify for payment with either restricted or unrestricted funds, it will be paid from restricted funds. When an expenditure is incurred that qualifies for payment from either of the three unrestricted fund balance categories, it will be applied first to committed, then assigned, then unassigned.

Budgetary Accounting

The Town approves a budget for the General Fund at an annual Town Meeting and the Selectboard, based on the budget and Grand List, determines the tax rate. Formal budgetary accounting is employed as a management control device during the year for the General Fund. The budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenue and expenditures. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 2 - DEPOSITS

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. As of December 31, 2012, none of the government's bank balance of \$1,544,588 was exposed to custodial credit risk.

NOTE 3 - INVESTMENTS

As of December 31, 2012, the Town had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Corporate bonds	5/2036	\$ 10,968
Mutual funds		<u>125,250</u>
		<u>\$ 136,218</u>

Interest Rate Risk – The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The Town has no investment policy that would limit its investment choices.

Concentration of Credit Risk – The Town places no limit on the amount the Town may invest in any one issuer.

Custodial Credit Risk – Investments. Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Town will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 3 – INVESTMENTS (Continued)

Investment income includes the following:

	Governmental Funds			Total
	General Fund	Cemetery Perpetual Care	Cemetery Maintenance	
Interest and dividends	\$ 7,282	\$ 1,897	\$ 3,801	\$ 12,980
Realized loss	0	(412)	(1,512)	(1,924)
Unrealized gain	0	2,185	11,421	13,606
Total	<u>\$ 7,282</u>	<u>\$ 3,670</u>	<u>\$ 13,710</u>	<u>\$ 24,662</u>

The calculation of realized gains or losses is independent of a calculation of the net change in fair value of investments. Realized gains or losses on investments that have been held in more than one fiscal year and sold in the current year were included as a change in fair value of investments reported in prior years.

NOTE 4 - PROPERTY TAXES

Taxes are billed in July and are payable September 1st. Taxes become delinquent November 1st. The Town bills and collects its own property tax, taxes for the School District, and the School District's share of Harwood Union High School tax assessment. The tax rate for fiscal year 2012 was:

Town	0.1803
School - Homestead	1.3675
School - Non residential	1.3666

NOTE 5 - RETIREMENT PLAN

The Town of Fayston participates in the Vermont Municipal Employees' Retirement System, which is a cost-sharing multiple employer public employees' defined benefit pension plan. The plan provides benefits for disability, death, early retirement, and normal retirement. Vermont state statutes provide the authority under which benefit provisions and the Town's obligation to contribute are established. The System's actuary issues a financial report on the plan for the

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 5 - RETIREMENT PLAN (Continued)

State of Vermont. Required contributions to the System are determined based upon the report prepared by the actuary. All employees who are regularly employed for at least 24 hours a week and for at least 1,040 hours a year must join the System when hired. During 1995, the Town elected to change from Group C membership to Group B membership. Employees who were participating in the plan at the time of the election had the option to remain in Group C or to change to Group B. Employees joining the program after the election in 1995 must become Group B members. Members who have Group B coverage are required to contribute 4.5% of compensation, and members who have Group C coverage are required to contribute 9.25%. Members in either plan are vested upon completing 5 creditable years of service.

The Town's 2012 payroll for all employees was \$260,596. Total 2012 covered payroll for the Vermont Municipal Employees' Retirement System was \$231,408. The Town's contribution to the plan is 5.0% of compensation for Group B employees. Total employer contributions to the plan were \$11,570 for 2012, \$10,783 for 2011 and \$12,559 for 2010. All 2012 employee and employer retirement contributions were paid as of December 31, 2012.

The State of Vermont issues an audited Financial Report that includes financial statements and required disclosures. This report may be obtained by writing the State Auditor of Accounts, 132 State Street, Montpelier, VT 05602.

NOTE 6 - COMMITMENTS

From time to time the Town enters into finance and maintenance agreements with the State of Vermont, Agency of Transportation, for various cost sharing arrangements relating to bridge and road projects. Generally, the Town bears certain percentages of the total costs relating to preliminary and construction engineering costs, right-of-way costs, utility costs, and final construction costs.

NOTE 7 - RISK MANAGEMENT

The Town of Fayston 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 of Fayston maintains insurance coverage through the Vermont League of Cities and Towns Property and Casualty Intermunicipal Fund, Inc. covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town of Fayston. Settled claims have not exceeded this coverage in any of the past three fiscal years. The Town must remain a member for a minimum of one year and may withdraw from the Fund after that time by giving sixty days notice. Fund underwriting and rate setting policies have been established after consultation with actuaries. Fund members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Fund were to be exhausted, members would be responsible for the Fund's liabilities.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 8 - FUND BALANCES

Governmental Fund balances are as follows:

General Fund

Nonspendable - prepaid expenses	\$ 160	
Unassigned	<u>157,986</u>	
Total General Fund		\$ 158,146

Capital Projects Funds

Assigned:		
Fire Equipment	72,475	
Bridge Reserve	144,690	
Recreation Reserve	12,000	
Road Construction	30,809	
Road Retreatment	988	
Other Equipment	94,745	
Record Restoration	30,493	
Culvert Reserve	<u>974</u>	
Total Capital Projects Funds		387,174

Special Revenue Funds

Restricted:		
Conservation Fund	11,000	
Cemetery maintenance	114,283	
Reappraisal	59,213	
Barn Restoration	0	
Amphibian Project	<u>10</u>	
Total Special Revenue Funds		184,506

Permanent Fund

Restricted:		
Cemetery perpetual care	<u>24,167</u>	
Total Fund Balances - Governmental Funds		<u>\$ 753,993</u>

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 9 - INTERFUND TRANSFERS

During the year, several interfund transactions occurred between funds. The various operating transfers were made in accordance with budgetary authorizations. Interfund transfers for the year ended December 31, 2012 are as follows:

Transfers to:	Transfers from: General Fund
Road retreatment	\$ 55,000
Record restoration	8,000
Bridge reserve	3,000
Culvert reserve	9,000
Fire equipment	15,000
Other equipment/assets	60,000
Road construction	35,000
FNRC Conservation fund	10,000
Reappraisal	5,000
Total	\$ 200,000

In addition, \$2,046 was transferred from the Cemetery Perpetual Care Fund to the Cemetery Maintenance Fund.

NOTE 10 – INTERFUND RECEIVABLES AND PAYABLES

The Town has combined some of the cash resources of its governmental funds for accounting and reporting purposes. That portion of the pooled cash balance is reported in the specific fund as an interfund balance. Interfund balances at December 31, 2012 are as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 0	\$ 445,097
Capital Projects Funds		
Other Equipment/Assets	94,745	0
Fire Equipment	72,475	0
Bridge Reserve	132,390	0
Recreation Reserve	12,000	0
Road Construction	30,809	0
Road Retreatment	988	0
Record Restoration	30,493	0
Culvert reserve	974	0
Amphibian project	10	0
Special Revenue Funds		
Conservation fund	11,000	
Reappraisal	59,213	0
Cemetery Maintenance	8,288	0
Permanent Funds		
Cemetery Perpetual Care	0	8,288
Total	\$ 453,385	\$ 453,385

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 11 – DUE TO STATE EDUCATION FUND

The amount due to the State Education Fund has been estimated based on the data available as of the statement date. A final reconciliation of this amount will be performed in May, 2013.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 11, 2013, the date which the financial statements were available for issue. Management is not aware of any subsequent events which require disclosure.

TOWN OF FAYSTON, VERMONT
 SCHEDULE OF TAXES RAISED
 YEAR ENDED DECEMBER 31, 2012

SCHEDULE I

	MUNICIPAL	HOMESTEAD	NON-RESIDENTIAL	TOTAL
Total Grand List	\$ 3,714,528.00	\$ 1,590,054.00	\$ 2,089,103.00	
Tax rate	0.1803	1.3675	1.3666	
Taxes Billed	\$ 669,729.40	\$ 2,174,398.85	\$ 2,854,968.93	\$ 5,699,097.17
Various adjustments				(9,136.27)
HS-122 penalties				117.17
Decrease in deferred taxes				43,000.00
Payment to Fayston School District				(2,597,747.00)
State adjustments - HS-122				(486,979.58)
Payment to State of Vermont				(1,928,611.00)
Net property taxes				\$ 719,740.49

Reconciliation of Delinquent Taxes

Years	Delinquent Taxes Due Jan. 1, 2012	Current Taxes Gone Delinquent	Collections	Delinquent Taxes Due Dec. 31, 2012
2008	\$ 5,481.68	\$ 0	\$ 5,481.68	\$ 0
2009	12,053.06	0	10,793.40	1,259.66
2010	41,482.53	0	26,237.34	15,245.19
2011	135,990.61	0	129,490.97	6,499.64
2012	0	118,789.72	0	118,789.72
	\$ 195,007.88	\$ 118,789.72	\$ 172,003.39	\$ 141,794.21

TOWN OF FAYSTON, VERMONT
SUMMARY OF CASH RECEIPTS AND CASH EXPENDITURES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

SCHEDULE 2

CASH BALANCE - January 1, 2012 \$ 1,483,185

CASH RECEIPTS

Taxes collected	5,095,252	
Delinquent taxes	172,003	
Penalties and interest	43,811	
Interest and dividends	12,980	
State of Vermont - highway funds	50,053	
State and federal grants	166,175	
Other miscellaneous receipts	109,955	
Proceeds from security sales - cemetery	51,358	
Total cash receipts	5,701,587	5,701,587

CASH EXPENDITURES

Transfer to School District and State	4,463,320	
Highway	272,269	
Other General Fund	469,742	
Capital expenditures	382,058	
Cemetery maintenance	9,628	
Reinvest dividends - cemetery	2,715	
Purchase of securities - cemetery	49,962	
Total cash expenditures	5,649,694	5,649,694

CASH BALANCE - December 31, 2012 \$ 1,535,078

TOWN OF FAYSTON, VERMONT
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2012

	Capital Projects							Special Revenue			Amphibian Project	Permanent Fund Cemetery Perpetual Care	Totals	
	Fire Equipment	Road Construction	Bridge Reserve	Recreation Reserve	Other Equip/Assets	Record Restoration	Culvert Reserve	Conservation Fund	Reappraisal	Cemetery Maintenance				Barn Restoration
Cash	\$ 0	\$ 0	\$ 12,300	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 934	\$ 0	\$ 0	\$ 1,298	\$ 14,532
Investments	0	0	0	0	0	0	0	0	0	105,061	0	0	31,157	136,218
Due from other funds	72,475	30,809	132,390	12,000	94,745	30,493	974	11,000	59,213	8,288	0	10	0	452,397
Total assets	\$ 72,475	\$ 30,809	\$ 144,690	\$ 12,000	\$ 94,745	\$ 30,493	\$ 974	\$ 11,000	\$ 59,213	\$ 114,283	\$ 0	\$ 10	\$ 32,455	\$ 603,147
LIABILITIES														
Due to other funds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,288	\$ 8,288
Total liabilities	0	0	0	0	0	0	0	0	0	0	0	0	8,288	8,288
FUND BALANCES														
Restricted Assigned	0	0	0	0	0	0	0	11,000	59,213	114,283	0	10	24,167	208,673
	72,475	30,809	144,690	12,000	94,745	30,493	974	0	0	0	0	0	0	386,186
Total fund balances	72,475	30,809	144,690	12,000	94,745	30,493	974	11,000	59,213	114,283	0	10	24,167	594,859
Total liabilities and fund balances	\$ 72,475	\$ 30,809	\$ 144,690	\$ 12,000	\$ 94,745	\$ 30,493	\$ 974	\$ 11,000	\$ 59,213	\$ 114,283	\$ 0	\$ 10	\$ 32,455	\$ 603,147

TOWN OF FAYSTON, VERMONT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2012

	Capital Projects					Special Revenue			Permanent Fund		Totals			
	Fire Equipment	Road Construction	Bridge Reserve	Recreation Reserve	Other Equip/Assets	Record Restoration	Culvert Reserve	Conservation Fund	Reappraisal	Cemetery Maintenance		Bam Restoration	Amphibian Project	Cemetery Perpetual Care
REVENUES														
Investment income	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 13,710	\$ 0	\$ 0	\$ 3,670	\$ 17,380
State and federal grants	0	15,447	0	0	0	0	0	0	11,058	0	0	0	0	26,505
Other	0	0	0	0	0	2,633	0	1,000	0	5,225	2,500	0	0	11,358
Total revenues	0	15,447	0	0	0	2,633	0	1,000	11,058	18,935	2,500	0	3,670	55,243
EXPENDITURES														
Road construction	0	70,537	9,660	0	0	0	7,908	0	0	0	0	0	0	88,105
Building construction	15,760	0	0	0	0	0	0	0	0	0	2,750	0	0	18,510
Equipment, furnishings, office expense	0	0	0	0	0	1,396	0	0	0	0	0	0	0	1,396
Cemetery	0	0	0	0	0	0	0	0	0	7,752	0	0	0	7,752
Total expenditures	15,760	70,537	9,660	0	0	1,396	7,908	0	0	7,752	2,750	0	0	115,763
EXCESS REVENUES (EXPENDITURES)	(15,760)	(55,090)	(9,660)	0	0	1,237	(7,908)	1,000	11,058	11,183	(250)	0	3,670	(60,520)
OTHER FINANCING SOURCES														
Transfers from (to) other funds	15,000	35,000	3,000	0	60,000	8,000	9,000	10,000	5,000	2,046	0	0	(2,046)	145,000
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(760)	(20,090)	(6,660)	0	60,000	9,237	1,092	11,000	16,058	13,229	(250)	0	1,624	84,480
FUND BALANCES - JANUARY 1, 2012	73,235	50,899	151,350	12,000	34,745	21,256	(118)	0	43,155	101,054	250	10	22,543	510,379
FUND BALANCES - DECEMBER 31, 2012	\$ 72,475	\$ 30,809	\$ 144,690	\$ 12,000	\$ 94,745	\$ 30,493	\$ 974	\$ 11,000	\$ 59,213	\$ 114,283	\$ 0	\$ 10	\$ 24,167	\$ 594,859

FOTHERGILL SEGALE & VALLEY

Certified Public Accountants



John E. (Jeff) Fothergill, CPA
Michael L. Segale, CPA
Sheila R. Valley, CPA
Teresa H. Kajenski, CPA
Donald J. Murray, CPA

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*

February 11, 2013

To the Selectboard
Town of Fayston, 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 each major fund, and the aggregate remaining fund information of the Town of Fayston, Vermont, as of and for the year ended December 31, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated February 11, 2013. Our report included an adverse opinion due to not presenting government-wide financial statements and not presenting expenditures by function in the Statement of Revenues, Expenditures and Changes in Fund Balance.

Internal Control Over Financial Reporting

In planning and performing our audit, 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.

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 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 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial described below that we consider to be significant deficiencies.

CEMETERY COMMISSION BOOKKEEPING

Finding: During the audit we noted that there was no activity posted for the Edward Jones investment accounts in the accounting system for the cemetery. We developed these entries from information provided by management. We recommend that activity be posted monthly when statements are received.

Management Response: The Town will take more care in making sure the accounting records for investments are maintained on an ongoing basis.

INVESTMENT POLICY

Finding: The Town of Fayston does not have a formal written investment policy. We recommend you establish a formal written investment policy for the Town, including the cemetery funds that details the Board's philosophies, policies and goals (both short and long term). The policy would allow the Board to maximize the income earned on investments at an acceptable level of risk and would safeguard your assets against misuse. It should include who has the right to transfer between the investment accounts, transaction amount limits, what kind of investments can be made, and who can authorize purchases and sales. The policy should also address the Town's investment goals, the targeted return for the investment portfolio, the amount of risk that is acceptable, and evaluate the risk/reward of investment alternatives. The investment returns and composition should be analyzed at least quarterly to evaluate performance and adherence to the investment policy.

Management Response: The Town will ask the Cemetery Commission to begin developing a written investment policy for cemetery funds.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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*.

Town's Response to Findings

The Town's response to the findings identified in our audit are described previously. The Town'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.

Respectfully submitted,

Fothergill Segale & Valley, CPAs

FOTHERGILL SEGALE & VALLEY, CPAs
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