

CITY OF MONTPELIER, VERMONT
Financial Statements and Schedules
June 30, 2010
(With Independent Auditors' Report Thereon)

Love, Cody & Company, CPAs

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SECTION I

FINANCIAL SECTION



Independent Auditors' Report

The City Council
City of Montpelier, Vermont

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 City of Montpelier, Vermont as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Montpelier, 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.

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 City of Montpelier, Vermont, as of June 30, 2010, and the respective budgetary comparison for the General Fund, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2011 on our consideration of City of Montpelier, Vermont's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and the schedule of funding progress, on page 48 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

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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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montpelier, Vermont's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. 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 Non-Profit Organizations*, and is also not a required part of the financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Love, Cody & Company, CPAs, P.C.

February 18, 2011

Vt. Reg. #357

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Our discussion and analysis of the City of Montpelier, Vermont's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the City's financial statements which begin on Exhibit A.

Financial Highlights

Government-Wide Statements

Net assets of the governmental activities increased by \$2,273,633 or 17 percent and net assets of the business-type activities increased by \$167,186 or 0.9 percent. The City's total net assets increased by \$2,440,819 as a result of this year's operations. This increase is primarily related to a capital grant for the Route 2/Route 302 Intersection capital project and a savings in General Fund for Department of Public Works winter-related expenditures.

The cost of all of the City's programs was \$15,598,109 in fiscal year 2010 compared to \$17,993,814 in fiscal year 2009, which is approximately a 13% decrease. Total government revenue also decreased from \$19,409,657 in 2009 compared to \$18,138,928 in 2010, which is a 6.5% decrease from the previous year. These reductions are related to the one-time replacement of an unfunded pension liability agreement with the Vermont Municipal Retirement System which occurred in fiscal year 2009.

Fund Statements

During fiscal year 2010, the General Fund reported a net increase in the fund balance of \$114,593.

The unreserved fund balance for the General Fund was \$919,677 and the reserved fund balance of the General Fund was \$568,733 as of June 30, 2010. The reserved fund balances are reserved for special projects or are not available for current expenditures. \$145,293 of the \$919,677 unreserved fund balance is designated for future capital purchases and special programs which leaves \$774,384 unrestricted and undesignated.

The Community Development Fund ended the year with a reserved fund balance of \$363,038, which was \$25,387 higher than the prior year fund balance of \$337,651. This fund balance is reserved by various sources for Community Development.

The Capital Projects Fund ended the year with a fund balance of \$1,416,161 which was \$1,668,546 higher than the prior year deficit fund balance of \$252,385. The reserved fund balance of \$1,049,164 is reserved by various sources for Capital Projects. Last year's negative unreserved fund balance of \$713,592 was eliminated by the collection of grant receivables.

Other nonmajor governmental funds ended the year with a fund balance of \$1,363,035, which was \$17,037 higher than the prior year fund balance of \$1,345,998. \$842,415 of this fund balance is reserved by various sources for various purposes.

The Water Fund ended the year with net assets of \$8,765,734, which was \$196,515 less than the prior year balance of \$8,962,249. Of the total net asset balance, \$9,428,743 is invested in property and equipment. This leaves an unrestricted deficit of \$663,009 to be recovered in future periods. \$297,500 of this unrestricted deficit is debt related to the refinancing of the unfunded pension liability. Principal repayments on this debt are not due until November, 2017.

The Sewer Fund ended the year with net assets of \$10,308,123, which was \$305,676 higher than the prior year balance of \$10,002,447. Of the total net asset balance, \$10,788,810 is invested in property and equipment. This leaves an

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unrestricted deficit of \$480,687 to be recovered in future periods. \$402,500 of this unrestricted deficit is debt related to the refinancing of the unfunded pension liability. Principal repayments on this debt are not due until November, 2017.

The Parking Fund ended the year with net assets of \$328,965, which was \$58,025 higher than the prior year balance of \$270,940. Of the total net asset balance, \$311,398 is invested in property and equipment and \$41,220 is restricted for various projects. This leaves a deficit of \$23,653 to be recovered in future periods. \$192,500 of this unrestricted deficit is debt related to the refinancing of the unfunded pension liability. Principal repayments on this debt are not due until November, 2017.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits A and B) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on Exhibit C. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

Our analysis of the City as a whole begins on Exhibit A. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

Governmental activities - Most of the City's basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.

Business-type activities - The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer and parking activities are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on Exhibit C. The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money

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(like grants received from the U.S. Department of Housing and Urban Development). The City's two kinds of funds- governmental and proprietary - use different accounting approaches.

Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds on the exhibits that follow each financial statement.

Proprietary funds - When the City charges customers for the services it provides - whether to outside customers or to other units of the City - these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City as a Whole

The City's combined net assets increased by \$2,440,819 from a year ago - increasing from \$32,306,147 to \$34,746,966. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1
Net Assets

	<i>June 30, 2010</i>			<i>June 30, 2009</i>		
	Governmental Activities	Business-type Activities	Total Primary Government	Governmental Activities	Business-type Activities	Total Primary Government
Current and other assets	\$ 6,434,870	26,555	6,461,425	7,929,806	37,085	7,966,891
Capital assets	18,117,248	37,433,836	55,551,084	15,808,818	37,814,620	53,623,438
Total assets	24,552,118	37,460,391	62,012,509	23,738,624	37,851,705	61,590,329
Long term liabilities	8,562,209	17,681,909	26,244,118	7,530,212	18,478,572	26,008,784
Other liabilities	645,765	375,660	1,021,425	3,137,901	137,497	3,275,398
Total liabilities	9,207,974	18,057,569	27,265,543	10,668,113	18,616,069	29,284,182
Net assets:						
Invested in capital assets,						
net of debt	13,879,218	20,528,951	34,408,169	12,014,867	20,393,869	32,408,736
Restricted	1,981,162	41,220	2,022,382	2,276,469	41,220	2,317,689
Unrestricted	(516,236)	(1,167,349)	(1,683,585)	(1,220,825)	(1,199,453)	(2,420,278)
Total net assets	\$ 15,344,144	19,402,822	34,746,966	13,070,511	19,235,636	32,306,147

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As noted earlier, net assets may serve over time to be a useful indicator of a government's financial position.

Net assets of the City's governmental activities increased 17% (\$15,344,144 compared to \$13,070,511). This increase is primarily related to \$1,874,334 in capital grants and contributions (the majority of which is for the Route 2/Route 302 Roundabout construction project).

Net assets of the business-type activities increased by \$167,186 (\$19,402,822 compared to \$19,235,636, or .9 percent).

Table 2
Change in Net Assets

	<i>June 30, 2010</i>			<i>June 30, 2009</i>		
	Governmental Activities	Business-type Activities	Total Primary Government	Governmental Activities	Business-type Activities	Total Primary Government
REVENUES:						
Program revenues:						
Charges for services	\$ 1,173,482	6,184,445	7,357,927	1,955,223	6,104,315	8,059,538
Operating grants and contributions	834,357	0	834,357	1,015,434	0	1,015,434
Capital grants and contributions	1,938,249	124,176	2,062,425	2,665,834	14,051	2,679,885
General Revenues:						
Property taxes, penalties and interest	7,618,724	0	7,618,724	7,198,011	0	7,198,011
Payment in lieu of taxes	184,000	0	184,000	184,000	0	184,000
Unrestricted investment earnings	141,959	0	141,959	115,393	13,199	128,592
Capital asset impairment	(155,000)	0	(155,000)	0	0	0
Gain (loss) on sale of capital assets	(88,384)	0	(88,384)	0	2,184	2,184
Other revenues	175,680	0	175,680	99,434	32,154	131,588
Contributions to permanent endowments	7,240	0	7,240	10,425	0	10,425
Total revenues	11,830,307	6,308,621	18,138,928	13,243,754	6,165,903	19,409,657
PROGRAM EXPENSES:						
General government	1,874,052	0	1,874,052	2,147,763	0	2,147,763
Public safety	4,033,759	0	4,033,759	3,864,168	0	3,864,168
Public works	1,964,525	0	1,964,525	2,379,156	0	2,379,156
Culture and recreation	1,093,533	0	1,093,533	837,933	0	837,933
Community development	54,094	0	54,094	1,962,157	0	1,962,157
Cemetery	181,319	0	181,319	185,150	0	185,150
MontpelierNet	21,332	0	21,332	37,590	0	37,590
Interest on long-term debt	243,760	0	243,760	470,305	0	470,305
Water	0	2,432,394	2,432,394	0	2,361,919	2,361,919
Sewer	0	3,088,840	3,088,840	0	3,189,852	3,189,852
Parking	0	610,501	610,501	0	557,821	557,821
Total program expenses	9,466,374	6,131,735	15,598,109	11,884,222	6,109,592	17,993,814
Excess before special item and transfers	2,363,933	176,886	2,540,819	1,359,532	56,311	1,415,843
Special item - pension expense VMERS liability	0	0	0	(2,488,003)	(892,500)	(3,380,503)
Transfers	9,700	(9,700)	0	9,700	(9,700)	0
Increase (decrease) in net assets	\$ 2,373,633	167,186	2,540,819	(1,118,771)	(845,889)	(1,964,660)

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Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

The City's tax rate increased to \$1.2506 from \$1.2197 per \$100 of assessed value from fiscal year 2009 to fiscal year 2010.

Table 3 presents the cost of each of the City's seven largest programs - general government, public safety, highways and streets, culture and recreation, water, sewer and parking - as well as each program's net cost (total cost less revenue generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

	June 30, 2010				June 30, 2009			
	Governmental Activities		Business-type Activities		Governmental Activities		Business-type Activities	
	Total Cost of Services	Net Revenues (Cost) of Services						
General government	\$ 1,874,052	(1,335,889)	0	0	2,147,763	(959,456)	0	0
Public safety	4,033,759	(3,275,865)	0	0	3,864,168	(3,423,416)	0	0
Public works	1,964,525	167,823	0	0	2,379,156	374,109	0	0
Culture and recreation	1,093,533	(686,606)	0	0	837,933	250,692	0	0
Community development	54,094	9,999	0	0	1,962,157	(1,876,462)	0	0
Water	0	0	2,432,394	(196,815)	0	0	2,361,919	(170,116)
Sewer	0	0	3,088,840	305,676	0	0	3,189,852	54,825
Parking	0	0	610,501	68,025	0	0	557,821	124,065
All others	446,411	(399,748)	0	0	693,045	(613,198)	0	0
Totals	\$ 9,466,374	(5,520,286)	6,131,735	176,886	11,884,222	(6,247,731)	6,109,592	8,774

The City's Funds

As the City completed the year, its governmental funds (as presented in the Balance Sheet on Exhibit C) reported a combined fund balance of \$4,630,644, which is above last year's total of \$2,805,081. Included in this year's total change in fund balance are an increase of \$114,593 in the City's General Fund; an increase of \$25,387 in the Community Development Fund; an increase of \$1,668,546 in the Capital Projects Fund and an increase of \$17,037 in Other Governmental Funds. The increase in the Capital Projects Fund fund balance is due to a substantial grant received and recorded as revenue during the year and long term debt proceeds of \$1,150,000.

General Fund Budgetary Highlights

Revenue exceeded the budget by \$432,505. A significant part of the unbudgeted revenue is \$221,739 in unanticipated grant revenue. Other notable revenues exceeding budget are Ambulance Calls which were \$113,353 more than budgeted, State & Local Payment in Lieu of Taxes (PILOT) revenue which exceeded projections by \$68,284.

Expenditures exceeded the budget by \$480,048. A significant part of the unbudgeted expenditures are for \$418,653 in capital equipment purchases which were offset by lease proceeds and use of designated funds. Other notable

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expenditures exceeding the budget are grant-related expenditures which are offset with the \$221,739 in unanticipated grant revenue. In addition, there is \$122,707 in unbudgeted reappraisal costs and the \$33,936 of unbudgeted unfunded pension liability interest. Both are of these expenditures were offset by the use of a designated funds from previous years.

Other Financing Sources (Uses) exceeded the budget by \$162,136. The City received \$319,864 in debt proceeds and \$55,000 in sale of equipment. Due to savings in winter storm related costs the City Council approved an unbudgeted transfer of \$207,000 from the General Fund Public Works Department to the City's Capital Improvement Fund. \$5,728 was transferred to a Community Justice reserve fund.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2010, the City had \$55,551,084 compared to \$53,623,438 at June 30, 2009 invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. (Sec Table 4 below) This amount represents a net increase (including additions and deductions) of \$1,927,646, over last year.

Table 4						
Capital Assets at Year-End						
(Net of Depreciation)						
	June 30, 2010			June 30, 2009		
	Governmental Activities	Business-type Activities	Total Primary Government	Governmental Activities	Business-type Activities	Total Primary Government
Land	\$ 922,050	250,672	1,172,722	894,650	250,672	1,145,322
Capital improvements and equipment	15,544,726	36,951,442	52,496,168	12,150,387	35,804,121	47,954,508
Construction in progress	1,650,472	231,722	1,882,194	2,763,781	1,759,827	4,523,608
Totals	\$ 18,117,248	37,433,836	55,551,084	15,808,818	37,814,620	53,623,438

This year's major additions included:

Tower restoration & McAvoy land	\$ 67,016
Computer equipment	45,831
Police vehicles	40,240
Taylor Street Bridge - contributed	572,598
Infrastructure	2,239,278
DPW equipment	438,988
Fire equipment and vehicles	199,845
Water - computer equipment	8,730
Sewer treatment improvements	529,924
Sewer - Vactor and pump	223,250
Sewer - Computer equipment	8,912
	<u>\$ 4,374,612</u>

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For the Year Ended June 30, 2010**

Long Term - Debt

At June 30, 2010, the City had \$25,856,011 in bonds and notes outstanding versus \$25,632,123 on June 30, 2009 - an increase of \$223,888 - as shown in Table 5.

Table 5				
Outstanding Debt at Year-End				
	Balance at			Balance at
	June 30, 2009	Additions	Payments	June 30, 2010
<i>Notes, capital leases and bonds payable:</i>				
Governmental activities	\$ 7,246,564	1,473,129	449,518	8,270,175
Proprietary Funds	18,385,559	0	799,723	17,585,836
Totals	\$ 25,632,123	1,473,129	1,249,241	25,856,011

New debt resulted from an ambulance and grader lease, various capital projects and Wastewater upgrades.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials consider economic factors and the community's priorities when setting the fiscal year 2011 budget, tax rates, and fees that will be charged for the business-type activities. With the national and regional economy suffering, inflation running at or below zero, Montpelier's property taxes already high and a property reappraisal in process which would likely increase overall residential values, the 2011 Budget was guided by a firm desire to avoid a tax increase or any other unanticipated increases. The other guiding force was resident opinion obtained through the National Citizen Survey process. This survey identified Police, Planning, Parks and Roads as key service drivers which reflect their overall satisfaction with the city. The survey also highlighted citizen concerns with taxes, affordable housing and jobs.

Economic factors considered include the unemployment in the City, which stood at 6.0% (July 2009) compared with 3.4% (July 2008) a year earlier. This compares with the State's unemployment rate in June 2009 of 7.20%. Also considered was the Consumer Price Index percent change over one year (August 2008-August 2009) which was -1.5%.

The City took into account these indicators as well as the property tax rate confusion that would be brought on by the city-wide Grand List reappraisal scheduled to be completed in April 2010. The updated Grand List may produce some cost-shifting between residential and commercial property owners. When budgeting for fiscal year 2011, the City Council met its goal of no tax increase (in dollars), while maintaining the current level of services. The budget decisions reflected the community's priorities as expressed in the citizen survey.

Looking ahead, the City is partnering with federal and state agencies to study flood mitigation measures to alleviate the threat of damages due to seasonal flooding of the Winooski River in the downtown area. The installation of flood gauges significantly improves the City's ability to monitor the river water levels.

As for the City's business-type activities, utility rates remained unchanged on July 1, 2010. The combination of users' water conservation and the lack of growth in numbers of users, provides additional challenges to the Water and Sewer Funds. The Water and Sewer Rate Committee authorized a study of water and sewer rates to propose a new rate structure that assures annual revenues will be generated to cover all costs and eliminate previous years' deficits.

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Current quarterly water rates are as follows: \$7.51 per 1,000 for the first 50,000 gallons, \$7.97 per 1,000 for the next 200,000 gallons, \$12.93 per 1,000 for over \$250,000 gallons and a fixed charge for all accounts for meter reading, billing and other administrative service costs of \$25.00.

Current quarterly sewer rates are as follows: \$8.47 per 1,000 gallons of water used and a fixed charge for all for meter reading, billing and other administrative service costs of \$30.00.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Finance Office at the City of Montpelier, 39 Main Street, Suite 6, Montpelier, VT 05602.

BASIC FINANCIAL STATEMENTS

CITY OF MONTPELIER, VERMONT
Statement of Net Assets
June 30, 2010

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash	\$ 1,912,719	50	1,912,769
Investments	1,141,908	0	1,141,908
Receivables (net of allowance for uncollectibles)	560,091	1,227,164	1,787,255
Loans receivable	1,077,767	0	1,077,767
Note receivable	204,922	0	204,922
Deposits	0	1,600	1,600
Prepaid expenses	69,047	15,076	84,123
Inventories	151,387	99,694	251,081
Internal balances	1,317,029	(1,317,029)	0
Capital assets:			
Land	922,050	250,672	1,172,722
Construction in progress	1,650,472	231,722	1,882,194
Other capital assets, (net of accumulated depreciation)	15,544,726	36,951,442	52,496,168
Total assets	24,552,118	37,460,391	62,012,509
Liabilities:			
Accounts payable	449,012	80,222	529,234
Construction payable	0	211,549	211,549
Accrued payroll and related expenses	128,133	35,071	163,204
Deferred revenue	0	3,991	3,991
Accrued interest	42,620	44,827	87,447
OPEB obligation	26,000	0	26,000
Noncurrent liabilities:			
Due within one year	594,710	1,029,009	1,623,719
Due in more than one year	7,967,499	16,652,900	24,620,399
Total liabilities	9,207,974	18,057,569	27,265,543
Net assets:			
Invested in capital assets, net of related debt	13,879,218	20,528,951	34,408,169
Restricted	1,981,162	41,220	2,022,382
Unrestricted	(516,236)	(1,167,349)	(1,683,585)
Total net assets	\$ 15,344,144	19,402,822	34,746,966

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Statement of Activities
Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 1,874,052	336,604	201,559	0	(1,335,889)	0	(1,335,889)
Public safety	4,033,759	506,658	251,236	0	(3,275,865)	0	(3,275,865)
Public works	1,964,525	18,736	239,278	1,874,334	167,823	0	167,823
Culture and recreation	1,093,533	264,821	78,191	63,915	(686,606)	0	(686,606)
Community development	54,094	0	64,093	0	9,999	0	9,999
Cemetery	181,319	33,138	0	0	(148,181)	0	(148,181)
MontpelierNet	21,332	13,525	0	0	(7,807)	0	(7,807)
Interest on long-term debt	243,760	0	0	0	(243,760)	0	(243,760)
Total governmental activities	9,466,374	1,173,482	834,357	1,938,249	(5,520,286)	0	(5,520,286)
Business-type activities:							
Water	2,432,394	2,235,579	0	0	0	(196,815)	(196,815)
Sewer	3,088,840	3,270,340	0	124,176	0	305,676	305,676
Parking	610,501	678,526	0	0	0	68,025	68,025
Total business-type activities	6,131,735	6,184,445	0	124,176	0	176,886	176,886
Total	\$ 15,598,109	7,357,927	834,357	2,062,425	(5,520,286)	176,886	(5,343,400)
General revenues:							
Property taxes, penalties and interest					7,618,724	0	7,618,724
Payment in lieu of taxes					184,000	0	184,000
Unrestricted investment earnings					141,959	0	141,959
Capital asset impairment					(155,000)	0	(155,000)
Loss on sale of equipment					(88,384)	0	(88,384)
Other revenues					75,680	0	75,680
Contributions to Permanent Endowments					7,240	0	7,240
Transfers					9,700	(9,700)	0
Total general revenues, special item and transfers					7,793,919	(9,700)	7,784,219
Change in net assets					2,273,633	167,186	2,440,819
Net Assets - July 1, 2009					13,070,511	19,235,636	32,306,147
Net Assets - June 30, 2010					\$ 15,344,144	19,402,822	34,746,966

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	Community Development Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash	\$ 1,377,311	391,645	0	143,763	1,912,719
Investments	0	0	0	1,141,908	1,141,908
Receivables (net of allowance for uncollectibles)	364,307	658	67,892	127,234	560,091
Loans (net of allowance for uncollectibles)	0	913,767	0	164,000	1,077,767
Note receivable	204,922	0	0	0	204,922
Prepaid expenses	69,047	0	0	0	69,047
Inventories	151,387	0	0	0	151,387
Due from other funds	0	0	1,613,808	459,917	2,073,725
Total assets	\$ 2,166,974	1,306,070	1,681,700	2,036,822	7,191,566
Liabilities:					
Accounts payable	\$ 122,062	16,062	256,971	53,917	449,012
Accrued payroll and related expenses	120,787	0	0	7,346	128,133
Deferred revenue	157,043	896,970	8,568	164,500	1,227,081
Due to other funds	278,672	30,000	0	448,024	756,696
Total liabilities	678,564	943,032	265,539	673,787	2,560,922
Fund balances (deficit):					
Reserved for:					
Inventories	151,387	0	0	0	151,387
Trustees of public funds	0	0	0	764,400	764,400
Other purposes	417,346	363,038	1,049,164	78,015	1,907,563
Unreserved, reported in:					
General Fund	919,677	0	0	0	919,677
Special Revenue Funds	0	0	0	520,620	520,620
Capital Projects Funds	0	0	366,997	0	366,997
Total fund balances (deficit)	1,488,410	363,038	1,416,161	1,363,035	4,630,644
Total liabilities and fund balances	\$ 2,166,974	1,306,070	1,681,700	2,036,822	
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.					18,117,248
Other assets are not available to pay for current-period expenditures, and, therefore, are deferred in the funds.					1,227,081
Long-term and accrued liabilities, are not due or payable in the current period and, therefore, are not reported in the funds.					(8,630,829)
Net assets of governmental activities				\$	15,344,144

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	General Fund	Community Development Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes, penalties and interest	\$ 7,483,898	0	0	135,707	7,619,605
Permits and licenses	60,867	0	0	0	60,867
Intergovernmental	891,379	61,725	2,100,634	212,362	3,266,100
Fees and charges for services	1,626,150	0	0	141,550	1,767,700
Fines and forfeitures	19,285	0	0	0	19,285
Investment income	52,648	10,806	0	78,505	141,959
Contributions	850	0	0	88,416	89,266
Rents and commissions	25,275	0	0	3,115	28,390
Equipment revenues	119,125	0	0	0	119,125
Loan principal repayments	0	58,877	0	0	58,877
Other revenues	67,994	0	0	7,686	75,680
Total revenues	10,347,471	131,408	2,100,634	667,341	13,246,854
Expenditures:					
General government	2,233,919	0	191,833	0	2,425,752
Public safety	3,828,206	0	0	0	3,828,206
Public works	1,732,651	0	0	0	1,732,651
Culture and recreation	451,216	0	0	605,964	1,057,180
Community development	0	76,021	0	30,000	106,021
Cemetery	0	0	0	171,967	171,967
MontpelierNet	0	0	0	21,332	21,332
Capital outlay:					
General government	40,607	0	0	0	40,607
Public safety	240,308	0	0	0	240,308
Public works	462,791	0	2,175,265	0	2,638,056
Culture and recreation	0	0	0	67,016	67,016
Debt service - principal	439,536	0	0	9,982	449,518
Debt service - interest	271,959	0	0	5,282	277,241
Total expenditures	9,701,193	76,021	2,367,098	911,543	13,055,855
Excess (deficiency) of revenues over expenditures	646,278	55,387	(266,464)	(244,202)	190,999
Other financing sources (uses):					
Debt proceeds	319,864	0	1,150,000	0	1,469,864
Proceeds from sale of equipment	55,000	0	0	0	55,000
Insurance reimbursements	0	0	100,000	0	100,000
Transfers from other funds	30,000	0	685,010	359,764	1,074,774
Transfers to other funds	(936,549)	(30,000)	0	(98,525)	(1,065,074)
Total other financing sources (uses)	(531,685)	(30,000)	1,935,010	261,239	1,634,564
Net change in fund balances	114,593	25,387	1,668,546	17,037	1,825,563
Fund balances (deficit) - July 1, 2009	1,373,817	337,651	(252,385)	1,345,998	2,805,081
Fund balances - June 30, 2010	\$ 1,488,410	363,038	1,416,161	1,363,035	4,630,644

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances,
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2010

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

Net change in fund balances - total government funds (Exhibit D)	\$ 1,825,563
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost (\$2,985,987) of those assets is allocated over their estimated useful lives and reported as depreciation expense (\$851,772). This is the amount by which capital outlays exceeded depreciation in the current period.	2,134,215
Noncash capital contributions are revenues that do not provide current financial resources and therefore are not reported as revenues in the funds.	572,599
The net effect of various transactions involving capital assets (i.e., sales, trade-ins) is to decrease net assets.	(398,384)
Long term community development loans payments are recognized on an accrual basis in the statement of net assets, not the modified accrual basis.	(6,950)
Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis.	(881)
Revenues are recognized on an accrual basis in the statement of net assets, not the modified accrual basis.	(811,951)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,023,611)
In the statement of activities, OPEB liabilities are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	(26,000)
In the statement of activities, accrued compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	(24,448)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	33,481
Change in net assets, governmental activities (Exhibit B)	\$ 2,273,633

To eliminate the doubling up of internal service charges between the Governmental Activities and the Business-type activities on the statement of activities, the charges for services was decreased by \$974,063, the general government expenses was decreased by \$717,609 and the public works was decreased by \$256,454.

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2010

	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Property taxes, penalties and interest	\$ 7,417,450	7,483,898	66,448
Intergovernmental	669,640	891,379	221,739
Fees and charges for services	1,827,876	1,972,194	144,318
Total revenues	9,914,966	10,347,471	432,505
Expenditures:			
City Council operations	29,080	42,017	(12,937)
City Manager's office	298,448	327,519	(29,071)
Clerk/Treasurer/Elections	224,656	227,868	(3,212)
Finance Department	295,100	307,584	(12,484)
Technology services	191,935	190,165	1,770
Property assessment	219,896	342,603	(122,707)
Planning and development	380,464	339,203	41,261
City Hall maintenance	190,125	148,637	41,488
Fifty Eight Barre Street	60,000	48,535	11,465
Police:			
General	1,439,998	1,447,385	(7,387)
Communications	444,805	456,142	(11,337)
Outside pay	0	1,638	(1,638)
School Resource Officer	81,830	75,550	6,280
Community Justice Center	131,913	149,334	(17,421)
Fire and ambulance	1,575,232	1,601,022	(25,790)
Code/health enforcement	82,668	80,307	2,361
Emergency management	25,368	16,828	8,540
Public works:			
Streets	1,334,245	1,237,110	97,135
Fleet operations	458,077	449,768	8,309
Building operations	67,670	45,773	21,897
Wrightsville Beach	4,007	4,007	0
Kellogg-Hubbard Library	293,975	293,975	0
Outside agencies in budget	92,175	89,175	3,000
Community enhancements	37,800	36,800	1,000
Tree management and Board	22,125	23,077	(952)
Conservation Commission	6,250	4,182	2,068
Other governmental service	144,448	144,448	0
Small equipment	0	21,042	(21,042)
Tax abatement	50,000	48,219	1,781
Miscellaneous expense	9,000	12,143	(3,143)
VMERS pension expense	0	33,936	(33,936)
Capital outlay:			
General government	55,102	40,607	14,495
Public safety	88,326	240,308	(151,982)
Public works	196,120	462,791	(266,671)
Debt service - principal	439,536	439,536	0
Debt service - interest	250,771	271,959	(21,188)
Total expenditures	9,221,145	9,701,193	(480,048)
Excess (deficiency) of revenues over expenditures	693,821	646,278	(47,543)
Other financing sources (uses):			
Debt proceeds	0	319,864	319,864
Proceeds from sale of equipment	0	55,000	55,000
Transfers from other funds	30,000	30,000	0
Transfer to other funds:			
Capital Projects	(469,610)	(676,610)	(207,000)
Justice Fund	0	(5,728)	(5,728)
Cemetery	(110,159)	(110,159)	0
Parks	(107,052)	(107,052)	0
Events Fund	(11,000)	(11,000)	0
Affordable Housing Fund	(26,000)	(26,000)	0
Total financing sources (uses)	(693,821)	(531,685)	162,136
Net change in fund balance	\$ 0	114,593	114,593
Fund balance - July 1, 2009		1,373,817	
Fund balance - June 30, 2010		\$ 1,488,410	

See accompanying notes to financial statements.

CITY OF MONTPELIER
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Water Fund	Sewer Fund	Parking Fund	Total
Assets:				
Current assets:				
Cash	\$ 0	0	50	50
Receivables (net of allowance for uncollectibles)	629,447	570,666	27,051	1,227,164
Due from other funds	0	0	191,842	191,842
Deposits	0	0	1,600	1,600
Prepaid expenses	0	0	15,076	15,076
Inventory	75,316	24,378	0	99,694
Total current assets	704,763	595,044	235,619	1,535,426
Noncurrent assets:				
Capital assets:				
Land	32,000	0	218,672	250,672
Construction in progress	0	231,722	0	231,722
Buildings	11,557,678	9,709,565	0	21,267,243
Improvements	10,414,823	20,827,841	234,742	31,477,406
Equipment and vehicles	719,858	952,927	110,655	1,783,440
Accumulated depreciation	(5,306,191)	(12,017,785)	(252,671)	(17,576,647)
Total noncurrent assets	17,418,168	19,704,270	311,398	37,433,836
Total assets	\$ 18,122,931	20,299,314	547,017	38,969,262
Liabilities:				
Current liabilities:				
Accounts payable	\$ 28,389	47,793	4,040	80,222
Construction payable	0	211,549	0	211,549
Due to other funds	953,269	555,602	0	1,508,871
Accrued payroll and related expenses	11,968	16,089	7,014	35,071
Deferred revenue	3,991	0	0	3,991
Accrued interest payable	33,724	11,103	0	44,827
Capital leases - current portion	4,301	12,474	0	16,775
Bonds payable - current portion	420,519	591,715	0	1,012,234
Total current liabilities	1,456,161	1,446,325	11,054	2,913,540
Noncurrent liabilities:				
Capital leases - long-term portion	36,163	104,872	0	141,035
Bonds payable - long-term portion	7,825,942	8,397,350	192,500	16,415,792
Accrued compensated absences	38,931	42,644	14,498	96,073
Total noncurrent liabilities	7,901,036	8,544,866	206,998	16,652,900
Total liabilities	9,357,197	9,991,191	218,052	19,566,440
Net assets:				
Invested in capital assets, net of related debt	9,428,743	10,788,810	311,398	20,528,951
Restricted	0	0	41,220	41,220
Unrestricted (deficit)	(663,009)	(480,687)	(23,653)	(1,167,349)
Total net assets	8,765,734	10,308,123	328,965	19,402,822
Total liabilities and net assets	\$ 18,122,931	20,299,314	547,017	38,969,262

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Statement of Revenues, Expenses
and Change in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

	Water Fund	Sewer Fund	Parking Fund	Total
Operating revenues:				
Charges for services	\$ 2,201,110	3,234,555	678,526	6,114,191
Interest and penalties	26,538	25,032	0	51,570
Miscellaneous	7,931	10,753	0	18,684
Total Operating Revenues	2,235,579	3,270,340	678,526	6,184,445
Operating expenses:				
Administration	515,743	445,406	0	961,149
Supplies and treatment	425,515	1,394,117	0	1,819,632
Wastewater management	0	82,934	0	82,934
Distribution system	400,302	0	0	400,302
Collection system	0	360,723	0	360,723
Delinquent collection	19,225	18,933	0	38,158
Meter operations	58,696	0	0	58,696
Private sewer system maintenance	0	6,082	0	6,082
Parking enforcement	0	0	390,415	390,415
Parking lot leases	0	0	83,381	83,381
Parking lot maintenance	0	0	109,650	109,650
Depreciation expense	530,440	604,753	16,407	1,151,600
Total operating expenses	1,949,921	2,912,948	599,853	5,462,722
Net operating income	285,658	357,392	78,673	721,723
Nonoperating revenues (expenses):				
Interest expense	(452,179)	(175,892)	(10,648)	(638,719)
Capital grants	0	124,176	0	124,176
Bad debt expense	(30,294)	0	0	(30,294)
Transfers from other funds	300	0	0	300
Transfers to other funds	0	0	(10,000)	(10,000)
Total nonoperating revenues (expenses)	(482,173)	(51,716)	(20,648)	(554,537)
Change in net assets	(196,515)	305,676	58,025	167,186
Net assets - July 1, 2009	8,962,249	10,002,447	270,940	19,235,636
Net assets - June 30, 2010	\$ 8,765,734	10,308,123	328,965	19,402,822

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

	Water Fund	Sewer Fund	Parking Fund	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,584,307	3,306,281	651,831	6,542,419
Receipts from interfund services	0	0	24,756	24,756
Payments to suppliers	(613,975)	(775,049)	(167,161)	(1,556,185)
Payments for interfund services	(365,006)	(560,487)	(50,047)	(975,540)
Payments for wages and benefits	(427,501)	(793,243)	(358,983)	(1,579,727)
Net cash provided by operating activities	1,177,825	1,177,502	100,396	2,455,723
Cash Flows from Noncapital Financing Activities:				
Decrease (increase) in due from other funds	0	0	(77,538)	(77,538)
(Decrease) increase in due to other funds	(303,267)	19,864	0	(283,403)
Proceeds from general obligation bonds	0	210,880	0	210,880
Transfers received from other funds	300	0	0	300
Transfers paid to other funds	0	0	(10,000)	(10,000)
Interest payments on interfund balances	(24,836)	(6,324)	0	(31,160)
Net cash provided by (used in) noncapital financing activities	(327,803)	224,420	(87,538)	(190,921)
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(8,731)	(759,875)	(2,210)	(770,816)
Receipts from capital grants	0	124,176	0	124,176
Receipts from note receivable	0	0	0	0
Principal payments on general obligation bonds and leases	(413,948)	(596,655)	0	(1,010,603)
Interest payments on general obligation bonds and leases	(427,343)	(169,568)	(10,648)	(607,559)
Net cash used in capital and related financing activities	(850,022)	(1,401,922)	(12,858)	(2,264,802)
Net Increase in Cash	0	0	0	0
Cash - July 1, 2009	0	0	50	50
Cash - June 30, 2010	\$ 0	0	50	50
Adjustments to reconcile operating income to net cash provided by operating activities:				
Net operating income	\$ 285,658	357,392	78,673	721,723
Depreciation expense	530,440	604,753	16,407	1,151,600
Decrease (increase) in accounts receivable	347,567	35,941	(1,939)	381,569
Decrease (increase) in prepaid expenses	0	0	(76)	(76)
Decrease (increase) in inventory	(19,370)	(20,946)	0	(40,316)
(Decrease) increase in accounts payable	19,365	184,052	(487)	202,930
(Decrease) increase in accrued payroll	10,969	16,089	7,014	34,072
(Decrease) increase in deferred revenue	1,161	0	0	1,161
(Decrease) increase in accrued vacation	2,035	221	804	3,060
Net cash provided by operating activities	\$ 1,177,825	1,177,502	100,396	2,455,723

Non-cash transactions:

The Water Fund incurred a \$30,924 bad debt expense.

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

The City of Montpelier, Vermont (City) was chartered on March 5, 1895 and operates under a Council-Manager form of government. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, culture and recreation, community development, cemetery, public improvements, water, sewer, parking and general administrative services.

1. Summary of Significant Accounting Policies

The accounting policies adopted by the City of Montpelier, Vermont 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.

1.a. The Financial Reporting Entity

This report includes all of the funds of the City of Montpelier, 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 the aforementioned criteria, the City has one component unit, The Green Mountain Cemetery Commission. Although legally separate, the Commission is blended as a governmental non-major fund into the primary government. Separate financial statements for the Commission are not issued.

The Montpelier Public School System is a department of the City of Montpelier, Vermont authorized by Title VI of the City Charter. The School System operates under its separately elected Board of School Commissioners who appoint a Superintendent and provides education services. The School System also manages the Montpelier Recreation Department. The Montpelier Public School System is considered a primary government for financial reporting purposes in accordance with the standards set forth in Governmental Accounting Standards Board statement No. 14, "Defining the Financial Reporting Entity". This standard is based on the concept that financial reporting by a local government should report the accountability of elected officials for organizations under their control. Although the Montpelier Public School System is referred to as a department in the charter of the City of Montpelier, it meets the three criteria set forth in the standard for determining a primary government.

Those criteria are:

- a) It has a separately elected governing body. The voters of the City of Montpelier elect a board of seven School Commissioners who are charged with the exclusive management and control of the public schools and all school property of the City. Vacancies in the Board of School Commissioners are filled by the remaining members of the Board of School Commissioners.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

1. Summary of Significant Accounting Policies (continued)

1.a. The Financial Reporting Entity (continued)

- b) It is legally separate as defined in the standard. The Montpelier Public School System possesses the corporate powers that would distinguish it as being legally separate including the capacity to have its own name, the right to sue and be sued in its own name without recourse to the City of Montpelier, and the right to buy, sell, lease and mortgage property in its name, subject to the approval of the voters. The Board of School Commissioners have all the powers of a Vermont town school district except the power to call elections or take property.
- c) It is fiscally independent of other state and local governments. All monies received by the Montpelier Public School System from tuition and other sources, and all funds received from the issuance of bonds or notes authorized by the voters of the City of Montpelier for school purposes are restricted for school purposes. The Montpelier Public School System determines its own budget (the City has a ministerial approval power over the budget but does not have the authority to modify the budget), has its own tax appropriation approved by the voters of the City of Montpelier and sets rates or charges for tuition and other services without approval of any other government. As is the case in Vermont municipalities generally, issuance of bonded debt is subject to the approval of the voters.

The City Council of the City of Montpelier has a ministerial power in that the School Board must submit its request for debt to the City Council which is required to submit it to the voters for approval. No financial burden or benefit accrues to the City of Montpelier from the Montpelier Public School System.

Additionally, under state law, the laws governing education and regulations of the State Board of Education apply to all school districts unless otherwise specifically provided for in the charter of a City. Under Vermont law, school districts are considered separate legal entities from other municipal governments which exist in the same geographic boundaries and have the same voters.

1.b. Basis of Presentation

The accounts of the City 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 City 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 City as a whole and presents a longer-term view of the City'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 City and presents a shorter-term view of how operations were financed and what remains available for future spending.

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government, the City. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of activities between funds. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

1. Summary of Significant Accounting Policies (continued)

1.b. Basis of Presentation (continued)

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and for each segment of the City's business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. 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 City's funds. Separate statements for each fund category, governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

The City reports on the following major governmental funds:

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

Community Development Fund - This Fund is used to account for the Community Development grant and loan programs throughout the City.

Capital Projects Fund - This Fund is used to account for major capital project activities by the City.

The City reports on the following major enterprise funds:

Water Fund – This fund accounts for the operations of the Water Department.

Sewer Fund – This Fund accounts for the operations of the Sewer Department.

Parking Fund – This fund accounts for the operations of parking activities.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

1.c. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Government-wide and proprietary fund 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.

(continued)

1. Summary of Significant Accounting Policies (continued)

1.c. Measurement Focus (continued)

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 reserved and unreserved 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.

1.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 and proprietary fund 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 City gives (or receives) value without directly receiving (or giving) equal value in exchange, include 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 City considers all revenues reported in governmental funds to be available if the revenues are collected within sixty 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 acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City 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 City'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 and proprietary fund financial statements follow Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board (APB) Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. As permitted under Statement of Governmental Accounting Standards No. 20, the City has elected not to apply FASB Standards issued after November 30, 1989.

(continued)

1. Summary of Significant Accounting Policies (continued)

1.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.

1.f. Assets, Liabilities and Equity

Cash

The City considers all short-term investments of ninety (90) days or less to be cash equivalents. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

Investments

The City invests in investments as allowed by State statute and the City Council's investment policy. Investments with readily determinable fair values are reported at their fair values on the financial statements. Unrealized gains and losses are included in revenue.

Receivables

The City utilizes the allowance method for uncollectible accounts. The estimated losses are based on the judgment of management and a review of the current status of existing receivables.

Internal Balances

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

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

Inventories and Prepaid Expenses

Inventories are determined by physical count and valued at the lower of cost (first-in, first-out) or market. Inventories in the General and Proprietary Funds consist of expendable supplies held for consumption.

Certain payments to vendors reflect costs that are applicable to future accounting periods and are recorded as prepaid expenses.

Reported inventories and prepaid expenses of governmental funds in the fund financial statements are offset by a fund balance reserve which indicates that they do not constitute available expendable resources even though they are a component of net current assets.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

1. Summary of Significant Accounting Policies (continued)

1.f. Assets, Liabilities and Equity (continued)

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 incurred during the construction phase for proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of any interest earned on the invested proceeds during the same period. 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 ending June 30, 2004. The City has elected to not report major general infrastructure assets retroactively. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc.

Capital assets reported in the government-wide and proprietary fund 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:

	<u>Capitalization Threshold</u>	<u>Estimated Service Life</u>
Land	\$5,000	N/A
Buildings	\$5,000	40-100 years
Building Improvements	\$5,000	20-75 years
Improvements	\$5,000	15-75 years
Equipment and Vehicles	\$5,000	5-20 years
Infrastructure	\$5,000	10-25 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 incurred.

Compensated Absences

It is the policy of the City of Montpelier, Vermont to permit employees to accumulate earned but unused vacation benefits. The accrual for unused compensated absences time, based on current pay rates, is recorded in the government-wide and proprietary fund financial statements. The liability for unused compensated absences is not reported in the governmental type financial statements. Payments for unused compensated absences are recorded as expenditures in the year they are paid. Unused sick days may be accumulated to use in the following year, but sick days are not accrued since they are not paid when the employee terminates employment.

(continued)

1. Summary of Significant Accounting Policies (continued)

1.f. Assets, Liabilities and Equity (continued)

Long-term Liabilities

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

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. Reservations of fund balances and restrictions of net assets represent amounts that cannot be appropriated or are legally restricted for a specific purpose by a grant, contract, or other binding agreement. Designations of fund balance represent tentative management plans that are subject to change. Undesignated fund balances are available for future appropriations.

2. 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 occur. 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.

Long-term debt transaction differences arise because governmental funds report proceeds of long-term debt as other financing sources and principal payments as expenditures, whereas government-wide statements report those transactions as increases and decreases in liabilities.

3. Stewardship, Compliance and Accountability

3.a. Budgetary Information

During December of each year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. In January, the Council finalizes a proposed budget to present to the City's residents. Public hearings are then conducted to obtain taxpayer comments.

Annually, on the first Tuesday in March, the voters authorize a specific sum of budgeted tax appropriation for the support of all City departments.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

3. Stewardship, Compliance and Accountability (continued)

3.a. Budgetary Information (continued)

The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. There were no budget amendments during the year. The City budgets operating transfers between the Proprietary Funds and the General Fund as expenses in the Proprietary Funds and as operating transfers in the General Fund.

3.b. Excess of Expenditures Over Appropriations

For the year ended June 30, 2010, expenditures exceeded appropriations in the General Fund by \$480,048. The overages were funded by excess revenues.

4. Detailed Notes on All Funds

4.a. Deposits and Investments

Cash - Deposits with Financial Institutions	\$ 1,912,169
Cash on Hand	600
Total Cash	1,912,769
Investments - Certificates of Deposit	264,365
Money Market Mutual Funds	100,445
Government Bonds	121,219
Mutual Funds - Mixed Holdings	69,945
Mutual Funds - Bonds	505,471
Mutual Funds - Stocks	77,867
Corporate Stock	2,596
Total Investments	1,141,908
Total Cash and Investments	\$ 3,054,677

Investment Policy

The City's investment policy is as follows:

All public funds (defined herein) shall be invested to achieve liquidity, security and return. Of the foregoing, it is the declared intention of the City Council to provide for security of investment, both principal and interest, as a priority.

Public funds shall be invested in accordance with the following schedule of priorities:

- (a) Deposits insured by an agency of the federal government; provided, however, that up to \$500,000 of uninsured public funds may be invested or deposited in any one state or federal banking institution which maintains offices in the City of Montpelier.
- (b) Obligations of the United States, such as Treasury Notes.
- (c) General obligations of the State of Vermont.
- (d) General obligations of the several states.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (continued)

4.a. Deposits and Investments (continued)

- (e) Securities fully insured by an agency of the United States, or fully collateralized by securities of the United States.
- (f) Periodically, and at least every three years, the City Treasurer shall cause to be made a survey of all banking institutions maintaining offices in Washington County and whose services area includes the City of Montpelier. Each banking institution so surveyed will be required to submit a proposal to serve as the City's lead bank and as one of the City's depository banks. The City Treasurer, in concert with the City Council, shall designate annually a lead bank and one or more depository banks, and shall establish the banking service to be secured from each.
- (g) In order to achieve investment liquidity, the City Treasurer shall be given thirty days advance notice of any requisition or warrant in excess of \$50,000.
- (h) The term "public funds" shall not include cash or credits held for the City's benefit as performance or completion.
- (i) For investments that the City controls directly, no investment will be made in tobacco stocks. For investments in which the City has an advisory role or has a seat on an investment board or committee, or where the City is constrained in its action by statute or existing contract, the City and/or its representatives shall make their best efforts to avoid investment of City funds in tobacco stocks, consistent with their fiduciary responsibilities.

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 City does not have any policy to limit the exposure to interest rate risk.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity. Mutual funds are shown at their weighted average maturity (if available). The City's certificates of deposit are not subject to interest rate risk disclosure. Corporate stock is exempt from this analysis.

Investment Type	Remaining Maturity (In Years)					Total
	0-1	1-5	6-10	Data not Available	N/A	
Certificates of Deposit	\$ 0	0	0	0	264,365	264,365
Money Market Mutual Funds	100,445	0	0	0	0	100,445
Government Bonds	0	121,219	0	0	0	121,219
Mutual Funds - Mixed Holdings	0	0	0	69,945	0	69,945
Mutual Funds - Bonds	0	99,352	406,119	0	0	505,471
Mutual Funds - Stocks	0	0	0	0	77,867	77,867
Corporate Stock	0	0	0	0	2,596	2,596
	\$ 100,445	220,571	406,119	69,945	344,828	1,141,908

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (continued)

4.a. Deposits and Investments (continued)

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 certificates of deposit and the corporate stock are exempt from this analysis. The mutual funds are open-ended and are therefore excluded from the credit risk analysis.

Concentration of Credit Risk

The City does not have any limitations on the amount that can be invested in any one issuer. There are no investments in any one issuer, other than certificates of deposit and mutual funds, that represent more than 5% of total investments.

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 City's investments are held in its name and are not subject to custodial credit risk. The City does not have any policy to limit the exposure to custodial credit risk. The table below shows the custodial credit risk of the City's cash and certificates of deposits.

	Book Balance	Bank Balance
Insured by FDIC	\$ 698,304	694,022
Insured by Private Surety Bond	1,422,866	1,662,969
Uninsured, Uncollateralized	155,809	155,809
Total Deposits	\$ 2,276,979	2,512,800

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 flow at certain times during the year, the amounts of uninsured, uncollateralized cash was much higher than at year end.

Deposits are comprised of the following:

Cash – Deposits with Financial Institutions	\$ 1,912,169
Investments – Certificate of Deposits	264,365
Investments – Money Market Funds	100,445
Total	\$ <u>2,276,979</u>

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (continued)

4.b. Receivables

Receivables at June 30, 2010, as reported in the statement of net assets, net of applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities	Business-Type Activities	Total
Taxes, Penalties and Interest	\$ 169,101	0	169,101
Ambulance	394,075	0	394,075
Parking Tickets	0	208,051	208,051
Accounts Receivable	105,341	57,173	162,514
Grants	196,270	0	196,270
Billed Services	0	159,444	159,444
Unbilled Services	0	990,496	990,496
Other Receivables	32,204	0	32,204
Allowance for Doubtful Accounts	(336,900)	(188,000)	(524,900)
	\$ 560,091	1,227,164	1,787,255

4.c. Loans Receivable

Governmental Activities:

There are approximately 90 loans to residents, businesses, and non-profit organizations that were funded with various community development grants and loans. The largest outstanding balance is approximately \$600,000 and there are four other loans with balances over \$100,000. The terms of the loans vary depending on the type of the loan allowed per the grant agreements. Interest rates vary between 0% and 8%.

	\$ 2,859,926
Notes receivable, six (6) housing loans, 0% interest, due upon any conveyance or transfer of condominium units.	164,000
Total	3,023,926
Less allowance for doubtful loans	(1,946,159)
	\$ 1,077,767

Changes in loans receivable for the year ended June 30, 2010 were as follows:

Beginning Balance	Additions	Deletions	Ending Balance
\$ 3,048,340	34,460	58,874	3,023,926

4.d. Note Receivable

A loan of \$443,000 was made by the General Fund to Connor Brothers with monthly payments of \$2,889 beginning January 1, 2001 through October 1, 2015 with one final principal payment on November 1, 2015 of \$35,000 with interest at 2.7%. The balance of the loan on June 30, 2010 was \$204,922. This loan is secured by a building. The current principal due over the next twelve months is \$29,570.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (continued)

4.e. Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 894,650	27,400	0	922,050
Construction in progress	2,763,781	998,571	2,111,880	1,650,472
Total capital assets, not being depreciated	3,658,431	1,025,971	2,111,880	2,572,522
Capital assets being depreciated:				
Buildings and building improvements	7,215,575	49,938	300,000	6,965,513
Vehicles and equipment	5,000,986	724,903	574,703	5,151,186
Infrastructure	4,944,656	3,914,864	0	8,859,520
Totals	17,161,217	4,689,705	874,703	20,976,219
Less accumulated depreciation for:				
Buildings and building improvements	1,858,239	202,489	45,000	2,015,728
Vehicles and equipment	2,702,082	375,148	386,109	2,691,121
Infrastructure	450,509	274,135	0	724,644
Totals	5,010,830	851,772	431,109	5,431,493
Total capital assets, being depreciated	12,150,387	3,837,933	443,594	15,544,726
Governmental activities capital assets, net	\$ 15,808,818	4,863,904	2,555,474	18,117,248

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 250,672	0	0	250,672
Construction in progress	1,759,827	231,722	1,759,827	231,722
Total capital assets, not being depreciated	2,010,499	231,722	1,759,827	482,394
Capital Assets Being Depreciated:				
Buildings	21,267,243	0	0	21,267,243
Improvements	29,421,588	2,055,818	0	31,477,406
Equipment and vehicles	1,540,337	243,103	0	1,783,440
Total capital assets, being depreciated	52,229,168	2,298,921	0	54,528,089
Less accumulated depreciation for:				
Buildings	3,921,488	411,328	0	4,332,816
Improvements	11,735,375	636,091	0	12,371,466
Equipment and vehicles	768,184	104,181	0	872,365
Totals	16,425,047	1,151,600	0	17,576,647
Total capital assets, being depreciated	35,804,121	1,147,321	0	36,951,442
Business-type activities capital assets, net	\$ 37,814,620	1,379,043	1,759,827	37,433,836

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (continued)

4.e. Capital Assets (continued)

Depreciation was charged as follows:

Governmental Activities:		Business - Type Activities:	
General Government	\$ 128,494	Water	\$ 530,440
Public Safety	197,404	Sewer	604,753
Public Works	480,169	Parking	16,407
Culture and Recreation	36,353		<u>\$ 1,151,600</u>
Cemetery	9,352		
	<u>\$ 851,772</u>		

During the fiscal year ended June 30, 2010, the Senior Center building was destroyed by fire. The building had a net book value of \$255,000, and insurance proceeds of \$100,000 were received in the current fiscal year. The net loss of \$155,000 is reported as a capital asset impairment on the Statement of Activities. Additional insurance proceeds were received subsequent to June 30, 2010.

4.f. Interfund Receivables, Payables and Transfers

The composition of interfund balances at June 30, 2010 is as follows:

Fund	Receivable Fund	Payable Fund
General Fund	\$ 0	278,672
Community Development Fund	0	30,000
Capital Projects Fund	1,613,808	0
Other Governmental Funds	459,917	448,024
Water Fund	0	953,269
Sewer Fund	0	555,602
Parking Fund	191,842	0
Total due to/from other funds	\$ 2,265,567	2,265,567

Interfund transfers during the year ended June 30, 2010 were as follows:

Transfer From	Transfer To	Amount	Purpose
General Fund	Capital Projects Fund	\$ 676,610	Budgetary Authorization
General Fund	Green Mountain Cemetery Fund	110,159	Budgetary Authorization
General Fund	Montpelier Events Fund	11,000	Budgetary Authorization
General Fund	Montpelier Parks Commission	107,052	Budgetary Authorizations
General Fund	Justice Center	5,728	Transfer
General Fund	Montpelier Housing Trust Fund	26,000	Transfer Reserves and Budgetary Authorizations
Green Mountain Cemetery Fund	Capital Projects Fund	8,400	Transfer
Community Development Fund	General Fund	30,000	Budgetary Authorization
Expendable Cemetery Trust Fund	Green Mountain Cemetery Fund	25,000	Budgetary Authorization
Non-Expendable Cemetery Trust Fund	Expendable Cemetery Trust Fund	64,567	Interest Income Transfer
Montpelier Parks Commission Fund	Water Fund	300	Budgetary Authorization
Hubbard Park Trust Fund	Montpelier Parks Commission Fund	258	Interest Income Transfer
Parking Fund	Green Mountain Cemetery Fund	10,000	Budgetary Authorization
Total		\$ 1,075,074	

(continued)

4. Detailed Notes on All Funds (continued)

4.g. Deferred Revenue

Deferred Revenue in the General Fund consists of \$108,317 of delinquent taxes, \$33,500 of ambulance revenue and \$15,226 of grant receivables 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 \$157,043.

Deferred Revenue in the Community Development Fund consists of \$896,970 of loans receivable not collected within sixty (60) days after year-end as these would not be available to liquidate current liabilities.

Deferred Revenue in the Capital Projects Fund consists of \$8,568 of grant receivables not collected within sixty (60) days after year-end as these would not be available to liquidate current liabilities.

Deferred Revenue in the Other Governmental Funds consists of \$500 of grant receivables and \$164,000 of loans receivable that were not collected within sixty (60) days after year-end as these would not be available to liquidate current liabilities. Total Deferred Revenue in the Other Governmental Funds is \$164,500.

Deferred Revenue in the Water Fund consists of \$3,991 of water usage overpayments.

4.h. Long-term Liabilities

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and for the payment of a prior pension liability. General obligation bonds have been issued for general governmental and proprietary activities. Bonds are reported in governmental activities if the debt is expected to be repaid from general governmental revenues.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. New bonds generally are issued as 10 to 20 year bonds.

The City has other notes payable to finance various capital projects through local banks.

The City enters into lease agreements as lessee for the purpose of financing the acquisition of major pieces of equipment. These lease agreements qualify as capital lease obligations for accounting purposes (even through they may include clauses that allow for cancellation of the lease in the event the City does not appropriate funds in future years) and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception dates of the leases. Leases are reported in governmental activities if the debt is expected to be repaid from general governmental revenues and in business-type activities if the debt is expected to be repaid from proprietary fund revenues.

The State of Vermont offers a number of no-interest revolving loan programs to utilize for predetermined purposes. The City has borrowed money from the Vermont Special Environmental Revolving Fund for sewer projects.

The City received money from the Agency of Commerce and Community Development (ACCD) to provide Community Development Loans. The City annually pays back a portion based upon program income as defined in the agreement between the City and ACCD.

It is the policy of the City of Montpelier, Vermont to permit employees to accumulate earned but unused benefits. The accrual for unused compensated absences time, based on current pay rates, is recorded in the government-wide financial statements and proprietary fund financial statements.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (continued)

4.h. Long-term Liabilities (continued)

Long-term liabilities outstanding as of June 30, 2010 were as follows:

Governmental Activities

<p>Berlin Street reconstruction bond, various interest rates (6.6% - 7.0%), to Vermont Municipal Bond Bank, refunded by the Vermont Municipal Bond Bank August 2, 1995 from 1991 Series 1 to 1995 Series 1 and 2, principal payable in annual installments of \$10,000 to December 1, 2005, and \$5,000 from December 1, 2006 to December 1, 2011.</p>	<p>\$ 10,000</p>
<p>Retaining walls bond, net interest rate 5.676%, to Vermont Municipal Bond Bank, \$5,000 principal payments due annually from December 1, 1997 to December 1, 2016.</p>	<p>35,000</p>
<p>Fire station improvement bond, net interest rate 5.029%, to Vermont Municipal Bond Bank, \$40,000 principal payments due annually from December 1, 1998 to December 1, 2007, \$35,000 from December 1, 2008 to December 1, 2017.</p>	<p>280,000</p>
<p>Bridge improvement bond, net interest rate 5.033%, to Vermont Municipal Bond Bank, \$35,000 principal payments due annually from December 1, 1998 to December 1, 2013, \$30,000 from December 1, 2014 to December 1, 2017.</p>	<p>260,000</p>
<p>Fire truck bond, net interest at 4.08% , to Vermont Municipal Bond Bank, \$30,000 principal payments due annually December 1, 1999 to December 1, 2002, \$25,000 from December 1, 2003 to December 1, 2013.</p>	<p>100,000</p>
<p>Retaining wall bond, net interest at 4.789%, to Vermont Municipal Bond Bank, \$50,000 principal payments due annually from December 1, 1999 to December 1, 2003, \$45,000 from December 1, 2004 to December 1, 2018.</p>	<p>405,000</p>
<p>Library bond, various interest rates (4.344% - 5.644%), to Vermont Municipal Bond Bank, \$30,000 principal due annually from December 1, 2001 to December 1, 2020.</p>	<p>330,000</p>
<p>Bike path lighting project bond, interest at 4.67%, to Vermont Municipal Bond Bank, \$20,000 principal due annually, due in December 2021.</p>	<p>240,000</p>
<p>Montpelier Police Station bond, various interest rates (4.344% - 5.644%), to Vermont Municipal Bond Bank, \$75,000 principal due annually from December 1, 2001 to December 1, 2014, \$70,000 from December 1, 2015 to December 1, 2020.</p>	<p>795,000</p>

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (continued)

4.h. Long-term Liabilities (continued)

City Hall improvement bond, various interest rates (1.87% - 5.09%), to Vermont Municipal Bond Bank, \$45,000 principal due annually from December 1, 2005 to December 1, 2014, \$40,000 principal due from December 1, 2015 to December 1, 2024. 625,000

Honeywell Global Finance, LLC. Lease, for energy efficiency upgrades, interest at 4.53%, due in semi-annual installments of principal and interest of \$25,600 until February 1, 2009 then \$26,890 until February 2010, then \$30,431 until February 1, 2018, (61% of lease reported in Governmental Activities, 10% of lease reported in Water Fund and 29% reported in Sewer Fund), secured by equipment. 246,832

De Lage Landen Public Finance Lease, interest at 4.25% six annual payments of principal and interest of \$10,993, due August 25, 2013, secured by vehicle. 39,671

City Hall/DPW improvement bond, various interest rates (3.835% - 4.665%) to Vermont Municipal Bond Bank, \$45,000 principal due annually from December 1, 2007 to December 1, 2022, \$40,000 due from December 1, 2023 and \$35,000 due from December 1, 2024 to December 1, 2026. 730,000

T.D. Banknorth Municipal Lease for ambulance, interest at 4.45%, annual payments of principal and interest of \$10,423 due January 15, 2007 to January 15, 2011. 9,979

Community National Bank Municipal Note, interest at 4.44%, annual payments of principal and interest of \$11,392 due from April 2008 to April 2012, secured by excavator. 21,329

VMERS refunding bond, Vermont Municipal Bond Bank, interest rate at 6.501%, semi-annual interest only payments through May 15, 2017, principal payable starting November 15, 2017 in various annual installments increasing from \$25,000 to \$520,000 until November 15, 2032, (74.95% of bond reported in Governmental Activities, 8.35% reported in Water Fund, 11.30% reported in Sewer Fund and 5.40% reported in Parking Fund). 2,672,500

T.D. Equipment Finance Lease for ambulance, interest at 3.6%, annual payments of principal and interest of \$39,873 due June 1, 2011 to June 1, 2015. 179,521

Sabins pasture/district heating/retaining walls/bridges improvement bond, various interest rates (1.391% to 4.981%) to Vermont Municipal Bond Bank, annual installments of \$95,000 decreasing to \$45,000 until November 15, 2029. 1,150,000

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (continued)
4.h. Long-term Liabilities (continued)

T.D. Equipment Finance Lease for grader, interest at 3.45%, annual payments of principal and interest of \$38,163 due November 1, 2009 to November 1, 2013.	140,343
Total governmental activities bonds and notes payable	\$ 8,270,175

Business-type Activities

Water Fund

Water line improvement bond, various interest rates (3.865% - 4.665%) to Vermont Municipal Bond Bank, principal payments in annual installments of \$105,519 decreasing to \$80,195 until December 1, 2027.	\$ 1,738,961
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Water filtration system bond issued July 10, 1991 to Vermont Municipal Bond Bank, refunded by the Vermont Municipal Bond Bank August 2, 1995, from 1991 Series 1 to 1995 Series 1 and 2, net interest rate of 7.14%, interest payable June 1 and December 1, and principal payable in various annual installments increasing from \$25,000 to \$195,000 until December 1, 2021.	1,670,000
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Vermont water system improvement bond refinanced July 2004 through the Vermont Bond Bank, various interest rates (1.87% - 5.09%), interest payable June 1 and December 1, and principal payable in various annual installments increasing from \$145,000 to \$310,000 until December 1, 2024.	3,395,000
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Westside connector bond issued July 2004 to Vermont Municipal Bond Bank, interest rates (1.87% - 5.09%), interest payable June 1 and December 1, and principal payable in various annual installments increasing from \$50,000 to \$105,000 until December 1, 2024.	1,145,000
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VMERS Refunding Bond, Vermont Municipal Bond Bank, interest rate at 6.501%, semi-annual interest only payments through May 15, 2017, principal payable starting November 15, 2017 in various annual installments increasing from \$25,000 to \$520,000 until November 15, 2032, (74.95% of bond reported in Governmental Activities, 8.35% reported in Water Fund, 11.30% reported in Sewer Fund and 5.40% reported in Parking Fund).	297,500
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Honeywell Global Finance, LLC lease for energy efficient upgrades, interest at 4.53%, due in semi-annual installments of principal and interest of \$25,600 until February 1, 2009, then \$26,890 until February 1, 2010, then \$30,431 until February 1, 2018, (61% of lease reported in Governmental Activities, 10% of lease reported in Water Fund and 29% reported in Sewer Fund), secured by equipment.	40,464
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Total Water Fund bonds payable	\$ 8,286,925
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CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

(continued)

4. Detailed Notes on All Funds (continued)
4.h. Long-term Liabilities (continued)

Sewer Fund

Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$22,049 until December 1, 2016. \$ 154,343

Sewer system improvement Bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$38,856 until December 1, 2017. 310,844

Sewer system improvement bond, Vermont Municipal Bond Bank, net interest rate of 5.676%, annual principal of \$30,000 until December 1, 2016. 210,000

Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$14,156 until December 1, 2018. 127,406

Ultraviolet disinfection system bond issued July 2004 through the Vermont Municipal bond Bank, interest rates (1.87% - 5.09%), payable June 1 and December 1, and principal payable in various annual installments increasing from \$55,000 to \$105,000 until December 1, 2024. 1,205,000

Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$35,497 until April 1, 2020. 354,970

Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$174,171 until July 1, 2025. 2,612,563

Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$13,807 from January 2003 to January 2022. 165,685

Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$26,456 until July 1, 2022. 317,470

Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$34,432 until July 1, 2023. 447,615

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (continued)

4.h. Long-term Liabilities (continued)

Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments payments of \$28,100 until June 1, 2024.	393,395
Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$25,785 starting in fiscal year 2007 for 20 years, during 2009 the loan was finalized and the repayment schedule was adjusted to annual principal payments of \$34,710 until September 1, 2025.	555,355
Local share CSO bond, Vermont Municipal Bond Bank, 4.96% interest, annual principal payments of \$40,000 until 2020 then annual principal payments of \$35,000 until 2032.	820,000
River Street sewer line bond, Vermont Municipal Bond Bank, various interest rates (1.9% - 4.65%), principal payments of \$20,000 until November 15, 2028.	380,000
VMERS refunding bond, Vermont Municipal Bond Bank, interest rate at 6.501%, semi-annual interest only payments through May 15, 2017, principal payable starting November 15, 2017 in various annual installments increasing from \$25,000 to \$520,000 until November 15, 2032, (74.95% of bond reported in Governmental Activities, 8.35% reported in Water Fund, 11.30% reported in Sewer Fund and 5.40% reported in Parking Fund).	402,500
Honeywell Global Finance, LLC lease for energy efficient upgrades, interest at 4.53%, due in semi-annual installments of principal and interest of \$25,600 until February 1, 2009, then \$26,890 until February 1, 2010, then \$30,431 until February 1, 2018, (61% of lease reported in Governmental Activities, 10% of lease reported in Water Fund and 29% reported in Sewer Fund), secured by equipment.	117,346
Sewer pump bond, Vermont Municipal Bond Bank, various interest rates (3.865% - 4.665%), principal payments in annual installments of \$19,481, decreasing to \$14,805 until December 1, 2027.	321,039
Sewer CSO/ultra violet bond, Vermont Municipal Bond Bank, interest rate 2%, due in annual installments of principal and interest of \$6,448 until July 1, 2031. Half of loan to be forgiven in July 2012.	210,880
Total Sewer Fund bonds payable	\$ 9,106,411

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (continued)

4.h. Long-term Liabilities (continued)

Parking Fund

VMERS refunding bond, Vermont Municipal Bond Bank, interest rate at 6.501%, semi-annual interest only payments through May 15, 2017, principal payable starting November 15, 2017 in various annual installments increasing from \$25,000 to \$520,000 until November 15, 2032, (74.95% of bond reported in Governmental Activities, 8.35% reported in Water Fund, 11.30% reported in Sewer Fund and 5.40% reported in Parking Fund).

	\$	192,500
Total Parking Fund bonds payable	\$	192,500
Total Proprietary Funds bonds payable	\$	17,585,836

Changes in all long-term liabilities during the year were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General Obligation Bonds	\$ 6,869,235	1,153,265	(390,000)	7,632,500	459,999
Capital Leases	335,876	319,864	(39,394)	616,346	112,257
Notes Payable	41,453	0	(20,124)	21,329	10,431
ACCD Payable	28,085	0	(16,062)	12,023	12,023
Compensated Absences	255,563	24,448	0	280,011	0
Total Governmental Activities Long-Term Liabilities	\$ 7,530,212	1,497,577	(465,580)	8,562,209	594,710
Business-type Activities					
General Obligation Bonds	\$ 18,214,380	0	(786,354)	17,428,026	1,012,234
Capital Leases	171,179	0	(13,369)	157,810	16,775
Compensated Absences	93,013	3,060	0	96,073	0
Total Business-type Activities Long-Term Liabilities	\$ 18,478,572	3,060	(799,723)	17,681,909	1,029,009

Compensated absences are paid by the applicable fund where the employee is charged.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (continued)

4.h. Long-term Liabilities (continued)

Debt service requirements to maturity are as follows:

Year Ending June 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Capital Leases	Principal	Interest	Capital Leases
2011	\$ 470,430	391,959	136,580	1,012,234	583,476	23,736
2012	470,899	372,724	126,155	1,142,012	558,813	23,737
2013	450,000	353,170	126,156	1,056,659	530,218	23,737
2014	445,000	333,853	126,156	1,066,749	500,192	23,736
2015	415,000	314,717	77,000	1,096,838	468,599	23,737
2016-2020	1,762,400	1,297,209	111,379	5,598,194	1,817,020	71,209
2021-2025	1,245,725	924,662	0	5,066,886	839,690	0
2026-2030	1,350,550	560,438	0	958,957	250,334	0
2031-2035	1,043,825	107,359	0	429,497	40,183	0
Less Amounts Representing Interest	0	0	(87,080)	0	0	(32,082)
Total	\$ 7,653,829	4,656,091	616,346	17,428,026	5,588,525	157,810

The City has authorized, but has not issued long-term debt at June 30, 2010 as follows:

<u>Purpose</u>	<u>Authorized</u>	<u>Amount</u>
Transportation Center	March 2002	\$ 800,000

The short-term debt activity during the year was as follows:

Beginning Balance	\$ 1,500,000
Proceeds of Tax Anticipation Note – General Fund	2,000,000
Repayment of Tax Anticipation Note – General Fund	(2,000,000)
Payment of Grant Anticipation Note	(1,500,000)
Ending Balance	\$ 0

The tax anticipation note had an interest rate of 1.8% and was paid in June 2010. The grant anticipation note had an interest rate of 1.69% and was paid in November, 2009.

Subsequent to year end, the City issued a \$4,000,000 tax anticipation note.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (continued)

4.i. Reserved and Designated Fund Balances/Net Assets

The reserved fund balances/net assets of the City as of June 30, 2010 consisted of the following:

	Balance July 1, 2009	Increase (Decrease)	Balance June 30, 2010
Governmental Funds			
General Fund:			
Inventories	\$ 168,174	(16,787)	151,387
Prepaid Expenses	0	69,047	69,047
Act 60 Reappraisal - State Statute	40,579	(628)	39,951
Records Restoration - State Statute	62,275	(7,014)	55,261
Armory Note Receivable	236,080	(31,158)	204,922
Park Impact Fees - State Statute	37,449	750	38,199
Parks Wetland - Donations	140	(140)	0
City Hall Plaza -Donations	192	(192)	0
Drug Seizure	0	114	114
Police K-9	0	50	50
VMERS Bond Proceeds	33,936	(33,936)	0
Flex Spending Account	0	9,747	9,747
Ambulance - Donations	55	0	55
Total General Fund	578,880	(10,147)	568,733
Community Development Fund:			
Community Development	319,950	25,387	345,337
Community Development - Program Expenditures	17,701	0	17,701
Total Community Development Fund	337,651	25,387	363,038
Capital Projects Fund:			
Traffic Impact Fees	28,610	(18,310)	10,300
Bond Proceeds	423,378	606,267	1,029,645
Capital Grants	9,219	0	9,219
Total Capital Projects Fund	461,207	587,957	1,049,164
Other Governmental Funds:			
Special Revenue Funds:			
Montpelier Events Fund - Donations	4,880	1,000	5,880
Montpelier Foundation - Donations	79,652	(7,517)	72,135
Total Special Revenue Funds	84,532	(6,517)	78,015
Permanent Funds:			
George Blanchard Trust	70,173	1,119	71,292
Non Expendable Cemetery Trust	359,568	4,280	363,848
Hubbard Park Trust	14,620	0	14,620
Expendable Cemetery Trust	275,073	39,567	314,640
Total	719,434	44,966	764,400
Total Other Governmental Funds	803,966	38,449	842,415
Total Reserved Fund Balances - Governmental Funds	\$ 2,181,704	641,646	2,823,350

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (continued)

4.i. Reserved and Designated Fund Balances/Net Assets (continued)

The designated fund balances/net assets of the City as of June 30, 2010 consisted of the following:

Governmental Funds:	
Major Funds:	
General Fund	
Designated for Fire Revenue Reserve	\$ 15,906
Designated for Computer Equipment	19,858
Designated for Tree Board Expenses	7,564
Designated for Conservation Commission	4,369
Designated for Equipment Reserve	97,596
Total General Fund	\$ 145,293
Other Governmental Funds:	
Special Revenue Funds	
Designated for Montpelier Park Commission	\$ 24,960
Designated for Montpelier Events Fund	30,101
Designated for Conservation Fund	33,297
Designated for Montpelier Housing Trust Fund	79,329
Designated for Montpelier Net Fund	530
Designated for Montpelier Senior Citizen Fund	359,739
Total Special Revenue Funds	\$ 527,956

The negative unreserved fund balance of \$7,336 in the Cemetery Fund will be funded with future revenues.

4.j. Restricted Net Assets

The restricted net assets of the City as of June 30, 2010 consisted of the following:

Governmental Activities:	
Restricted by State Statute - Impact Fees	\$ 48,499
Restricted by State Statute – Other	95,214
Restricted by Donors	78,234
Restricted by Trust Agreements - Non-Expendable	366,808
Restricted by Trust Agreements - Expendable	314,640
Restricted by Community Development Loan/Grant Agreements	1,077,767
Total Governmental Activities:	1,981,162
Business-Type Activities:	
Restricted by Impact Fees Statute	41,220
Total Business-Type Activities	41,220
Total Restricted Net Assets	\$ 2,022,382

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

5. Other Information

5.a. Benefit Plans

All eligible employees of the City are covered under the State of Vermont Municipal Employees' Retirement Plan. The Plan requires that both the City and employees contribute to the Plan which provides retirement, disability and death benefits. The City has elected to participate in two (2) plans, Plan B and Plan C, which require all eligible employees to contribute 4.5% and 9%, respectively, of gross wages while the City contributes 5% and 6%, respectively.

The City pays all costs accrued each year for the plan. The premise of Plans B and C are 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 determinable.

Total payroll for the year was \$5,598,028 while covered payroll was \$5,456,892. Pension expense for the year was \$316,528.

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

5.b. Property Taxes

Property taxes attach as an enforceable lien on property as of April 1. Taxes are levied on June 15 and are payable in four installments on August 15, November 15, February 15 and May 15. The City bills and collects its own property taxes and also taxes for the School District, Cemetery and education taxes for the State of Vermont. City property tax revenues are recognized when levied to the extent they result in current receivables.

The tax rate for fiscal year 2009-2010 was as follows:

		Residential	Non Residential
City, Cemetery and Outside Agencies	\$	1.2647	1.2647
State Education Tax		2.1367	2.2905
Water/Sewer Benefit Charge		0.1200	0.1200
Senior Citizens/Recreation		0.1409	0.1409
Total	\$	3.6623	3.8161

5.c. Risk Management

The City of Montpelier, Vermont 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 City of Montpelier, Vermont maintains insurance coverage through the Vermont League of Cities and Town's 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 City of Montpelier, Vermont. Settled claims have not exceeded this coverage in any of the past three fiscal years. The City must remain a member for a minimum of one year and may withdraw from the Fund after that time by giving sixty days notice. Fund underwriting and rate setting policies have been established after consultation with actuaries. Fund members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Fund were to be exhausted, members would be responsible for the Fund's liabilities.

(continued)

5. Other Information (continued)

5.c. Risk Management (continued)

In addition, the City of Montpelier, Vermont is a member of the Vermont League of Cities and Town'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 City of Montpelier, Vermont is also a member of the Vermont League of Cities and Town's 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.

5.d. Commitments

Parking Lot Leases

The City leases three different parking lots around Montpelier for approximately \$85,000 per year. All are cancelable by the City. The City is responsible for the repair, maintenance and upkeep of the parking lots.

Montpelier Fire District

The City and the Montpelier Fire District have an inter-local agreement that requires the City to pay \$45,000 annually out of the Water Department revenues to the District. These payments entitle the City to integrate the improvements in the City's public water supply system and receive benefit of the improvements. This agreement shall remain in effect for as long as the Fire District has outstanding unpaid bonds issued to finance construction of the improvements.

Green Mountain Community Baseball, Inc.

On April 27, 2005, the City guaranteed a \$160,000 note between Green Mountain Community Baseball, Inc. and Northfield Savings Bank. The note is unsecured and is backed by the full faith and credit of the taxing authority of the City of Montpelier, Vermont by the Guaranty of Indebtedness. The loan will be amortized over ten years with \$16,000 annual principal payments plus interest. The balance on the note at June 30, 2010 was \$50,000.

East Central Vermont Community Fiber (ECF)

The City of Montpelier is a participant in an Interlocal Contract made up of 22 towns in East-Central Vermont committed to making state-of-the-art high-speed communications services available to all institutions, homes and businesses in participating towns. The revenue generated from system users is intended pay the costs of building, financing and operating the system so no cash outlay from member municipalities will be required.

On October 22, 2008, the City authorized ECF to issue certificates of participation (master lease) not to exceed \$106,000,000 for the purpose of making certain capital improvements for the delivery of communication services. The aggregate principal amount of the certificates of participation would be allocated to the City and the other participants based on their relative population. It is intended that the repayment of the certificates could only come from the revenues generated by the communications system.

Due to significant changes in the capital markets, ECF does not currently intend to finance the project with the certificates of participation described previously. ECF is pursuing alternative financing that, in accordance with the Interlocal Contract, will not result in any potential liability to the City.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

5. Other Information (continued)

5.d. Commitments (continued)

Operating Leases

The City has three 60-month leases for copiers. One lease is for two copiers with a monthly payment of \$702 through June, 2011. The other two copier leases have monthly payments of \$305 and \$103, respectively, through November, 2013. The lease expense for the year ended June 30, 2010 was \$13,320.

The minimum lease payments are as follows:

2011	\$ 13,320
2012	4,896
2013	<u>2,040</u>
	<u>\$ 20,256</u>

5.e. Contingency – Health Care Benefits

On January 1, 2010, the City changed the employee health insurance program to a High Deductible Health Plan with a Health Reimbursement Arrangement (HRA). All eligible employees who chose to participate were enrolled in the CIGNA HDHP 2250 Value Insurance Plan with a \$3,500/\$7,000 maximum out-of-pocket expense. The City is responsible for the first \$3,000 toward the maximum out-of-pocket health expenses for the single person plan. The City is responsible for the first \$6,000 toward the maximum out-of-pocket health expenses for the two person and family plans. When budgeting for employee health insurance program costs, the City projected that employees will use 65% of the City's out-of-pocket funding. If all employees used 100% of the City's out-of-pocket funding, health insurance costs could be \$205,000 over budgeted costs. Drawdowns for the HRA occur daily as employee health claims are processed. As of June 30, 2010, the City had only six months of experience with this new health insurance program so the ultimate benefit or risk of the new funding arrangement can not be determined.

5.f. Postemployment Benefits Other Than Pensions

Plan Description

The City of Montpelier administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the City's group health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiations between the City and the City's employees. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy

Contribution requirements also are negotiated between the City and the City's employees. The City contributes none of the cost of current-year premiums for eligible retired plan members and their spouses. The City does continue to fund a net HRA contribution of 35% of the active life rate for early retirees and spouses. At age 65, retirees and spouses move into a different plan that has premiums that are 100% paid by the participants and there is no further subsidy. For fiscal year 2010, the City contributed \$19,000 to the plan. Plan members receiving benefits contribute 100 percent of their premium costs.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2010

5. Other Information (continued)

5.f. Postemployment Benefits Other Than Pensions (continued)

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The town has elected to calculate the ARC and related information using the alternative measurement method permitted by [GASB Statement 45](#) for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the town's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 45,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	45,000
Contributions made	(19,000)
Increase in net OPEB obligation	26,000
Net OPEB obligation—beginning of year	-
Net OPEB obligation—end of year	\$ 26,000

Funded Status and Funding Progress

As of June 30, 2010, the actuarial accrued liability for benefits was \$479,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$5,456,892, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 8.78 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees — Based on the historical average retirement age for the covered group, active plan members were assumed to retire between age 55-70, or at the first subsequent year in which the member would qualify for benefits.

(continued)

5. Other Information (continued)

5.f. Postemployment Benefits Other Than Pensions (continued)

Marital status — Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality — Life expectancies were based on mortality tables from the RP2000 Generational Mortality Table.

Turnover — Non-group-specific age-based turnover data from [GASB Statement 45](#) were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate — The expected rate of increase in healthcare insurance premiums was 7 percent initially, reduced to an ultimate rate of 3 percent after four years.

Health insurance premiums — 2009 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate — An expected long-term inflation assumption of 3 percent was used.

Payroll growth rate — The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the town's short-term investment portfolio, a discount rate of 3 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010, was thirty years.

5.g. Subsequent Events

Subsequent to year end, the City obtained a tax anticipation note of \$4,000,000 from Merchants Bank with interest at 1.84% and due June 30, 2011.

Subsequent to year end, the City assigned the physical assets of MontpelierNet to Summit Technologies. In return Summit Technologies will remove and dispose of all installed hardware and relieve the City of any further liability or obligation.

The City has evaluated subsequent events through February 18, 2011, the date on which the financial statements were available to be issued.

**CITY OF MONTPELIER, VERMONT
 REQUIRED SUPPLEMENTARY INFORMATION
 Schedule of Funding Progress for the Retiree Health Plan**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)— Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b - a)	(a / b)	(c)	((b - a) / c)
6/30/2010	0	479,000	479,000	0.0	5,456,892	8.78

CITY OF MONTPELIER, VERMONT
 Combining Balance Sheet
 Other Governmental Funds
 June 30, 2010

	Special Revenue Funds									Permanent Funds				Total Other Governmental Funds
	Green Mountain Cemetery Fund	Montpelier Parks Commission Fund	Montpelier Events Fund	Reach Fund	Conservation Fund	Montpelier Foundation Fund	Montpelier Housing Trust Fund	Montpelier Senior Citizens Fund	MontpelierNet Fund	George Blanchard Trust Fund	Non-Expendable Cemetery Trust Fund	Hubbard Park Trust Fund	Expendable Cemetery Trust Fund	
	Assets:													
Cash	\$ 0	0	0	0	46,299	14,215	0	83,249	0	0	0	0	0	143,763
Investments	4,443	0	0	0	0	70,830	0	304,321	0	71,292	676,359	14,663	0	1,141,908
Receivables	18,008	168	0	0	0	0	0	0	0	0	0	0	0	18,176
Due from other governments	0	0	0	109,058	0	0	0	0	0	0	0	0	0	109,058
Loans receivable	0	0	0	0	0	0	164,000	0	0	0	0	0	0	164,000
Due from other funds	0	28,937	36,481	0	0	0	79,329	0	530	0	0	0	314,640	459,917
Total assets	\$ 22,451	29,105	36,481	109,058	46,299	85,045	243,329	387,570	530	71,292	676,359	14,663	314,640	2,036,822
Liabilities and fund balances:														
Liabilities:														
Accounts payable	\$ 8,640	1,778	500	30,318	0	0	0	12,638	0	0	0	43	0	53,917
Accrued payroll and related expenses	2,441	1,867	0	939	0	0	0	2,099	0	0	0	0	0	7,346
Deferred revenue	0	500	0	0	0	0	164,000	0	0	0	0	0	0	164,500
Due to other funds	18,706	0	0	77,801	13,002	12,910	0	13,094	0	0	312,511	0	0	448,024
Total liabilities	29,787	4,145	500	109,058	13,002	12,910	164,000	27,831	0	0	312,511	43	0	673,787
Fund balances (deficit):														
Reserved	0	0	5,880	0	0	72,135	0	0	0	71,292	363,848	14,620	314,640	842,415
Unreserved	(7,336)	24,960	30,101	0	33,297	0	79,329	359,739	530	0	0	0	0	520,620
Total fund balances (deficit)	(7,336)	24,960	35,981	0	33,297	72,135	79,329	359,739	530	71,292	363,848	14,620	314,640	1,363,035
Total liabilities and fund balances	\$ 22,451	29,105	36,481	109,058	46,299	85,045	243,329	387,570	530	71,292	676,359	14,663	314,640	2,036,822

CITY OF MONTPELIER, VERMONT
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Other Governmental Funds
 For the Year Ended June 30, 2010

	Special Revenue Funds										Permanent Funds				Total Other Governmental Funds
	Green Mountain Cemetery Fund	Montpelier Parks Commission Fund	Montpelier Events Fund	Justice Fund	Reach Fund	Conservation Fund	Montpelier Foundation Fund	Montpelier Housing Trust Fund	Montpelier Senior Citizens Fund	MontpelierNet Fund	George Blanchard Trust Fund	Non-Expendable Cemetery Trust Fund	Hubbard Park Trust Fund	Expendable Cemetery Trust Fund	
Revenues:															
Property taxes	\$ 0	0	0	0	0	0	0	0	135,707	0	0	0	0	0	135,707
Intergovernmental		23,954	0	0	173,908	14,500	0	0	0	0	0	0	0	0	212,362
Fees and charges for services	33,138	0	0	0	0	0	0	0	87,647	13,525	0	7,240	0	0	141,550
Investment income (loss)	574	11	0	0	0	299	7,761	1,403	5,473	0	1,119	61,607	258	0	78,505
Contributions	0	1,154	0	0	0	3,000	1,352	0	82,910	0	0	0	0	0	88,416
Rents and commissions	0	3,115	0	0	0	0	0	0	0	0	0	0	0	0	3,115
Other revenues	0	1,947	1,000	0	0	0	0	0	4,739	0	0	0	0	0	7,686
Total revenues	33,712	30,181	1,000	0	173,908	17,799	9,113	1,403	316,476	13,525	1,119	68,847	258	0	667,341
Expenditures:															
Public safety	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Culture and recreation	0	119,060	13,492	0	173,908	3,102	16,630	0	279,772	0	0	0	0	0	605,964
Community development	0	0	0	0	0	0	0	30,000	0	0	0	0	0	0	30,000
Cemetery	171,967	0	0	0	0	0	0	0	0	0	0	0	0	0	171,967
MontpelierNet Expenses	0	0	0	0	0	0	0	0	0	21,332	0	0	0	0	21,332
Capital outlay:															
Culture and recreation	0	39,616	0	0	0	27,400	0	0	0	0	0	0	0	0	67,016
Cemetery	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt service - principal	9,982	0	0	0	0	0	0	0	0	0	0	0	0	0	9,982
Debt service - interest	3,346	1,936	0	0	0	0	0	0	0	0	0	0	0	0	5,282
Total expenditures	185,295	160,612	13,492	0	173,908	30,502	16,630	30,000	279,772	21,332	0	0	0	0	911,543
Excess (deficiency) of revenues over expenditures	(151,583)	(130,431)	(12,492)	0	0	(12,703)	(7,517)	(28,597)	36,704	(7,807)	1,119	68,847	258	0	(244,202)
Other financing sources (uses):															
Transfers in	145,159	107,310	11,000	5,728	0	0	0	26,000	0	0	0	0	0	64,567	359,764
Transfers out	(8,400)	(300)	0	0	0	0	0	0	0	0	0	(64,567)	(258)	(25,000)	(98,525)
Total other financing sources (uses)	136,759	107,010	11,000	5,728	0	0	0	26,000	0	0	0	(64,567)	(258)	39,567	261,239
Net change in fund balance	(14,824)	(23,421)	(1,492)	5,728	0	(12,703)	(7,517)	(2,597)	36,704	(7,807)	1,119	4,280	0	39,567	17,037
Fund balance - July 1, 2009	7,488	48,381	37,473	(5,728)	0	46,000	79,652	81,926	323,035	8,337	70,173	359,568	14,620	275,073	1,345,998
Fund balance (deficit) - June 30, 2010	\$ (7,336)	24,960	35,981	0	0	33,297	72,135	79,329	359,739	530	71,292	363,848	14,620	314,640	1,363,035

CITY OF MONTPELIER, VERMONT
Schedule of Expenditures of Federal Awards
For the Year ended June 30, 2010

<u>Federal Grant/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Grant Amount</u>	<u>Expenditures</u>
<u>Department of Health and Human Services</u>				
<u>US Administration of Aging</u>				
Rural Elder Assistance for Care and Health (REACH)	93.048	90AP2656/01	\$ 334,670	\$ 173,908
Total US Administration of Aging				<u>173,908</u>
<u>US Department of Energy</u>				
Recovery Act: Montpelier Community Renewable Energy	81.087	DE-EE0003071	8,000,000	13,770
Total US Department of Energy				<u>13,770</u>
<u>United States Department of the Interior</u>				
Passed through Vermont Division for Historic Preservation				
Certified Local Government Program- Phase II	15.904	VT-08-011	11,423	3,342
Total US Department of the Interior				<u>3,342</u>
<u>US Department of Housing and Urban Development</u>				
Passed through the Vermont Agency of Development and Community Affairs				
Community Development Block Grant	14.228		18,500	18,500
Housing Preservation Grant	14.228		50,000	2,183
Total US Department of Housing and Urban Development				<u>20,683</u>
<u>US Department of Justice</u>				
2009 Justice Assistance Grant Program	16.579	2009-SB-B9-0115	33,209	7,554
COPS Hiring Recovery Program	16.710	2009RKWX0869	209,571	52,393
Bulletproof Vest Partnership Program	16.607	OJP 15-04-0001	5,245	1,439
Total US Department of Justice				<u>61,386</u>
<u>US Department of Homeland Security</u>				
Passed through Vermont Department of Public Safety				
Homeland Security Grant	97.067	2007-GE-T7-0049	803	727
Homeland Security Grant	97.067	2007-GE-T7-0049	354	354
Homeland Security Grant	97.067	2006-GE-T6-0014	1,796	1,796
Homeland Security Grant	97.067	2007-GT-T7-0049	11,935	11,935
Homeland Security Grant	97.067	2007-GT-T7-0050	1,381	1,244
Homeland Security Grant	97.067	2007-GT-T7-0050	1,423	1,423
Homeland Security Grant	97.067	2007-GT-T7-0049	1,973	1,973
Total US Department of Homeland Security				<u>19,452</u>
<u>US Department of Labor</u>				
WIA Youth/ARRA-SYEP	17.259	94733152	20,183	11,629
Total Department of Labor				<u>11,629</u>
<u>US Department of Transportation</u>				
Passed through Vermont Agency of Transportation				
Transportation Enhancement Project (RT 2/302)	20.205	FEGC 028-3(34)S	3,396,129	939,169
Transportation Enhancement Project (Bike Path)	20.205	STP BIKE(33)S	567,560	17,758
Transportation Enhancement Project (Carr Lot)	20.205	STP MMTC(5)	145,600	20,871
Emergency Relief Program	20.205	FHWA ER VT08-1	170,316	37,256
Safe Routes to School	20.205	STP SRIN 11/300	101,700	2,036
Passed through Vermont Department of Public Safety				
Governor's Highway Safety Program	20.613	02140-0910-6220	3,500	2,617
Total US Department of Transportation				<u>1,019,707</u>
<u>US Environmental Protection Agency</u>				
Passed through the Vermont Agency of Natural Resources				
Clean Water State Revolving Fund/ARRA	66.458	CWSRF-AARA 09	1,174,700	770,712
Total US Environmental Protection Agency				<u>770,712</u>
Total Expenditures of Federal Awards			\$	<u>2,094,589</u>

SECTION II

COMPLIANCE AND INTERNAL CONTROL



**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**

To the City Council
City of Montpelier, Vermont

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Montpelier, Vermont, as of and for the year ended June 30, 2010, which collectively comprise the City of Montpelier, Vermont's basic financial statements and have issued our report thereon dated February 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Montpelier, Vermont's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Montpelier, Vermont's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Montpelier, Vermont's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Montpelier, 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*.

This report is intended solely for the information and use of management, City Council, others within the entity, and 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.

Love, Cody & Company, CPAs, P.C.

February 18, 2011

Vt. Reg. #357