

TOWN OF BRANDON, VERMONT
FINANCIAL STATEMENTS
JUNE 30, 2013
AND
INDEPENDENT AUDITOR'S REPORTS

TOWN OF BRANDON, VERMONT

JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

The Selectboard
Town of Brandon, Vermont

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Brandon, Vermont as of June 30, 2013, and the respective changes

in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2014 on our consideration of the Town's internal control over financial reporting; on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

*Mudgett, Jennett E.
Krogh-Wisner, P.C.*

Montpelier, Vermont
February 19, 2014

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

The Town of Brandon (the "Town") herein sets forth an overview and analysis of its financial operations for the fiscal year ended June 30, 2013.

Financial Highlights

Government-Wide Financial Statements

- Assets exceeded liabilities (*Net Position*) on June 30, 2013 by \$8,317,810. Of this amount \$1,109,886 (*Unrestricted Net Position*) may be used by the various funds of the Town to meet the Town's ongoing obligations. For comparison, assets exceeded liabilities on June 30, 2012 by \$7,677,028, and of this amount, \$647,983 were unrestricted. Much of this difference is attributed to an increase in cash and investments of \$446,686 and a \$367,610 decrease in accounts payable between FY13 to FY12.
- The Town's total net position increased by \$640,782 in FY 13. Of this amount, net assets attributable to governmental activities increased by \$592,633. Net position attributable to business-type activities increased by \$48,149.
- The Town's total net position increased by \$273,213 in FY 12. Of this amount, net position attributable to governmental activities increased by \$263,948. Net position attributable to business-type activities increased by \$9,265.

Fund Financial Statements

- Fund balances of governmental funds increased by \$36,382 to \$2,138,564 in FY 13 from \$2,102,182 in FY 12. As with the last several years, engineering, design, and permitting continued on the Route 7 reconstruction project.

Overview of the Town's Financial Statements:

The annual financial report consists of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town of Brandon's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the Town of Brandon's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *Statement of Activities* presents information showing how the Town's net position changed during the fiscal year. The *Statement of Activities* reports operations on a full accrual basis (i.e., all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows); whereas the *Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds* presents activity of the funds on a modified accrual basis (i.e., revenue is recognized when it becomes measurable and available and expenditures are recognized when the related liability is incurred). Thus, in the

Statement of Activities revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements combine information from governmental funds (governmental activities) which are supported primarily by tax dollars with information from enterprise funds that are supported by user fees and charges (*business-type activities*). The governmental activities of the Town of Brandon include general government, public works, public safety, community development, zoning administration, and recreation. The business-type activities of the Town include the Wastewater Treatment Plant and the associated collection system.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town has two types of funds: governmental funds and proprietary funds. The proprietary funds of the Town are all enterprise funds.

Notes to the financial statements. The notes provide additional information that is necessary for an understanding of the information in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements in this report.

Government-wide Financial Analysis

TOWN OF BRANDON, VERMONT - STATEMENT OF NET POSITION

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Current and other assets	\$ 3,581,045	\$ 3,877,493	\$ 329,010	\$ 413,454	\$ 3,910,055	\$ 4,290,947
Capital assets, net	<u>6,486,254</u>	<u>6,691,151</u>	<u>1,851,142</u>	<u>1,765,809</u>	<u>8,337,396</u>	<u>8,456,960</u>
Total assets	<u>10,067,299</u>	<u>10,568,644</u>	<u>2,180,152</u>	<u>2,179,263</u>	<u>12,247,451</u>	<u>12,747,907</u>
Current liabilities	1,665,245	1,393,581	157,402	179,126	1,822,647	1,572,707
Long-term liabilities	<u>2,134,492</u>	<u>2,314,868</u>	<u>613,284</u>	<u>542,522</u>	<u>2,747,776</u>	<u>2,857,390</u>
Total liabilities	<u>3,799,737</u>	<u>3,708,449</u>	<u>770,686</u>	<u>721,648</u>	<u>4,570,423</u>	<u>4,430,097</u>
Net investment in capital assets	3,845,084	4,246,812	1,180,175	1,137,082	5,025,259	5,383,894
Restricted	2,003,786	1,824,030	-	-	2,003,786	1,824,030
Unrestricted	<u>418,692</u>	<u>789,353</u>	<u>229,291</u>	<u>320,533</u>	<u>647,983</u>	<u>1,109,886</u>
Total net assets	\$ <u>6,267,562</u>	\$ <u>6,860,195</u>	\$ <u>1,409,466</u>	\$ <u>1,457,615</u>	\$ <u>7,677,028</u>	\$ <u>8,317,810</u>

As stated above, total assets exceeded liabilities by \$8,317,810 at the end of FY 13. Total net assets at the end of FY 12 were \$7,677,028.

The largest portion of the Town's net position is in its investment in capital assets at 65% for both FY 13 and FY 12. These assets are used to provide services to its citizens (e.g., land, buildings, equipment, infrastructure). Therefore, these assets are not available for future spending.

A portion (22%) of the Town's net position is subject to restrictions on how it may be used. The remaining balance of unrestricted net position (\$1,109,886) may be used to meet the government's ongoing obligations to citizens and creditors. Management designates some of these funds included in the unrestricted net position for particular purposes (e.g., capital projects and reduction in taxes in subsequent years). Unrestricted net position for FY 12 was \$647,983.

TOWN OF BRANDON, VERMONT - STATEMENT OF ACTIVITIES

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Revenues						
Program revenues						
Charges for services	\$ 283,933	\$ 285,295	\$ 535,255	\$ 558,926	\$ 819,188	\$ 844,221
Grants and contributions	788,725	647,642	18,942	-	807,667	647,642
Other	87,681	177,938	22,679	40,714	110,360	218,652
General revenues						
Property taxes	2,384,998	2,385,889	-	-	2,384,998	2,385,889
Investment income (loss)	<u>5,722</u>	<u>81,565</u>	<u>-</u>	<u>-</u>	<u>5,722</u>	<u>81,565</u>
Total revenues	<u>3,551,059</u>	<u>3,578,329</u>	<u>576,876</u>	<u>599,640</u>	<u>4,127,935</u>	<u>4,177,969</u>
Expenses						
Governmental activities						
General Government	608,781	712,836	-	-	608,781	712,836
Public Safety	774,753	828,637	-	-	774,753	828,637
Public Works	1,440,482	1,010,121	-	-	1,440,482	1,010,121
Community Development	83,630	30,087	-	-	83,630	30,087
Intergovernmental	145,864	150,869	-	-	145,864	150,869
Culture and Recreation	143,887	151,136	-	-	143,887	151,136
Other	89,714	102,010	-	-	89,714	102,010
Business-type activities						
Sewer	<u>-</u>	<u>-</u>	<u>567,611</u>	<u>551,491</u>	<u>567,611</u>	<u>551,491</u>
Total expenses	<u>3,287,111</u>	<u>2,985,696</u>	<u>567,611</u>	<u>551,491</u>	<u>3,854,722</u>	<u>3,537,187</u>
Change in net position	263,948	592,633	9,265	48,149	273,213	640,782
Net position - beginning of year	<u>6,003,614</u>	<u>6,267,562</u>	<u>1,400,201</u>	<u>1,409,466</u>	<u>7,403,815</u>	<u>7,677,028</u>
Net position - end of year	\$ <u>6,267,562</u>	\$ <u>6,860,195</u>	\$ <u>1,409,466</u>	\$ <u>1,457,615</u>	\$ <u>7,677,028</u>	\$ <u>8,317,810</u>

Governmental activities. Governmental activities increased the Town's net position by \$592,633 in FY 13 as compared to the \$263,948 increase in FY 12. The Town added to its inventory of capital assets \$204,897 net of current year depreciation. Capital assets added in FY 13 included an emergency back-up generator, a police cruiser and camera equipment for cruisers. Highway projects completed included the Park Street sidewalk upgrade. Additions to construction work in progress included engineering fees for the Route 7 reconstruction project and the Bridge 114 project.

Business-type activities. Business-type activities increased the Town's net position by \$48,149 in FY 13 as compared to an increase of \$9,265 in FY 12. The Sewer Fund net position increased to \$1,457,615 in FY 13. Sludge amounts continue to increase due to phosphorous removal required by the operating permit.

The Town's current year depreciation for capital assets for business-type activities exceeded additions by \$85,333. In FY12 depreciation for capital assets for business-type activities exceeded additions by \$69,848.

Financial Analysis of Major Governmental Funds

The General Fund. The General Fund's fund balance decreased by \$585,290 to \$207,977 at the end of FY 13. The decrease is largely due to a transfer of \$407,145 to reduce the deficit in the Police Department Building Fund. The General Fund's fund balance decreased by \$432,938 in FY 12 to \$793,267.

Trustees of Public Funds Fund. The Trustees of Public Funds fund balance was \$643,605 as of June 30, 2013. This is an increase of \$38,336 from June 30, 2012. The increase is due in part to an increase in investment income.

Resurfacing Grant Fund. The Town of Brandon bonded in the amount of \$2,750,000 in 2006. \$750,000 plus accrued interest remaining from the proceeds is included in restricted cash in the General Fund. This amount is also included in the due from other funds in the Resurfacing Grant Fund. Fund balance of \$718,838 is restricted for construction of Segment 6 of the Route 7 project. The balance of infrastructure funds will be used to leverage state roadway funding in the next year.

Brandon Industrial Corporation Loan Fund. This fund is used to account for loans to the Brandon Industrial Corporation. The loans are to be repaid upon the sale of land owned by the Corporation.

Police Department Building Fund. This fund is used to account for the purchase and improvements made to the Police Department building. This project was financed in 2013 through the Vermont Municipal Bond Bank in the amount of \$395,000. Principal payments of \$19,750 will be paid on November 15th of each year with the final payment to be made in 2032. The remaining deficit in this fund was retired with a transfer of \$407,145 from the General Fund.

Economic Factors and Next Year's Budgets and Rates

- The Town-wide taxable grand list for the Town of Brandon was established at \$3,330,914 for the FY 14 tax rate.
- The Town and the Union agreed to move to the VLCT High Deductible Plan for health insurance and will split financial responsibility for the deductible on an 80(T)/20(U) basis. All covered employees remain responsible for 12% of the cost of premiums. In January of 2014 the Town will become part of the Vermont Health Connect program as required by the State. The Town of Brandon will pay 100% of the premium but will no longer fund 80% of HRA costs.

These factors were taken into consideration when preparing the FY 14 budget. The FY 15 General Fund budget is not yet finalized. The proposed budget will be provided in detail in the annual town report.

This financial report is designed to provide a general overview of the Town of Brandon, Vermont's financial condition. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Town Manager, Town of Brandon, 49 Center Street, Brandon, Vermont 05733.

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

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Totals</u>
ASSETS:			
Current assets -			
Cash	\$ 962,670	\$ -	\$ 962,670
Investments	640,463	-	640,463
Receivables (Net of allowance for uncollectibles)	671,146	322,469	993,615
Unbilled revenue	-	242,124	242,124
Current portion of loans receivable	229,662	-	229,662
Due from other governments	124,854	-	124,854
Prepaid expenses	52,461	5,778	58,239
Internal balances	<u>156,917</u>	<u>(156,917)</u>	<u>-</u>
Total current assets	<u>2,838,173</u>	<u>413,454</u>	<u>3,251,627</u>
Noncurrent assets -			
Capital assets	8,531,191	3,194,142	11,725,333
less - accumulated depreciation	<u>(1,840,040)</u>	<u>(1,428,333)</u>	<u>(3,268,373)</u>
Net capital assets	6,691,151	1,765,809	8,456,960
Restricted cash	754,802	-	754,802
Long-term loans receivable	<u>284,518</u>	<u>-</u>	<u>284,518</u>
Total noncurrent assets	<u>7,730,471</u>	<u>1,765,809</u>	<u>9,496,280</u>
Total assets	<u>10,568,644</u>	<u>2,179,263</u>	<u>12,747,907</u>
LIABILITIES:			
Current liabilities -			
Accounts payable	121,925	10,357	132,282
Accrued payroll and benefits payable	55,685	20,405	76,090
Accrued interest	14,806	2,159	16,965
Deferred revenue	492,894	-	492,894
Notes payable	500,000	60,000	560,000
Current portion of capital leases	27,374	-	27,374
Current portion of long-term debt	<u>180,897</u>	<u>86,205</u>	<u>267,102</u>
Total current liabilities	<u>1,393,581</u>	<u>179,126</u>	<u>1,572,707</u>
Noncurrent liabilities -			
Capital leases	27,376	-	27,376
Accrued compensated absences	78,800	-	78,800
Long-term debt	<u>2,208,692</u>	<u>542,522</u>	<u>2,751,214</u>
Total noncurrent liabilities	<u>2,314,868</u>	<u>542,522</u>	<u>2,857,390</u>
Total liabilities	<u>3,708,449</u>	<u>721,648</u>	<u>4,430,097</u>
NET POSITION:			
Net investment in capital assets	4,246,812	1,137,082	5,383,894
Restricted	1,824,030	-	1,824,030
Unrestricted	<u>789,353</u>	<u>320,533</u>	<u>1,109,886</u>
Total net position	<u>\$ 6,860,195</u>	<u>\$ 1,457,615</u>	<u>\$ 8,317,810</u>

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

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

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Grants and Contributions	Charges for Services	Other	Governmental Activities	Business-type Activities	Totals
FUNCTIONS/PROGRAMS:							
Governmental activities -							
General government	\$ 712,836	\$ 18,924	\$ 58,277	\$ 171,035	\$ (464,600)	\$ -	\$ (464,600)
Public safety	828,637	112,455	55,683	-	(660,499)	-	(660,499)
Public works	1,010,121	512,252	148,080	3,650	(346,139)	-	(346,139)
Community Development	30,087	4,011	-	2,669	(23,407)	-	(23,407)
Intergovernmental	150,869	-	-	-	(150,869)	-	(150,869)
Culture and recreation	151,136	-	23,255	584	(127,297)	-	(127,297)
Interest expense	102,010	-	-	-	(102,010)	-	(102,010)
Total governmental activities	<u>2,985,696</u>	<u>647,642</u>	<u>285,295</u>	<u>177,938</u>	<u>(1,874,821)</u>	<u>-</u>	<u>(1,874,821)</u>
Business-type activities -							
Sewer	551,491	-	558,926	40,714	-	48,149	48,149
Total business-type activities	<u>551,491</u>	<u>-</u>	<u>558,926</u>	<u>40,714</u>	<u>-</u>	<u>48,149</u>	<u>48,149</u>
	\$ <u>3,537,187</u>	\$ <u>647,642</u>	\$ <u>844,221</u>	\$ <u>218,652</u>	<u>(1,874,821)</u>	<u>48,149</u>	<u>(1,826,672)</u>
					GENERAL REVENUES - PROPERTY TAXES		2,385,889
					- INVESTMENT INCOME		81,565
							<u>2,467,454</u>
							CHANGE IN NET POSITION
						592,633	48,149
							NET POSITION, July 1, 2012
						<u>6,267,562</u>	<u>1,409,466</u>
							NET POSITION, June 30, 2013
						<u>\$ 6,860,195</u>	<u>\$ 1,457,615</u>
							\$ <u>8,317,810</u>

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

TOWN OF BRANDON, VERMONT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013
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	General Fund	Trustees of Public Funds	Resurfacing Grant Fund	Brandon Industrial Corporation Loan Fund	Police Department Building Fund	Other Governmental Funds	Totals Governmental Funds
ASSETS							
Cash	\$ 846,690	\$ 3,142	\$ -	\$ -	\$ -	\$ 112,838	\$ 962,670
Restricted cash	754,802	-	-	-	-	-	754,802
Investments	-	640,463	-	-	-	-	640,463
Receivables (Net of allowance for uncollectibles):							
Accounts	80,162	-	-	-	-	-	80,162
Taxes	590,984	-	-	-	-	-	590,984
Grants	-	-	83,209	-	-	41,645	124,854
Loans receivable	-	-	-	176,800	-	316,627	493,427
Interest receivable	-	-	-	20,753	-	-	20,753
Prepaid expenditures	52,461	-	-	-	-	-	52,461
Due from other funds	58,978	-	979,779	2,786	-	511,907	1,553,450
Total assets	<u>\$ 2,384,077</u>	<u>\$ 643,605</u>	<u>\$ 1,062,988</u>	<u>\$ 200,339</u>	<u>\$ -</u>	<u>\$ 983,017</u>	<u>\$ 5,274,026</u>

LIABILITIES AND FUND EQUITY

LIABILITIES:							
Accounts payable	\$ 71,160	\$ -	\$ 48,746	\$ -	\$ -	\$ 2,019	\$ 121,925
Accrued expenses	53,926	-	-	-	-	1,759	55,685
Note payable	500,000	-	-	-	-	-	500,000
Due to other funds	1,003,875	-	295,404	65,000	-	32,254	1,396,533
Deferred revenue	547,139	-	-	197,553	-	316,627	1,061,319
Total liabilities	<u>2,176,100</u>	<u>-</u>	<u>344,150</u>	<u>262,553</u>	<u>-</u>	<u>352,659</u>	<u>3,135,462</u>
FUND EQUITY:							
Fund balances -							
Nonspendable	52,461	-	-	-	-	-	52,461
Restricted	10,463	643,605	718,838	-	-	427,133	1,800,039
Committed	-	-	-	-	-	23,991	23,991
Assigned	145,053	-	-	-	-	179,234	324,287
Unassigned	-	-	-	(62,214)	-	-	(62,214)
Total fund balances (deficit)	<u>207,977</u>	<u>643,605</u>	<u>718,838</u>	<u>(62,214)</u>	<u>-</u>	<u>630,358</u>	<u>2,138,564</u>
Total liabilities and fund equity	<u>\$ 2,384,077</u>	<u>\$ 643,605</u>	<u>\$ 1,062,988</u>	<u>\$ 200,339</u>	<u>\$ -</u>	<u>\$ 983,017</u>	<u>\$ 5,274,026</u>

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

TOWN OF BRANDON, VERMONT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013
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**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION:**

Amount reported on Balance Sheet - Governmental Funds - total fund balances	\$ 2,138,564
Amounts reported for governmental activities in the Government-wide Statement of Net Position is different because -	
Capital assets used in governmental funds are not financial resources and are therefore not reported in the funds.	
Capital assets	8,531,191
Accumulated depreciation	(1,840,040)
Deferred revenue is reported in the governmental funds to offset uncollected taxes which are not available financial resources and for loans receivable.	568,425
Accrued compensated absences in the governmental funds are only recognized if immediately payable, while the full liability is included in the government-wide statements.	(78,800)
Liabilities not due and payable in the year are not reported in the governmental funds.	
Accrued interest	(14,806)
Long-term debt	(2,389,589)
Capital leases	<u>(54,750)</u>
Net Position of Governmental Activities - Government-wide Statement of Net Position	<u>\$ 6,860,195</u>

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

TOWN OF BRANDON, VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

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	General Fund	Trustees of Public Funds Fund	Resurfacing Grant Fund	Brandon Industrial Corporation Loan Fund	Police Department Building Fund	Other Governmental Funds	Totals Governmental Funds
REVENUES:							
Property taxes	\$ 2,130,384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,130,384
Penalties and interest on delinquent accounts	89,231	-	-	-	-	-	89,231
Payments in lieu of taxes	37,826	-	-	-	-	-	37,826
Intergovernmental	202,658	-	309,594	-	-	131,379	643,631
Investment income (loss)	1,688	69,086	10,564	-	-	227	81,565
Loan interest	-	-	-	-	-	2,669	2,669
Loan repayments	-	-	-	-	-	32,419	32,419
Permits and licenses	1,095	-	-	-	-	-	1,095
Charges for services	284,199	-	-	-	-	-	284,199
Other	12,953	-	-	-	-	7,661	20,614
Total revenues	<u>2,760,034</u>	<u>69,086</u>	<u>320,158</u>	<u>-</u>	<u>-</u>	<u>174,355</u>	<u>3,323,633</u>
EXPENDITURES:							
Current -							
General government	676,622	-	-	-	-	-	676,622
Public safety	676,632	-	-	-	-	126,154	802,786
Public works	849,066	-	-	-	-	-	849,066
Community Development	25,844	-	-	-	-	57,943	83,787
Intergovernmental	150,869	-	-	-	-	-	150,869
Culture and recreation	129,636	21,500	-	-	-	-	151,136
Debt service - Principal	556,147	-	-	-	-	-	556,147
- Interest	102,010	-	-	-	-	-	102,010
Capital outlay	133,038	-	329,979	-	-	5,477	468,494
Total expenditures	<u>3,299,864</u>	<u>21,500</u>	<u>329,979</u>	<u>-</u>	<u>-</u>	<u>189,574</u>	<u>3,840,917</u>
EXCESS OF REVENUES OR (EXPENDITURES)	<u>(539,830)</u>	<u>47,586</u>	<u>(9,821)</u>	<u>-</u>	<u>-</u>	<u>(15,219)</u>	<u>(517,284)</u>

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

TOWN OF BRANDON, VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

(Page 2 of 3)

	General Fund	Trustees of Public Funds	Resurfacing Grant Fund	Brandon Industrial Corporation Loan Fund	Police Department Building Fund	Other Governmental Funds	Totals Governmental Funds
OTHER FINANCING SOURCES (USES):							
Insurance proceeds	4,860	-	-	-	-	153,806	158,666
Proceeds from bond	395,000	-	-	-	-	-	395,000
Operating transfers in (out), net	(445,320)	(9,250)	2,878	-	407,145	44,547	-
Total other financing sources (uses)	<u>(45,460)</u>	<u>(9,250)</u>	<u>2,878</u>	<u>-</u>	<u>407,145</u>	<u>198,353</u>	<u>553,666</u>
NET CHANGE IN FUND BALANCES	(585,290)	38,336	(6,943)	-	407,145	183,134	36,382
FUND BALANCES (DEFICIT), July 1, 2012	<u>793,267</u>	<u>605,269</u>	<u>725,781</u>	<u>(62,214)</u>	<u>(407,145)</u>	<u>447,224</u>	<u>2,102,182</u>
FUND BALANCES (DEFICIT), June 30, 2013	<u>\$ 207,977</u>	<u>\$ 643,605</u>	<u>\$ 718,838</u>	<u>\$ (62,214)</u>	<u>\$ -</u>	<u>\$ 630,358</u>	<u>\$ 2,138,564</u>

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

TOWN OF BRANDON, VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

(Page 3 of 3)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES:

Net change in fund balances - total Governmental Funds	\$ 36,382
Amounts reported for governmental activities in the Government-wide Statement of Activities are different because -	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	460,696
Additions to capital assets, net of dispositions and losses	(255,797)
Depreciation	
Governmental funds report loans disbursed as expenditures. Under accrual basis of accounting the government-wide statements reflect these disbursements in net position and not on the Statement of Activities.	53,700
Governmental funds report loan repayments as current year revenue when the receipt is an available resource. Under accrual basis of accounting, these receipts are reflected in net position and not on the Statement of Activities.	(32,419)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.	
Proceeds from bond payable	(395,000)
Principal payments on long-term debt	556,147
Principal payments on capital leases	38,244
Increase in accrued interest on long-term debt	(6,679)
Deferred revenue includes tax revenue of the prior year but excludes deferred tax revenue of the current year as taxes uncollected within 60 days are unavailable at year end.	
Prior year	(418,692)
Current year	547,139
Decrease in accrued compensated absences accumulated by employees is a decrease of a liability in the government-wide statements, but is recorded as an expenditure when paid in the governmental funds.	<u>8,912</u>
Change in Net Position of Governmental Activities - Government-wide Statement of Activities	<u>\$ 592,633</u>

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

TOWN OF BRANDON, VERMONT
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Approved <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
Property taxes	\$ 2,318,285	\$ 2,130,384	\$ (187,901)
Penalties and interest	30,000	89,231	59,231
Pilot/CU/Stabilized taxes	40,000	37,826	(2,174)
Interest income	15,000	1,688	(13,312)
Permits and licenses	1,000	1,095	95
Charges for services - Town Clerk	54,250	44,661	(9,589)
State highway	140,000	149,135	9,135
Listers revenue	18,000	403	(17,597)
Administrative services	7,500	7,675	175
Zoning/code enforcement revenue	7,500	5,941	(1,559)
Police Department revenue	89,100	55,683	(33,417)
Recreation revenues	-	23,255	23,255
FEMA/FHWA/Insurance	-	58,383	58,383
Loan proceeds	-	395,000	395,000
Court and Town fines	9,000	-	(9,000)
Transfer from other funds	87,000	152,846	65,846
Transfer station income	160,500	146,984	(13,516)
Fund balance carryover	200,000	-	(200,000)
Other	-	12,550	12,550
Total revenues	<u>3,177,135</u>	<u>3,312,740</u>	<u>135,605</u>
EXPENDITURES:			
Elected auditors	100	-	100
Select Board	10,350	11,135	(785)
Town Administration	385,838	408,173	(22,335)
Listers	31,498	31,897	(399)
Code Enforcement	49,048	48,485	563
Clerk Treasurer	156,491	150,420	6,071
Police Department	788,495	725,671	62,824
Buildings and Grounds	209,573	207,255	2,318
Public Works Department	876,214	703,139	173,075
Town Constable	1,815	420	1,395
Intergovernmental	151,781	150,869	912
Recreation	29,241	58,821	(29,580)
Debt service	262,929	658,157	(395,228)
Transfers	118,000	598,166	(480,166)
Economic development	34,527	25,844	8,683
Appropriations	71,235	70,815	420
Other	-	48,763	(48,763)
Total expenditures	<u>3,177,135</u>	<u>3,898,030</u>	<u>(720,895)</u>
NET CHANGE IN FUND BALANCE	\$ <u>-</u>	\$ <u>(585,290)</u>	\$ <u>(585,290)</u>

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

TOWN OF BRANDON, VERMONT
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2013

	<u>Sewer Fund</u>
ASSETS:	
Current assets -	
Receivables (net of allowance for uncollectible accounts)	\$ 322,469
Unbilled revenue	242,124
Prepaid expenses	<u>5,778</u>
Total current assets	<u>570,371</u>
Noncurrent assets -	
Capital assets	3,194,142
less - accumulated depreciation	<u>(1,428,333)</u>
Total noncurrent assets	<u>1,765,809</u>
Total assets	<u>2,336,180</u>
 LIABILITIES:	
Current liabilities -	
Accounts payable	10,357
Accrued payroll and benefits payable	20,405
Accrued interest payable	2,159
Due to other funds	156,917
Notes payable	60,000
Current portion bonds payable	<u>86,205</u>
Total current liabilities	<u>336,043</u>
Noncurrent liabilities -	
Long-term bonds payable	<u>542,522</u>
Total noncurrent liabilities	<u>542,522</u>
Total liabilities	<u>878,565</u>
 NET POSITION:	
Net investment in capital assets	1,137,082
Unrestricted	<u>320,533</u>
Total net position	<u>\$ 1,457,615</u>

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

**TOWN OF BRANDON, VERMONT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Sewer Fund</u>
OPERATING REVENUES:	
Charges for services	\$ 558,926
Penalties and interest	24,959
Insurance proceeds	14,844
Other revenues	<u>911</u>
Total operating revenues	<u>599,640</u>
OPERATING EXPENSES:	
Salaries	91,966
Benefits	51,282
Administrative services	48,497
Other services	9,752
Repairs and maintenance	31,111
Utilities	76,536
Depreciation	89,102
Chemicals	33,406
New equipment	14,080
Waste disposal	<u>78,605</u>
Total operating expenses	<u>524,337</u>
Operating income	<u>75,303</u>
NONOPERATING REVENUES (EXPENSES):	
Interest expense	<u>(27,154)</u>
Total nonoperating expenses	<u>(27,154)</u>
CHANGE IN NET POSITION	48,149
NET POSITION, July 1, 2012	<u>1,409,466</u>
NET POSITION, June 30, 2013	<u>\$ 1,457,615</u>

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

TOWN OF BRANDON, VERMONT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	\$ 548,805
Cash provided by grants	14,844
Payments to suppliers	(299,955)
Payments for wages and benefits	<u>(138,395)</u>
Net cash provided (used) by operating activities	<u>125,299</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Net change in due to/from other funds	<u>(45,211)</u>
Net cash provided (used) by noncapital financing activities	<u>(45,211)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(3,769)
Payments on short-term note	(5,000)
Payments on long-term debt	(42,240)
Interest paid on debt	<u>(29,079)</u>
Net cash provided (used) by capital and related financing activities	<u>(80,088)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-
CASH AND CASH EQUIVALENTS, July 1, 2012	<u>-</u>
CASH AND CASH EQUIVALENTS, June 30, 2013	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income	\$ 75,303
Depreciation	89,102
(Increase) decrease in receivables	(60,453)
(Increase) decrease in unbilled revenue	24,462
(Increase) decrease in prepaid expenses	(3,242)
Increase (decrease) in accounts payable	(4,726)
Increase (decrease) in accrued payroll and benefits payable	<u>4,853</u>
Net cash provided (used) by operating activities	<u>\$ 125,299</u>

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

TOWN OF BRANDON, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of significant accounting policies:

The Town of Brandon, Vermont (the Town) operates under a Manager/Selectboard form of government and provides the following services as authorized by state statute: public safety (police), highways and streets, waste disposal, health and social services, culture and recreation, community/economic development, public improvements, planning and zoning, sewer, and general administrative services.

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

The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing *Governmental Accounting and Financial Reporting Standards* which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

- B. Government-wide and fund financial statements - The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

TOWN OF BRANDON, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of significant accounting policies (continued):

C. Basis of presentation (continued) -

The Town reports the following major governmental funds:

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

Trustees of Public Funds Fund - This fund is used to account for the assets and activity of monies left to the Town through trust agreements.

Resurfacing Grant Fund - This fund is used to account for the grant revenue received and capital project expenses incurred for specific transportation projects.

Brandon Industrial Corporation Loan Fund - This fund is used to account for loans to the Brandon Industrial Corporation.

Police Department Building Fund - This fund is used to account for activities associated with the purchase and improvements of the Police Department building.

The Town reports the following major proprietary fund:

Sewer Fund - This fund is used to account for the sewer activities of the Town.

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

Governmental fund financial statements are reported on a current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become both measurable and available. "Measurable" means the amount of the transaction that can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures generally are recorded when the fund liability is incurred, if measurable, as under accrual accounting. However, debt service expenditures are recorded only when payment is paid.

Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end. Licenses and permits, fines and forfeitures and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings and certain intergovernmental grants are recorded as earned.

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

TOWN OF BRANDON, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of significant accounting policies (continued):

- E. Budgets - An operating budget for the General Fund is presented, discussed, and voted on at the March Town Meeting and the Selectboard sets the tax rate based on the education and municipal grand lists and the approved General Fund budget.
- F. Cash and cash equivalents - The Town considers all cash accounts, which are not subject to withdrawal restrictions or penalties, purchased with a maturity of three months or less to be cash equivalents.
- G. Capital assets - Capital assets, which include property, plant, equipment and furniture, vehicles and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide and in the proprietary fund financial statements. Capital assets are defined by the Town as assets with an initial useful life of one year or greater and an initial individual cost equal to or greater than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest costs are capitalized on projects during the construction period. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 150 years
Equipment and furniture	3 - 20 years
Sewer lines	10 - 50 years
Infrastructure	20 - 75 years
Vehicles	3 - 10 years

- H. Deferred revenues - The Town has recorded, in the General Fund, deferred revenue from property taxes and related penalties and interest which have not been collected within 60 days following year end and are not considered available for current year operations. Deferred revenue in the Brandon Industrial Corporation Loan Fund and in the aggregate Other Governmental Funds includes the amount of loans receivable because they are not considered current resources.
- I. Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.
- J. Compensated absences - Employees are entitled to certain compensated absences based on their length of employment. Sick leave accumulates and is paid upon illness during employment. Vacation accrues for annual use.
- K. Long-term obligations - In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary funds statements of net position. In the fund financial statements, governmental fund types recognize the amount of debt issued as other financing sources and the repayment of debt as debt service expenditures.

TOWN OF BRANDON, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of significant accounting policies (continued):

- L. Risk management - The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town maintains insurance coverage through the Vermont League of Cities and Town's (VLCT's) Property and Casualty Intermunicipal Fund, Inc. (the Fund) covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. 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. The Fund underwriting and rate setting policies have been established after consultation with actuaries. The Fund members are subject to supplemental assessments in the event of deficiencies. If the assets of the Fund were to be exhausted, members would be responsible for the Fund's liabilities.

In addition, the Town is a member of the VLCT's Health Trust. The Health Trust is a nonprofit corporation formed to provide health insurance and wellness programs for Vermont municipalities and is owned by the participating members. The agreement does not permit the Health Trust to make additional assessments to its members.

The Town is also a member of the VLCT's Unemployment Insurance Trust. The Unemployment Insurance Trust is a nonprofit corporation formed to provide unemployment coverage for Vermont municipalities and is owned by the participating members. The agreement does not permit the Unemployment Insurance Trust to make additional assessments to its members.

- M. Fund equity - The Town has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* which distinguishes fund balances between amounts considered nonspendable, because they are not available for current use, and amounts that are available for use but are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. The following are the classifications and descriptions of the Town's governmental funds:

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

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

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

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

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

**TOWN OF BRANDON, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

1. Summary of significant accounting policies (continued):

M. Fund equity (continued) -

The Town's policy is to apply expenditures to the fund balance of highest granted authority first. The Town maintains separate governmental funds to account for donor specified amounts (restricted), voter approved amounts (committed), and amounts set aside by the Selectboard (assigned). Any residual fund balance amounts are reported as unassigned fund balance in the General Fund.

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

2. Cash and investments:

Custodial credit risk - deposits - Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town addresses custodial credit risk for deposits by requiring each institution to provide deposit insurance and/or proof of collateralization. The Town Treasurer is required to determine the types of collateralization after consultation with the Selectboard. At June 30, 2013, the Town's deposit accounts were either insured or collateralized.

The classification and fair value of investments held at June 30, 2013 are as follows:

	<u>S&P's Rating</u>	<u>Moody's Rating</u>	<u>Investment Maturity</u>	<u>Fair Value</u>
Money markets	N/A	N/A	< 1 year	\$ 5,673
Corporate bonds	A-	A3	1-5 years	25,572
Corporate bonds	BBB+	BAA3	1-5 years	26,339
Preferred stock	A-	A3	>10 years	7,635
Preferred stock	BBB+	BAA3	N/A	11,524
Mutual funds	N/A	N/A	N/A	<u>563,720</u>
				\$ <u>640,463</u>

Investments are carried at market value. Any unrealized gains or losses are recognized annually.

Interest rate risk - Changes in market interest rates will affect the fair value of an interest-earning investment over time. The Town does not have a deposit policy regarding interest rate risk. Maturities of interest-earning investments at June 30, 2013 are indicated above.

Credit risk - The Town's investments in corporate bonds are subject to credit risk. Credit risk is the risk that the bond issuer will not fulfill its obligations. The Town addresses credit risk by limiting the types of investments the Treasurer can make to bank deposit accounts, collateralized repurchase agreements and U.S. Treasury obligations. The Trustees of Public Funds Fund investment in corporate bonds is subject to credit risk.

**TOWN OF BRANDON, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

2. Cash and investments (continued):

The investments in the Trustees of Public Funds Fund are subject to the following policies:

Operating cash - The total operating cash will generally be 5% to 10% of the endowment portfolio, but shall not exceed 15%. The Trustees of Public Funds (the Committee) shall have the discretion to change or modify benchmarks as deemed appropriate.

1. The following are allowable investments:

- a. U.S. Treasury Bills
- b. Short-term U.S. Governments/Agency obligations
- c. High Grade Commercial Paper (A-1 or P-1 by S&P or Moody's)
- d. Other Investment Grade Dollar Denominated Money Market Instruments
- e. Repurchase Agreements of U.S. Government of Agency Securities (the Fund must take possession of the collateral)
- f. Money Market Funds
- g. Certificates of Deposit

Fixed income portfolio - The total fixed income portfolio will generally be 25% to 50% of the endowment portfolio, but shall not exceed 50%. The Committee shall have the discretion to change or modify benchmarks as deemed appropriate.

1. All fixed income securities shall be of Investment Grade as defined by Moody's and/or S&P.
2. The minimum average quality of the fixed income portfolio shall be "BBB" or better.
3. All fixed income securities shall be dollar denominated.
4. The following are allowable investments:
 - a. U.S. Treasury securities
 - b. U.S. Government agency obligations
 - c. Mortgage-related securities
 - d. Corporate debt (including asset-backed) securities
 - e. Certificates of deposit (maximum of \$100,000 per financial institution)

Equity portfolio - The total equity portfolio will generally be 50% to 65% of the Endowment portfolio, but shall not exceed 75%. The Committee shall have the discretion to change or modify benchmarks as deemed appropriate. The following are allowable investments.

1. There shall be no investments in non-marketable securities.
2. All international equity securities purchased must be listed and traded on a national securities exchange in the United States. In addition, not more than 20% of the equity (including mutual funds) portfolio at market value shall be invested in non-U.S. issues.
3. The following are allowable investments:
 - a. Domestic common stocks
 - b. International common stocks and international mutual funds in accordance with item "2" above
 - c. Convertible preferred stocks
 - d. Diversified mutual funds (closed-end and open-end)

TOWN OF BRANDON, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

2. Cash and investments (continued):

Prohibited investments - Short sales, purchases of letter stock, private placements or direct payments, leveraged transactions, use of financial futures, purchases of non-marketable securities, commodities transactions, securities lending, puts, calls, straddles, or other option and derivative strategies are prohibited.

Review - The investment policy must be reviewed at least annually by the Committee and revised or confirmed as appropriate. The Committee shall utilize these investment objectives and guidelines in making decisions concerning the portfolio's assets; however, it shall not necessarily be bound solely by its contents.

3. Interfund receivable and payable balances:

Interfund receivable and payable balances, due to the pooling of cash for cash disbursements, as of June 30, 2013 were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental funds -		
General Fund	\$ 58,978	\$ 1,003,875
Resurfacing Grant Fund	979,779	295,404
Brandon Industrial Corporation Loan Fund	2,786	65,000
Other Governmental Funds	<u>511,907</u>	<u>32,254</u>
	1,553,450	1,396,533
Proprietary fund -		
Sewer Fund	<u>-</u>	<u>156,917</u>
	<u>\$ 1,553,450</u>	<u>\$ 1,553,450</u>

4. Operating transfers:

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. Operating transfers during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds -		
General Fund	\$ 152,846	\$ 598,166
Trustees of Public Funds Fund	-	9,250
Police Department Building Fund	407,145	-
Resurfacing Grant Fund	2,878	-
Other Governmental Funds	<u>50,000</u>	<u>5,453</u>
	<u>\$ 612,869</u>	<u>\$ 612,869</u>

Transfers made from the General Fund to Other Governmental Funds were for capital projects and voter approved amounts for infrastructure reserves and equipment replacement. Transfers from the General Fund to the Police Department Building Fund were to eliminate the deficit in that fund as the project was completed. Transfers from the Trustees for Public Funds Fund to the General Fund were for mosquito control. Transfers from Other Governmental Funds, specifically the Equipment Repair and Replacement Fund and the Infrastructure Fund, to the General Fund were to cover expenses that had been incurred on their behalf.

TOWN OF BRANDON, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

5. Loans receivable:

Loans receivable at June 30, 2013 were as follows:

Governmental activities -	
Nexus Grant Fund:	
Café Provence, interest at 2.5% with monthly interest and principal payments of \$377, due July 2014, secured by restaurant equipment	\$ 4,464
Sheri's Diner, interest at 1.25% with monthly interest and principal payments of \$443 through November 2015 and a final payment of \$26,224 due December 2015, secured by restaurant equipment	39,739
11 Center Street Ventures, LLC, interest at 1.25% with monthly interest and principal payments of \$559 through December 2015 and a final payment of \$33,042 due January 2016, secured by real estate	48,488
Plan-It Sheri and Sheri's Diner, interest at 1.25% with monthly interest payments of \$10 through August 2013, then monthly interest and principal payments of \$47 through July 2016 and a final payment of \$8,702 due August 2016 secured by restaurant equipment, fixtures, inventory, and accounts receivable	10,000
Brandon Friends of the Town Hall, interest at 1.25% with six semi-annual interest and principal payments of \$6,813 through April 2015, for improvements to the Town Hall	25,000
Park Village Partners, LLC, interest at 1.25% with monthly interest and principal payments of \$327 through January 2018, and a final payment of \$37,194 due February 2018, secured by real estate	<u>52,613</u>
	<u>180,304</u>
Brandon Industrial Corporation Loan Fund:	
Brandon Industrial Corporation, interest at 1.0%, due on demand, secured by mortgage	65,000
Brandon Industrial Corporation, interest at 1.0%, due on demand, secured by mortgage	<u>111,800</u>
	<u>176,800</u>
Rutland County Community Land Trust Grant Fund:	
Housing Trust of Rutland County, Inc., interest at 1.0%, monthly payments of \$1,278 starting July 10, 2030 through July 10, 2060, secured by mortgage	391,000
Loan discounts	<u>(254,677)</u>
	<u>136,323</u>
Total loans receivable	\$ <u>493,427</u>

**TOWN OF BRANDON, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

6. Property taxes:

Property taxes are levied by August 15 and are due and payable on or before May 15 of the following year. All unpaid taxes become delinquent on May 15. Interest is assessed at 1% per month and an 8% penalty is assessed when the taxes become delinquent. The Town bills and collects its own property taxes, education taxes for the State of Vermont and taxes for the Brandon Fire District. Town property tax revenues are recognized when levied.

7. Debt:

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

Governmental activities -

Vermont Municipal Bond Bank - 2006 Series 1, for resurfacing and infrastructure improvements due December 2026, payable in annual principal payments, plus interest at rates ranging from 4.115% to 4.665%	\$ 1,910,000
State of Vermont Promissory Equipment Note, payable in five annual installments with 2% interest from December 2012 through December 2016	84,589
Vermont Municipal Bond Bank, Public Building Improvement Bond, 2-5% interest, semi-annual payments through December 2032	<u>395,000</u>
	<u>\$ 2,389,589</u>

Business-type activities -

State of Vermont Special Environmental Revolving Loan Fund bonds payable:	
Wastewater system improvements, interest at 0%, annual principal payments of \$12,557, due August 2014	\$ 25,113
Wastewater pollution abatement improvements, interest at 0%, annual payments of \$9,498 with a balloon payment of \$52,235 due June 2014	52,235
Wastewater preliminary engineering study, interest at 0%, annual payments of \$1,520, due March 2021	5,973
Other bonds payable:	
Vermont Municipal Bond Bank, Wastewater system improvements, various interest rates currently 6.283%, \$5,000 annual principal payment plus interest through December 2014	10,000
Vermont Municipal Bond Bank, Public Building Improvement Bond, refinanced USDA Rural Development Loan, 2-5% interest, semi-annual payments through December 2025	48,063
Vermont Municipal Bond Bank, Public Building Improvement Bond, refinanced USDA Rural Development Loan, 2-5% interest, semi-annual payments through December 2036	<u>487,343</u>
	<u>\$ 628,727</u>

TOWN OF BRANDON, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

7. Debt (continued):

The following is a summary of changes in long-term debt.

	Balance July 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2013</u>	Due Within <u>One Year</u>
Governmental activities -					
Resurfacing/Infrastructure	\$ 2,050,000	\$ -	\$ 140,000	\$ 1,910,000	\$ 140,000
Equipment Note	105,736		21,147	84,589	21,147
Bond Anticipation Note	395,000	-	395,000	-	-
VMBB Public Improvement Bond	<u>-</u>	<u>395,000</u>	<u>-</u>	<u>395,000</u>	<u>19,750</u>
Total governmental activities	\$ <u>2,550,736</u>	\$ <u>395,000</u>	\$ <u>556,147</u>	\$ <u>2,389,589</u>	\$ <u>180,897</u>
Business-type activities -					
Vermont Special Environmental Revolving Loan Fund:					
Wastewater System	\$ 37,670	\$ -	\$ 12,557	\$ 25,113	\$ 12,557
Wastewater System	16,178	-	16,178	-	-
Wastewater Pollution Abatement	61,733	-	9,498	52,235	52,235
Wastewater System Study	2,435	3,538	-	5,973	-
VMBB Wastewater System	15,000	-	5,000	10,000	5,000
USDA	49,199	-	49,199	-	-
USDA	488,752	-	488,752	-	-
VMBB Public Improvement Bond	-	487,343	-	487,343	13,458
VMBB Public Improvement Bond	<u>-</u>	<u>48,063</u>	<u>-</u>	<u>48,063</u>	<u>2,955</u>
Total business-type activities	\$ <u>670,967</u>	\$ <u>538,944</u>	\$ <u>581,184</u>	\$ <u>628,727</u>	\$ <u>86,205</u>

The estimated annual requirements to amortize all bonds and notes outstanding as of June 30, 2013, including interest payments, are as follows:

Year ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 180,897	\$ 96,531	\$ 86,205	\$ 19,720
2015	180,897	86,605	34,569	18,792
2016	180,897	82,595	17,633	18,000
2017	180,898	75,500	19,797	17,345
2018	154,750	68,439	20,464	16,666
2019-2023	773,750	242,008	108,544	72,240
2024-2028	638,750	74,495	116,753	51,475
2029-2033	98,750	8,141	123,935	30,034
2034-2038	<u>-</u>	<u>-</u>	<u>100,827</u>	<u>6,695</u>
	\$ <u>2,389,589</u>	\$ <u>734,314</u>	\$ <u>628,727</u>	\$ <u>250,967</u>

**TOWN OF BRANDON, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

7. Debt (continued):

Short-term - The following is a summary of changes in short-term debt.

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>
Governmental activities -				
Tax Anticipation Note, National Bank of Middlebury, 1.15%, due June 30, 2013	\$ <u>-</u>	\$ <u>500,000</u>	\$ <u>-</u>	\$ <u>500,000</u>
Business-type activities -				
Sewer Fund, Lake Sunapee Bank, NA 1.97%, due April 16, 2013	\$ 65,000	\$	\$ 65,000	\$ -
Sewer Fund, Lake Sunapee Bank, NA 1.31%, due April 1, 2014	<u>-</u>	<u>60,000</u>	<u>-</u>	<u>60,000</u>
	\$ <u>65,000</u>	\$ <u>60,000</u>	\$ <u>65,000</u>	\$ <u>60,000</u>

8. Landfill closure and postclosure care costs:

The Town landfill ceased operation in 1990. State and federal laws and regulations require that the Town perform certain maintenance and monitoring functions at the landfill site for twenty years after closure and report monitoring results to the state regulatory agency. Since closure, the Town has completed testing and monitoring periodically, as required, and filed the results with the appropriate agency. As of June 30, 2013, the State has requested the Town to continue to monitor the site without specifying the number of years it will require the Town to monitor. Testing and monitoring expenses will be reflected as expenses in the years in which they occur. Management believes that the obligation for future monitoring costs is not reasonably estimable, but that the overall obligation would not be material to these financial statements.

9. Capital lease:

As of June 30, 2013 the Town had a capital lease agreement for an acquisition of a dump truck with a plow. Interest is 4.99% for the truck. Future minimum lease payments are as follows:

	<u>Truck</u>
Year ending June 30,	
2014	\$ 27,374
2015	<u>27,376</u>
	54,750
Less interest	<u>(2,557)</u>
	\$ <u>52,193</u>

TOWN OF BRANDON, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

10. Capital assets:

Changes in capital assets consisted of the following:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2013</u>
Governmental activities -				
Capital assets, not depreciated:				
Land	\$ 193,479	\$ -	\$ -	\$ 193,479
Construction in progress	2,499,816	328,523	-	2,828,339
Total capital assets, not depreciated	<u>2,693,295</u>	<u>328,523</u>	<u>-</u>	<u>3,021,818</u>
Capital assets, depreciated:				
Buildings and improvements	1,417,551	-	21,000	1,396,551
Equipment and furniture	200,884	34,024	-	234,908
Vehicles	940,185	27,385	54,000	913,570
Infrastructure	<u>2,885,782</u>	<u>78,562</u>	<u>-</u>	<u>2,964,344</u>
Total capital assets, depreciated	<u>5,444,402</u>	<u>139,971</u>	<u>75,000</u>	<u>5,509,373</u>
Less accumulated depreciation for:				
Buildings and improvements	368,672	26,054	-	394,726
Equipment and furniture	118,162	10,828	13,200	115,790
Vehicles	539,015	72,066	54,000	557,081
Infrastructure	<u>625,594</u>	<u>146,849</u>	<u>-</u>	<u>772,443</u>
Total accumulated depreciation	<u>1,651,443</u>	<u>255,797</u>	<u>67,200</u>	<u>1,840,040</u>
Total capital assets, depreciated, net	<u>3,792,959</u>	<u>(115,826)</u>	<u>7,800</u>	<u>3,669,333</u>
Capital assets, net	\$ <u>6,486,254</u>	\$ <u>212,697</u>	\$ <u>7,800</u>	\$ <u>6,691,151</u>
Business-type activities -				
Capital assets, not depreciated:				
Construction in progress	\$ 23,999	\$ 3,539	\$ 8,192	\$ 19,346
Capital assets, depreciated:				
Buildings and improvements	2,011,963	-	-	2,011,963
Equipment	758,754	-	-	758,754
Sewer lines	395,657	8,422	-	404,079
Total capital assets, depreciated	<u>3,166,374</u>	<u>8,422</u>	<u>-</u>	<u>3,174,796</u>
Less accumulated depreciation for:				
Buildings and improvements	727,430	45,781	-	773,211
Equipment	514,656	35,338	-	549,994
Sewer lines	97,145	7,983	-	105,128
Total accumulated depreciation	<u>1,339,231</u>	<u>89,102</u>	<u>-</u>	<u>1,428,333</u>
Total capital assets, depreciated, net	<u>1,827,143</u>	<u>(80,680)</u>	<u>-</u>	<u>1,746,463</u>
Capital assets, net	\$ <u>1,851,142</u>	\$ <u>(77,141)</u>	\$ <u>8,192</u>	\$ <u>1,765,809</u>

TOWN OF BRANDON, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

10. Capital assets (continued):

Depreciation expense in the governmental activities totaling \$255,797 was allocated to the following functions: General government \$30,647; Public safety \$25,851; Public works \$199,299. Depreciation expense in the business-type activities totaling \$89,102 was allocated to the sewer operations.

11. Pension plan:

Vermont Municipal Employees' Retirement System -

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

Funding policy: Defined Benefit Plan members are required to contribute 2.5% (Group A), 4.5% (Group B) or 9.25% (Group C) of their annual covered salary, and the Town is required to contribute 4% (Group A), 5% (Group B) or 6.5% (Group C) of the employees' compensation. Defined Contribution Plan members are required to contribute 5% of their annual covered salary. The Town has elected to participate only in Group A and Group B, and also elected to pay 8% for Group B and the full pension contribution of 6.5% for Group A. The contribution requirements of plan members and the Town are established and may be amended by the Board of Trustees. The Town's contributions to VMERS for the Defined Benefit Plan for the years ended June 30, 2013, 2012, and 2011 were \$73,759, \$69,780, and \$68,217, respectively. The amounts contributed were equal to the required contributions for each year.

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

12. Deferred compensation plan:

The Town also offers its employees a deferred compensation plan through the International City Managers' Association's "ICMA" Retirement Corporation in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Town has no liability for losses under this plan but does have the duty of due care that would be required of an ordinary prudent investor. All of the investments are self-directed by each employee.

13. Related party transactions:

The position of the Town Manager is automatically on the Board of Directors of the Brandon Industrial Corporation. The total amount due from the Corporation to the Town at June 30, 2013 was \$176,800.

TOWN OF BRANDON, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

14. Deficit fund balance:

The Brandon Industrial Corporation Loan Fund deficit of \$62,214 will be funded as loans are collected, contingent upon the sale of the lot(s).

15. Budgetary basis of accounting:

These financial statements include totals for General Fund revenue and expenditures on the Town's budgetary accounting basis, which vary from the totals of revenue and expenditures recognized on the basis of accounting prescribed by accounting principles generally accepted in the United States of America (GAAP), as follows:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
GAAP basis	\$ 2,760,034	\$ 3,299,864	\$ (45,460)
Insurance proceeds	4,860	-	(4,860)
Proceeds from bond payable	395,000	-	(395,000)
Operating transfers budgeted as revenues and expenditures	<u>152,846</u>	<u>598,166</u>	<u>445,320</u>
Budget basis	\$ <u>3,312,740</u>	\$ <u>3,898,030</u>	\$ <u>-</u>

16. Commitments, contingencies and subsequent events:

In August 2011, Tropical Storm Irene took out a portion of U.S. Route 7 and devastated several roads and homes in Brandon. Many emergency repairs have been completed. However, U.S. Route 7 and several locations still need work, including Newton Road, Furnace Road and the Center Street Bridge. U.S. Route 7 is being handled under the Federal Highway Administration. The total estimated remaining cost for storm repairs is approximately \$500,000. The Town is still quantifying the total value of the damage. FEMA will reimburse 75 % of the total claims for Class 3 and 4 roads, parks, and other damage for approved projects. The State of Vermont will reimburse 15% of approved projects based on project worksheets. The Town will be responsible for 10 % of the approved projects and 100 % of work completed that FEMA will not reimburse.

The Town was awarded a Highway Planning and Construction Grant through the State of Vermont to conduct preliminary engineering and obtain right-of-ways in anticipation of reconstruction of a portion of U.S. Route 7 within the Town. The original award amount was for \$2,183,745 and was amended to \$3,133,745 in November 2012. It is expected that the grant will be amended again to include the cost of construction once all preliminary tasks have been completed. At June 30, 2013 approximately \$2,490,000 had been spent and is included in construction work in progress. On April 2, 2013 the Town entered into an \$87,600 contract for engineering services for the construction phase of the waterline related to this project. On January 17, 2014, the Town received bids for the waterline replacement project which is Phase 1 of the Segment 6 Route 7 project. The low bid in the amount of \$1,068,980 is expected to be awarded in the near future. The Town has funds set aside to cover its portion of this project.

The Town participates in various other federally funded programs. These programs are subject to financial and compliance audits and resolution of identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time.

**TOWN OF BRANDON, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

16. Commitments, contingencies and subsequent events (continued):

The Town paid off the \$500,000 outstanding balance on the note payable balance at year end on July 8, 2013.

Subsequent to year end the Selectboard approved a tax anticipation line of credit in the amount of \$540,000 with the National Bank of Middlebury at a rate of .95% for a period of one year on July 8, 2013. \$100,000 was deposited into a sweep account awaiting use. These funds were not used and the Town expects to repay the funds in February 2014 and close the account.

On July 22, 2013 the Town contracted to purchase a Caterpillar loader with accessories for \$134,350. As stated in the lease agreement payments of \$7,056 will be submitted quarterly over five years.

In the fall of 2013 the Town discovered two buried oil tanks located at the Town Office and the Town Hall were potentially leaking oil. The tanks were removed and remediation followed. Due to the fact there was contamination of the sites above standards; the two sites qualify for the Petroleum Clean-up Fund. All costs above and beyond the expense of tank removal and disposal will be covered by the Petroleum Clean-up Fund.

17. Fund balance classifications:

General Fund fund balances at June 30, 2013 were classified for the following purposes:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Assigned</u>
Prepaid expenditures	\$ 52,461	\$ -	\$ -
Records preservation	-	8,700	-
Capital projects/infrastructure	-	-	2,184
Transportation	-	-	1,000
Public safety	-	1,763	274
Appropriation of fund balance	<u>-</u>	<u>-</u>	<u>141,595</u>
	<u>\$ 52,461</u>	<u>\$ 10,463</u>	<u>\$ 145,053</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***

The Selectboard
Town of Brandon, Vermont

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Brandon, Vermont (the Town) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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 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 a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency (13-01).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no

instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town's Response to Findings

Management's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Management'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 result 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 report is not suitable for any other purpose

*Mudgett, Jennette E.
Krogh-Wisner, P.C.*

Montpelier, Vermont
February 19, 2014

**TOWN OF BRANDON, VERMONT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013**

13-01 Tax anticipation note payable

A tax anticipation note payable of \$500,000 outstanding at year end was not included as a liability on the balance sheet of the General Fund in the fund financial statements. Instead, it was reflected as proceeds from loans in other financing sources and uses in the General Fund statement of revenues, expenditures and changes in fund balances - governmental funds. This condition was corrected with an audit adjustment.

Generally, short-term notes payable should be recorded as liabilities in the funds receiving the proceeds. National Council on Governmental Accounting Interpretation No. 9, as amended, also requires that tax anticipation notes be recorded as liabilities in the governmental funds receiving the proceeds regardless of whether the note is short-term or long-term.

We recommend that management review outstanding debt periodically throughout the year and at year end to determine the classification (long-term or short-term) and the appropriate recording of the related transactions in the general ledger.

Management's response - This tax anticipation note was originally shown as a deposit to the money market account and also the liability account was created at that time. An entry was later completed to show the funds as a revenue called loan proceeds as advised by an independent consultant. The correction was completed with an audit adjustment.