

CITY OF MONTPELIER, VERMONT

Financial Statements and Schedules

June 30, 2011

(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 the City of Montpelier, Vermont as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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, 2011, 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 3, 2012 on our consideration of the 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

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 3, 2012

Vt. Reg. #357

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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, 2011. 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 \$2,148,106 or 14 percent. Net assets of the business-type activities increased by \$577,388 or 3 percent. The City's total net assets increased by \$2,725,494 as a result of this year's operations. This increase is primarily related to unspent fire insurance proceeds for 58 Barre Street property and the large amount of capital grant, operating grant and contribution revenue.

The cost of all of the City's programs was \$16,541,165 in fiscal year 2011 compared to \$15,598,109 in fiscal year 2010, which is approximately a 6% increase. Total revenue for all the City's programs also increased from \$18,293,928 in 2010 compared to \$18,607,279 in 2011, which is a 2% increase from the previous year. These increases in costs and revenue are related to the capital and operating grant activities in public safety, public works, culture and recreation and community development.

Fund Statements

Generally accepted governmental accounting standards for fund balance reporting and governmental fund type definitions changed for the fiscal year ended June 30, 2011. The Governmental Accounting Standards Board issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* to address issues related to how fund balances are reported.

For governmental fund types, fund balances that had previously been identified as reserved, designated and undesignated will be classified in five new categories. These new classifications are based on the relative strength of the spending constraints placed on the purposes for which the resources can be used. The new classifications are nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance. Unassigned fund balances are reported only in the general fund.

Another significant change that is occurring with GASB Statement No. 54 is in the reporting of special revenue funds. Some governments may not be able to continue to report some of their special revenue funds under the new, clarified fund type definitions.

During fiscal year 2011, the General Fund reported a net increase in the fund balance of \$154,635.

The General Fund balances totaled \$1,643,045 as of June 30, 2011. The fund balances that are nonspendable, restricted, committed and assigned totaled \$526,644 as of June 30, 2011. These fund balances are either nonspendable or have spending constraints placed on the purposes for which they can be used. This leaves an unassigned fund balance of \$1,116,401 which is \$342,017 higher than the prior year's unrestricted and undesignated fund balance.

The Community Development Fund ended the year with a reserved fund balance of \$422,087, which was \$59,049 higher than the prior year fund balance of \$363,038. This fund balance is reserved by various sources for Community Development programs and activities.

The Capital Projects Fund ended the year with fund balances of \$1,969,272 which was \$553,111 higher than the prior year fund balances of \$1,416,161. \$816,893 of these funds are restricted by bonding constraints and impact fee ordinances. This leaves an assigned fund balance of \$1,152,379 for various capital improvement projects. Much of this increase in the Capital Projects fund balance is related to the fire insurance proceeds for 58 Barre Street property.

Other nonmajor governmental funds ended the year with a fund balance of \$1,462,771, which was \$99,736 higher than the prior year fund balance of \$1,363,035. \$444,822 of these funds are nonspendable for Trustees of public funds.

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\$872,642 of these funds are restricted by donations and permanent funds.

The Water Fund ended the year with net assets of \$8,735,856 which was \$29,878 less than the prior year balance of \$8,765,734. Of the total net asset balance, \$9,355,089 is invested in property and equipment. This leaves an unrestricted deficit of \$619,233 to be recovered in future periods. This unrestricted deficit is \$43,776 less than the \$663,009 unrestricted deficit as of June 30, 2010. \$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 \$10,926,482, which was \$618,359 higher than the prior year balance of \$10,308,123. Of the total net asset balance, \$11,067,351 is invested in property and equipment. This leaves an unrestricted deficit of \$140,869 to be recovered in future periods. Included in this deficit is \$402,500 in 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 \$317,872, which was \$11,093 lower than the prior year balance of \$328,965. Of the total net asset balance, \$324,901 is invested in property and equipment and \$41,170 is restricted for various projects. This leaves a deficit of \$48,199 to be recovered in future periods. Included in this deficit is \$192,500 in 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

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Management's Discussion and Analysis
For the Year Ended June 30, 2011

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 (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 \$2,725,494 from a year ago - increasing from \$34,746,966 to \$37,472,460. 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, 2011</i>			<i>June 30, 2010</i>		
	Governmental	Business-type	Total	Governmental	Business-type	Total
			Primary			Primary
	Activities	Activities	Government	Activities	Activities	Government
Current and other assets	\$ 8,179,945	397,502	8,577,447	6,434,870	26,555	6,461,425
Capital assets	18,594,888	36,759,161	55,354,049	18,117,248	37,433,836	55,551,084
Total assets	26,774,833	37,156,663	63,931,496	24,552,118	37,460,391	62,012,509
Long term liabilities	8,008,432	16,875,937	24,884,369	8,562,209	17,681,909	26,244,118
Other liabilities	1,274,151	300,516	1,574,667	645,765	375,660	1,021,425
Total liabilities	9,282,583	17,176,453	26,459,036	9,207,974	18,057,569	27,265,543
Net assets:						
Invested in capital assets,						
net of debt	14,683,993	20,747,341	35,431,334	13,879,218	20,528,951	34,408,169
Restricted	2,317,555	41,170	2,358,725	1,981,162	41,220	2,022,382
Unrestricted	490,702	(808,301)	(317,599)	(516,236)	(1,167,349)	(1,683,585)
Total net assets	\$ 17,492,250	19,980,210	37,472,460	15,344,144	19,402,822	34,746,966

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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 \$2,148,106 or 14% (\$17,492,250 compared to \$15,344,144). This increase is primarily related to \$851,846 in fire insurance proceeds for 58 Barre Street property and capital and operating grant receivables.

Net assets of the business-type activities increased by \$577,388 (\$19,980,210 compared to \$19,402,822, or 3 percent). This increase is primarily related to Federal ARRA/Stimulus Funds that were received for Sewer Fund projects.

Table 2
Change in Net Assets

	<i>June 30, 2011</i>			<i>June 30, 2010</i>		
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total Primary Government</i>	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total Primary Government</i>
REVENUES:						
Program revenues:						
Charges for services	\$ 966,684	6,371,444	7,338,128	1,173,482	6,184,445	7,357,927
Operating grants and contributions	1,573,857	0	1,573,857	834,357	0	834,357
Capital grants and contributions	983,264	435,646	1,418,910	1,938,249	124,176	2,062,425
General Revenues:						
Property taxes, penalties and interest	7,846,012	0	7,846,012	7,618,724	0	7,618,724
Payment in lieu of taxes	184,000	0	184,000	184,000	0	184,000
Unrestricted investment earnings	138,241	0	138,241	141,959	0	141,959
Gain (loss) on sale of capital assets	22,616	0	22,616	(88,384)	0	(88,384)
Other revenues	79,630	0	79,630	175,680	0	175,680
Contributions to permanent endowments	5,885	0	5,885	7,240	0	7,240
Total revenues	11,800,189	6,807,090	18,607,279	11,985,307	6,308,621	18,293,928
PROGRAM EXPENSES:						
General government	1,744,867	0	1,744,867	1,874,052	0	1,874,052
Public safety	4,252,181	0	4,252,181	4,033,759	0	4,033,759
Public works	2,520,455	0	2,520,455	1,964,525	0	1,964,525
Culture and recreation	1,222,259	0	1,222,259	1,093,533	0	1,093,533
Community development	164,086	0	164,086	54,094	0	54,094
Cemetery	178,350	0	178,350	181,319	0	181,319
MontpelierNet	2,664	0	2,664	21,332	0	21,332
Interest on long-term debt	248,767	0	248,767	243,760	0	243,760
Water	0	2,353,052	2,353,052	0	2,432,394	2,432,394
Sewer	0	3,183,746	3,183,746	0	3,088,840	3,088,840
Parking	0	670,738	670,738	0	610,501	610,501
Total program expenses	10,333,629	6,207,536	16,541,165	9,466,374	6,131,735	15,598,109
Excess before special items						
and transfers	1,466,560	599,554	2,066,114	2,518,933	176,886	2,695,819
Fire insurance proceeds	851,846	0	851,846	0	0	0
Property transfer to Housing LP	(180,000)	0	(180,000)	0	0	0
Capital asset impairment	0	(12,466)	(12,466)	(155,000)	0	(155,000)
Transfers	9,700	(9,700)	0	9,700	(9,700)	0
Increase in net assets	\$ 2,148,106	577,388	2,725,494	2,373,633	167,186	2,540,819

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

Governmental Activities

The City's tax rate decreased to \$0.8359 from \$1.2506 per \$100 of assessed value from fiscal year 2010 to fiscal year 2011. The decrease is the result of a city-wide property reappraisal which increased the City's grand list to reflect market value and therefore decreased the tax rate.

Table 3 presents the cost of each of the City's eight largest programs - general government, public safety, public works, culture and recreation, community development, 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, 2011				June 30, 2010			
	Governmental Activities		Business-type Activities		Governmental Activities		Business-type Activities	
	Net Revenues		Net Revenues		Net Revenues		Net Revenues	
	Total Cost	(Cost)	Total Cost	(Cost)	Total Cost	(Cost)	Total Cost	(Cost)
	of Services	of Services	of Services	of Services	of Services	of Services	of Services	of Services
General government	\$ 1,744,867	(1,348,242)	0	0	1,874,052	(1,335,889)	0	0
Public safety	4,252,181	(3,392,280)	0	0	4,033,759	(3,275,865)	0	0
Public works	2,520,455	(1,070,715)	0	0	1,964,525	167,823	0	0
Culture and recreation	1,222,259	(682,986)	0	0	1,093,533	(686,606)	0	0
Community development	164,086	109,251	0	0	54,094	9,999	0	0
Water	0	0	2,353,052	(30,178)	0	0	2,432,394	(196,815)
Sewer	0	0	3,183,746	630,825	0	0	3,088,840	305,676
Parking	0	0	670,738	(1,093)	0	0	610,501	68,025
All others	429,781	(399,852)	0	0	446,411	(399,748)	0	0
Totals	\$ 10,333,629	(6,784,824)	6,207,536	599,554	9,466,374	(5,520,286)	6,131,735	176,886

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 \$5,497,175, which is above last year's total of \$4,630,644. Included in this year's total change in fund balance are an increase of \$154,635 in the City's General Fund; an increase of \$59,049 in the Community Development Fund; an increase of 553,111 in the Capital Projects Fund and an increase of \$99,736 in Other Governmental Funds. The increase in the Capital Projects Fund fund balance is primarily due to the insurance proceeds for the fire damage to the 58 Barre Street property.

General Fund Budgetary Highlights

Revenue exceeded the budget by \$256,762. A significant part of the unbudgeted revenue is \$157,213 in unanticipated State Payment in Lieu of Taxes revenue. Other notable revenue exceeding budget are Fire/EMS federal grant revenue of \$71,930 and additional Ambulance Call Charges of \$49,263.

Expenditures exceeded the budget by \$92,804. Some of the significant unbudgeted expenditures are \$56,977 for Fire/EMS grant expense which is offset by unbudgeted grant revenue. Also, the City Council authorized \$39,742 of previous year fund balance to be spent on management and capital needs assessment studies. Other notable expenditures that exceeded the budget are City Manager Legal Services, Finance Salaries, Department of Public

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Works Operating Supplies and Small Equipment. Expenditures that were significantly less than the budgeted amount were 58 Barre Street Building Maintenance and Finance Professional Accounting Services. Planning Department Salaries were under the budgeted amount due to time spent on federal grant management.

Other Financing Sources (Uses) exceeded the budget by \$9,323. This variance was due to \$13,000 proceeds for the sale of land and the use of \$22,823 in Park Impact Fees for the Turntable Park project.

A major flooding event occurred in the City of Montpelier on May 27, 2011 which caused substantial damage to the City streets, culverts and drainage systems. The event qualifies for Federal Highway, Federal Emergency Management Agency and State grant funding. As of June 30, 2011, it is estimated that the City's share of the cost of flood damage repairs may be as high as \$150,000. The actual amount of local funding is subject to future grant agreements with federal and state agencies.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2011, the City has \$55,354,049 compared to \$55,551,084 at June 30, 2010 invested in a broad range of capital assets, including police, fire, and department of public works equipment, buildings, park facilities, roads, bridges, and sewer lines. (See Table 4 below) This amount represents a net decrease (including additions and deductions) of \$197,035, over last year. Depreciation of water and sewer infrastructure was the significant cause of this decrease in capital assets. Also, the City transferred a portion of the 58 Barre Street property to Capital City Housing Foundation, Inc. during the 2011 fiscal year.

	<i>June 30, 2011</i>			<i>June 30, 2010</i>		
	Governmental Activities	Business-type Activities	Total Primary Government	Governmental Activities	Business-type Activities	Total Primary Government
Land	\$ 742,050	250,672	992,722	922,050	250,672	1,172,722
Capital improvements and equipment	16,758,785	36,508,489	53,267,274	15,544,726	36,951,442	52,496,168
Construction in progress	1,094,053	-	1,094,053	1,650,472	231,722	1,882,194
Totals	\$ 18,594,888	36,759,161	55,354,049	18,117,248	37,433,836	55,551,084

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This year's major additions included:

Senior Center Building Renovations	\$ 148,762
Computer equipment	32,229
Police vehicle	26,425
Fire - Equipment	59,588
Infrastructure	1,299,672
DPW vehicles	101,577
Parks - Vehicle	5,000
Water - computer equipment	27,906
Sewer treatment improvements	8,000
Sewer - CSO/Solar Panels	440,371
Sewer - computer equipment	23,487
Parking - computer equipment	1,273
Parking - equipment	27,400
	<u>\$ 2,201,690</u>

Long Term - Debt

At June 30, 2011, the City has \$24,459,616 in bonds and notes outstanding versus \$25,856,011 on June 30, 2010 - a decrease of \$1,396,395 - as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Balance at June 30, 2010	Additions	Payments	Balance at June 30, 2011
Notes, capital leases and bonds payable:				
Governmental activities	\$ 8,270,175	0	582,687	7,687,488
Proprietary Funds	17,585,836	320,739	1,134,447	16,772,128
Totals	\$ 25,856,011	320,739	1,717,134	24,459,616

New debt resulted from Combined Sewer Overflow upgrades in the Sewer Fund.

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 2012 budget, tax rates, and fees that will be charged for the business-type activities. With the national and regional economy suffering, inflation running very low, Montpelier's high property taxes rates, the 2012 Budget was guided by a firm desire to keep the tax rate increase at or below the inflation rate for 2010. The other guiding force was resident opinion obtained through the 2009 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 5.3% (July 2010) compared with 6% (July 2009). This compares with the State's unemployment rate in June 2010 of 6.1%. Also considered was the Consumer Price Index percent change over one year (July 2009-July 2010) which was 1.5%.

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The 2012 budget maintained funding and staffing levels in Police, Planning, Parks and Roads while increasing the capital plan for infrastructure improvements. The municipal budget requires a one cent tax rate increase which, at 1.2% is below the 1.5% inflation rate for 2010.

Looking ahead, the City is partnering with federal and state agencies to study flood mitigation measures to alleviate the threat of damages due to ice-jam 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, the fixed quarterly charge increased \$10 (per quarter) for Water Fund users effective July 1, 2011. Sewer charges did not increase. The combination of users' water conservation and the lack of growth in numbers of users provide 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.

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 \$35.00.

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, 2011

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash	\$ 3,523,467	50	3,523,517
Investments	1,181,808	0	1,181,808
Receivables (net of allowance for uncollectibles)	1,009,510	1,503,839	2,513,349
Loans receivable	978,090	0	978,090
Note receivable	177,847	0	177,847
Deposits	0	1,600	1,600
Prepaid expenses	11,340	19,592	30,932
Inventories	110,136	60,168	170,304
Internal balances	1,187,747	(1,187,747)	0
Capital assets:			
Land	742,050	250,672	992,722
Construction in progress	1,094,053	0	1,094,053
Other capital assets, (net of accumulated depreciation)	16,758,785	36,508,489	53,267,274
Total assets	26,774,833	37,156,663	63,931,496
Liabilities:			
Accounts payable	491,809	72,170	563,979
Construction payable	0	132,192	132,192
Accrued payroll and related expenses	158,803	40,966	199,769
Due to Montpelier School District	474,475	0	474,475
Due to Montpelier Recreation	32,767	0	32,767
Deferred revenue	25,000	5,420	30,420
Accrued interest	41,515	49,768	91,283
OPEB obligation	49,782	0	49,782
Noncurrent liabilities:			
Due within one year	577,125	1,049,777	1,626,902
Due in more than one year	7,431,307	15,826,160	23,257,467
Total liabilities	9,282,583	17,176,453	26,459,036
Net assets:			
Invested in capital assets, net of related debt	14,683,993	20,747,341	35,431,334
Restricted	2,317,555	41,170	2,358,725
Unrestricted	490,702	(808,301)	(317,599)
Total net assets	\$ 17,492,250	19,980,210	37,472,460

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Statement of Activities
Year Ended June 30, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 1,744,867	215,260	181,365	0	(1,348,242)	0	(1,348,242)
Public safety	4,252,181	531,142	303,759	0	(3,417,280)	0	(3,417,280)
Public works	2,520,455	122,779	347,419	979,542	(1,070,715)	0	(1,070,715)
Culture and recreation	1,222,259	67,574	467,977	3,722	(682,986)	0	(682,986)
Community development	164,086	0	273,337	0	109,251	0	109,251
Cemetery	178,350	29,929	0	0	(148,421)	0	(148,421)
MontpelierNet	2,664	0	0	0	(2,664)	0	(2,664)
Interest on long-term debt	248,767	0	0	0	(248,767)	0	(248,767)
Total governmental activities	10,333,629	966,684	1,573,857	983,264	(6,809,824)	0	(6,809,824)
Business-type activities:							
Water	2,353,052	2,322,874	0	0	0	(30,178)	(30,178)
Sewer	3,183,746	3,378,925	0	435,646	0	630,825	630,825
Parking	670,738	669,645	0	0	0	(1,093)	(1,093)
Total business-type activities	6,207,536	6,371,444	0	435,646	0	599,554	599,554
Total	\$ 16,541,165	7,338,128	1,573,857	1,418,910	(6,809,824)	599,554	(6,210,270)
General revenues:							
Property taxes, penalties and interest					7,846,012	0	7,846,012
Payment in lieu of taxes					184,000	0	184,000
Unrestricted investment earnings					138,241	0	138,241
Capital asset impairment					0	(12,466)	(12,466)
Property Transfer to Housing LP					(180,000)	0	(180,000)
Gain on sale of equipment					22,616	0	22,616
Insurance Proceeds					851,846	0	851,846
Other revenues					79,630	0	79,630
Contributions to Permanent Endowments					5,885	0	5,885
Transfers					9,700	(9,700)	0
Total general revenues, special item and transfers					8,957,930	(22,166)	8,935,764
Change in net assets					2,148,106	577,388	2,725,494
Net Assets - July 1, 2010					15,344,144	19,402,822	34,746,966
Net Assets - June 30, 2011					\$ 17,492,250	19,980,210	37,472,460

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Community Development Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash	\$ 2,868,038	413,256	0	242,173	3,523,467
Investments	0	0	0	1,181,808	1,181,808
Receivables (net of allowance for uncollectibles)	378,558	0	489,123	141,829	1,009,510
Loans (net of allowance for uncollectibles)	0	814,090	0	164,000	978,090
Note receivable	177,847	0	0	0	177,847
Prepaid expenses	11,340	0	0	0	11,340
Inventories	110,136	0	0	0	110,136
Due from other funds	0	0	1,995,515	502,316	2,497,831
Total assets	\$ 3,545,919	1,227,346	2,484,638	2,232,126	9,490,029
Liabilities:					
Accounts payable	\$ 306,989	0	150,711	34,109	491,809
Accrued payroll and related expenses	143,864	0	0	14,939	158,803
Due to Montpelier School District	474,475	0	0	0	474,475
Due to Recreation Department	32,767	0	0	0	32,767
Deferred revenue	182,493	796,709	364,655	181,059	1,524,916
Due to other funds	762,286	8,550	0	539,248	1,310,084
Total liabilities	1,902,874	805,259	515,366	769,355	3,992,854
Fund balances (deficit):					
Nonspendable for:					
Inventories	110,136	0	0	0	110,136
Note receivable	177,847	0	0	0	177,847
Prepays	11,340	0	0	0	11,340
Trust principal	0	0	0	444,822	444,822
Restricted	110,651	225,477	816,893	872,642	2,025,663
Committed	0	158,555	0	153,904	312,459
Assigned	116,670	38,055	1,152,379	15,288	1,322,392
Unassigned	1,116,401	0	0	(23,885)	1,092,516
Total fund balances	1,643,045	422,087	1,969,272	1,462,771	5,497,175
Total liabilities and fund balances	\$ 3,545,919	1,227,346	2,484,638	2,232,126	
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.					18,594,888
Other assets are not available to pay for current-period expenditures, and, therefore, are deferred in the funds.					1,499,916
Long-term and accrued liabilities, are not due or payable in the current period and, therefore, are not reported in the funds.					(8,099,729)
Net assets of governmental activities				\$	17,492,250

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, 2011

	General Fund	Community Development Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes, penalties and interest	\$ 7,737,308	0	0	125,707	7,863,015
Permits and licenses	86,373	0	0	0	86,373
Intergovernmental	928,828	281,905	693,723	314,499	2,218,955
Fees and charges for services	1,557,645	0	0	94,888	1,652,533
Fines and forfeitures	37,498	0	0	0	37,498
Investment income	47,368	9,769	0	81,104	138,241
Contributions	2,908	0	0	136,919	139,827
Rents and commissions	28,375	0	0	3,240	31,615
Equipment revenues	107,739	0	0	0	107,739
Loan principal repayments	0	102,739	0	0	102,739
Other revenues	65,081	0	3,620	10,929	79,630
Total revenues	10,599,123	394,413	697,343	767,286	12,458,165
Expenditures:					
General government	2,168,596	0	106,118	0	2,274,714
Public safety	4,019,973	0	0	0	4,019,973
Public works	2,043,751	0	68,617	0	2,112,368
Culture and recreation	488,446	0	0	726,886	1,215,332
Community development	0	178,587	0	0	178,587
Cemetery	0	0	0	168,998	168,998
MontpelierNet	0	0	0	2,664	2,664
Capital outlay:					
General government	19,786	0	13,439	0	33,225
Public safety	94,902	0	0	0	94,902
Public works	103,757	0	1,271,839	0	1,375,596
Culture and recreation	0	0	152,762	5,000	157,762
Debt service - principal	572,256	0	0	10,431	582,687
Debt service - interest	244,361	0	0	5,511	249,872
Total expenditures	9,755,828	178,587	1,612,775	919,490	12,466,680
Excess (deficiency) of revenues over expenditures	843,295	215,826	(915,432)	(152,204)	(8,515)
Other financing sources (uses):					
Proceeds from sale of equipment	500	0	0	0	500
Proceeds from sale of land	13,000	0	0	0	13,000
Insurance reimbursements	0	0	851,846	0	851,846
Transfers from other funds	0	0	618,831	351,830	970,661
Transfers to other funds	(702,160)	(156,777)	(2,134)	(99,890)	(960,961)
Total other financing sources (uses)	(688,660)	(156,777)	1,468,543	251,940	875,046
Net change in fund balances	154,635	59,049	553,111	99,736	866,531
Fund balances - July 1, 2010	1,488,410	363,038	1,416,161	1,363,035	4,630,644
Fund balances - June 30, 2011	\$ 1,643,045	422,087	1,969,272	1,462,771	5,497,175

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, 2011

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)	\$ 866,531
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost (\$1,661,485) of those assets is allocated over their estimated useful lives and reported as depreciation expense (\$955,152). This is the amount by which capital outlays exceeded depreciation in the current period.	706,333
The net effect of various transactions involving capital assets (i.e., sales, trade-ins) is to decrease net assets.	(228,693)
Long term community development loans payments are recognized on an accrual basis in the statement of net assets, not the modified accrual basis.	(90,716)
Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis.	(17,003)
Revenues are recognized on an accrual basis in the statement of net assets, not the modified accrual basis.	392,577
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.	582,687
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).	(23,782)
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).	(40,933)
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.	1,105
Change in net assets, governmental activities (Exhibit B)	\$ 2,148,106

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 \$950,949, the general government expenses was decreased by \$698,793 and the public works was decreased by \$252,156.

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, 2011

	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Property taxes, penalties and interest	\$ 7,556,458	7,737,308	180,850
Intergovernmental	860,130	928,828	68,698
Fees and charges for services	1,925,773	1,932,987	7,214
Total revenues	10,342,361	10,599,123	256,762
Expenditures:			
City Council operations	28,702	34,703	(6,001)
City Manager's office	301,294	337,444	(36,150)
Clerk/Treasurer/Elections	226,869	238,303	(11,434)
Finance Department	301,490	341,057	(39,567)
Technology services	195,186	197,008	(1,822)
Property assessment	214,799	180,432	34,367
Planning and development	371,936	337,863	34,073
City Hall maintenance	188,016	194,257	(6,241)
Fifty Eight Barre Street	108,626	14,549	94,077
Police:			
General	1,471,534	1,469,238	2,296
Communications	468,703	479,319	(10,616)
Outside pay	0	903	(903)
Canine	0	3,694	(3,694)
School Resource Officer	82,335	81,140	1,195
Community Justice Center	115,248	93,889	21,359
Re-Entry Program	113,480	104,805	8,675
Fire and ambulance	1,621,458	1,700,108	(78,650)
Code/health enforcement	83,451	79,340	4,111
Emergency management	20,380	7,537	12,843
Public works:			
Streets	1,434,231	1,459,876	(25,645)
Fleet operations	510,547	530,568	(20,021)
Building operations	60,350	53,307	7,043
Wrightsville Beach	4,007	4,007	0
Kellogg-Hubbard Library	293,975	293,975	0
Outside agencies in budget	118,675	118,675	0
Community enhancements	37,800	37,766	34
Tree management and Board	27,034	31,935	(4,901)
Conservation Commission	6,250	2,088	4,162
Other governmental service	139,737	133,083	6,654
Small equipment	0	47,733	(47,733)
Tax abatement	50,000	55,290	(5,290)
Miscellaneous expense	0	8,332	(8,332)
Management Analysis & Capital Needs Studies	0	39,742	(39,742)
Bad Debt Expense	0	8,800	(8,800)
Capital outlay:			
General government	56,034	19,786	36,248
Public safety	106,777	94,902	11,875
Public works	91,941	103,757	(11,816)
Debt service - principal	572,256	572,256	0
Debt service - interest	239,903	244,361	(4,458)
Total expenditures	9,663,024	9,755,828	(92,804)
Excess of revenues over expenditures	679,337	843,295	163,958
Other financing sources (uses):			
Proceeds from sale of equipment	0	500	500
Proceeds from sale of land	0	13,000	13,000
Transfers from other funds:	0	0	0
Transfer to other funds:			
Capital Projects	(422,509)	(445,332)	(22,823)
Cemetery	(115,445)	(115,445)	0
Parks	(104,383)	(104,383)	0
Events Fund	(11,000)	(11,000)	0
Affordable Housing Fund	(26,000)	(26,000)	0
Total financing sources (uses)	(679,337)	(688,660)	(9,323)
Net change in fund balance	\$ 0	154,635	154,635
Fund balance - July 1, 2010		1,488,410	
Fund balance - June 30, 2011		\$ 1,643,045	

See accompanying notes to financial statements.

CITY OF MONTPELIER
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Water Fund	Sewer Fund	Parking Fund	Total
Assets:				
Current assets:				
Cash	\$ 0	0	50	50
Receivables (net of allowance for uncollectibles)	681,531	775,545	46,763	1,503,839
Due from other funds	0	0	148,376	148,376
Deposits	0	0	1,600	1,600
Prepaid expenses	0	0	19,592	19,592
Inventory	52,692	7,476	0	60,168
Total current assets	734,223	783,021	216,381	1,733,625
Noncurrent assets:				
Capital assets:				
Land	32,000	0	218,672	250,672
Buildings	11,557,678	9,666,812	0	21,224,490
Improvements	10,418,423	21,507,934	234,742	32,161,099
Equipment and vehicles	747,764	976,414	139,328	1,863,506
Accumulated depreciation	(5,836,171)	(12,636,594)	(267,841)	(18,740,606)
Total noncurrent assets	16,919,694	19,514,566	324,901	36,759,161
Total assets	\$ 17,653,917	20,297,587	541,282	38,492,786
Liabilities:				
Current liabilities:				
Accounts payable	\$ 28,123	38,035	6,012	72,170
Construction payable	0	132,192	0	132,192
Due to other funds	930,883	405,240	0	1,336,123
Accrued payroll and related expenses	13,600	17,580	9,786	40,966
Deferred revenue	5,420	0	0	5,420
Accrued interest payable	34,055	15,713	0	49,768
Capital leases - current portion	4,498	13,045	0	17,543
Bonds payable - current portion	435,519	596,715	0	1,032,234
Total current liabilities	1,452,098	1,218,520	15,798	2,686,416
Noncurrent liabilities:				
Capital leases - long-term portion	31,665	91,827	0	123,492
Bonds payable - long-term portion	7,390,423	8,015,936	192,500	15,598,859
Accrued compensated absences	43,875	44,822	15,112	103,809
Total noncurrent liabilities	7,465,963	8,152,585	207,612	15,826,160
Total liabilities	8,918,061	9,371,105	223,410	18,512,576
Net assets:				
Invested in capital assets, net of related debt	9,355,089	11,067,351	324,901	20,747,341
Restricted	0	0	41,170	41,170
Unrestricted (deficit)	(619,233)	(140,869)	(48,199)	(808,301)
Total net assets	8,735,856	10,926,482	317,872	19,980,210
Total liabilities and net assets	\$ 17,653,917	20,297,587	541,282	38,492,786

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, 2011

	Water Fund	Sewer Fund	Parking Fund	Total
Operating revenues:				
Charges for services	\$ 2,275,059	3,334,207	669,645	6,278,911
Interest and penalties	23,920	22,877	0	46,797
Miscellaneous	23,895	21,841	0	45,736
Total Operating Revenues	2,322,874	3,378,925	669,645	6,371,444
Operating expenses:				
Administration	439,465	371,765	0	811,230
Supplies and treatment	483,195	1,466,875	0	1,950,070
Wastewater management	0	83,247	0	83,247
Distribution system	384,747	0	0	384,747
Collection system	0	405,624	0	405,624
Delinquent collection	18,916	19,013	0	37,929
Meter operations	57,235	0	0	57,235
Private sewer system maintenance	0	6,397	0	6,397
Parking enforcement	0	0	434,848	434,848
Parking lot leases	0	0	85,578	85,578
Parking lot maintenance	0	0	122,628	122,628
Depreciation expense	529,980	649,096	15,170	1,194,246
Total operating expenses	1,913,538	3,002,017	658,224	5,573,779
Net operating income	409,336	376,908	11,421	797,665
Nonoperating revenues (expenses):				
Interest expense	(433,614)	(181,729)	(12,514)	(627,857)
Capital grants	0	435,646	0	435,646
Bad debt expense	(5,900)	0	0	(5,900)
Treatment Plant Flood Impairment Loss	0	(12,466)	0	(12,466)
Transfers from other funds	300	0	0	300
Transfers to other funds	0	0	(10,000)	(10,000)
Total nonoperating revenues (expenses)	(439,214)	241,451	(22,514)	(220,277)
Change in net assets	(29,878)	618,359	(11,093)	577,388
Net assets - July 1, 2010	8,765,734	10,308,123	328,965	19,402,822
Net assets - June 30, 2011	\$ 8,735,856	10,926,482	317,872	19,980,210

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

	Water Fund	Sewer Fund	Parking Fund	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,266,319	3,174,046	624,937	6,065,302
Receipts from interfund services	0	0	24,996	24,996
Payments to suppliers	(395,408)	(1,137,772)	(177,538)	(1,710,718)
Payments for interfund services	(366,172)	(498,713)	(51,630)	(916,515)
Payments for wages and benefits	(593,044)	(784,980)	(413,044)	(1,791,068)
Net cash provided by operating activities	911,695	752,581	7,721	1,671,997
Cash Flows from Noncapital Financing Activities:				
Decrease (increase) in due from other funds	0	0	43,466	43,466
(Decrease) increase in due to other funds	(22,386)	(150,362)	0	(172,748)
Proceeds from general obligation bonds	0	320,739	0	320,739
Transfers received from other funds	300	0	0	300
(Decrease) increase in accrued interest	331	4,610	0	4,941
Transfers paid to other funds	0	0	(10,000)	(10,000)
Interest payments on interfund balances	(21,594)	(13,451)	0	(35,045)
Net cash provided by (used in) noncapital financing activities	(43,349)	161,536	33,466	151,653
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(31,506)	(471,858)	(28,673)	(532,037)
Receipts from capital grants	0	435,646	0	435,646
Receipts from note receivable	0	0	0	0
Principal payments on general obligation bonds and leases	(424,820)	(709,627)	0	(1,134,447)
Interest payments on general obligation bonds and leases	(412,020)	(168,278)	(12,514)	(592,812)
Net cash used in capital and related financing activities	(868,346)	(914,117)	(41,187)	(1,823,650)
Net Increase in Cash	0	0	0	0
Cash - July 1, 2010	0	0	50	50
Cash - June 30, 2011	\$ 0	0	50	50
Adjustments to reconcile operating income to net cash provided by operating activities:				
Net operating income	\$ 409,336	376,908	11,421	797,665
Depreciation expense	529,980	649,096	15,170	1,194,246
Decrease (increase) in accounts receivable	(57,984)	(204,879)	(19,712)	(282,575)
Decrease (increase) in prepaid expenses	0	0	(4,516)	(4,516)
Decrease (increase) in inventory	22,624	16,902	0	39,526
(Decrease) increase in accounts payable	(266)	(89,115)	1,972	(87,409)
(Decrease) increase in accrued payroll	1,632	1,491	2,772	5,895
(Decrease) increase in deferred revenue	1,429	0	0	1,429
(Decrease) increase in accrued vacation	4,944	2,178	614	7,736
Net cash provided by operating activities	\$ 911,695	752,581	7,721	1,671,997

Non-cash transactions:

The Water Fund incurred a \$5,900 bad debt expense.

The Sewer Fund incurred a \$12,466 waste water plant flood impairment loss.

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

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)

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, 2011

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)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

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 restricted, committed, assigned and unassigned amounts. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

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)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

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, 2011

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. GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, which became effective with these financial statements, changed how fund balances are classified. Under GASB Statement 54, fund balances are classified into five categories. Nonspendable fund balance consists of funds that are either not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balances and net assets consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation. Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (the City Council). Assigned fund balances are amounts that are set aside with the intent to be used for a specific purpose by the City Council, a committee, or an official to which the governing body has delegated authority to assign amounts (the City Manager). Unassigned 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.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

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.

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, 2011, expenditures exceeded appropriations in the General Fund by \$92,804. The overages were funded by excess revenues.

4. Detailed Notes on All Funds

4.a. Deposits and Investments

Cash - Deposits with Financial Institutions	\$ 3,522,917
Cash on Hand	600
Total Cash	3,523,517
Investments - Certificates of Deposit	333,550
Money Market Mutual Funds	98,037
Government Bonds	42,213
Mutual Funds - Mixed Holdings	85,869
Mutual Funds - Bonds	517,365
Mutual Funds - Stocks	101,378
Corporate Stock	3,396
Total Investments	1,181,808
Total Cash and Investments	\$ 4,705,325

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.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (continued)

4.a. Deposits and Investments (continued)

Investment Policy (continued)

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.
- (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.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (continued)

4.a. Deposits and Investments (continued)

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	333,550	333,550
Money Market Mutual Funds	98,037	0	0	0	0	98,037
Government Bonds	0	42,213	0	0	0	42,213
Mutual Funds - Mixed Holdings	0	0	0	85,869	0	85,869
Mutual Funds - Bonds	0	99,537	417,828	0	0	517,365
Mutual Funds - Stocks	0	0	0	0	101,378	101,378
Corporate Stock	0	0	0	0	3,396	3,396
	\$ 98,037	141,750	417,828	85,869	438,324	1,181,808

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	\$ 778,488	772,603
Insured by Private Surety Bond	2,913,755	3,101,375
Uninsured, Uncollateralized	262,261	287,402
Total Deposits	\$ 3,954,504	4,161,380

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (continued)

4.a. Deposits and Investments (continued)

Custodial Credit Risk (continued)

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	\$ 3,522,917
Investments – Certificate of Deposits	333,550
Investments – Money Market Funds	98,037
Total	<u>\$ 3,954,504</u>

4.b. Receivables

Receivables at June 30, 2011, 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	\$ 141,146	0	141,146
Ambulance	528,312	0	528,312
Parking Tickets	0	227,763	227,763
Accounts Receivable	156,871	224,868	381,739
Grants	622,859	9,468	632,327
Billed Services	0	166,696	166,696
Unbilled Services	0	1,068,944	1,068,944
Other Receivables	29,522	0	29,522
Allowance for Doubtful Accounts	(469,200)	(193,900)	(663,100)
	<u>\$ 1,009,510</u>	<u>1,503,839</u>	<u>2,513,349</u>

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%.

	\$ 2,760,549
Notes receivable, six (6) housing loans, 0% interest, due upon any conveyance or transfer of condominium units.	164,000
Total	2,924,549
Less allowance for doubtful loans	(1,946,459)
	<u>\$ 978,090</u>

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (continued)

4.c. Loans Receivable (continued)

Changes in loans receivable for the year ended June 30, 2011 were as follows:

Beginning Balance	Additions	Deletions	Ending Balance
\$ 3,023,926	12,500	111,877	2,924,549

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, 2011 was \$177,847. This loan is secured by a building. The current principal due over the next twelve months is \$30,299.

4.e. Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 922,050	0	180,000	742,050
Construction in progress	1,650,472	467,944	1,024,363	1,094,053
Total capital assets, not being depreciated	2,572,522	467,944	1,204,363	1,836,103
Capital assets being depreciated:				
Buildings and building improvements	6,965,513	156,326	0	7,121,839
Vehicles and equipment	5,151,186	231,240	170,937	5,211,489
Infrastructure	8,859,520	1,798,283	0	10,657,803
Totals	20,976,219	2,185,849	170,937	22,991,131
Less accumulated depreciation for:				
Buildings and building improvements	2,015,728	174,413	0	2,190,141
Vehicles and equipment	2,691,121	414,328	154,299	2,951,150
Infrastructure	724,644	366,411	0	1,091,055
Totals	5,431,493	955,152	154,299	6,232,346
Total capital assets, being depreciated	15,544,726	1,230,697	16,638	16,758,785
Governmental activities capital assets, net	\$ 18,117,248	1,698,641	1,221,001	18,594,888

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (continued)

4.e. Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 250,672	0	0	250,672
Construction in progress	231,722	435,861	667,583	0
Total capital assets, not being depreciated	482,394	435,861	667,583	250,672
Capital Assets Being Depreciated:				
Buildings	21,267,243	152,648	195,401	21,224,490
Improvements	31,477,406	683,693	0	32,161,099
Equipment and vehicles	1,783,440	80,066	0	1,863,506
Total capital assets, being depreciated	54,528,089	916,407	195,401	55,249,095
Less accumulated depreciation for:				
Buildings	4,332,816	411,299	30,287	4,713,828
Improvements	12,371,466	663,702	0	13,035,168
Equipment and vehicles	872,365	119,245	0	991,610
Totals	17,576,647	1,194,246	30,287	18,740,606
Total capital assets, being depreciated	36,951,442	(277,839)	165,114	36,508,489
Business-type activities capital assets, net	\$ 37,433,836	158,022	832,697	36,759,161

Depreciation was charged as follows:

Governmental Activities:		Business - Type Activities:	
General Government	\$ 131,520	Water	\$ 529,980
Public Safety	218,563	Sewer	649,096
Public Works	588,790	Parking	15,170
Culture and Recreation	6,927		<u>\$ 1,194,246</u>
Cemetery	9,352		
	<u>\$ 955,152</u>		

During the fiscal year ended June 30, 2011, the Sewer Treatment Plant was damaged by flooding. The plant had a net book value of \$7,524,295, an expected restoration cost of \$267,555 and insurance proceeds of \$152,648 were received in the current fiscal year. The current year net loss of \$12,466 is reported as a capital asset impairment on the Statement of Revenues, Expenses and Changes in Fund Net Assets. Additional insurance proceeds will be received subsequent to June 30, 2011.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (continued)

4.f. Interfund Receivables, Payables and Transfers

The composition of interfund balances at June 30, 2011 is as follows:

Fund	Receivable Fund	Payable Fund
General Fund	\$ 0	762,286
Community Development Fund	0	8,550
Capital Projects Fund	1,995,515	0
Other Governmental Funds	502,316	539,248
Water Fund	0	930,883
Sewer Fund	0	405,240
Parking Fund	148,376	0
Total due to/from other funds	\$ 2,646,207	2,646,207

Interfund transfers during the year ended June 30, 2011 were as follows:

Transfer From	Transfer To	Amount	Purpose
General Fund	Capital Projects Fund	\$ 445,332	Budgetary Authorization
General Fund	Green Mount Cemetery Fund	115,445	Budgetary Authorization
General Fund	Montpelier Parks Commission	104,383	Budgetary Authorizations
General Fund	Montpelier Events Fund	11,000	Budgetary Authorization
General Fund	Montpelier Housing Trust Fund	26,000	Transfer Reserves and Budgetary Authorizations
Community Development Fund	Capital Projects Fund	131,577	Grant Funds Transfer
Community Development Fund	Capital Projects Fund	25,200	Board Authorized Transfer
Senior Center Fund	Capital Projects Fund	16,722	Board Authorized Transfer
Capital Projects Fund	MontpelierNet Fund	2,134	Close MontpelierNet Fund
Expendable Cemetery Trust Fund	Green Mount Cemetery Fund	27,000	Budgetary Authorization
Non-Expendable Cemetery Trust Fund	Expendable Cemetery Trust Fund	55,712	Interest Income Transfer
Montpelier Parks Commission Fund	Water Fund	300	Budgetary Authorization
Hubbard Park Trust Fund	Montpelier Parks Commission Fund	156	Interest Income Transfer
Parking Fund	Green Mount Cemetery Fund	10,000	Budgetary Authorization
Total		\$ 970,961	

4.g. Deferred Revenue

Deferred Revenue in the General Fund consists of \$25,000 of grant revenue received in advance, \$91,314 of delinquent taxes, \$41,260 of ambulance revenue and \$24,919 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 \$182,493.

Deferred Revenue in the Community Development Fund consists of \$796,709 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 \$364,655 of grant receivables not collected within sixty (60) days after year-end as these would not be available to liquidate current liabilities.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (continued)

4.g. Deferred Revenue (continued)

Deferred Revenue in the Other Governmental Funds consists of \$17,059 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 \$181,059.

Deferred Revenue in the Water Fund consists of \$5,420 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 though 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.

Long-term liabilities outstanding as of June 30, 2011 were as follows:

Governmental Activities

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.

\$ 5,000

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (continued)

4.h. Long-term Liabilities (continued)

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.	\$ 30,000
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.	245,000
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.	225,000
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.	75,000
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.	360,000
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.	300,000
Bike path lighting project bond, interest at 4.67%, to Vermont Municipal Bond Bank, \$20,000 principal due annually, due in December 2021.	220,000
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.	720,000
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.	580,000

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

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

<p>Honeywell Global Finance, LLC. Lease, for energy efficiency upgrades, interest at 4.53%, due in 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.</p>	<p style="margin: 0;">\$ 220,594</p>
<p>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.</p>	<p style="margin: 0;">30,363</p>
<p>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.</p>	<p style="margin: 0;">685,000</p>
<p>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.</p>	<p style="margin: 0;">10,898</p>
<p>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 \$30,000 to \$524,000 until November 15, 2032, (74.96% of bond reported in Governmental Activities, 8.35% reported in Water Fund, 11.29% reported in Sewer Fund and 5.40% reported in Parking Fund).</p>	<p style="margin: 0;">2,672,500</p>
<p>T.D. Equipment Finance Lease for ambulance, interest at 3.6%, annual payments of principal and interest of \$39,873 due until June 1, 2015.</p>	<p style="margin: 0;">146,111</p>
<p>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.</p>	<p style="margin: 0;">1,055,000</p>
<p>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.</p>	<p style="margin: 0;">107,022</p>
<p>Total governmental activities bonds and notes payable</p>	<p style="margin: 0;">\$ 7,687,488</p>

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (continued)

4.h. Long-term Liabilities (continued)

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. \$ 1,633,442

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. 1,575,000

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. 3,230,000

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. 1,090,000

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 \$30,000 to \$524,000 until November 15, 2032, (74.96% of bond reported in Governmental Activities, 8.35% reported in Water Fund, 11.29% reported in Sewer Fund and 5.40% reported in Parking Fund). 297,500

Honeywell Global Finance, LLC lease for energy efficient upgrades, interest at 4.53%, due in 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. 36,163

Total Water Fund bonds and leases payable \$ 7,862,105

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. \$ 132,294

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (continued)

4.h. Long-term Liabilities (continued)

Sewer system improvement Bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$38,856 until December 1, 2017.	\$ 271,989
Sewer system improvement bond, Vermont Municipal Bond Bank, net interest rate of 5.676%, annual principal of \$30,000 until December 1, 2016.	180,000
Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$14,156 until December 1, 2018.	113,249
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.	1,145,000
Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$35,497 until April 1, 2020.	319,473
Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$174,171 until July 1, 2025.	2,438,392
Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$13,807 until January 1, 2022.	151,878
Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$26,456 until July 1, 2022.	291,014
Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$34,432 until July 1, 2023.	413,183
Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments payments of \$28,100 until June 1, 2024.	365,296
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.	520,646

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (continued)

4.h. Long-term Liabilities (continued)

Local share CSO bond, Vermont Municipal Bond Bank, various interest rates (2.80%-5.30%), annual principal payments of \$40,000 until 2020 then annual principal payments of \$35,000 until December 1, 2031.	\$ 780,000
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.	360,000
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 \$30,000 to \$524,000 until November 15, 2032, (74.96% of bond reported in Governmental Activities, 8.35% reported in Water Fund, 11.29% 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 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.	104,872
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.	301,558
Sewer CSO/ultra violet bond, Vermont Municipal Bond Bank, interest rate 2%, due in annual installments of principal and interest of \$26,064 until July 1, 2031.	426,179
Total Sewer Fund bonds and lease payable	\$ 8,717,523

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 \$30,000 to \$524,000 until November 15, 2032, (74.96% of bond reported in Governmental Activities, 8.35% reported in Water Fund, 11.29% reported in Sewer Fund and 5.40% reported in Parking Fund).	192,500
Total Parking Fund bonds payable	192,500
Total Proprietary Funds bonds and leases payable	\$ 16,772,128

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (continued)

4.h. Long-term Liabilities (continued)

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	\$ 7,632,500	0	(460,000)	7,172,500	460,000
Capital Leases	616,346	0	(112,256)	504,090	106,227
Notes Payable	21,329	0	(10,431)	10,898	10,898
ACCD Payable	12,023	0	(12,023)	0	0
Compensated Absences	280,011	40,933	0	320,944	0
Total Governmental Activities Long-Term Liabilities	\$ 8,562,209	40,933	(594,710)	8,008,432	577,125
Business-type Activities					
General Obligation Bonds	\$ 17,428,026	320,739	(1,117,672)	16,631,093	1,032,234
Capital Leases	157,810	0	(16,775)	141,035	17,543
Compensated Absences	96,073	7,736	0	103,809	0
Total Business-type Activities Long-Term Liabilities	\$ 17,681,909	328,475	(1,134,447)	16,875,937	1,049,777

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

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
2012	\$ 470,898	372,714	126,154	1,032,234	556,715	23,734
2013	450,000	353,158	126,155	1,069,774	536,731	23,734
2014	445,000	333,840	126,155	1,080,125	506,444	23,735
2015	415,000	314,703	76,998	1,110,483	474,583	23,734
2016	370,000	296,544	37,125	1,120,848	441,168	23,735
2017-2021	1,696,775	1,216,940	74,258	5,661,991	1,652,324	47,482
2022-2026	1,169,975	853,802	0	4,242,020	679,059	0
2027-2031	1,415,550	476,058	0	899,891	208,218	0
2032-2036	750,200	49,614	0	413,727	18,009	0
Less Amounts Representing Interest	0	0	(62,755)	0	0	(25,119)
Total	\$ 7,183,398	4,267,373	504,090	16,631,093	5,073,251	141,035

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (continued)

4.h. Long-term Liabilities (continued)

The City has authorized, but has not issued long-term debt at June 30, 2011 as follows:

<u>Purpose</u>	<u>Authorized</u>	<u>Amount</u>
Transportation Center	March 2002	\$ 800,000
District Heat System Bonds	June 14, 2011	\$ 2,000,000
District Heat System Loan	June 14, 2011	\$ 750,000

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

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

The tax anticipation note had an interest rate of 1.84% and was paid in October 2010.

Subsequent to year end, the City issued a \$1,800,000 tax anticipation note.

4.i. Restricted, Committed and Assigned Fund Balances/Net Assets

The restricted fund balances/net assets of the City as of June 30, 2011 consisted of the following:

	Balance June 30, 2011
Governmental Funds	
General Fund:	
Act 60 Reappraisal - State Statute	\$ 34,420
Records Restoration - State Statute	47,541
Park Impact Fees - State Statute	23,876
Drug Seizure	4,814
Total General Fund	\$ 110,651
Community Development Fund:	
Community Development Grant Funds	\$ 225,477
Total Community Development Fund	\$ 225,477
Capital Projects Fund:	
Traffic Impact Fees	\$ 12,800
Bond Proceeds	804,093
Total Capital Projects Fund	\$ 816,893

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (continued)

4.i. Restricted, Committed and Assigned Fund Balances/Net Assets (continued)

	Balance
	June 30, 2011
Other Governmental Funds:	
Special Revenue Funds:	
Montpelier Events Fund - Donations	\$ 5,001
Montpelier Events Fund - Grants	14,701
Total Montpelier Events Fund	\$ 19,702
Montpelier Foundation - Donations	156,798
Montpelier Senior Center - Donations	338,170
Total Special Revenue Funds	\$ 514,670
Permanent Funds:	
Hubbard Park Trust	\$ 14,620
Expendable Cemetery Trust	343,352
Total	\$ 357,972
Total other governmental funds	\$ 872,642
Total restricted fund balances - governmental funds	\$ 2,025,663

The committed fund balances/net assets of the City as of June 30, 2011 consisted of the following:

	Balance
	June 30, 2011
Governmental Funds	
Major Funds:	
Community Development Fund:	
Committed for MBL Program	\$ 49,013
Committed for HPG Program	109,542
Total Community Development Fund	\$ 158,555
Other Governmental Funds:	
Special Revenue Funds:	
Committed for Montpelier Park Commission	\$ 13,362
Committed for Conservation Fund	34,913
Committed for Montpelier Housing Trust Fund	105,629
Total Special Revenue Funds	\$ 153,904
Total committed fund balances - governmental funds	\$ 312,459

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (continued)

4.i. Restricted, Committed and Assigned Fund Balances/Net Assets (continued)

The assigned fund balances/net assets of the City as of June 30, 2011 consisted of the following:

	Balance June 30, 2011
Governmental Funds:	
Major Funds:	
General Fund:	
Assigned for Fire Revenue Reserve	\$ 20,786
Assigned for Computer Equipment	19,858
Assigned for Equipment Reserve	76,026
Total General Fund	\$ 116,670
Community Development Fund:	
Assigned for Community Development Purposes	\$ 38,055
Total Community Development Fund	\$ 38,055
Capital Projects Fund:	
Assigned for Future Projects	\$ 88,439
Assigned for Flood Mitigation-Phase II Project	275,848
Assigned for Senior Center Renovations	788,092
Total Capital Projects Fund	\$ 1,152,379
Other Governmental Funds:	
Special Revenue Funds:	
Montpelier Events Fund - Appropriations	\$ 15,288
Total Special Revenue Funds	\$ 15,288
Total assigned fund balances - governmental funds	\$ 1,322,392

The restricted net assets of the City (government-wide statements) as of June 30, 2011 consisted of the following:

Governmental Activities:	
Restricted by State Statute - Impact Fees	\$ 36,676
Restricted by State Statute - Other	81,961
Restricted by Donors	504,783
Restricted by Trust Agreements - Non-Expendable	372,693
Restricted by Trust Agreements - Expendable	343,352
Restricted by Community Development Loan/Grant Agreements	978,090
Total Governmental Activities:	2,317,555
Business-Type Activities:	
Restricted by Impact Fees Statute	41,170
Total Business-Type Activities	41,170
Total Restricted Net Assets	\$ 2,358,725

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

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 \$5,908,378 while covered payroll was \$5,722,355. Pension expense for the year was \$356,125.

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 2010-2011 was as follows:

		Residential	Non Residential
City, Cemetery and Outside Agencies	\$	0.8435	0.8435
State Education Tax		1.3763	1.4756
Local Tax Agreements		0.0009	0.0009
Water/Sewer Benefit Charge		0.0900	0.0900
Recreation		0.0730	0.0730
Total	\$	2.3837	2.4830

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

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

5. Other Information (continued)

5.c. Risk Management (continued)

in the event of deficiencies. If the assets of the Fund were to be exhausted, members would be responsible for the Fund's liabilities. In addition, the 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, 2011 was \$34,000.

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, 2011

5. Other Information (continued)

5.d. Commitments (continued)

Operating Leases

The City has three 60-month leases for copiers. One lease is for three copiers with a monthly payment of \$653 through February, 2016. 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, 2011 was \$13,320.

The minimum lease payments are as follows:

2012	\$ 12,732
2013	8,244
2014	7,836
2015	7,836
2016	<u>5,887</u>
	<u>\$ 42,535</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.

After completion of the first year in this program (2010), the actual use of the City's HRA funding was 62%. The HRA cost of the employee health insurance program was well within the budgeted amount.

On January 1, 2011, the City continued the CIGNA HDHP 2250 Value Plan with the same Health Reimbursement Arrangement. When budgeting for the 2011 employee health insurance program costs, the City projected a use of 65% of the City's potential out-of-pocket funding obligation. The risk remains that the city will have unbudgeted costs if usage is higher than the projected 65%. Based on the first year's experience of 62%, this risk is deemed to be low.

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.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

5. Other Information (continued)

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

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 2011, the City contributed \$36,377 to the plan. Plan members receiving benefits contribute 100 percent of their premium costs.

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	\$ 60,706
Interest on net OPEB obligation	780
Adjustment to annual required contribution	(1,327)
Annual OPEB cost (expense)	60,159
Contributions made	(36,377)
Increase in net OPEB obligation	23,782
Net OPEB obligation—beginning of year	26,000
Net OPEB obligation—end of year	\$ 49,782

Funded Status and Funding Progress

As of June 30, 2011, the actuarial accrued liability for benefits was \$495,747, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$5,908,378, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 8.39 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.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

5. Other Information (continued)

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

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 — Later of age 62 or date eligible for retiree health benefits, but not more than age 65.

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 combined Mortality Tables for Males and Females.

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 4.01 percent initially, 9.0 percent in year two, and reduced by 0.5 percent each year to an ultimate rate of 5.5 percent at year nine.

Health insurance premiums — 2012 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid, because of a change in the plan effective January 1, 2012 which increased the deductible and decreased the premium.

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 over thirty years.

5.g. MontpelierNet

During the year, the City assigned the physical assets of MontpelierNet to Summit Technologies. In return Summit Technologies removed and disposed of all installed hardware and relieved the City of any further liability or obligation.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2011

5. Other Information (continued)

5.h. 58 Barre Street Housing Limited Partnership

During the year, the City collaborated with the non-profit corporation, Capital City Housing Foundation, Inc. in transforming 58 Barre Street into a renovated Senior Center and new affordable housing units. On June 8, 2011, the City declared the property at 58 Barre Street as a "58 Barre Street Common Interest Community" under the provisions of Title 27A of the Vermont Statutes Annotated. The declaration created three units: Unit 1 will be the senior center, Unit 2 will be 14 affordable housing apartments and Unit 3 is the parcel of land on which a playground is located. Undivided interests in the Common Elements are allocated 39% to Unit 1, 60% to Unit 2 and 1% to Unit 3.

Simultaneously, the City granted Unit 2 to the Capital City Housing Foundation, Inc.. Additionally, on June 8, 2011 the newly formed 58 Barre Street Housing Limited Partnership signed a non-interest bearing promissory note for \$105,000 due to the City on June 8, 2041 and a non-interest bearing mortgage note for \$280,000 due to the City on June 8, 2041. The funds for both of these notes were not paid to 58 Barre Street Housing Limited Partnership as of June 30, 2011, so they are not recorded in these financial statements. The promissory notes will be funded by the City during 2012 by the \$105,000 committed by the City Council from the Montpelier Housing Trust Fund and \$280,000 from an awarded VCDP grant.

5.i. Subsequent Events

Subsequent to year end, the City obtained a tax anticipation note of \$1,800,000 from Merchants Bank with interest at 1.59% and due June 30, 2012.

Subsequent to year end, the City incurred flood damage from Hurricane Irene which affected a limited number of street locations. The total cost of the damage has not been determined, but the City anticipates being reimbursed most of the cost of the damages from Federal Grants.

The City has evaluated subsequent events through February 3, 2012, 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 (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
6/30/2010	0	479,000	479,000	0.0	5,456,892	8.78
6/30/2011	0	495,747	495,747	0.0	5,908,378	8.39

CITY OF MONTPELIER, VERMONT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Other Governmental Funds
For the Year Ended June 30, 2011

Revenues:	Special Revenue Funds											Permanent Funds				Total Other Governmental Funds
	Green Mount Cemetery Fund	Montpelier Parks Commission Fund	Montpelier Events Fund	Reech Fund	Conservation Fund	Montpelier Foundation Fund	Montpelier Housing Fund	Montpelier Senior Citizens Fund	MontpelierNet Fund	George Blanchard Trust Fund	Non-Expendable Cemetery Trust Fund	Hubbard Park Trust Fund	Expendable Cemetery Trust Fund			
Property taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	125,707
Intergovernmental	0	0	0	314,499	0	0	0	0	0	0	0	0	0	0	0	314,499
Fees and charges for services	29,929	2,460	0	2,665	0	0	0	0	0	0	0	0	0	0	0	94,888
Investment income (loss)	801	13	0	4,104	116	16,105	300	0	0	837	58,672	156	0	0	0	81,104
Contributions	0	1,145	0	0	1,500	84,754	0	49,520	0	0	0	0	0	0	0	136,919
Rents and commissions	0	3,240	0	0	0	0	0	0	0	0	0	0	0	0	0	3,240
Other revenues	0	4,780	2,775	1,716	0	0	0	1,658	0	0	0	0	0	0	0	10,929
Total revenues	30,730	11,638	2,775	318,880	1,616	100,859	300	234,938	0	837	64,557	156	0	0	0	767,286
Expenditures:																
Public safety	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Culture and recreation	0	120,200	14,766	335,939	0	16,196	0	239,785	0	0	0	0	0	0	0	726,886
Community development	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cemetery	168,998	0	0	0	0	0	0	0	0	0	0	0	0	0	0	168,998
MontpelierNet Expenses	0	0	0	0	0	0	0	0	2,664	0	0	0	0	0	0	2,664
Capital outlay:																
Culture and recreation	0	5,000	0	0	0	0	0	0	0	0	0	0	0	0	0	5,000
Cemetery	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt service - principal	10,431	0	0	0	0	0	0	0	0	0	0	0	0	0	0	10,431
Debt service - interest	3,236	2,275	0	0	0	0	0	0	0	0	0	0	0	0	0	5,511
Total expenditures	182,665	127,475	14,766	335,939	0	16,196	0	239,785	2,664	0	0	0	0	0	0	919,490
Excess (deficiency) of revenues over expenditures	(151,935)	(115,837)	(11,991)	(17,059)	1,616	84,663	300	(4,847)	(2,664)	837	64,557	156	0	0	0	(152,204)
Other financing sources (uses):																
Transfers in	152,445	104,539	11,000	0	0	0	26,000	0	2,134	0	0	0	0	55,712	0	351,830
Transfers out	0	(300)	0	0	0	0	0	(16,722)	0	0	(55,712)	(156)	0	(27,000)	0	(99,890)
Total other financing sources (uses)	152,445	104,239	11,000	0	0	0	26,000	(16,722)	2,134	0	(55,712)	(156)	0	28,712	0	251,940
Net change in fund balance	510	(11,598)	(991)	(17,059)	1,616	84,663	26,300	(21,569)	(530)	837	8,845	0	28,712	0	99,736	
Fund balance - July 1, 2010	(7,356)	24,960	35,981	0	33,297	72,135	79,329	359,739	530	71,292	363,848	14,620	314,640	0	1,363,035	
Fund balance (deficit) - June 30, 2011	\$ (6,826)	\$ 13,362	\$ 34,990	\$ (17,059)	\$ 34,913	\$ 156,798	\$ 105,629	\$ 338,170	\$ 0	\$ 72,129	\$ 372,693	\$ 14,620	\$ 343,352	\$ 0	\$ 1,462,771	

City of Montpelier Vermont
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Grant/Program Title	CFDA Number	Grant Number	Grant Amount	Expenditures
<u>Department of Health and Human Services</u>				
<u>US Administration of Aging</u>				
Rural Elder Assistance for Care and Health (REACH)	93.048	90AP2656/02	\$ 409,734	\$ 331,558
Total US Administration of Aging				<u>331,558</u>
<u>US Department of Energy</u>				
Recovery Act: Montpelier Community Renewable Energy	81.087	DE-EE0003071	8,000,000	237,238
Total US Department of Energy				<u>237,238</u>
<u>United States Department of the Interior</u>				
Passed through Vermont Division for Historic Preservation				
Certified Local Government Program				
Montpelier Historic District Brochure & Website	15.904	CLG -09-015	3,447	3,447
Historic City Plans & Map Digitization	15.904	CLG -11-09	10,911	3,683
Total US Department of the Interior				<u>7,130</u>
<u>US Department of Justice</u>				
BJA FY09 Recovery Act Edward Byrne Memorial Justice				
Assistance Grant Program	16.579	2009-SB-B9-0115	33,209	12,155
COPS Hiring Recovery Program	16.710	2009RKWX0869	209,571	42,344
Bulletproof Vest Partnership Program	16.607	OJP 15-04-0001	1,568	1,568
Total US Department of Justice				<u>56,067</u>
<u>US Department of Homeland Security</u>				
Passed through Vermont Department of Public Safety				
US Department of Homeland Security Grant-FEMA				
US Department of Homeland Security Grant	97.067	EMW-2009-FO-05268	58,330	56,977
US Department of Homeland Security Grant	97.067	2007--GE-T7-0049	1,806	1,806
US Department of Homeland Security Grant	97.067	2008-GE-T8-0045	16,589	16,589
US Department of Homeland Security Grant-FEMA Region I	97.039	FEMA-DR-1698-VT	449,756	19,767
Total US Department of Homeland Security				<u>95,139</u>
<u>US Department of Housing and Urban Development</u>				
Passed through Vermont Agency of Commerce and Community Development:				
Community Development Block Grants/State's program				
Community Development Block Grants/State's program	14.228	IG-III-2008-Montpelier-00016	74,000	53,829
Community Development Block Grants/State's program	14.228	#07110-0201/05IG(11)	50,194	50,194
Housing Preservation Grant	14.228	HPG-2007	50,000	5,502
Total US Department of Housing and Urban Development				<u>109,525</u>
<u>US Department of Transportation-Federal Highway Administration</u>				
Passed through Vermont Agency of Transportation:				
Transportation Enhancement Project (RT 2/302)				
Transportation Enhancement Project (RT 2/302)	20.205	NHEGC-FEGC 028-3(34)	3,396,129	3,297
FHWA-Transportation Enhancement Project (Carr Lot)	20.205	STP MMTC(3)	246,000	50,304
FHWA-Highway Planning & Construction (Vine St)	20.205	EA#AREH007-300/ARRA	168,000	153,435
		May flood		64,490
Safe Routes to School	20.205	STP SRIN 11/300	101,700	702
Total Passed through Vermont Agency of Transportation				<u>272,228</u>
Passed through Vermont Department of Public Safety:				
Governor's Highway Safety Program				
Governor's Highway Safety Program	20.613	02140-0911-3530	9,495	7,438
Sub-granted by Fletcher Allen Health Care				
Governor's Highway Safety Program			4,150	4,114
Total Passed through Vermont Dept of Public Safety				<u>11,552</u>
Total US Department of Transportation				<u>283,780</u>
<u>Federal Emergency Management Agency</u>				
Passed through Vermont Agency of Transportation				
FEMA Disaster Relief	97.036	EA#40011211	N/A	155,341
				<u>155,341</u>
<u>US Environmental Protection Agency</u>				
Passed through the Vermont Agency of Natural Resources:				
Clean Water State Revolving Fund/ARRA				
Clean Water State Revolving Fund/ARRA	66.458	CWSRF-AARA 09 -AR1-016	1,174,700	403,988
Total US Environmental Protection Agency				<u>403,988</u>
Total Expenditures of Federal Awards				<u>\$ 1,679,766</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 the City of Montpelier, Vermont, as of and for the year ended June 30, 2011, which collectively comprise the City of Montpelier, Vermont's basic financial statements and have issued our report thereon dated February 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 the 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 the 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.

February 3, 2012

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

Vt. Reg. #357

CITY OF MONTPELIER, VERMONT

SINGLE AUDIT REPORT

June 30, 2011

Love, Cody & Company, CPAs



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

To the City Council
City of Montpelier, Vermont

Compliance

We have audited City of Montpelier, Vermont's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Montpelier, Vermont's major federal programs for the year ended June 30, 2011. City of Montpelier, Vermont's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Montpelier, Vermont's management. Our responsibility is to express an opinion on City of Montpelier, Vermont's compliance based on our audit.

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

In our opinion, City of Montpelier, Vermont complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

do not express an opinion on the effectiveness of City of Montpelier, Vermont's internal control over compliance.

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

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

This report is intended solely for the information and use of management, the City Council, others within the entity, 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 15, 2012

Vt. Reg. #357

Love, Cody & Company, CPAs

CITY OF MONTPELIER, VERMONT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Summary of Audit Results:

1. The auditors' report expresses an unqualified opinion on the financial statements of City of Montpelier, Vermont.
2. No instances of noncompliance material to the financial statements of City of Montpelier, Vermont, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
3. The auditors' report on compliance for the major federal award programs for City of Montpelier, Vermont expresses an unqualified opinion on the major federal programs.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the *Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133*.
5. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
6. The programs tested as major programs for the year ended June 30, 2011 included: Rural Elder Assistance for Care and Health (CFDA No. 93.048), Capitalization Grants for Clean Water State Revolving Funds (CFDA No. 66.458) and Renewable Energy Research and Development (CFDA No. 81.087).
7. The threshold used for distinguishing between Type A and B programs was \$300,000.
8. City of Montpelier, Vermont did not qualify as a low-risk auditee.