

TOWN OF CABOT, VERMONT

AUDIT REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2011

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
FUND FINANCIAL STATEMENTS	
Balance Sheet – Modified Cash Basis – Governmental Funds Exhibit A	3
Statement of Revenues, Expenditures and Change in Fund Balances – Modified Cash Basis – Governmental Funds Exhibit B	4
Statement of Revenues, Expenditures and Change in Fund Balance – Compared to Budget - Modified Cash Basis – General Fund Exhibit C	5
Statement of Net Assets – Modified Cash Basis Proprietary Funds Exhibit D	6
Statement of Revenues, Expenses and Change in Fund Net Assets – Modified Cash Basis Proprietary Funds Exhibit E	7
NOTES TO FINANCIAL STATEMENTS	8 - 18
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures – Selectmen Budget to Actual - Modified Cash Basis Schedule 1	19
Schedule of Expenditures – Highway Budget to Actual - Modified Cash Basis Schedule 2	20
Balance Sheet – Modified Cash Basis - All Nonmajor Governmental Funds Schedule 3	21
Schedule of Revenues, Expenditures and Change in Fund Balances – Modified Cash Basis – All 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 <i>Government Auditing Standards</i>	23 – 24

INDEPENDENT AUDITOR'S REPORT

August 1, 2012

To the Board of Selectmen
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, 2011, 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 \$99,233.

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, 2011, 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 August 1, 2012, 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.

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 for financial statements in accordance with generally accepted accounting principles. The Town, however, 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, therefore it is not required.

Our audit was conducted for the purpose of forming opinions on the modified cash basis financial statements that collectively comprise the Town's financial statements as a whole. The supplementary information on Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the financial statements. The 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. The 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 modified cash basis financial statements as a whole.

Respectfully submitted,

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

TOWN OF CABOT, VERMONT
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	Major Funds		Nonmajor Funds	Totals
	General Fund	UDAG	Other Governmental Funds	
ASSETS				
Cash and cash equivalents	\$ 71,622	\$ 53,642	\$ 42,980	\$ 168,244
Investments	0	1,446,408	30,606	1,477,014
Cash held by tax collector	31,250	0	0	31,250
Loans receivable	0	479,333	0	479,333
Due from Wastewater Fund	0	480,500	0	480,500
Total assets	\$ 102,872	\$2,459,883	\$ 73,586	\$ 2,636,341
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to School District	\$ 52,458	\$ 0	\$ 0	\$ 52,458
Deposits held for others	300	0	0	300
Deferred revenue	0	959,833	0	959,833
Total liabilities	52,758	959,833	0	1,012,591
Fund Balances				
Restricted	46,211	1,500,050	73,586	1,619,847
Unassigned	3,903	0	0	3,903
Total fund balances	50,114	1,500,050	73,586	1,623,750
Total liabilities and fund balances	\$ 102,872	\$2,459,883	\$ 73,586	\$ 2,636,341

TOWN OF CABOT, VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011

EXHIBIT B

	Major Funds		Nonmajor Funds	
	General Fund	UDAG	Other Governmental Funds	Totals
Revenues				
Property taxes	\$ 888,159	\$ 0	\$ 0	\$ 888,159
State aid highways	159,846	0	0	159,846
Delinquent tax penalties & interest	18,304	0	0	18,304
Licenses, fees & permits	19,066	0	0	19,066
Investment income (loss)	7,909	38,277	639	46,825
Loan repayments	0	16,008	0	16,008
Rental income	4,478	0	0	4,478
Diesel reimbursement	1,427	0	0	1,427
Library income	3,053	0	0	3,053
Other	31,076	0	2,855	33,931
Reappraisal - Act 60	8,379	0	0	8,379
Total revenues	<u>1,141,697</u>	<u>54,285</u>	<u>3,494</u>	<u>1,199,476</u>
Expenditures				
Current:				
Selectmen	328,839	0	0	328,839
Highway	879,665	0	0	879,665
Willey Building	36,685	0	0	36,685
Library expenses	18,191	0	0	18,191
Cemetery	0	0	18,491	18,491
Community grants	0	118,334	0	118,334
Community loans	0	4,789	0	4,789
Scholarship grants	0	13,800	0	13,800
Other	0	7,170	0	7,170
Total current	<u>1,263,380</u>	<u>144,093</u>	<u>18,491</u>	<u>1,425,964</u>
Debt service:				
Principal - Selectmen	15,000	0	0	15,000
Principal - Highway	40,000	0	0	40,000
Principal - Willey Building	8,300	0	0	8,300
Interest - Selectmen	5,374	0	0	5,374
Interest - Highway	4,930	0	0	4,930
Total debt service	<u>73,604</u>	<u>0</u>	<u>0</u>	<u>73,604</u>
Capital outlays:				
Selectmen	350,531	0	0	350,531
Highway	5,095	0	0	5,095
Willey Building	27,040	0	0	27,040
Total capital outlays	<u>382,666</u>	<u>0</u>	<u>0</u>	<u>382,666</u>
Total expenditures	<u>1,719,650</u>	<u>144,093</u>	<u>18,491</u>	<u>1,882,234</u>
Excess Revenues (Expenditures)	<u>(577,953)</u>	<u>(89,808)</u>	<u>(14,997)</u>	<u>(682,758)</u>
Other Financing Sources (Uses)				
Proceeds of long-term debt	150,000	0	0	150,000
Transfers in (out)	(18,000)	0	18,000	0
Total other financing sources	<u>132,000</u>	<u>0</u>	<u>18,000</u>	<u>150,000</u>
Net Change in Fund Balances	(445,953)	(89,808)	3,003	(532,758)
Fund Balances - January 1, 2011	496,067	1,589,858	70,583	2,156,508
Fund Balances - December 31, 2011	<u>\$ 50,114</u>	<u>\$ 1,500,050</u>	<u>\$ 73,586</u>	<u>\$ 1,623,750</u>

See Notes to Financial Statements.

TOWN OF CABOT, VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN
FUND BALANCE - COMPARED TO BUDGET - MODIFIED CASH BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011

EXHIBIT C

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 894,700	\$ 888,159	\$ (6,541)
State aid highway	120,000	159,846	39,846
Delinquent tax penalties & interest	0	18,304	18,304
Licenses, fees & permits	18,000	19,066	1,066
Interest & dividends	17,000	7,909	(9,091)
Rental income	5,500	4,478	(1,022)
Diesel reimbursement	1,000	1,427	427
Grant income	294,000	0	(294,000)
Library income	941	3,053	2,112
Other	8,002	31,076	23,074
Reappraisal - Act 60	8,000	8,379	379
Total revenues	<u>1,367,143</u>	<u>1,141,697</u>	<u>(225,446)</u>
Expenditures			
Current:			
Selectmen	339,342	328,839	10,503
Highway	740,500	879,665	(139,165)
Library	51,360	18,191	33,169
Willey Building	33,700	36,685	(2,985)
Total current	<u>1,164,902</u>	<u>1,263,380</u>	<u>(98,478)</u>
Debt service:			
Principal - Selectmen	15,000	15,000	0
Principal - Highway	40,000	40,000	0
Principal - Willey Building	8,300	8,300	0
Interest - Selectmen	7,000	5,374	1,626
Interest - Highway	5,000	4,930	70
Total debt service	<u>75,300</u>	<u>73,604</u>	<u>1,696</u>
Capital outlays:			
Selectmen	354,592	350,531	4,061
Highway	228,000	5,095	222,905
Willey Building	48,000	27,040	20,960
Total capital outlays	<u>630,592</u>	<u>382,666</u>	<u>247,926</u>
Total expenditures	<u>1,870,794</u>	<u>1,719,650</u>	<u>151,144</u>
Excess Revenues (Expenditures)	<u>(503,651)</u>	<u>(577,953)</u>	<u>(74,302)</u>
Other Financing Sources (Uses)			
Proceeds of long-term debt	150,000	150,000	0
Transfers in (out)	(18,000)	(18,000)	0
Total other financing sources (uses)	<u>132,000</u>	<u>132,000</u>	<u>0</u>
Net Change in Fund Balance	<u>\$ (371,651)</u>	<u>(445,953)</u>	<u>\$ (74,302)</u>
Fund Balance - January 1, 2011		<u>496,067</u>	
Fund Balance - December 31, 2011		<u>\$ 50,114</u>	

See Notes to Financial Statements.

TOWN OF CABOT, VERMONT
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2011

EXHIBIT D

	<u>Wastewater Fund</u>	<u>Water Fund</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 52,186	\$ 29,925	\$ 82,111
Investments	396,227	0	396,227
Total current assets	<u>448,413</u>	<u>29,925</u>	<u>478,338</u>
Non-Current Assets			
Land	143,663	23,678	167,341
Plant, net	3,872,616	1,045,874	4,918,490
Total non-current assets	<u>4,016,279</u>	<u>1,069,552</u>	<u>5,085,831</u>
Total assets	<u>4,464,692</u>	<u>1,099,477</u>	<u>5,564,169</u>
LIABILITIES			
Current Liabilities			
Bond and notes payable due within one year	19,193	50,908	70,101
Total current liabilities	<u>19,193</u>	<u>50,908</u>	<u>70,101</u>
Noncurrent Liabilities			
Due to UDAG Fund	480,500	0	480,500
Bonds and notes payable due after one year	494,022	721,561	1,215,583
Total noncurrent liabilities	<u>974,522</u>	<u>721,561</u>	<u>1,696,083</u>
Total liabilities	<u>993,715</u>	<u>772,469</u>	<u>1,766,184</u>
NET ASSETS			
Unrestricted	448,413	29,925	478,338
Invested in capital assets, net of related debt	3,022,564	297,083	3,319,647
Total net assets	<u>\$ 3,470,977</u>	<u>\$ 327,008</u>	<u>\$ 3,797,985</u>

TOWN OF CABOT, VERMONT
STATEMENT OF REVENUES, EXPENSES AND
CHANGE IN FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011

EXHIBIT E

	Wastewater Fund	Water Fund	Total
OPERATING REVENUES			
Charges for services	\$ 142,534	\$ 49,056	\$ 191,590
Other fees and charges	4,552	0	4,552
Total operating revenues	147,086	49,056	196,142
OPERATING EXPENSES			
Operation and maintenance	113,514	7,456	120,970
Contracted services	4,518	8,868	13,386
Administration fees	6,389	562	6,951
Depreciation	99,905	27,082	126,987
Total operating expenses	224,326	43,968	268,294
OPERATING INCOME (LOSS)	(77,240)	5,088	(72,152)
NONOPERATING REVENUES (EXPENSES)			
Unrealized gain on investments	39,823	0	39,823
Grant income	0	24,750	24,750
Interest expense	(24,896)	0	(24,896)
Interest/dividend income	19,891	0	19,891
Net nonoperating revenues	34,818	24,750	59,568
CHANGE IN NET ASSETS	(42,422)	29,838	(12,584)
NET ASSETS - JANUARY 1, 2011	3,513,399	297,170	3,810,569
NET ASSETS - DECEMBER 31, 2011	\$ 3,470,977	\$ 327,008	\$ 3,797,985

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

The Town of Cabot (the Town) is a unit of local government organized under the statutes of the State of Vermont. In 2011 the Town merged with the Village of Cabot, however reference to the governmental entity in these statements remains as the Town but include activity for both the Town and the Village. The Town is governed by a five member Select Board. The Town provides various services as authorized and funded by State government or Town voters.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements include all of the funds relevant to the Town and are prepared on the modified cash basis of accounting. The modified cash basis of accounting differs from U.S. generally accepted accounting principles (GAAP) as described on page 10. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements (including Statements and Interpretations). Proprietary funds apply Financial Accounting Standards Board (FASB) Statements and Interpretations and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, to the extent they are applicable to the modified cash basis of accounting, unless those Statements and Interpretations conflict with or contradict GASB pronouncements, in which case, GASB prevails. Although the Town has the option to apply FASB pronouncements issued after that date to its proprietary funds the Town has chosen not to do so.

The Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Town’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Town’s activities.
- A change in the fund financial statements to focus on major funds, as defined.

GASB Statement No. 38 establishes and modifies certain financial statement note disclosure requirements to make the financial statements more useful in the context of GASB Statement No. 34 reporting model. The Statement had an impact on the presentation of the notes to the financial statements, but no impact on net assets.

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

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011
(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, 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, the Wastewater Fund and the Water 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 and the Water Fund accounts for the activity of the water supply in lower Cabot.

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, 2011
(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 funds 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 and the Water Fund are Enterprise Funds.

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.

Depreciation of exhaustible fixed assets used by the proprietary funds are 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 lives for the sewer and water plants are 50 years.

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Beginning with fiscal year 2011, the Town implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more 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 Town's 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 body 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.

After approval of the fund balance policy, the Selectboard can establish (and modify or rescind) fund balance commitments by passage of a resolution. This is typically done through a simple majority vote. Assigned fund balance is established by the Selectboard through a majority vote, and must be recorded in the minutes, as intended for specific purpose (such as the purchase of capital 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.

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When an expenditure is incurred that qualifies for payment from either of the three unrestricted fund balance categories, it will be applied in the following order:

1. Committed
2. Assigned
3. Unassigned

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.

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, 2011, \$39,516 of the government's bank balance of \$293,652 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	\$ 98,031	\$ 141,328
Collateralized	112,808	112,808
Uninsured, uncollateralized	39,516	39,516
Total	\$ 250,355	\$ 293,652

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011
(Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Investments

Investments at December 31, 2011 are as follows:

		<u>Maturity Date</u>	<u>Rating</u>
Mutual funds	\$ 27,961	n/a	
Certificates of deposits	66,411	3/2012-7/2012	
Common stocks	811,145	n/a	1 (S&P)
Corporate bonds	637,908	4/2012-12/2017	BAA1-AAA
Government bonds	329,816	2/2021-12/2038	
	<u>\$1,873,241</u>		

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, 2011:

	Interest and Dividends	Realized and Unrealized Gains (Losses)	Investment Fees and Expenses	Total
General Fund	\$ 7,909	\$ 0	\$ 0	\$ 7,909
UDAG	43,875	5,332	(10,930)	38,277
Other governmental	909	(270)	0	639
Water Fund	19,891	39,823	0	59,714
Total	<u>\$ 72,584</u>	<u>\$ 44,885</u>	<u>\$ (10,930)</u>	<u>\$ 106,539</u>

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 \$959,833 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 three largest loans total \$380,233, \$99,233 to the General Fund and two to Cabot Commons totaling \$281,000. 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.

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011
(Continued)

NOTE 5 - CAPITAL ASSETS - PROPRIETARY FUNDS

The following is a summary of the changes in capital assets of the Wastewater and Water Funds for the year:

	Balance December 31, 2010	Additions (Depreciation)	Balance December 31, 2011
<u>Wastewater Fund</u>			
Capital assets not depreciated - land	\$ 143,663	\$ 0	\$ 143,663
Capital assets being depreciated - plant	\$ 4,838,734	\$ 0	\$ 4,838,734
Accum. depreciation - plant	(866,212)	(99,906)	(966,118)
Plant, net	<u>\$ 3,972,522</u>	<u>\$ (99,906)</u>	<u>\$ 3,872,616</u>
<u>Water Fund</u>			
Capital assets not depreciated - land	\$ 23,678	\$ 0	\$ 23,678
Capital assets being depreciated - plant	\$ 1,354,122	\$ 0	\$ 1,354,122
Accum. depreciation - plant	(281,166)	(27,082)	(308,248)
Plant, net	<u>\$ 1,072,956</u>	<u>\$ (27,082)</u>	<u>\$ 1,045,874</u>

NOTE 6 - SHORT-TERM DEBT

In May 2011, the Town received a tax anticipation note from People's United Bank for \$530,000 with an interest rate of 1.55%, due December 30, 2011. The note was paid in full on December 30, 2011 plus interest of \$5,271. In May 2011, the Town received a bond anticipation note of \$150,000 with an interest rate of 1.5%, due September 1, 2011. The note was paid in full on August 4, 2011 plus interest of \$531.

The following is a summary of changes in short-term debt for the year ended December 31, 2011 for the governmental activities.

Balance at January 1, 2011	\$ 0
Loan proceeds	680,000
Loan payments	(680,000)
Balance at December 31, 2011	<u>\$ 0</u>

Interest of \$5,802 was paid on short-term debt in 2011.

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011
(Continued)

NOTE 7 - LONG-TERM LIABILITIES

Long-term debt at December 31, 2011 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%.	\$ 99,215
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%).	80,000
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%).	105,000
Note payable to Vermont Bond Bank with yearly principal reduction of \$20,000 until 11/15/16, \$15,000 until 11/15/18, then \$10,000 until 11/15/21. Interest charged semiannually with an initial rate of .904% (not to exceed 3.514%).	150,000
Total	434,215
Amount due within one year	(83,300)
Amount due after one year	<u>\$ 350,915</u>

Proprietary

		Due within one year
<u>Wastewater Fund</u>		
Note payable with UDAG, with a lump sum payment of \$405,500 due approximately in 2029, interest at 0%.	\$ 405,500	\$ 0
Note payable with UDAG, with a lump sum payment of \$75,000 due approximately in 2031, interest at 0%.	75,000	0
Bond payable with Vermont Bond Bank, semi-annual payments of \$34,822 starting 2012 until 2031, interest at 3.9%.	476,194	16,108
Note payable with Vermont Municipal Bond Bank, annual payments of \$3,085 starting June 2004 until 2023, interest at 0%.	37,021	3,085
Total wastewater fund	<u>993,715</u>	<u>19,193</u>
<u>Water Fund</u>		
Note payable to Vermont Bond Bank at -3% interest due in annual installments on January 1 beginning in 2002 through 2031. Yearly payments of \$27,734 through 2021, then \$27,542 through 2031. Grant income recognized annually for the amount of forgiven principal as a result of negative interest.	772,469	50,908
Total	<u>\$ 1,766,184</u>	<u>\$ 70,101</u>

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011
(Continued)

NOTE 7 - LONG-TERM LIABILITIES (Continued)

Long-term debt will mature approximately as follows:

	Governmental			Proprietary		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 83,300	\$ 10,014	\$ 93,314	\$ 70,101	\$ 17,987	\$ 88,088
2013	83,300	7,720	91,020	69,206	18,081	87,287
2014	43,300	5,347	48,647	68,383	17,424	85,807
2015	43,300	4,555	47,855	67,629	16,740	84,369
2016	38,300	3,683	41,983	66,946	16,029	82,975
2017-2021	126,500	6,721	133,221	326,921	68,468	395,389
2022-2026	16,215	0	16,215	310,142	46,012	356,154
2027-2031	0	0	0	786,856	18,784	805,640
Total	<u>\$ 434,215</u>	<u>\$ 38,040</u>	<u>\$ 472,255</u>	<u>\$ 1,766,184</u>	<u>\$ 219,525</u>	<u>\$ 1,985,709</u>

The following is a summary of changes of long-term liabilities for the year ended December 31, 2011:

	Governmental	Proprietary
Balance at December 31, 2010	\$ 347,515	\$ 1,833,861
Bond proceeds	150,000	476,194
Principal payments	(63,300)	(543,870)
Balance at December 31, 2011	<u>\$ 434,215</u>	<u>\$ 1,766,185</u>

Interest of \$35,200 was paid on long-term debt in 2011.

NOTE 8 - DEFERRED REVENUE

Deferred revenue of \$764,833 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 - RESTRICTED FUND BALANCE

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

	Balance 12/31/10	Increase	(Decrease)	Balance 12/31/11
HAVA grant	\$ 0	\$ 0	\$ (5,095)	\$ (5,095)
Reappraisal	31,827	8,379	0	40,206
Listers education	1,957	392	0	2,349
Land records	11,881	3,839	(6,969)	8,751
Cell tower legal	5,794	0	(5,794)	0
Total restricted fund balance	<u>\$ 51,459</u>	<u>\$ 12,610</u>	<u>\$ (17,858)</u>	<u>\$ 46,211</u>

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011
(Continued)

NOTE 10 – WATER FUND

On January 1, 2011, the Town acquired the Water Fund from the Village of Cabot. The Water Fund consists of land, capital assets and related debt to support the supply of water to residents and businesses in Cabot. The Town bills quarterly for water services provided.

NOTE 11 - 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 \$206,267 out of total wages of \$293,091. Contributions by the Town of Cabot were \$8,251 in 2011, \$7,511 in 2010 and \$7,546 in 2009.

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.

NOTE 12 - 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 2011, \$4,000 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.

TOWN OF CABOT, VERMONT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011
(Continued)

NOTE 12 – COMMITMENTS (Continued)

In 2011, the Town entered into a five year maintenance agreement with Utility Partners for routine operation and maintenance of the wastewater treatment facilities. The agreement may be extended for an additional five year term. The annual fee under the agreement is \$46,640 for the first two years, thereafter adjustments made according with the Consumer Price Index. The future minimum payments under the agreement are as follows:

2012	\$ 46,640
2013	46,640
2014	46,640
2015	46,640
2016	46,640
Total	<u>\$ 233,200</u>

NOTE 13 - 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 14 – 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 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 1, 2012, the date which the financial statements were available for issue. In January 2012, the Town signed a tax anticipation note with People's United Bank for \$550,000 at 1.75%, due December 31, 2012. As of August 1, 2012, there was \$550,000 owed on the note.

In August 2012, the Town signed a partial discharge of mortgage for one of the loans held by the UDAG fund. The loan is for \$35,569 and there is potential that the loan will not be paid back but the Town has not deemed this uncollectible at this time.

TOWN OF CABOT, VERMONT
 SCHEDULE OF EXPENDITURES - SELECTMEN
 BUDGET TO ACTUAL - MODIFIED CASH BASIS
 YEAR ENDED DECEMBER 31, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures - Selectmen			
Current:			
Appropriations	\$ 38,398	\$ 34,020	\$ 4,378
Audit and legal	13,000	12,109	891
Computer	1,300	1,280	20
Conservation Commission	400	50	350
County tax	10,894	10,894	0
Delinquent tax collection fees	13,000	10,859	2,141
Dues and subscriptions	4,500	3,446	1,054
Employee benefits	9,200	11,093	(1,893)
Fire Department	30,350	34,202	(3,852)
Insurance	13,000	12,978	22
Interest on short-term debt	7,500	5,802	1,698
General	12,000	8,538	3,462
Health	21,800	23,481	(1,681)
Listers	15,000	2,225	12,775
Masonic Hall	21,000	6,093	14,907
Meeting elections	3,200	2,132	1,068
Miscellaneous	4,000	1,372	2,628
Office	5,000	5,852	(852)
Pound keeper	1,000	1,048	(48)
Planning Commission	12,000	11,082	918
Records restoration	6,500	6,968	(468)
Supplies	2,700	2,469	231
Tax maps	2,500	0	2,500
Village	7,500	7,166	334
Wages	82,000	112,160	(30,160)
Water and sewer charges	1,600	1,520	80
Total current	<u>339,342</u>	<u>328,839</u>	<u>10,503</u>
Debt service:			
Principal	15,000	15,000	0
Interest	7,000	5,374	1,626
Total debt service	<u>22,000</u>	<u>20,374</u>	<u>1,626</u>
Capital outlays:			
Fire Department	334,592	334,622	(30)
Masonic Hall	20,000	15,909	4,091
Total capital outlays	<u>354,592</u>	<u>350,531</u>	<u>4,061</u>
Total expenditures - Selectmen	<u>\$ 715,934</u>	<u>\$ 699,744</u>	<u>\$ 16,190</u>

TOWN OF CABOT, VERMONT
 SCHEDULE OF EXPENDITURES - HIGHWAY
 BUDGET TO ACTUAL - MODIFIED CASH BASIS
 YEAR ENDED DECEMBER 31, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures - Highway			
Current:			
Chloride	\$ 16,000	\$ 8,078	\$ 7,922
Cold patch/paving	2,500	21,698	(19,198)
Culverts	3,000	24,273	(21,273)
Gravel	75,000	199,366	(124,366)
Bridges	167,000	37,013	129,987
Salt and sand	95,000	56,527	38,473
Fuel	44,200	69,407	(25,207)
Employee benefits	18,500	18,035	465
Equipment repairs	40,000	41,876	(1,876)
Garage supplies	5,000	5,615	(615)
Guardrails and signs	4,000	6,738	(2,738)
Health insurance	36,000	43,371	(7,371)
Highway furnace oil	2,500	4,132	(1,632)
Hired equipment	25,000	138,910	(113,910)
Insurance	25,000	24,597	403
Miscellaneous	6,500	10,742	(4,242)
Sheriff	2,500	4,687	(2,187)
Tires	4,000	3,880	120
Utilities	2,800	2,961	(161)
Wages	166,000	157,759	8,241
Total current	<u>740,500</u>	<u>879,665</u>	<u>(139,165)</u>
Debt service:			
Principal	40,000	40,000	0
Interest	5,000	4,930	70
Total debt service	<u>45,000</u>	<u>44,930</u>	<u>70</u>
Capital outlays:			
Paving	204,000	0	204,000
HAVA grant	0	5,095	(5,095)
Truck	24,000	0	24,000
Total capital outlays	<u>228,000</u>	<u>5,095</u>	<u>222,905</u>
 Total expenditures - Highway	 <u>\$1,013,500</u>	 <u>\$ 929,690</u>	 <u>\$ 83,810</u>

TOWN OF CABOT, VERMONT
 BALANCE SHEET - MODIFIED CASH BASIS
 ALL NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2011

	<u>Special Revenue Funds</u>		<u>Total other</u>
	<u>Community</u>	<u>Cemetery</u>	<u>Governmental</u>
	<u>Development</u>	<u>Fund</u>	<u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,018	\$ 39,962	\$ 42,980
Investments	0	30,606	30,606
Total assets	<u>\$ 3,018</u>	<u>\$ 70,568</u>	<u>\$ 73,586</u>
FUND BALANCES			
Fund Balances			
Restricted	<u>\$ 3,018</u>	<u>\$ 70,568</u>	<u>\$ 73,586</u>
Total fund balances	<u>\$ 3,018</u>	<u>\$ 70,568</u>	<u>\$ 73,586</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, 2011

SCHEDULE 4

	Special Revenue Funds		Total other Governmental Funds
	Community Development	Cemetery Fund	
Revenues			
Investment income (loss)	\$ 12	\$ 627	\$ 639
Other	0	2,855	2,855
Total revenues	<u>12</u>	<u>3,482</u>	<u>3,494</u>
Expenditures			
Current:			
Cemetery	0	18,491	18,491
Total current expenditures	<u>0</u>	<u>18,491</u>	<u>18,491</u>
Excess Revenues (Expenditures)	12	(15,009)	(14,997)
Other Financing Sources (Uses)			
Transfers in (out)	0	18,000	18,000
Net Change in Fund Balances	12	2,991	3,003
Fund Balances - January 1, 2011	<u>3,006</u>	<u>67,577</u>	<u>70,583</u>
Fund Balances - December 31, 2011	<u>\$ 3,018</u>	<u>\$ 70,568</u>	<u>\$ 73,586</u>

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

August 1, 2012

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, 2011, which collectively comprise a portion of the Town's basic financial statements and have issued our report thereon dated August 1, 2012. 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 August 1, 2012.

This report is intended solely for the information and use of management, the Selectboard, 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