

**TOWN OF GRAFTON, VERMONT**

**AUDIT REPORT AND REPORTS ON  
COMPLIANCE AND INTERNAL CONTROL**

**JUNE 30, 2012**

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 AUDIT REPORT  
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AUDIT REPORT  
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Independent Auditor's Report

Selectboard  
Town of Grafton  
P.O. Box 180  
Grafton, Vermont 05146

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Grafton, Vermont as of and for the year ended June 30, 2012, which collectively comprise the Town of Grafton, Vermont's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town of Grafton, Vermont'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.

Management has not included the Grafton Public Library Fund in the Town's financial statements. Accounting principles generally accepted in the United States of America require the Grafton Public Library Fund to be presented as a major governmental fund and financial information about the Grafton Public Library Fund to be part of the governmental activities, thus increasing that activities assets, liabilities, revenues and expenses, and changes in net assets. The amount by which this departure would affect the assets, liabilities, net assets, fund balance, revenues and expenditures/expenses of the governmental activities and the omitted major fund is not reasonably determinable.

In our opinion, because of the omission of the Grafton Public Library Fund, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Grafton Public Library Fund of the Town of Grafton, Vermont as of June 30, 2012 or the changes in financial position thereof for the year then ended.

In addition, in our opinion, except for the effects of not including financial information for the Grafton Public Library Fund as part of the governmental activities, as described previously, the financial statements referred to previously present fairly, in all material respects, the financial position of the governmental activities of the Town of Grafton, Vermont as of June 30, 2012 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Finally, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, the Capital Projects Fund, the Trustees of Public Funds Fund and the aggregate remaining fund information of the Town of Grafton, Vermont as of June 30, 2012 and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

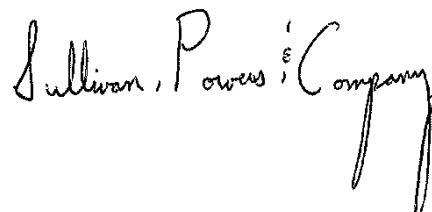
The Town of Grafton, Vermont has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is required to supplement the basic financial statements.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as Schedules 1 and 2 in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Town of Grafton, Vermont. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations" and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate 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 basic 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 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects in relation to the financial statements as a whole.

In accordance with "Government Auditing Standards", we have also issued our report dated March 27, 2013 on our consideration of the Town of Grafton, Vermont's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and 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 conducted in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

March 27, 2013  
Montpelier, Vermont  
VT Lic. #92-000180



TOWN OF GRAFTON, VERMONT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

<u>ASSETS</u>	<u>Governmental Activities</u>
Cash	\$ 644,342
Investments	62,250
Grants Receivable - Flood	1,679,000
Other Receivables	222,871
Capital Assets	
Land	167,400
Other Capital Assets, (Net of Accumulated Depreciation)	<u>2,605,752</u>
Total Assets	<u>5,381,615</u>
<u>LIABILITIES</u>	
Accounts Payable	189,191
Due to Delinquent Tax Collector	2,353
Tax Sale Escrow	5,326
Line of Credit	1,950,000
Noncurrent Liabilities - Due in More than One Year	<u>7,068</u>
Total Liabilities	<u>2,153,938</u>
<u>NET ASSETS</u>	
Invested in Capital Assets	2,773,152
Restricted	96,752
Unrestricted	<u>357,773</u>
Total Net Assets	<u><u>\$ 3,227,677</u></u>

The accompanying notes are an integral part of this financial statement.

TOWN OF GRAFTON, VERMONT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Functions/Programs:					
Governmental Activities:					
General Government	\$ 411,511	\$ 9,263	\$ 10,000	\$ 0	\$ (392,248)
Cemetery	19,433	0	0	0	(19,433)
Public Works	5,100,630	0	4,361,897	491,914	(246,819)
Sanitation	978	0	0	0	(978)
Culture and Recreation	10,310	0	0	0	(10,310)
Public Safety	51,856	0	0	0	(51,856)
Total Governmental Activities	\$ 5,594,718	\$ 9,263	\$ 4,371,897	\$ 491,914	(721,644)
General Revenues:					
Property Taxes					935,224
Interest and Penalties on Delinquent Taxes					26,040
Unrestricted Investment Earnings					5,474
Other Revenues					97,295
Total General Revenues					1,064,033
Change in Net Assets					342,389
Net Assets - July 1, 2011					2,885,288
Net Assets - June 30, 2012					\$ 3,227,677

The accompanying notes are an integral part of this financial statement.

TOWN OF GRAFTON, VERMONT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	General Fund	Capital Projects Fund	Trustees of Public Funds Fund	Total Governmental Funds
<u>ASSETS</u>				
Cash	\$ 585,350	\$ 0	\$ 58,992	\$ 644,342
Investments	25,695	0	36,555	62,250
Grants Receivable - Flood	1,679,000	0	0	1,679,000
Other Receivables	128,871	94,000	0	222,871
Due from Other Funds	0	201,260	0	201,260
 Total Assets	 \$ 2,418,916	 \$ 295,260	 \$ 95,547	 \$ 2,809,723
 <u>LIABILITIES</u>				
Liabilities:				
Accounts Payable	\$ 189,191	\$ 0	\$ 0	\$ 189,191
Due to Delinquent Tax Collector	2,353	0	0	2,353
Due to Other Funds	201,260	0	0	201,260
Tax Sale Escrow	5,326	0	0	5,326
Deferred Revenue	435,225	0	0	435,225
Line of Credit	1,950,000	0	0	1,950,000
 Total Liabilities	 2,783,355	 0	 0	 2,783,355
 Fund Balances/(Deficit):				
Nonspendable	0	0	73,090	73,090
Restricted	20,097	0	3,565	23,662
Assigned	0	295,260	18,892	314,152
Unassigned	(384,536)	0	0	(384,536)
 Total Fund Balances/(Deficit)	 (364,439)	 295,260	 95,547	 26,368
 Total Liabilities and Fund Balances	 \$ 2,418,916	 \$ 295,260	 \$ 95,547	

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:

Capital Assets Used in Governmental Activities are not Financial Resources and, Therefore, are not Reported in the Funds.

2,773,152

Other Assets are not Available to Pay for Current-Period Expenditures, and, Therefore, are Deferred in the Funds.

428,157

Net Assets of Governmental Activities

\$ 3,227,677

The accompanying notes are an integral part of this financial statement.



TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Capital Projects Fund	Trustees of Public Funds Fund	Total Governmental Funds
Revenues:				
Property Taxes	\$ 773,332	\$ 139,000	\$ 0	\$ 912,332
Penalties and Interest	26,040	0	0	26,040
Intergovernmental Revenues	4,278,582	224,500	0	4,503,082
Charges for Services	8,395	0	0	8,395
Licenses and Permits	868	0	0	868
Investment Income	1,031	0	4,443	5,474
Donations	10,000	0	0	10,000
Insurance Reimbursement	74,165	0	0	74,165
Rental Income - Town Hall	8,150	0	0	8,150
Other Income	4,980	0	0	4,980
<b>Total Revenues</b>	<b>5,185,543</b>	<b>363,500</b>	<b>4,443</b>	<b>5,553,486</b>
Expenditures:				
General Government	260,666	0	0	260,666
Cemetery	19,433	0	0	19,433
Public Works	5,100,630	0	0	5,100,630
Sanitation	978	0	0	978
Culture and Recreation	10,237	0	73	10,310
Public Safety	39,856	12,000	0	51,856
Capital Outlay:				
Public Works	268,488	237,500	0	505,988
<b>Total Expenditures</b>	<b>5,700,288</b>	<b>249,500</b>	<b>73</b>	<b>5,949,861</b>
Excess/(Deficiency) of Revenues Over Expenditures	(514,745)	114,000	4,370	(396,375)
Other Financing Sources/(Uses):				
Transfer In	567	0	0	567
Transfers Out	0	0	(567)	(567)
<b>Total Other Financing Sources/(Uses)</b>	<b>567</b>	<b>0</b>	<b>(567)</b>	<b>0</b>
<b>Net Changes in Fund Balances</b>	<b>(514,178)</b>	<b>114,000</b>	<b>3,803</b>	<b>(396,375)</b>
Fund Balances - July 1, 2011, As Restated	149,739	181,260	91,744	422,743
<b>Fund Balances/(Deficit) - June 30, 2012</b>	<b>\$ (364,439)</b>	<b>\$ 295,260</b>	<b>\$ 95,547</b>	<b>\$ 26,368</b>

The accompanying notes are an integral part of this financial statement.

TOWN OF GRAFTON, VERMONT  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND BALANCES OF  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2012

Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:

Change in fund balances - total government funds (Exhibit D)	\$	(396,375)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost (\$505,988) of those assets is allocated over their estimated useful lives and reported as depreciation expense (\$150,845). This is the amount by which capital outlays exceeded depreciation in the current period.		355,143
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		<u>383,621</u>
Change in net assets of governmental activities (Exhibit B)	\$	<u><u>342,389</u></u>

The accompanying notes are an integral part of this financial statement.

TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenue:			
Tax Revenue:			
Property Taxes	\$ 674,991	\$ 686,032	\$ 11,041
State of Vermont Current Use	<u>70,000</u>	<u>87,300</u>	<u>17,300</u>
Total Tax Revenue	<u>744,991</u>	<u>773,332</u>	<u>28,341</u>
Interest and Penalties:			
Interest on Overdue Taxes	5,000	16,283	11,283
8% Penalty on Delinquent Taxes	<u>2,500</u>	<u>9,757</u>	<u>7,257</u>
Total Interest and Penalties	<u>7,500</u>	<u>26,040</u>	<u>18,540</u>
Licenses and Permits:			
Liquor Licenses	350	410	60
Dog Licenses	<u>400</u>	<u>458</u>	<u>58</u>
Total Licenses and Permits	<u>750</u>	<u>868</u>	<u>118</u>
Intergovernmental Revenue:			
State of Vermont - Highways	115,000	117,616	2,616
State of Vermont - In Lieu of Taxes	600	939	339
State of Vermont - Reappraisal	0	6,052	6,052
State of Vermont - Other	0	389	389
Vermont Agency of Transportation Grant	0	159,247	159,247
U.S Government/FEMA	0	2,320,186	2,320,186
Federal Aid Highways	<u>0</u>	<u>1,674,152</u>	<u>1,674,152</u>
Total Intergovernmental Revenue	<u>115,600</u>	<u>4,278,581</u>	<u>4,162,981</u>
Charges for Services:			
Town Clerk's Fees	5,000	5,296	296
Preservation of Records	0	2,759	2,759
Copying Fees	100	50	(50)
Dump Fees	<u>500</u>	<u>290</u>	<u>(210)</u>
Total Charges for Services	<u>5,600</u>	<u>8,395</u>	<u>2,795</u>
Interest Earned:	<u>2,000</u>	<u>1,031</u>	<u>(969)</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Miscellaneous Revenues:			
Town Hall Rent	\$ 8,000	\$ 8,150	\$ 150
Sales - VLCT Insurance Checks	0	74,165	74,165
Grants	0	12,985	12,985
Other Revenue	0	1,061	1,061
Permits	500	600	100
	<u>8,500</u>	<u>96,961</u>	<u>88,461</u>
Total Miscellaneous Revenues			
Interfund Revenues:			
Cemetery Trust Funds	300	13	(287)
Village Park Trust Funds	100	61	(39)
Wilson Park Trust Funds	200	505	305
Sherwin Cambridge Fund	350	323	(27)
	<u>950</u>	<u>902</u>	<u>(48)</u>
Total Interfund Revenues			
Total Revenue	<u>885,891</u>	<u>5,186,110</u>	<u>4,300,219</u>
Expenditures:			
Salaries/Compensation:			
Select Board	5,000	5,000	0
Select Board Town Administrator	29,870	28,833	1,037
Town Treasurer	15,000	22,500	(7,500)
Town Clerk	27,000	25,439	1,561
Assistant Town Clerk/Treasurer	5,000	1,329	3,671
Flood Administrator	0	24,141	(24,141)
Listers	7,000	3,370	3,630
Auditors	1,100	1,450	(350)
Trustee of Public Funds	500	500	0
Constables and Insurance	750	546	204
Collector of Delinquent Taxes	2,500	9,695	(7,195)
Health Officer	1,000	1,000	0
Forest Fire Warden	250	250	0
	<u>94,970</u>	<u>124,053</u>	<u>(29,083)</u>
Total Salaries/Compensation			

The accompanying notes are an integral part of this financial statement.

TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>Benefits:</b>			
Social Security (FICA)	\$ 4,000	\$ 11,073	\$ (7,073)
Medicare	1,500	2,495	(995)
Employee Health Insurance	33,035	37,641	(4,606)
Employee Dental Insurance	1,300	1,075	225
Retirement	5,000	4,092	908
Worker's Compensation	936	2,553	(1,617)
Unemployment Insurance	<u>300</u>	<u>303</u>	<u>(3)</u>
 Total Benefits	 <u>46,071</u>	 <u>59,232</u>	 <u>(13,161)</u>
 <b>Town Meetings and Elections:</b>			
Ballot Clerk Compensation	300	300	0
Town Reports	2,500	1,659	841
Other Town Meeting/Election Expense	<u>280</u>	<u>203</u>	<u>77</u>
 Total Town Meetings and Elections	 <u>3,080</u>	 <u>2,162</u>	 <u>918</u>
 <b>Operating Expenses:</b>			
Office Supplies	2,000	2,319	(319)
Postage	1,450	1,872	(422)
Telephone	2,500	2,669	(169)
Copier Expense	1,570	1,571	(1)
Computer Expense	4,000	6,625	(2,625)
Travel - Town Officials	1,500	1,391	109
Dues - Town Officials	100	145	(45)
Conferences	2,000	1,185	815
Dog Expense	120	120	0
Preservation of Records	0	595	(595)
Liability Insurance	1,698	1,742	(44)
Public Official Insurance	1,808	2,258	(450)
Officers Bond	100	100	0
Kidder Bridge Insurance	136	68	68
Advertising	300	831	(531)
Other Professional Services	2,000	1,635	365
Legal Expense/Tax Appeals	5,000	3,540	1,460
Legal Expense	2,000	5,838	(3,838)
Other Operating Expenses	<u>1,000</u>	<u>118</u>	<u>882</u>
 Total Operating Expenses	 <u>29,282</u>	 <u>34,622</u>	 <u>(5,340)</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Sanitation:			
Dump Attendant	\$ 1,800	\$ 725	\$ 1,075
Stump Dump	<u>600</u>	<u>253</u>	<u>347</u>
Total Sanitation	<u>2,400</u>	<u>978</u>	<u>1,422</u>
Recreation & Parks:			
Swimming Pool	600	505	95
Town Greens	600	548	52
Village Park	100	56	44
Wilson Park	<u>300</u>	<u>506</u>	<u>(206)</u>
Total Recreation & Parks	<u>1,600</u>	<u>1,615</u>	<u>(15)</u>
Cemeteries:			
Labor	22,000	14,270	7,730
Benefits - FICA and Worker's Compensation	2,000	595	1,405
Supplies	600	527	73
Equipment	600	330	270
Rental	0	41	(41)
Other Expense	<u>1,500</u>	<u>3,670</u>	<u>(2,170)</u>
Total Cemeteries	<u>26,700</u>	<u>19,433</u>	<u>7,267</u>
Other Town Expenses:			
VLCT Dues	1,400	1,306	94
County Tax	11,600	9,457	2,143
Street & Bridge Lights	1,650	1,608	42
Grafton Public Library	1,300	1,300	0
Planning Commission	2,000	175	1,825
Windham Regional Commission	1,050	1,038	12
G. Aiken Conservation Center	100	0	100
Emergency Management	2,500	1,290	1,210
Hydrant Maintenance	1,000	0	1,000
Sheriff's Department	2,000	2,000	0
Act 60 Coalition	250	0	250
Memorial Day	<u>250</u>	<u>250</u>	<u>0</u>
Total Other Town Expenses	<u>25,100</u>	<u>18,424</u>	<u>6,676</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Town Hall Expenses:			
Supplies	\$ 250	\$ 167	\$ 83
Insurance	2,303	2,381	(78)
Heat	5,000	4,232	768
Electricity	1,500	1,870	(370)
Cleaning	600	0	600
Repairs & Maintenance	13,000	12,372	628
Snow Removal	1,200	480	720
Payphone	600	600	0
 Total Town Hall Expenses	 <u>24,453</u>	 <u>22,102</u>	 <u>2,351</u>
Other Voted Articles:			
Ambulance Service	9,000	8,760	240
Fireman's Operating Budget	23,000	23,064	(64)
FAST Squad	8,000	8,032	(32)
Humanitarian Articles	7,539	8,695	(1,156)
Valley Cares	1,006	0	1,006
 Total Other Voted Articles	 <u>48,545</u>	 <u>48,551</u>	 <u>(6)</u>
Highway Salaries/Compensation:			
Labor - Regular Hours	116,544	151,871	(35,327)
Labor - Overtime	10,000	30,480	(20,480)
 Total Highway Salaries/Compensation	 <u>126,544</u>	 <u>182,351</u>	 <u>(55,807)</u>
Highway Benefits:			
Social Security (FICA)	7,000	8,924	(1,924)
Medicare	2,000	2,182	(182)
Health Insurance	40,125	38,997	1,128
Dental Insurance	1,300	1,187	113
Retirement- Highway	6,600	7,865	(1,265)
Worker's Compensation	7,800	13,428	(5,628)
Unemployment Insurance	1,340	849	491
Uniforms	3,676	4,656	(980)
 Total Highway Benefits	 <u>69,841</u>	 <u>78,088</u>	 <u>(8,247)</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	Budget	Actual	Variance Favorable (Unfavorable)
Fuel:			
Truck 1 - 2004 International	\$ 6,500	\$ 8,962	\$ (2,462)
Truck 2 - 2007 Sterling	6,500	7,945	(1,445)
Truck 3 - 2008 Ford 50	5,000	5,544	(544)
Loader - 2001 John Deere	5,000	6,677	(1,677)
Grader - 1995 Caterpillar	7,500	13,461	(5,961)
Backhoe - 1998 John Deere	2,500	3,636	(1,136)
Chipper	0	51	(51)
Small Equipment	300	219	81
Total Fuel	33,300	46,495	(13,195)
Repairs and Maintenance:			
Truck 1 - 2004 International	2,500	5,311	(2,811)
Truck 2 - 2007 Sterling	3,500	2,868	632
Truck 3 - 2008 Ford 550	4,000	9,897	(5,897)
Loader - 2001 John Deere	5,000	7,074	(2,074)
Grader - 1995 Caterpillar	2,500	2,388	112
Plows and Sanders	12,000	8,526	3,474
Backhoe - 1998 John Deere	2,500	1,591	909
Chipper	0	120	(120)
Small Equipment	1,500	557	943
Total Repairs and Maintenance	33,500	38,332	(4,832)
Contracted Services:			
Mowing Contractors	3,500	0	3,500
Plowing Contractors	3,500	0	3,500
Tree Removal Contractors	2,000	0	2,000
Retreatment Contractors	105,000	202,209	(97,209)
Bridge Maintenance	12,000	882	11,118
Street Sweeping Contracts	3,200	2,180	1,020
Beaver Maintenance	1,500	2,000	(500)
Small Equipment Rental	2,000	1,718	282
Other Contracted Services	3,000	29,415	(26,415)
Total Contracted Services	135,700	238,404	(102,704)
Materials and Supplies:			
Culvert Expenses	7,500	5,979	1,521
Cold Patch	1,500	916	584
Guard Rails	0	8,542	(8,542)
Gravel Crushing and Hauling	25,000	25,001	(1)

The accompanying notes are an integral part of this financial statement.



TOWN OF GRAFTON, VERMONT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Materials and Supplies/(Cont'd):			
Road Repair Material	\$ 10,000	\$ 24,156	\$ (14,156)
Salt	50,000	40,123	9,877
Sand	45,000	62,719	(17,719)
Chloride	5,000	17,010	(12,010)
Road Signs	8,000	8,077	(77)
Miscellaneous Supplies	<u>2,000</u>	<u>119</u>	<u>1,881</u>
Total Materials and Supplies	<u>154,000</u>	<u>192,642</u>	<u>(38,642)</u>
Town Garage:			
Supplies and Tools/Inventory	5,000	5,375	(375)
Radio	1,200	975	225
Telephone	1,500	1,683	(183)
Insurance	1,200	1,089	111
Heat	5,000	5,792	(792)
Electricity	1,700	1,300	400
Repairs and Maintenance	6,000	24,475	(18,475)
Diesel Fuel Tank	0	3,878	(3,878)
Plans on New Town Shed	0	7,206	(7,206)
Pagers for Highway Workers	<u>0</u>	<u>591</u>	<u>(591)</u>
Total Town Garage	<u>21,600</u>	<u>52,364</u>	<u>(30,764)</u>
Other Expenses:			
Training	250	2,530	(2,280)
Advertising	400	583	(183)
Liability Insurance - Highway	2,980	3,070	(90)
Equipment Insurance	4,045	4,279	(234)
Safety Equipment	1,000	0	1,000
Miscellaneous Highway Expenses	<u>200</u>	<u>0</u>	<u>200</u>
Total Other Expenses	<u>8,875</u>	<u>10,462</u>	<u>(1,587)</u>
Hurricane Irene:	<u>0</u>	<u>4,529,978</u>	<u>(4,529,978)</u>
Total Expenditures	<u>885,561</u>	<u>5,700,288</u>	<u>(4,814,727)</u>
Excess/(Deficiency) of Revenue Over Expenditures	\$ <u>330</u>	(514,178)	\$ <u>(514,508)</u>
Fund Balance - July 1, 2011, As Restated		<u>149,739</u>	
Fund Balance/(Deficit) - June 30, 2012		<u>\$ (364,439)</u>	

The accompanying notes are an integral part of this financial statement.

TOWN OF GRAFTON, VERMONT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2012

	<u>Private Purpose Trust Funds</u>
<u>ASSETS</u>	
Cash	\$ 16,673
Investments	<u>23,715</u>
Total Assets	<u>40,388</u>
 <u>LIABILITIES</u>	
Total Liabilities	<u>0</u>
 <u>NET ASSETS</u>	
Held in Trust for Various Purposes	<u>40,388</u>
Total Net Assets	<u>\$ 40,388</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF GRAFTON, VERMONT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Investment Earnings:	
Net Investment Income	\$ <u>162</u>
Total Additions	<u>162</u>
<u>DEDUCTIONS:</u>	
Care of the Indigent and Needy	<u>320</u>
Total Deductions	<u>320</u>
Change In Net Assets	(158)
Net Assets - July 1, 2011	<u>40,546</u>
Net Assets- June 30, 2012	\$ <u><u>40,388</u></u>

The accompanying notes are an integral part of this financial statement.

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

The Town of Grafton, Vermont, (herein the "Town") operates under a Selectboard form of government and provides the following services: public safety, highways and streets, solid waste, culture and recreation, public improvements, planning and zoning and general administrative services.

## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted by the Town of Grafton, Vermont (the "Town") conform to generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The following is a summary of the more significant accounting policies employed in the preparation of these financial statements.

### **A. The Financial Reporting Entity**

This report includes all of the funds of the Town of Grafton, Vermont. The reporting entity consists of the primary government; organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. Based on these criteria, there are no entities that should be combined with the financial statements of the Town.

### **B. Basis of Presentation**

The accounts of the Town are organized and operated on the basis of fund accounting. A fund is an independent fiscal and accounting entity with a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled.

The basic financial statements of the Town include both government-wide statements and fund financial statements. The focus of the government-wide statements is on reporting the operating results and financial position of the Town as a whole and present a longer-term view of the Town's finances. The focus of the fund financial statements is on reporting on the operating results and financial position of the most significant funds of the Town and present a shorter-term view of how operations were financed and what remains available for future spending.

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government, the Town. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of activities between funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function or program. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds, including fiduciary funds. Separate statements for each fund category of governmental and fiduciary are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Town reports on the following major governmental funds:

General Fund ó This is the Town's main operating fund. It accounts for all financial resources of the Town, except those accounted for in another fund.

Capital Projects Fund ó This fund accounts for the capital project activities of the Town.

Additionally, the Town reports the following fund type:

Private Purpose Trust Funds ó These funds are used to report trust arrangements under which resources are to be used for the benefit of the indigent, elderly, destitute and for payments to the library and church. Only investment earnings may be used to support these activities.

### **C. Measurement Focus**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Government-wide financial statements are reported using the economic resources measurement focus. This means that all assets and liabilities associated with the operation of these funds (whether current or noncurrent) are included on the balance sheet (or statement of net assets). Equity (i.e., net total assets) is segregated into invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

Governmental fund financial statements are reported using the current financial resources measurement focus. This means that only current assets and current liabilities are generally reported on their balance sheets. Their reported fund balances (net current assets) are considered a measure of available spendable resources, and are segregated into nonspendable; restricted; committed; assigned and unassigned amounts. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

**D. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Measurable" means the amount of the transaction can be determined, and "available" means the amount is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers all revenues reported in governmental funds to be available if the revenues are collected within sixty (60) days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, certain compensated absences and other long-term liabilities which are recognized when the obligations are expected to be liquidated or are funded with expendable available financial resources.

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and sales of capital assets are reported as other financing sources.

Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and other grant requirements have been met.

The government-wide financial statements follow Financial Accounting Standards Board (FASB) Statements and Interpretations and Accounting Principles Board (APB) Opinions, and Accounting

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

Research Bulletins, issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. As permitted under Statement of Governmental Accounting Standards No. 20, the Town has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

**E. Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**F. Assets, Liabilities and Equity**

**1. Cash**

Cash balances of most Town funds are deposited with and invested by the Town Treasurer. The Town considers all short-term investments of ninety (90) days or less to be cash equivalents.

**2. Investments**

The Town invests in investments as allowed by State Statute. Investments with readily determinable fair values are reported at fair value on the balance sheet. Unrealized gains and losses are included in revenue.

**3. Receivables**

Receivables are shown net of an allowance for uncollectible accounts for the estimated losses that will be incurred in the collection of the receivables. The estimated losses are based on the judgment of management and a review of the current status of existing receivables.

**4. Due To/From Other Funds**

Transactions between funds that are representative of lending/borrowing arrangement that are outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (for the current portion of the interfund loans) or "advances to/from other funds" (for the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

TOWN OF GRAFTON, VERMONT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2012

**5. Capital Assets**

Capital assets are reported at actual cost or estimated historical cost based on appraisals or deflated current replacement cost if purchased or constructed. Contributed assets are recorded at their estimated fair value at the time received. Major outlays for capital assets and improvements are capitalized as constructed. Interest is not capitalized during the construction phase of capital assets used in governmental activities. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. Infrastructure assets are reported starting with fiscal year ended June 30, 2004. The Town has elected to not report major general infrastructure assets retroactively.

Capital assets reported in the government-wide financial statements are depreciated in order that the cost of these assets will be charged to expenses over their estimated service lives, generally using the straight-line method of calculating depreciation.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Estimated Service Life
Land	\$ 1	N/A
Vehicles and Equipment	\$ 2,500	3-20 Years
Buildings and Building Improvements	\$ 5,000	10-75 Years
Infrastructure	\$ 10,000	8-25 Years

Capital assets are not reported in the governmental fund financial statements. Capital outlays in these funds are recorded as expenditures in the year they are acquired.

**6. Compensated Absences**

It is the Town's policy to permit employees to accumulate earned but unused vacation. The accrual for unused compensated absences time, based on current pay rates, is recorded in the government-wide financial statements. Payments for unused compensated absences are recorded as expenditures in the year they are paid in the governmental funds.

**7. Long-term Liabilities**

Long-term liabilities include obligations such as compensated absences. Long-term liabilities are reported in the government-wide financial statements. Governmental fund financial statements do not include any long-term liabilities as those funds use the current financial resources measurement focus and only include current assets and liabilities on their balance sheets.



TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

**8. Fund Equity**

Fund Balances and Net Assets are classified based upon any restrictions that have been placed on those balances or any tentative plans management may have made for those balances. Restrictions of net assets in the government-wide financial statements represent amounts that cannot be appropriated or are legally restricted for a specific purpose by a grant, contract, or other binding agreement. Fund balances of governmental funds are classified as nonspendable (not in spendable form or legally required to remain intact); restricted (constraints on the use of resources are either externally imposed by creditors, grantors, or donors, or imposed by law through enabling legislation); committed (constraints on the use of resources are imposed by formal action of the voters); assigned (reflecting the Town's intended use of the resources); and unassigned.

**II. EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUND AND GOVERNMENT-WIDE STATEMENTS**

Governmental Fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, while government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. These differences in the measurement focus and basis of accounting lead to differences between the governmental fund financial statements and the government-wide financial statements as follows:

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas government-wide statements report revenues when they are earned. Long-term expense differences arise because governmental funds report expenditures (including interest) using the modified accrual basis of accounting, whereas government-wide statements report expenses using the accrual basis of accounting.

Capital-related differences arise because governmental funds report capital outlays as current period expenditures, whereas government-wide statements report depreciation as an expense. Further, governmental funds report the proceeds from the sale of capital assets as an other financing source, whereas government-wide statements report the gain or loss from the sale of capital assets as revenue or expense.

**III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The budgets are approved at the annual Town Meeting in March. Any budget changes require voter approval. There were no budget changes during the year.

**B. Budgeted Surplus**

The Town budgeted a current year's excess of revenues over expenditures in the General Fund of \$330 due to clerical error. This is reflected as a budgeted excess of revenues over expenditures on Exhibit F.

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

**C. Excess of Expenditures Over Appropriations**

For the year ended June 30, 2012, the Town expended \$4,814,727 more than appropriated in the General Fund. These overexpenditures were partially funded by excess revenues and available fund balance but resulted in a deficit.

**D. Restatement of Fund Balances**

The Town restated its General Fund fund balance as of June 30, 2012 as follows:

	General Fund
Fund Balance, As Originally Reported	\$ 180,020
Unknown Adjustment	141
Understatement of Delinquent Interest Receivable	10,110
Understatement of Deferred Revenue - Tax and Interest	(40,532)
Fund Balance - As Restated	\$ 149,739

The net effect of the restatement on the June 30, 2011 General Fund balance sheet is that assets were understated by \$10,251, liabilities were understated by \$40,532 and the fund balance was understated by \$30,281. The effect on the Statement of Revenues, Expenditures, and Changes in Fund Balances for the year ended June 30, 2011 has not been determined.

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Cash and Investments**

Cash and investments are comprised of the following:

Cash	\$661,015
Investments ó Certificates of Deposits	55,410
Investments ó Stock	30,555
Total	\$746,980

The Town has several certificates of deposits in place with amounts ranging from \$1,100 to \$20,368 with interest rates ranging from .25% to .99% and terms from six (6) months to one (1) year.

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counter-party (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in possession of another party. The Town's investments are held in its name and are, therefore, not subject to custodial credit risk. The Town does not have any policy to limit the exposure to custodial credit risk. The following table shows the custodial credit risk of the Town's deposits.

	<u>Book Balance</u>	<u>Bank Balance</u>
Insured by FDIC	\$369,939	\$ 369,943
Uninsured, Uncollateralized	<u>346,486</u>	<u>925,565</u>
	<u>\$716,425</u>	<u>\$1,295,508</u>

The difference between the book and the bank balance is due to reconciling items such as deposits in transit and outstanding checks.

Due to higher cash flows at various times during the year, the amount of uninsured, uncollateralized cash was much higher than at year-end.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have any policy to limit the exposure to interest rate risk. The Town's certificates of deposit are not subject to interest rate risk disclosure. Corporate stock is exempt from this analysis.

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Town's certificates of deposit are not subject to credit risk disclosure. Corporate stock is exempt from this analysis. The Town does not have any policy to limit the exposure to credit risk.

**Concentration of Credit Risk**

Concentration of credit risk is the risk that a large percentage of the Town's investments are held within one security. The Town does not have any limitations on the amount that can be invested in any one issuer. The Town has 98% of their stock invested in General Electric, Inc.

TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

**B. Grants Receivable – Flood**

Grants Receivable - Flood consists of federal and state grant monies to be received for the reimbursement of Hurricane Irene expenses.

**C. Other Receivables**

Other receivables at June 30, 2012, as reported in the statement of net assets, are as follows:

	Governmental Activities
Delinquent Taxes	\$ 114,714
Penalties and Interest on Delinquent Tax	14,157
Agency of Transportation Bridge Grant Receivable	94,000
 Total	 \$ 222,871

Management believes that all receivables are collectible, thus, no allowance for doubtful accounts has been recorded.

**D. Capital Assets**

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 167,400	\$ 0	\$ 0	\$ 167,400
Total Capital Assets, Not Being Depreciated	167,400	0	0	167,400
Capital Assets, Being Depreciated:				
Vehicles & Equipment	625,830	0	0	625,830
Buildings and Building Improvements	198,151	0	0	198,151
Infrastructure	2,039,106	505,988	0	2,545,094
Totals	2,863,087	505,988	0	3,369,075
Less Accumulated Depreciation for:				
Vehicles & Equipment	246,188	64,715	0	310,903
Buildings and Building Improvements	76,659	2,917	0	79,576
Infrastructure	289,631	83,213	0	372,844
Totals	612,478	150,845	0	763,323
Total Capital Assets, Being Depreciated	2,250,609	355,143	0	2,605,752
Governmental Activities Capital Assets, Net	\$ 2,418,009	\$ 355,143	\$ 0	\$ 2,773,152

TOWN OF GRAFTON, VERMONT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2012

Depreciation was charged as follows:

Governmental Activities:		
General Government	\$	1,353
Public Works		<u>149,492</u>
Total Depreciation Expense - Governmental Activities		\$ <u><u>150,845</u></u>

**E. Interfund Balances and Activity**

The Due To/From Balances as of June 30, 2012 are as follows:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 0	\$ 201,260
Capital Projects Fund	<u>201,260</u>	<u>0</u>
Total	\$ <u><u>201,260</u></u>	\$ <u><u>201,260</u></u>

Interfund transfers during the year ended June 30, 2012 were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose</u>
Trustees of Public Funds Fund	General Fund	\$ <u>567</u>	Transfer Investment Earnings
Total		\$ <u><u>567</u></u>	

**F. Deferred Revenue**

Deferred Revenue in the General Fund consists of \$360,729 in Grants Receivable - Flood and \$74,496 of delinquent taxes and interest on those taxes not collected within sixty (60) days after year end as these would not be available to liquidate current liabilities. Total Deferred Revenue in the General Fund is \$435,225.

TOWN OF GRAFTON, VERMONT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2012

**G. Long-term Liabilities**

Compensated Absences ó Vacation is accrued on an annual basis. It is the policy of the Town of Grafton to permit employees to accumulate earned but unused vacation benefits through December 31. Employees may elect to carryforward up to fifteen (15) sick days or have them paid out upon termination. Compensated Absences are paid by the applicable fund where the employee is charged.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Compensated Absences Payable	\$ 4,999	\$ 2,069	\$ 0	\$ 7,068	\$ 0
 Total Governmental Activities Long-Term Liabilities	\$ 4,999	\$ 2,069	\$ 0	\$ 7,068	\$ 0

**H. Fund Balances**

GASB Statement No. 34, as amended by GASB Statement No. 54, requires fund balances reported on the governmental fund balance sheet to be classified using a hierarchy based primarily on the extent to which a government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balances are to be classified as: nonspendable (not in spendable form or legally required to remain intact); restricted (constraints on the use of resources are either externally imposed by creditors, grantors or donors, or imposed by law through enabling legislation); committed (constraints on the use of resources are imposed by formal action of the voters); assigned (reflecting the Selectboard's intended use of the resources); and unassigned.

Special revenue funds are created only to report a revenue source (or sources) that is restricted or committed to a specified purpose, and that the revenue source should constitute a substantial portion of the resources reported in that fund. Special revenue funds cannot be used to accumulate funds that are not restricted or committed. These amounts will have to be reflected in the General Fund.

Amounts constrained to stabilization (rainy-day funds) will be reported as restricted or committed fund balance in the General Fund if they meet the other criteria for those classifications. However, stabilization is regarded as a specified purpose only if the circumstances or conditions that signal the need for stabilization (a) are identified in sufficient detail and (b) are not expected to occur routinely. Governments are required to disclose in the notes key information about their stabilization arrangements, including the authority by which they were established, provisions for additions to the stabilization amount, and circumstances under which those amounts may be spent. The Town does not have any stabilization arrangements.

TOWN OF GRAFTON, VERMONT  
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Some governments create stabilization-like arrangements by establishing formal minimum fund balance policies. Because users are interested in information about those minimum fund balance policies and how governments comply with them, governments are required to explain their minimum fund balance policies, if they have them, in notes to the financial statements. The Town does not have any minimum fund balance policies.

When expenditures are incurred for purposes for which both restricted and unrestricted amounts are available, it is the Town's policy to first consider restricted amounts to have been spent, followed by committed, assigned, and finally unassigned amounts.

The fund balances in the following funds are nonspendable as follows:

Nonmajor Funds

Nonspendable for Cemetery Upkeep Expenses by Bequest	\$36,535
Nonspendable for Wilson Park Upkeep Expenses by Bequest	30,555
Nonspendable for Village Park Upkeep Expenses by Bequest	<u>6,000</u>
Total Nonspendable Fund Balances	<u>\$73,090</u>

The fund balances in the following funds are restricted as follows:

Major Funds

Restricted for Town Clerk Restoration Expenses by Statute	\$ 14,046
Restricted for Reappraisal by Grant	<u>6,051</u>
Total Major Funds	<u>20,097</u>

Nonmajor Funds

Restricted for Cemetery Upkeep Expenses By Unexpended Earnings on Bequest	<u>3,565</u>
Total Nonmajor Funds	<u>3,565</u>
Total Restricted Fund Balances	<u>\$ 23,662</u>

TOWN OF GRAFTON, VERMONT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2012

The fund balances in the following funds are assigned as follows:

Major Funds

Assigned for Capital Projects	\$ <u>295,260</u>
Total Major Funds	<u>295,260</u>

Nonmajor Funds

Assigned for Wilson Park	\$ <u>18,892</u>
Total Nonmajor Funds	<u>18,892</u>
Total Assigned Fund Balances	<u>\$ 314,152</u>

The deficit unassigned fund balance of \$384,536 in the General Fund will be funded with the collection of grants receivable and future long-term debt.

**I. Restricted Net Assets**

The net assets of the governmental activities are restricted as follows:

Restricted by Bequest of Cemetery	\$ 40,100
Restricted by Grant of Reappraisal Fund	6,051
Restricted by Statute of Town Clerk Restoration Fund	14,046
Restricted by Bequest of Wilson Park	30,555
Restricted by Bequest of Village Park	<u>6,000</u>
Total Restricted Net Assets	<u>\$ 96,752</u>

**J. Net Assets Held in Trust for Various Purposes**

The net assets held in trust for various purposes in the Town's Private Purpose Trust Funds at June 30, 2012 consisted of the following:

Private Purpose Trust Funds:	
Restricted for S.B. Jones Library and Church Fund by Donations	\$ 701
Restricted for Grafton Fund by Donations	8,235
Restricted for Edward Campbell Fund by Bequest	19,125
Restricted for Woolson Fund by Bequest	10,193
Restricted for Dean Baker Fund by Donations	1,100
Restricted for Edward Walker Fund by Donations	<u>1,034</u>
Total Private Purpose Trust Funds	<u>\$ 40,388</u>



TOWN OF GRAFTON, VERMONT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

**V. OTHER INFORMATION**

**A. BENEFIT PLANS**

All eligible employees of the Town are covered under the State of Vermont Municipal Employees' Retirement Plan. The Plan requires that both the Town and employees contribute to the Plan which provides retirement, disability and death benefits. The Town has elected to participate in VMERS Plan B which require all eligible employees to contribute 4.5% of gross wages while the Town contributes 5%. The Town pays all costs accrued each year for the Plan. The premise of the Plan is to provide a retirement plan covering municipal employees at a uniform state-wide contribution rate based upon an actuarial valuation of all State of Vermont municipal employees. Activity in this Plan is done in the aggregate, not by municipality. Due to the nature of this pension plan, net assets available for benefits as well as the present value of vested and nonvested plan benefits by municipality are not available.

Total payroll for the year was \$329,835 while covered payroll was \$239,127. Pension expense for the year was \$11,957.

Additional information regarding the State of Vermont Municipal Employees' Retirement Plan is available upon request from the State of Vermont.

**B. CONTINGENT LIABILITIES**

The Town is a participating member in the Southern Windsor/Windham Counties Solid Waste District. The Town could be subject to a portion of the District's debt if the District experiences financial problems.

The Town participates in a number of federally assisted and state grant programs that are subject to audits by the grantors or their representatives. Accordingly, compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

TOWN OF GRAFTON, VERMONT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2012

**C. RISK MANAGEMENT**

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

The Town of Grafton, Vermont is also a member of the Vermont League of Cities and Towns Unemployment Insurance Trust. The Unemployment 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 Trust to make additional assessments to its members.

**D. PROPERTY TAXES**

The Town is responsible for assessing and collecting its own property taxes as well as education taxes for the State of Vermont. The tax rate is set by the Board of Selectmen based on the voter approved budget, the estimated grand list and the State education property tax liability. Property taxes are assessed based on property valuations as of April 1 and the approved budgets. Taxes are collected four (4) times per year. During the tax year ended June 30, 2012, taxes became due and payable on August 15, 2011, November 15, 2011, February 15, 2012 and May 15, 2012. The penalty is eight percent (8%). Interest is charged at one percent (1%) per month for the first three months and one and one-half percent (1-1/2%) per month for each month thereafter.

The tax rate for 2012 is as follows:

	<u>Residential</u>	<u>Non-Residential</u>
Education	1.3488	1.3963
Highway	.2912	.2912
Capital Projects	.0865	.0865
Local Agreements	.0132	.0132
Town	<u>.1285</u>	<u>.1285</u>
Total	<u>\$1.8682</u>	<u>\$1.9157</u>

TOWN OF GRAFTON, VERMONT  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 PRIVATE PURPOSE TRUST FUNDS  
 JUNE 30, 2012

	S.B. Jones Library and Church Fund	Grafton Fund	Campbell Fund	Woolson Fund	Dean Baker Fund	Edward Walker Fund	Totals
<u>ASSETS</u>							
Cash	\$ 701	\$ 3,235	\$ 7,533	\$ 4,170	\$ 0	\$ 1,034	\$ 16,673
Investments	<u>0</u>	<u>5,000</u>	<u>11,592</u>	<u>6,023</u>	<u>1,100</u>	<u>0</u>	<u>23,715</u>
<b>TOTAL ASSETS</b>	<u>\$ 701</u>	<u>\$ 8,235</u>	<u>\$ 19,125</u>	<u>\$ 10,193</u>	<u>\$ 1,100</u>	<u>\$ 1,034</u>	<u>\$ 40,388</u>
<u>LIABILITIES AND NET ASSETS</u>							
Liabilities:	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Assets:							
Held in Trust for Various Purposes	<u>701</u>	<u>8,235</u>	<u>19,125</u>	<u>10,193</u>	<u>1,100</u>	<u>1,034</u>	<u>40,388</u>
Total Net Assets	<u>701</u>	<u>8,235</u>	<u>19,125</u>	<u>10,193</u>	<u>1,100</u>	<u>1,034</u>	<u>40,388</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 701</u>	<u>\$ 8,235</u>	<u>\$ 19,125</u>	<u>\$ 10,193</u>	<u>\$ 1,100</u>	<u>\$ 1,034</u>	<u>\$ 40,388</u>

See Disclaimer in Accompanying Independent Auditor's Report.

TOWN OF GRAFTON, VERMONT  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 PRIVATE PURPOSE TRUST FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012

	S.B. Jones Library and Church Fund	Grafton Fund	Campbell Fund	Woolson Fund	Dean Baker Fund	Edward Walker Fund	Totals
<u>ADDITIONS:</u>							
Investment Earnings:							
Net Investment Income	\$ 1	\$ 53	\$ 68	\$ 27	\$ 11	\$ 2	\$ 162
Total Additions	<u>1</u>	<u>53</u>	<u>68</u>	<u>27</u>	<u>11</u>	<u>2</u>	<u>162</u>
<u>DEDUCTIONS:</u>							
Care of the Indigent and Needy	<u>0</u>	<u>307</u>	<u>0</u>	<u>0</u>	<u>11</u>	<u>2</u>	<u>320</u>
Total Deductions	<u>0</u>	<u>307</u>	<u>0</u>	<u>0</u>	<u>11</u>	<u>2</u>	<u>320</u>
Change In Net Assets	1	(254)	68	27	0	0	(158)
Net Assets - July 1, 2011	<u>700</u>	<u>8,489</u>	<u>19,057</u>	<u>10,166</u>	<u>1,100</u>	<u>1,034</u>	<u>40,546</u>
Net Assets - June 30, 2012	<u>\$ 701</u>	<u>\$ 8,235</u>	<u>\$ 19,125</u>	<u>\$ 10,193</u>	<u>\$ 1,100</u>	<u>\$ 1,034</u>	<u>\$ 40,388</u>

See Disclaimer in Accompanying Independent Auditor's Report.

TOWN OF GRAFTON, VERMONT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2012

Grant Title Pass-Through Grantor/ Federal Grant/Program Title	CFDA Number	Grant Number	Grant Amount	Expenditures
<u>U.S. Department of Homeland Security</u>				
Passed through State of Vermont Agency of Transportation				
Disaster Grants - Public Assistance	97.036	08131-FE0538	2,886,538	\$ <u>2,782,185</u>
Total U.S. Department of Homeland Security				<u>2,782,185</u>
<u>U.S. Department of Transportation Federal Highway Administration</u>				
Passed through State of Vermont Agency of Transportation				
Highway Planning and Construction Grants	20.205	08131-ER0038	1,685,874	<u>1,685,874</u>
Total U.S. Department of Transportation Federal Highway Administration				<u>1,685,874</u>
Total Federal Awards				<u>\$ 4,468,059</u>

The Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Town of Grafton, Vermont and was prepared using the significant accounting policies outlined in Note 1 to the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See Accompanying Independent Auditor's Report.

77 Barre Street  
P.O. Box 947  
Montpelier, VT 05601  
802/223-2352  
802/223-3578 FAX

Fred Duplessis, CPA  
Richard J. Brigham, CPA  
Chad A. Hewitt, CPA  
Wendy C. Gilwee, CPA  
VT Lic. #92-000180

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”

Selectboard  
Town of Grafton  
P.O. Box 180  
Grafton, Vermont 05146

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Grafton, Vermont as of and for the year ended June 30, 2012, which collectively comprise the Town of Grafton, Vermont’s basic financial statements and have issued our report thereon dated March 27, 2013. 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 the audit, we considered the Town of Grafton, Vermont’s internal control over financial reporting as a basis for designing our audit 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 of Grafton, Vermont’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Grafton, Vermont’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 Town of Grafton, Vermont's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Deficiencies in Internal Control as Item 12-1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Deficiencies in Internal Control as Item 12-2 to be a significant deficiency.

#### Compliance and Other Matters

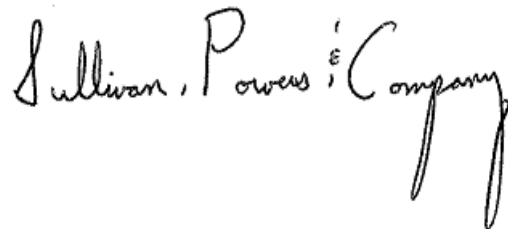
As part of obtaining reasonable assurance about whether the Town of Grafton, Vermont's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 also noted certain other matters that we reported to the management of Town of Grafton, Vermont in a separate letter dated March 27, 2013.

The Town of Grafton, Vermont's responses to the findings identified in our audit are included with the accompanying Schedule of Findings and Deficiencies in Internal Control. We did not audit the Town of Grafton, Vermont's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Selectboard, others within the Town, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 27, 2013  
Montpelier, Vermont  
VT Lic. #92-000180

A handwritten signature in cursive script that reads "Sullivan, Powers & Company". The signature is written in black ink and is positioned to the right of the date and address information.

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VT Lic. #92-000180

Report on Compliance with Requirements That Could Have a  
Direct and Material Effect on Each Major Program and on Internal Control  
Over Compliance in Accordance with OMB Circular A-133

Selectboard  
Town of Grafton  
P.O. Box 180  
Grafton, Vermont 05146

Compliance

We have audited the compliance of the Town of Grafton, Vermont with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2012. The Town of Grafton, Vermont's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Deficiencies in Internal Control. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the Town of Grafton, Vermont's management. Our responsibility is to express an opinion on the Town of Grafton, Vermont's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Grafton, Vermont's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Grafton, Vermont's compliance with those requirements.

In our opinion, the Town of Grafton, Vermont complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012.



Internal Control Over Compliance

The management of the Town of Grafton, Vermont is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Grafton, Vermont's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Grafton, Vermont's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

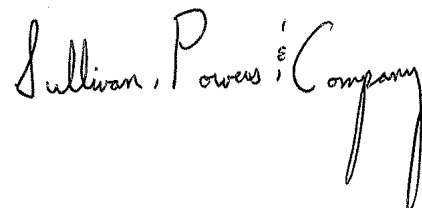
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined previously. However, we identified a certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Deficiencies in Internal Control as Items 12-3 through 12-5.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Town of Grafton, Vermont's response to the findings identified in our audit is included with the accompanying Schedule of Findings and Deficiencies in Internal Control. We did not audit the Town of Grafton, Vermont's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Selectboard, others within the Town, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 27, 2013  
Montpelier, Vermont  
VT Lic. #92-000180



TOWN OF GRAFTON, VERMONT  
SCHEDULE OF PRIOR FINDINGS AND  
DEFICIENCIES IN INTERNAL CONTROL  
JUNE 30, 2012

A single audit was not required in the prior year.

TOWN OF GRAFTON, VERMONT  
SCHEDULE OF FINDINGS AND DEFICIENCIES IN INTERNAL CONTROL  
JUNE 30, 2012

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's Report Issued:  
Unqualified.

Internal Control Over Financial Reporting:  
Material Weaknesses identified:  
Yes.  
Significant Deficiencies identified not considered to be material weaknesses:  
Yes.

Noncompliance material to financial statements:  
None noted.

Federal Awards

Internal Control Over Major Programs:  
Material Weaknesses identified:  
No.  
Significant Deficiencies identified not considered to be material weaknesses:  
Yes.

Type of auditor's report issued on compliance for major programs:  
Unqualified.

There are audit findings that are required to be reported in accordance with OMB Circular A-133, Section 510(a).

Major Programs:

<u>CFDA #</u>	<u>Program</u>	<u>Agency</u>
97.036	Disaster Grants ó Public Assistance (Presidentially Declared Disasters)	U.S. Department Homeland Security
20.205	Highway Planning and Construction Grants	U.S. Department of Transportation

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

The auditee did not qualify as a low risk auditee.

TOWN OF GRAFTON, VERMONT  
SCHEDULE OF FINDINGS AND DEFICIENCIES IN INTERNAL CONTROL  
JUNE 30, 2012

FINANCIAL STATEMENTS:

Deficiencies in Internal Control:

Material Weaknesses:

12-1 Segregation of Duties - Cash

*Criteria:*

An important factor in developing good internal control procedures is to divide responsibilities so that no individual can both perpetrate and conceal errors or irregularities. One of the most common division of duties is the division between the check signing and bank reconciliation functions.

*Condition:*

During the year, the Town did have elected auditors who prepared the bank reconciliations for the Town's General Fund checking account. The elected auditors signed the reconciliations to indicate this preparation had occurred. However, this was not done completely and unreconciled balances were present on several reconciliations, therefore, the Town Treasurer would often have to reconcile the accounts again without the oversight of the elected auditors. The Treasurer also collects cash, posts to the journals, makes deposits and has check signing authority. Each of those duties are considered incompatible functions for accounting control purposes. In addition, reconciliations for the Town's other funds bank accounts were not being performed in a timely manner during the year and the elected auditors did not review these reconciliations.

*Cause:*

The limited staff available provides little opportunity to achieve an optimum separation of duties and responsibilities.

*Effect:*

The Town has inadvertently made its assets susceptible to misappropriation.

*Recommendation:*

We recommend that the Town revise their procedures to ensure that the bank reconciliation function is delegated to an individual who does not have check signing authority. We also recommend the Town have the elected auditors timely prepare or review the reconciliations for all the Town's bank accounts.

TOWN OF GRAFTON, VERMONT  
SCHEDULE OF FINDINGS AND DEFICIENCIES IN INTERNAL CONTROL  
JUNE 30, 2012

Significant Deficiencies:

12-2 Controls Over Journal Entries

*Criteria:*

Internal controls should be in place that requires appropriate officials to authorize all adjustments to the books of original entry and to ensure proper recording of journal entries.

*Condition:*

The Town does not maintain supporting documentation and /or approve journal entries.

*Cause:*

Unknown.

*Effect:*

This one deficiency in internal control structure could allow other working control policies to be circumvented.

*Recommendation:*

We recommend that the Town implement procedures to ensure that all journal entries are properly supported with documentation as to how and where the amount was derived. We also recommend that all journal entries be reviewed by an appropriate official so as not to circumvent the original approval process.

FEDERAL AWARDS:

Deficiencies in Internal Control:

Material Weaknesses:

None noted.

Significant Deficiencies:

12-3 Contract Documents

*Criteria:*

It is important to have contracts with contractors that includes all the clauses and conditions required by Federal regulations and Executive orders. Contracts also provide protection for the Town for the work being performed and a clear understanding for each of the parties involved.

TOWN OF GRAFTON, VERMONT  
SCHEDULE OF FINDINGS AND DEFICIENCIES IN INTERNAL CONTROL  
JUNE 30, 2012

*Condition:*

The Town did not have contracts with many of the contractors working on flood projects.

*Cause:*

The Town indicated it was operating under emergency procurement procedures to minimize the time before work was performed.

*Effect:*

The Town may not be in compliance with Federal regulations. In addition, the Town may not be protected if the contractor does not perform the services in accordance with the Town's directives.

*Recommendation:*

We recommend that the Town obtain formal written contracts that includes all the relevant contract clauses.

12-4 Certification of Suspension and Debarment

*Criteria:*

Federal regulations require specific criteria to be followed in the procurement of goods and services using Federal funds which include procedures related to suspension and debarment on procurement contracts for goods and services awarded that are equal to or exceed \$25,000 and nonprocurement transactions such as subawards to subrecipients. Internal controls should be in place to ensure that the Town is following the specific criteria related to suspension and debarment on procurement contracts for goods and services and subawards and that the documentation is maintained.

*Condition:*

Prior to the commencement of work, the Town did not obtain a certification or verify that the contractors were not suspended or debarred.

*Cause:*

Unknown.

*Effect:*

The Town may not be in compliance with the suspension and debarment requirements.

TOWN OF GRAFTON, VERMONT  
SCHEDULE OF FINDINGS AND DEFICIENCIES IN INTERNAL CONTROL  
JUNE 30, 2012

*Recommendation:*

We recommend the Town implement controls over suspension and debarment including ensuring that all documentation is maintained.

12-5 Davis-Bacon Act Monitoring

*Criteria:*

The Davis-Bacon Act requires all laborers and mechanics employed by contractors or subcontractors who work on construction contracts in excess of \$2,000 financed by Federal Assistance be paid prevailing wages as determined by the U.S. Department of Labor. Certified payroll forms must be obtained from contractors to document that these wages are being paid. Internal controls should be in place to verify that the wages reported on the certified payroll forms meet or exceed the prevailing wages as determined by the U.S. Department of Labor.

*Condition:*

The contractors paid through the Town's Highway Planning and Construction grant did not provide the certified payrolls asserting that they were paying the prevailing wage rates.

*Cause:*

Unknown.

*Effect:*

The Town is not verifying that the contractors are complying with the Davis-Bacon Act.

*Recommendation:*

We recommend that the Town implement a process to ensure that they review the certified payrolls to verify that the wages are above the prevailing wage rates set by the U.S. Department of Labor for future federally funded construction projects.

Office of  
**BOARD OF SELECTMEN**



P.O. Box 180  
Grafton, Vermont 05146

**TOWN OF GRAFTON**

March 29, 2013

Sullivan, Powers & Company  
77 Barre Street / PO Box 947  
Montpelier, Vermont 05602

Dear Kristen,

Letter of Response to the Town of Grafton's Financial Statements.

**12-1 Segregation of Duties:** The elected auditors are now reconciling the Town's bank accounts in a timely fashion and the Town Treasurer is no longer reconciling the accounts without the oversight of the elected auditors.

**12-2 Controls Over Journal Entries.**

The Town will now implement procedures to ensure that all journal entries are properly supported by printing off the Journey Entries Report and explaining why the entry was done then signed off by the appropriate official. This will be kept in a separate folder.

**12-3 Contract Documents.**

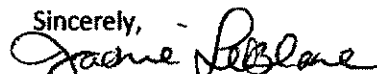
The Town has been obtaining formal written contracts for their yearly bidding, paving, sand, gravel etc. During Tropical Storm Irene this did not get done due to the emergency situation. In the future the Town of Grafton will make sure it obtains formal written contracts no matter what the situation is.

**12-4 Certification of Suspension and Debarment.**

The Town of Grafton generally does not get Federal Funds, most of our Municipal Grants are State funded but if the future when we do receive Federal funds the town will research the State of Vermont website to make sure any potential contractor has not been suspended or debarred.

**12-5 Davis-Bacon Monitoring.**

As stated above in 12-4, the Town is normally funded by State grants but in the future the Town of Grafton will review certified payrolls of potential contractors to ensure the wage rates are set by the U.S. Department of Labor for Federally funded projects.

Sincerely,  
  
Jackie LeBlanc  
Town of Grafton