

TOWN OF CABOT, VERMONT

AUDIT REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2010

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INDEPENDENT AUDITOR'S REPORT

*Date (date management representation letter is signed)

To the Board of Selectmen
and Tara Rogerson, Town Clerk & Treasurer
Town of Cabot, Vermont
Cabot, Vermont

We have audited the accompanying modified cash basis financial statements of each major fund and the aggregate remaining fund information of the Town of Cabot, Vermont, as of and for the year ended December 31, 2010, which collectively comprise a portion of the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in the footnotes, the Town of Cabot, Vermont, 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 has not presented government-wide financial statements to display the modified cash basis financial position and changes in modified cash basis financial position of its governmental activities and business-type activities. Accounting principles generally accepted in the United States of America, specifically GASB 34 and GASB 37, as applied to the Town's modified cash basis of accounting, require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements resulting from modified cash basis transactions for the Town's governmental activities and business-type activities are not reasonably determinable.

Management has not presented the loan from the UDAG Fund to the General Fund as a liability of the General Fund as required by accounting principles generally accepted in the United States of America, as applied to the Town's modified cash basis of accounting. The effect of this departure from generally accepted accounting principles results in an overstatement of the General Fund fund balance of \$107,515.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in the footnotes, the modified cash basis financial position of the Town of Cabot, Vermont, as of December 31, 2010, or the changes in its modified cash basis financial position thereof and the budgetary comparison for the General Fund, for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated *DATE, 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 important for assessing the results of our audit.

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

Our audit was made for the purpose of forming an opinion on the modified cash basis financial statements referred to above. The supplementary schedules listed in the Table of Contents, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the modified cash basis financial statements referred to above of the Town of Cabot. Such information has not been subjected to the auditing procedures applied in the audit of the modified cash basis financial statements referred to above and, accordingly, we do not express an opinion or provide any assurance on it.

Respectfully submitted,

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

TOWN OF CABOT, VERMONT
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
DECEMBER 31, 2010

EXHIBIT D

		Wastewater Fund
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 51,377	
Investments	356,404	
Total current assets		407,781
Non-Current Assets		
Land	143,663	
Plant, net	3,972,522	
Total non-current assets		4,116,185
Total assets		4,523,966
LIABILITIES		
Current Liabilities		
Due to General Fund	1,657	
Bond and notes payable due within one year	17,061	
Total current liabilities		18,718
Noncurrent Liabilities		
Due to UDAG Fund	480,500	
Bonds and notes payable due after one year	511,349	
Total noncurrent liabilities		991,849
Total liabilities		1,010,567
NET ASSETS		
Unrestricted		406,124
Invested in capital assets, net of related debt		3,107,275
Total net assets		\$ 3,513,399

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TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, revenues and expenditures/expenses. The various funds are reported by major fund within the financial statements.

The emphasis in fund financial statements is on the major funds in either the governmental category or enterprise type. GASB Nos. 34 and 37 set forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category/type or the governmental and enterprise funds combined) for the determination of major funds. The Town's major funds consist of the General Fund, the UDAG Fund, and the Wastewater Fund. All other funds are nonmajor and are combined in a single column in each of the respective fund financial statements. The General Fund is the main operating fund of the Town. The UDAG Fund accounts for the money granted to the Town from the U.S. Department of Housing and Urban Development to be loaned or granted to community members or businesses to foster economic and social development of the Town. The Wastewater Fund accounts for the activity of the wastewater treatment plant.

The following fund classifications are used by the Town:

Governmental Funds

The focus of the governmental funds' measurement (in the fund 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 main 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. This fund classification consists of the UDAG Fund, the Community Development Fund, and the Cemetery Fund.

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the Town:

Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. The Wastewater Fund is an Enterprise Fund.

Basis of Accounting

In these financial statements, governmental and proprietary activities are presented using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the proprietary fund statements. This basis is a comprehensive basis of accounting other than U. S. generally accepted accounting principles.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements.

If the Town utilized the basis of accounting recognized as generally accepted, the financial statements for governmental activities would use the modified accrual basis of accounting, while the proprietary activities would use the accrual basis of accounting.

Investments

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

Capital Assets

Capital assets acquired for proprietary funds are recorded at cost.

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation of exhaustible fixed assets used by the proprietary fund is charged as an expense against operations, and accumulated depreciation is reported on the proprietary funds' balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. The estimated useful life for the sewer plant is 50 years.

Net Assets

Net assets represent the difference between assets and liabilities in the statement of net assets. Net resources invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by Town legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

Fund Balances

Equity is classified in the following categories:

Reserved - Indicates the portion of equity that has been legally segregated or encumbered for specific future uses or not available for expenditure.

Unreserved - Indicates the portion of fund equity that is available for appropriation and expenditure in future periods.

Budgetary Accounting

The Town employs a formal budgetary process as a management control device during the year for the General Fund. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual, presents comparisons of the budget with actual data. The budget numbers shown are on the same basis as the financial statements.

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.

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010
(Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS

The Treasurer is authorized to invest excess deposits and investments according to policies set by the Selectboard.

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, 2010, \$110,109 of the government’s bank balance of \$776,746 was exposed to custodial credit risk. A summary of the Town’s custodial credit risk is as follows:

	Book Balance	Bank Balance
Insured by FDIC or SIPC	\$ 311,998	\$ 331,153
Collateralized	335,484	335,484
Uninsured, uncollateralized	110,109	110,109
Total	\$ 757,591	\$ 776,746

Investments

Investments at December 31, 2010 are as follows:

		Maturity Date	Rating
Mutual funds	\$ 27,404	n/a	
Certificates of deposits	68,872	3/2012-7/2012	
Common stocks	904,322	n/a	1 (S&P)
Corporate bonds	398,523	4/2012-1/2015	BAA1-AAA
Government bonds	423,305	2/2011-12/2038	
	\$1,822,426		

Credit Risk – Investments. The Town has an investment policy that limits its investment choices to policies set by the Selectboard.

Investment income is comprised of the following components for the year ended December 31, 2010:

	Interest and Dividends	Realized and Unrealized Gains (Losses)	Investment Fees and Expenses	Total
General Fund	\$ 11,204	\$ 0	\$ 0	\$ 11,204
UDAG	41,541	103,168	(10,696)	134,013
Other governmental	1,553	4,471	0	6,024
Wastewater Fund	19,287	12,788	0	32,075
Total	\$ 73,585	\$ 120,427	\$ (10,696)	\$ 183,316

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010
(Continued)

NOTE 3 - PROPERTY TAXES

Property taxes in the Town of Cabot support the School District, the Highway Fund and the General Fund. Taxes are assessed in July and are due in November. All late payments are subject to an 8% penalty, and interest is calculated at 1% per month for the first 3 months and 1.5% per month thereafter.

NOTE 4 - UDAG LOAN RECEIVABLES

The UDAG loan receivables are \$744,895 which are approved by the UDAG committee and are due from Cabot businesses and residents. There are seven loans outstanding. One of the seven loans is to the Wastewater Fund for \$480,500, interest free, for about 30 years. The other two largest loans total \$197,515, \$107,515 to the General Fund and \$90,000 to the Cabot Commons. The terms of the loans range from 1 year to 30 years with interest from 0% to 6%. One loan, comprised of less than 1% of the total loans outstanding, is in default and the Town has taken legal action to secure payment by obtaining a lien on a personal residence.

NOTE 5 - CAPITAL ASSETS - PROPRIETARY FUND

The following is a summary of the changes in capital assets of the Wastewater Fund for the year:

	Balance December 31, 2009	Additions (Depreciation)	Balance December 31, 2010
Capital assets not depreciated - land	\$ 143,663	\$ 0	\$ 143,663
Capital assets being depreciated - plant	\$ 4,814,139	\$ 24,595	\$ 4,838,734
Accum. depreciation - plant	(768,064)	(98,148)	(866,212)
Plant, net	\$ 4,046,075	\$ (73,553)	\$ 3,972,522

NOTE 6 - SHORT-TERM DEBT

In January 2009 the Town received a tax anticipation note from People's United Bank for \$500,000 with an interest rate of 2.00%, due December 30, 2009. The note was paid in full on January 4, 2010 plus \$9,861 of interest. In February 2010 the Town received a tax anticipation note from People's United Bank for \$264,000 with an interest rate of 2.00%, due December 30, 2010. The note was paid in full on December 30, 2010 plus interest of \$4,503.

The following is a summary of changes in short-term debt for the year ended December 31, 2010 for the governmental activities.

Balance at January 1, 2010	\$ 500,000
Loan proceeds	264,000
Loan payments	(764,000)
Balance at December 31, 2010	\$ 0

Interest of \$14,364 was paid on short-term debt in 2010.

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010
(Continued)

NOTE 7 - LONG-TERM LIABILITIES

Long-term debt at December 31, 2010 consisted of the following:

Governmental

Note payable to UDAG with an average yearly principal reduction of \$8,300, due 11/15/23, interest at 0%.	\$ 107,515
Note payable to Vermont Bond Bank with yearly principal reduction of \$15,000, due 11/15/18, interest changing semi-annually with an interest rate of 1.9% (not to exceed 4.01%).	120,000
Note payable to Vermont Bond Bank with yearly principal reduction of \$45,000 until 12/01/10, \$40,000 to 12/01/13, interest changing semiannually with an initial rate of 3.835% (not to exceed 4.155%).	<u>120,000</u>
Total	347,515
Amount due within one year	<u>(63,300)</u>
Amount due after one year	<u><u>\$ 284,215</u></u>

Proprietary

Note payable with UDAG, with a lump sum payment of \$405,500 due approximately in 2029, interest at 0%.	\$ 405,500
Note payable with UDAG, with a lump sum payment of \$75,000 due approximately in 2031, interest at 0%.	75,000
Bond payable with USDA, semi-annual payments of \$18,503 due starting 2002 until 2031, interest at 4.75%.	488,303
Note payable with Vermont Municipal Bond Bank, annual payments of \$3,085 starting June 2004 until 2023, interest at 0%.	<u>40,107</u>
Total	1,008,910
Amount due within one year	<u>(17,061)</u>
Amount due after one year	<u><u>\$ 991,849</u></u>

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010
(Continued)

NOTE 7 - LONG-TERM LIABILITIES (Continued)

Long-term debt will mature approximately as follows:

	Governmental			Proprietary		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 63,300	\$ 9,207	\$ 72,507	\$ 17,061	\$ 23,030	\$ 40,091
2012	63,300	7,131	70,431	17,732	22,359	40,091
2013	63,300	4,998	68,298	18,436	21,655	40,091
2014	23,300	2,826	26,126	19,174	20,917	40,091
2015	23,300	2,298	25,598	19,948	20,143	40,091
2016-2020	86,500	3,539	90,039	112,704	87,751	200,455
2021-2025	24,515	0	24,515	132,271	62,015	194,286
2026-2030	0	0	0	155,558	29,472	185,030
2031-2035	0	0	0	516,026	1,268	517,294
Total	<u>\$ 347,515</u>	<u>\$ 29,999</u>	<u>\$ 377,514</u>	<u>\$ 1,008,910</u>	<u>\$ 288,610</u>	<u>\$ 1,297,520</u>

The following is a summary of changes of long-term liabilities for the year ended December 31, 2010:

	Governmental	Proprietary
Balance at December 31, 2009	\$ 440,815	\$ 1,025,329
Principal payments	(93,300)	(16,419)
Balance at December 31, 2010	<u>\$ 347,515</u>	<u>\$ 1,008,910</u>

NOTE 8 - DEFERRED REVENUE

Deferred revenue of \$744,895 in the UDAG fund represents loan repayments to be received in future years. The total amount of the loan receivable is recorded as deferred revenue and is recognized as revenue when received.

NOTE 9 - RESERVED AND DESIGNATED FUND BALANCES

The reserved fund balance in the General Fund consists of the following:

	Balance 12/31/09	Increase	(Decrease)	Balance 12/31/10
Fire department - sinking fund	\$ 167,599	\$ 17,023	\$ 0	\$ 184,622
Highway department sinking fund	40,000	0	(40,000)	0
Reappraisal	23,458	8,369	0	31,827
Listers education	1,565	392	0	1,957
River corridor grant	(6,404)	6,404	0	0
Land records	14,073	3,120	(5,312)	11,881
Cell tower legal	6,418	0	(624)	5,794
Total reserved fund balance	<u>\$ 246,709</u>	<u>\$ 35,308</u>	<u>\$ (45,936)</u>	<u>\$ 236,081</u>

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010
(Continued)

NOTE 9 - RESERVED AND DESIGNATED FUND BALANCES (Continued)

The Board designated unreserved fund balances consists of the following:

	(Restated)			Balance 12/31/2010
	Balance 12/31/2009	Increase	Decrease	
Highway asphalt	\$ 30,000	\$ 30,000	\$ 0	\$ 60,000
Fire Department	856	0	(856)	0
Masonic Hall	4,000	11,000	(4,000)	11,000
Library	19,670	52,604	(63,035)	9,239
Total designated	\$ 54,526	\$ 93,604	\$ (67,891)	\$ 80,239

NOTE 10 - PENSION PLAN

All employees of the Town of Cabot are eligible for coverage by the Vermont Municipal Employees' Retirement System (VMERS). VMERS is a cost sharing multiple-employer public employees' retirement system. Vermont State statutes provide the authority under which benefit provisions and the obligation to contribute are established. The Town and the employees make required contributions to the System based upon a valuation report prepared by the System's actuary.

There are three levels of contributions and benefits in the System called Group A, Group B and Group C. Employee contributions are 2.5%, 4.5% and 9% of gross pay and employer contributions are 4%, 5% and 6% of gross pay for Group A, Group B, and Group C plan members, respectively.

All employees of the Town are covered under Plan A. Employees are eligible for normal retirement after reaching age 65, provided they have completed five (5) years of service. Early retirement at a reduced payment is available as early as age 55, provided the employee has completed the five (5) years of service.

Covered wages paid under the plan were \$187,783 out of total wages of \$262,511. Contributions by the Town of Cabot were \$7,511 in 2010, \$7,546 in 2009 and \$7,886 in 2008.

The law requires the retirement fund to remain in actuarial balance. This guarantees to the members the availability of funds to pay their benefits when they retire.

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.

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010
(Continued)

NOTE 11 - COMMITMENTS

In 1995, the UDAG committee agreed to grant the School \$250,000. These funds will be used to help remodel the School. The funds are to stay in the Town of Cabot UDAG name and be invested in U.S. government securities. The money will be disbursed to the School on an annual basis over a fourteen-year period according to the maturities of the various bonds purchased. During 2010, \$2,000 was disbursed.

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.

In 2002, the Town entered into a five year maintenance agreement with United Water NACO, formerly Earth Tech, for routine operation and maintenance of the wastewater treatment facilities. In 2007 this agreement was extended for an additional five year term. The agreement may also be terminated without cause by either party upon a 90 day written notice. In October the agreement was revised for compensation increases. The monthly fee under the revised agreement is \$3,452 which is a 1.5% increase over the previous agreement.

In March 2009, the Town entered into a 2 year contract with Russell Graphics to update the property map system for a fee of \$1,050 per year.

In January 2010, the Town entered into a 15 month rental agreement to rent out the Masonic Hall for an amount of \$9,300. As part of the agreement the Town will pay up to \$8,000 for renovations done to the Hall as outlined in the agreement with the renter. The renter will serve as general contractor and upon satisfactory completion of the renovations the Town will waive \$5,000 of the rent.

NOTE 12 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The Town maintains commercial insurance coverage covering each of those risks of loss through the Vermont League of Cities and Towns. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this commercial coverage in any of the past three (3) fiscal years.

NOTE 13 - LEASE

In 2005 the Town entered into a five year operating lease for a copier. The lease expense for 2010 was \$207.

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010
(Continued)

NOTE 14 – PRIOR PERIOD ADJUSTMENTS

The beginning fund balance of the General Fund was restated to add \$19,670 of Library funds and to include the 2009 school tax adjustment. The Library activity had not previously been included in the Town's financial statements. The financial statements' beginning fund balances were restated as follows:

	<u>General Fund Fund Balance</u>
December 31, 2009 - as previously reported	\$ 446,804
Addition of Library	19,670
Addition of 2009 school tax adjustment	<u>23,184</u>
December 31, 2009 - as restated	<u><u>\$ 489,658</u></u>

NOTE 15 – BUDGETARY COMPARISONS

The Town is not legally required to adopt a budget for the UDAG Fund. Therefore, a budgetary comparison schedule is not presented for that fund.

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through *DATE, the date which the financial statements were available for issue. As of January 1, 2011 the Village of Cabot merged with the Town of Cabot.

TOWN OF CABOT, VERMONT
 SCHEDULE OF EXPENDITURES - SELECTMEN
 BUDGET TO ACTUAL - MODIFIED CASH BASIS
 YEAR ENDED DECEMBER 31, 2010

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures - Selectmen			
Current:			
Appropriations	\$ 80,539	\$ 80,539	\$ 0
Audit and legal	13,000	8,928	4,072
Computer	1,250	1,246	4
Conservation Commission	400	0	400
County tax	12,641	12,641	0
Delinquent tax collection fees	13,000	13,022	(22)
Dues and subscriptions	8,500	4,226	4,274
Employee benefits	9,500	7,873	1,627
Fire Department	34,350	28,923	5,427
Insurance	12,800	12,300	500
Interest on short-term debt	20,000	14,364	5,636
General	10,500	9,140	1,360
Health	17,000	16,954	46
Listers	15,100	4,052	11,048
Masonic Hall	15,000	11,235	3,765
Meeting elections	3,200	4,159	(959)
Miscellaneous	3,000	3,827	(827)
Office	6,500	6,826	(326)
Pound keeper	800	960	(160)
Planning Commission	17,000	12,892	4,108
Records restoration	5,500	5,312	188
Supplies	2,700	2,455	245
Tax maps	1,100	0	1,100
Wages	88,600	72,053	16,547
Water and sewer charges	1,400	1,600	(200)
Total current	<u>393,380</u>	<u>335,527</u>	<u>57,853</u>
Debt service:			
Principal	15,000	15,000	0
Interest	4,700	4,685	15
Total debt service	<u>19,700</u>	<u>19,685</u>	<u>15</u>
Capital outlays:			
Fire Department	0	10,385	(10,385)
Masonic Hall	20,000	12,577	7,423
Total capital outlays	<u>20,000</u>	<u>22,962</u>	<u>(2,962)</u>
Total expenditures - Selectmen	<u>\$ 433,080</u>	<u>\$ 378,174</u>	<u>\$ 54,906</u>

TOWN OF CABOT, VERMONT
 SCHEDULE OF EXPENDITURES - HIGHWAY
 BUDGET TO ACTUAL - MODIFIED CASH BASIS
 YEAR ENDED DECEMBER 31, 2010

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures - Highway			
Current:			
Chloride	\$ 12,000	\$ 16,207	\$ (4,207)
Cold patch/paving	1,000	7,050	(6,050)
Culverts	3,000	2,738	262
Gravel	68,000	69,110	(1,110)
Salt and sand	96,000	68,103	27,897
Fuel	36,500	36,309	191
Employee benefits	21,700	15,810	5,890
Equipment repairs	40,000	45,977	(5,977)
Garage supplies	8,000	3,631	4,369
Guardrails and signs	1,500	2,009	(509)
Health insurance	32,100	32,051	49
Highway furnace oil	500	2,435	(1,935)
Hired equipment	25,000	1,835	23,165
Insurance	25,000	25,283	(283)
Miscellaneous	10,000	7,140	2,860
Sheriff	1,800	1,552	248
Tires	6,000	10,349	(4,349)
Utilities	2,800	2,665	135
Wages	150,000	139,338	10,662
Total current	<u>540,900</u>	<u>489,592</u>	<u>51,308</u>
Debt service:			
Principal	70,000	70,000	0
Interest	7,600	7,517	83
Total debt service	<u>77,600</u>	<u>77,517</u>	<u>83</u>
Capital outlays:			
Truck	110,000	109,947	53
Total capital outlays	<u>110,000</u>	<u>109,947</u>	<u>53</u>
Total expenditures - Highway	<u>\$ 728,500</u>	<u>\$ 677,056</u>	<u>\$ 51,444</u>

TOWN OF CABOT, VERMONT
 BALANCE SHEET - MODIFIED CASH BASIS
 ALL NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2010

	Special Revenue Funds		Total other Governmental Funds
	Community Development	Cemetery Fund	
ASSETS			
Cash and cash equivalents	\$ 3,006	\$ 36,263	\$ 39,269
Investments	0	31,314	31,314
Total assets	<u>\$ 3,006</u>	<u>\$ 67,577</u>	<u>\$ 70,583</u>
FUND BALANCES			
Fund Balances			
Unreserved	<u>\$ 3,006</u>	<u>\$ 67,577</u>	<u>\$ 70,583</u>
Total fund balances	<u>\$ 3,006</u>	<u>\$ 67,577</u>	<u>\$ 70,583</u>

DRAFT

TOWN OF CABOT, VERMONT
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGE IN FUND BALANCES - MODIFIED CASH BASIS
 ALL NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2010

SCHEDULE 4

	Special Revenue Funds		Total other Governmental Funds
	Community Development	Cemetery Fund	
Revenues			
Investment income (loss)	\$ 17	\$ 6,007	\$ 6,024
Other	0	3,705	3,705
Total revenues	17	9,712	9,729
Expenditures			
Current:			
Cemetery	0	23,903	23,903
Total current expenditures	0	23,903	23,903
Excess Revenues (Expenditures)	17	(14,191)	(14,174)
Other Financing Sources (Uses)			
Transfers in (out)	0	18,000	18,000
Net Change in Fund Balances	17	3,809	3,826
Fund Balances - January 1, 2010	2,989	63,768	66,757
Fund Balances - December 31, 2010	\$ 3,006	\$ 67,577	\$ 70,583

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**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***

*Date

To the Selectboard
Town of Cabot, Vermont
Cabot, Vermont

We have audited the modified cash basis financial statements of each major fund and the aggregate remaining fund information of the Town of Cabot, Vermont, as of and for the year ended December 31, 2010, which collectively comprise a portion of the Town's basic financial statements and have issued our report thereon dated *Date. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

We noted certain other matters that we reported to management of the Town in a separate letter dated *Date.

This report is intended solely for the information and use of management, the Selectboard, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

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

DRAFT

*Date

To the Selectboard and
Tara Rogerson, Town Clerk and Treasurer
Town of Cabot, Vermont
Cabot, Vermont

We have audited the modified cash basis financial statements of each major fund and the aggregate remaining fund information of the Town of Cabot, Vermont, as of and for the year ended December 31, 2010 and have issued our report thereon dated *DATE. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 3, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town of Cabot are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Town's financial statements was:

- Management's estimate of the depreciation is based on estimated useful lives of the Town's assets. We evaluated the key factors and assumptions used to develop the assets useful lives in determining that depreciation is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The uncorrected misstatements of the financial statements were due to a minor discrepancy on unrealized investment gain (loss), and cash accounts for logging activity and the recreation department that were not being maintained in the Town's accounting records. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements as a whole.

We proposed ten adjustments to your financial statements which were accepted and recorded by management. Two of the ten adjustments were material adjustments, which included reclassifying a wastewater repair expense to a capital improvement and adjusting the school tax.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated *Date of Management Representation Letter.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Credit Cards and Vendor Charge Accounts

During our audit procedures, we determined that a few credit card charges did not have sufficient supporting documentation. We also noted that there was no formal policy that prohibits the personal use of Town credit cards or charging of personal items to charge accounts held by the Town at vendors. We recommend a formal policy be adopted that prohibits the personal use of Town credit cards and charging of personal items on Town vendor accounts. The policy should require sufficient supporting documentation for all charges.

This information is intended solely for the use of the Selectboard and management of the Town of Cabot, Vermont and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

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