

CITY OF MONTPELIER, VERMONT
Financial Statements and Schedules
June 30, 2012
(With Independent Auditors' Report Thereon)

Love, Cody & Company, CPAs

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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, 2012, 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, 2012, 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 January 4, 2013 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 50 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.

January 4, 2013

Vt. Reg. #357

SECTION I

FINANCIAL SECTION

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2012

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, 2012. 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 \$3,041,072 or 17 percent. Net assets of the business-type activities increased by \$573,109 or 3 percent. The City's total net assets increased by \$3,614,181 as a result of this year's operations. This increase is the result of a large amount of capital grant, operating grant and contribution revenue.

The cost of all of the City's programs was \$16,975,707 in fiscal year 2012 compared to \$16,541,165 in fiscal year 2011, which is approximately a 3% increase. Total revenue for all the City's programs also increased from \$18,607,279 in 2011 compared to \$20,387,744 in 2012, which is a 9.6% increase from the previous year. This increase in revenue is related to the capital and operating grant activities in public safety, public works, culture and recreation and community development.

Fund Statements

During fiscal year 2012, the General Fund reported a net reduction in the fund balance of \$23,522

The General Fund balances totaled \$1,619,523 as of June 30, 2012. The fund balances that are nonspendable, restricted, committed and assigned totaled \$655,382 of June 30, 2012. 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 \$964,141 which is \$152,260 lower than the prior year's unassigned fund balance.

The Community Development Fund ended the year with a restricted and committed fund balance of \$459,549, which was \$37,462 higher than the prior year fund balance of \$422,087. This fund balance is reserved by various sources for Community Development programs and activities.

The Capital Projects Fund ended the year with a fund balance of \$777,178 which was \$1,192,094 lower than the prior year fund balance of \$1,969,272. \$592,641 of these funds are restricted by bonding constraints and impact fee ordinances. This leaves a committed/assigned fund balance of \$184,537 for various capital improvement projects. Much of this decrease in the Capital Projects fund balance is the result of the completion of the 58 Barre Street renovation project.

Other nonmajor governmental funds ended the year with a fund balance of \$1,002,502, which was \$460,269 lower than the prior year fund balance of \$1,462,771. Much of this decrease was the reduction in Senior Center Donations for the 58 Barre Street project. \$451,035 of these funds are Non-Expendable by Trust Agreements. \$523,765 of these funds are restricted by donations and permanent funds.

The Water Fund ended the year with net assets of \$8,821,390 which was \$85,534 more than the prior year balance of \$8,735,856. Of the total net asset balance, \$9,275,130 is invested in property and equipment. This leaves an unrestricted deficit of \$453,740 to be recovered in future periods. This unrestricted deficit is \$165,493 less than the \$619,233 unrestricted deficit as of June 30, 2011. \$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 \$11,441,907, which was \$515,425 higher than the prior year balance of \$10,926,482. Of the total net asset balance, \$11,407,907 is invested in property and equipment. This leaves an unrestricted net assets balance of \$34,091. Included in this balance 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 \$290,222, which was \$27,850 lower than the prior year balance of \$317,872. Of the total net asset balance, \$359,832 is invested in property and equipment and \$2,417 is restricted for

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2012

various projects. This leaves a deficit of \$72,227 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 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.

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
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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 \$3,614,181 from a year ago - increasing from \$37,472,460 to \$41,086,641. 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, 2012</i>			<i>June 30, 2011</i>		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
			Primary Government			Primary Government
Current and other assets	\$ 6,317,659	715,829	7,033,488	8,179,945	397,502	8,577,447
Capital assets	22,958,068	35,817,293	58,775,361	18,594,888	36,759,161	55,354,049
Total assets	29,275,727	36,533,122	65,808,849	26,774,833	37,156,663	63,931,496
Long term liabilities	7,494,327	15,767,516	23,261,843	8,008,432	16,875,937	24,884,369
Other liabilities	1,248,078	212,287	1,460,365	1,274,151	300,516	1,574,667
Total liabilities	8,742,405	15,979,803	24,722,208	9,282,583	17,176,453	26,459,036
Net assets:						
Invested in capital assets, net of debt	19,337,797	21,042,778	40,380,575	14,683,993	20,747,341	35,431,334
Restricted	2,051,598	2,417	2,054,015	2,317,555	41,170	2,358,725
Unrestricted	(856,073)	(491,876)	(1,347,949)	490,702	(808,301)	(317,599)
Total net assets	\$ 20,533,322	20,553,319	41,086,641	17,492,250	19,980,210	37,472,460

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 \$3,041,072 or 17% (\$20,533,322 compared to \$17,492,250). This increase is the result of a large amount of capital grants for storm-related damages and district heat initiatives.

Net assets of the business-type activities increased by \$573,109 (\$20,553,319 compared to \$19,980,210, or 3 percent). This increase is due to \$282,000 a operations surplus, insurance proceeds from wastewater treatment plant flood damage and Federal ARRA/Stimulus Funds that were received for Sewer Fund projects.

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2012

Table 2
Change in Net Assets

	<i>June 30, 2012</i>			<i>June 30, 2011</i>		
	Governmental	Business-type	Total	Governmental	Business-type	Total
	Activities	Activities	Primary Government	Activities	Activities	Primary Government
REVENUES:						
Program revenues:						
Charges for services	\$ 954,703	6,397,323	7,352,026	966,684	6,371,444	7,338,128
Operating grants and contributions	1,931,796	0	1,931,796	1,573,857	0	1,573,857
Capital grants and contributions	2,724,031	133,541	2,857,572	983,264	435,646	1,418,910
General Revenues:			0			0
Property taxes, penalties and interest	7,124,124	0	7,124,124	7,099,779	0	7,099,779
Payment in lieu of taxes	964,912	0	964,912	930,233	0	930,233
Unrestricted investment earnings	88,998	0	88,998	138,241	0	138,241
Gain (loss) on sale of capital assets	8,328	(321)	8,007	22,616	0	22,616
Other revenues	54,709	0	54,709	79,630	0	79,630
Contributions to permanent endowments	5,600	0	5,600	5,885	0	5,885
Total revenues	13,857,201	6,530,543	20,387,744	11,800,189	6,807,090	18,607,279
PROGRAM EXPENSES:						
General government	1,797,853	0	1,797,853	1,744,867	0	1,744,867
Public safety	4,410,840	0	4,410,840	4,252,181	0	4,252,181
Public works	2,608,649	0	2,608,649	2,520,455	0	2,520,455
Culture and recreation	1,348,697	0	1,348,697	1,222,259	0	1,222,259
Community development	296,673	0	296,673	164,086	0	164,086
Cemetery	173,854	0	173,854	178,350	0	178,350
MontpelierNet	0	0	0	2,664	0	2,664
Interest on long-term debt	233,305	0	233,305	248,767	0	248,767
Water	0	2,254,147	2,254,147	0	2,353,052	2,353,052
Sewer	0	3,159,956	3,159,956	0	3,183,746	3,183,746
Parking	0	691,733	691,733	0	670,738	670,738
Total program expenses	10,869,871	6,105,836	16,975,707	10,333,629	6,207,536	16,541,165
Excess before special item						
and transfers	2,987,330	424,707	3,412,037	1,466,560	599,554	2,066,114
Flood/Fire Insurance Proceeds	43,742	158,402	202,144	851,846	0	851,846
Property transfer to Housing LP	0	0	0	(180,000)	0	(180,000)
Capital Asset Impairment	0	0	0	0	(12,466)	(12,466)
Transfers	10,000	(10,000)	0	9,700	(9,700)	0
Increase (decrease) in net assets	\$ 3,041,072	573,109	3,614,181	2,148,106	577,388	2,725,494

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

Governmental Activities

The City's tax rate increased from \$0.8350 to \$0.8480 per \$100 of assessed value from fiscal year 2011 to fiscal year 2012.

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 OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2012

City's taxpayers by each of these functions.

Table 3
Costs of Programs

	<i>June 30, 2012</i>				<i>June 30, 2011</i>			
	Governmental Activities		Business-type Activities		Governmental Activities		Business-type Activities	
	Net Revenues		Net Revenues		Net Revenues		Net Revenues	
	Total Cost of Services	(Cost) of Services						
General government	\$ 1,797,853	(1,364,405)	0	0	1,744,867	(1,348,242)	0	0
Public safety	4,410,840	(3,611,000)	0	0	4,252,181	(3,417,280)	0	0
Public works	2,608,649	492,735	0	0	2,520,455	(1,070,715)	0	0
Culture and recreation	1,348,697	(711,608)	0	0	1,222,259	(682,986)	0	0
Community development	296,673	301,354	0	0	164,086	109,251	0	0
Water	0	0	2,254,147	85,534	0	0	2,353,052	(30,178)
Sewer	0	0	3,159,956	357,344	0	0	3,183,746	630,825
Parking	0	0	691,733	(17,850)	0	0	670,738	(1,093)
All others	407,159	(366,417)	0	0	429,781	(399,852)	0	0
Totals	\$ 10,869,871	(5,259,341)	6,105,836	425,028	10,333,629	(6,809,824)	6,207,536	599,554

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 \$3,858,752 which is lower than last year's total of \$5,497,175. Included in this year's total change in fund balance are a decrease of \$23,522 in the City's General Fund; an increase of \$37,462 in the Community Development Fund; a decrease of 1,192,094 in the Capital Projects Fund and a decrease of \$460,260 in Other Governmental Funds. The decrease in City Funds is primarily due to the use of capital and donated funds to complete the renovation of the 58 Barre Street property.

General Fund Budgetary Highlights

The Excess (deficiency) of Revenues Over Expenditures for the year ending June 30, 2012 is (\$27,318).

Revenue is \$149,270 less than budgeted. Although there are many variances in revenue line items, overall, this shortfall in revenue reflects the City Council's decision to use \$149,275 of prior year fund balance in the FY12 budget.

Expenditures were under budget by \$121,952 (as presented in Exhibit F). Some of the significant unbudgeted expenditures are; \$68,080 in Police Salaries and Overtime which is due to a change in the timing of holiday payout. The \$64,799 overage in Small Equipment is partially offset by grant funds. The retirement of the City Clerk and Assistant City Manager increases salary expenditures by approximately \$36,000. Also, the expenditure of \$27,062 for a Capital Needs Assessment contract is not included in the original budget. Savings of \$68,069 in Fire/EMS Salaries help offset these overages in expenditures.

Employee health insurance costs are lower than anticipated and \$33,000 in funds are set aside (committed) for possible, future health reimbursement arrangement overages.

The unassigned fund balance decreases from \$1,116,401 on June 30, 2011 to \$964,141 on June 30, 2012. This \$152,260 reduction is due to the fiscal year's \$27,318 deficit, other financing sources (the sale of equipment) of \$3,796 and an increase of \$128,738 in non-spendable, restricted and committed funds. The City of Montpelier's Fund Balance Policy sets a goal of an Unassigned Fund Balance that is 15% of budgeted General Fund Expenditures.

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2012

Capital Asset and Debt Administration

Capital Assets

At June 30, 2012, the City has \$58,775,361 compared to \$55,354,049 at June 30, 2011 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 increase (including additions and deductions) of \$3,421,312 over last year. This increase is related to two projects (District Energy and 58 Barre Street Renovations) that are construction in progress. Also, substantial repairs to streets damaged in 2010 storms and the completion of a flood mitigation project added to the city's capital assets.

Table 4
Capital Assets at Year-End
(Net of Depreciation)

	<i>June 30, 2012</i>			<i>June 30, 2011</i>		
	Governmental Activities	Business-type Activities	Total Primary Government	Governmental Activities	Business-type Activities	Total Primary Government
Land	\$ 742,050	250,672	992,722	742,050	250,672	992,722
Capital improvements and equipment	19,271,741	35,566,621	54,838,362	16,758,785	36,508,489	53,267,274
Construction in progress	2,944,277	-	2,944,277	1,094,053	-	1,094,053
Totals	\$ 22,958,068	35,817,293	58,775,361	18,594,888	36,759,161	55,354,049

This year's major additions included:

Senior Center Building Renovations	\$ 1,613,409
Computer equipment	17,140
Police vehicle	20,957
Police - Equipment	19,185
Infrastructure	3,598,114
Cemetery - Vehicle	63,471
Water - 1/2 shared vehicle	10,597
Sewer - 1/2 shared vehicle	10,598
Sewer treatment improvements	37,912
Sewer - equipment	11,474
Parking - Infrastructure Improvements	38,753
Parking - equipment	12,500
	<u>\$ 5,454,110</u>

Long Term - Debt

At June 30, 2012, the City has \$22,812,377 in bonds and notes outstanding versus \$24,459,616 on June 30, 2011 - a decrease of \$1,647,239 - as shown in Table 5.

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2012

Table 5
Outstanding Debt at Year-End

	Balance at June 30, 2011	Additions	Payments	Balance at June 30, 2012
<i>Notes, capital leases and bonds payable:</i>				
Governmental activities	\$ 7,687,488	35,000	577,126	7,145,362
Proprietary Funds	16,772,128	0	1,105,113	15,667,015
Totals	\$ 24,459,616	35,000	1,682,239	22,812,377

New debt resulted from a loan for equipment to be used by the cemetery.

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 2013 budget, tax rates, and fees that will be charged for the business-type activities.

In recent years, the City of Montpelier's budgets contained no appreciable annual revenue growth or increase in taxable property. Annually, costs rise and demands for services remain. In difficult economic times the need for local government services often increases and winter weather-related expenditures occur regardless of economic climate. The combination of a slow-growing economy, little growth in the grand list and Montpelier's relatively high property tax rates, has resulted in decisions to defer capital improvements, maintenance and equipment replacement. The primary goal of the 2013 Budget is to increase equipment funding, increase capital funding, maintain all services at present levels while holding the tax rate and costs at or below inflation.

Economic factors considered include the unemployment in the City, which stood at 4.1% (August 2011) compared with 5.3% (August 2010). Also considered was the Consumer Price Index percent change over one year (August 2010-August 2011) which was 3.8%.

The 2013 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 three cent tax rate increase which, at 3.9% is consistent with the 3.8% inflation rate for 2011.

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. A new flood mitigation project, which was completed in March of 2012, will reduce risk of ice-jam flooding.

As for the City's business-type activities, water and sewer rates increase 3% effective July 1, 2012. 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 is managing the rate structure to assure annual revenues will be generated to cover all costs and eliminate previous years' deficits. As of June 30, 2012 the Sewer Fund has a positive Unrestricted Net Assets for the first time since 2006.

Current quarterly water rates are as follows: \$7.73 per 1,000 for the first 50,000 gallons, \$8.21 per 1,000 for the next 200,000 gallons, \$13.32 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 \$36.00.

Current quarterly sewer rates are as follows: \$8.72 per 1,000 gallons of water used and a fixed charge for all for meter reading, billing and other administrative service costs of \$31.00.

**CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

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, 2012

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash	\$ 1,512,242	\$ 50	\$ 1,512,292
Investments	996,315	0	996,315
Receivables (net of allowance for uncollectibles)	1,745,402	1,319,854	3,065,256
Loans receivable	1,051,709	0	1,051,709
Note receivable	150,103	0	150,103
Deposits	0	1,600	1,600
Prepaid expenses	8,992	15,946	24,938
Inventories	145,549	85,726	231,275
Internal balances	707,347	(707,347)	0
Capital assets:			
Land	742,050	250,672	992,722
Construction in progress	2,944,277	0	2,944,277
Other capital assets, (net of accumulated depreciation)	19,271,741	35,566,621	54,838,362
Total assets	29,275,727	36,533,122	65,808,849
Liabilities:			
Accounts payable	869,661	98,798	968,459
Accrued payroll and related expenses	226,858	54,881	281,739
Deferred revenue	31,754	9,601	41,355
Accrued interest	45,296	49,007	94,303
OPEB obligation	74,509	0	74,509
Noncurrent liabilities:			
Due within one year	560,332	1,099,084	1,659,416
Due in more than one year	6,933,995	14,668,432	21,602,427
Total liabilities	8,742,405	15,979,803	24,722,208
Net assets:			
Invested in capital assets, net of related debt	19,337,797	21,042,778	40,380,575
Restricted	2,051,598	2,417	2,054,015
Unrestricted	(856,073)	(491,876)	(1,347,949)
Total net assets	\$ 20,533,322	\$ 20,553,319	\$ 41,086,641

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Statement of Activities
Year Ended June 30, 2012

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	\$ 1,797,853	\$ 234,315	\$ 199,133	\$ 0	\$ (1,364,405)	\$ 0	\$ (1,364,405)
Public safety	4,410,840	494,842	304,998	0	(3,611,000)	0	(3,611,000)
Public works	2,608,649	132,354	302,999	2,666,031	492,735	0	492,735
Culture and recreation	1,348,697	61,572	517,517	58,000	(711,608)	0	(711,608)
Community development	296,673	0	598,027	0	301,354	0	301,354
Cemetery	173,854	31,620	9,122	0	(133,112)	0	(133,112)
Interest on long-term debt	233,305	0	0	0	(233,305)	0	(233,305)
Total governmental activities	10,869,871	954,703	1,931,796	2,724,031	(5,259,341)	0	(5,259,341)
Business-type activities:							
Water	2,254,147	2,339,681	0	0	0	85,534	85,534
Sewer	3,159,956	3,383,759	0	133,541	0	357,344	357,344
Parking	691,733	673,883	0	0	0	(17,850)	(17,850)
Total business-type activities	6,105,836	6,397,323	0	133,541	0	425,028	425,028
Total	\$ 16,975,707	\$ 7,352,026	\$ 1,931,796	\$ 2,857,572	(5,259,341)	425,028	(4,834,313)
General revenues:							
Property taxes, penalties and interest					7,124,124	0	7,124,124
Payment in lieu of taxes					964,912	0	964,912
Unrestricted investment earnings					88,998	0	88,998
Gain (loss) on sale of equipment					8,328	(321)	8,007
Insurance Proceeds					43,742	158,402	202,144
Other revenues					54,709	0	54,709
Contributions to Permanent Endowments					5,600	0	5,600
Transfers					10,000	(10,000)	0
Total general revenues, special item and transfers					8,300,413	148,081	8,448,494
Change in net assets					3,041,072	573,109	3,614,181
Net Assets - July 1, 2011					17,492,250	19,980,210	37,472,460
Net Assets - June 30, 2012					\$ 20,533,322	\$ 20,553,319	\$ 41,086,641

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	Community Development Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash	\$ 1,134,263	\$ 267,315	\$ 0	\$ 110,664	\$ 1,512,242
Investments	0	0	0	996,315	996,315
Receivables (net of allowance for uncollectibles)	308,199	0	1,339,186	98,017	1,745,402
Interfund loans receivable	0	174,850	0	0	174,850
Loans (net of allowance for uncollectibles)	0	782,709	0	269,000	1,051,709
Note receivable	150,103	0	0	0	150,103
Prepaid expenses	8,992	0	0	0	8,992
Inventories	145,549	0	0	0	145,549
Due from other funds	576,178	0	114,176	472,536	1,162,890
Total assets	\$ 2,323,284	\$ 1,224,874	\$ 1,453,362	\$ 1,946,532	\$ 6,948,052
Liabilities:					
Accounts payable	\$ 354,989	\$ 0	\$ 482,991	\$ 31,681	\$ 869,661
Accrued payroll and related expenses	213,902	0	0	12,956	226,858
Deferred revenue	134,870	765,325	193,193	269,000	1,362,388
Interfund loans payable	0	0	0	174,850	174,850
Due to other funds	0	0	0	455,543	455,543
Total liabilities	703,761	765,325	676,184	944,030	3,089,300
Fund balances (deficit):					
Nonspendable for:					
Inventories	145,549	0	0	0	145,549
Note receivable	150,103	0	0	0	150,103
Prepays	8,992	0	0	0	8,992
Trustees of public funds	0	0	0	451,035	451,035
Restricted, reported in:					
General Fund	129,728	0	0	0	129,728
Community Development Fund	0	247,184	0	0	247,184
Capital Projects Funds	0	0	592,641	0	592,641
Special Revenue Funds	0	0	0	160,982	160,982
Trustees of public funds	0	0	0	362,783	362,783
Committed, reported in:					
General Fund	221,010	0	0	0	221,010
Community Development Fund	0	212,365	0	0	212,365
Capital Projects Funds	0	0	695,429	0	695,429
Special Revenue Funds	0	0	0	100,382	100,382
Unassigned, reported in:					
General Fund	964,141	0	0	0	964,141
Capital Projects Funds	0	0	(510,892)	0	(510,892)
Special Revenue Funds	0	0	0	(72,680)	(72,680)
Total fund balances	1,619,523	459,549	777,178	1,002,502	3,858,752
Total liabilities and fund balances	\$ 2,323,284	\$ 1,224,874	\$ 1,453,362	\$ 1,946,532	
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.					22,958,068
Other assets are not available to pay for current-period expenditures, and, therefore, are deferred in the funds.					1,330,634
Long-term and accrued liabilities, are not due or payable in the current period and, therefore, are not reported in the funds.					(7,614,132)
Net assets of governmental activities					\$ 20,533,322

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, 2012

	General Fund	Community Development Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes, penalties and interest	\$ 7,932,266	\$ 0	\$ 0	\$ 0	\$ 7,932,266
Permits and licenses	103,984	0	0	0	103,984
Intergovernmental	902,273	598,027	2,987,860	430,521	4,918,681
Fees and charges for services	1,515,471	0	0	98,042	1,613,513
Fines and forfeitures	25,135	0	0	0	25,135
Investment income	39,633	10,084	0	39,281	88,998
Contributions	3,050	0	0	121,177	124,227
Rents and commissions	28,000	0	0	3,240	31,240
Equipment revenues	125,271	0	0	0	125,271
Loan principal repayments	0	49,556	0	0	49,556
Other revenues	38,026	0	11,979	4,704	54,709
Total revenues	10,713,109	657,667	2,999,839	696,965	15,067,580
Expenditures:					
General government	2,261,134	0	85,969	0	2,347,103
Public safety	4,176,747	0	14,877	0	4,191,624
Public works	2,019,031	0	193,292	0	2,212,323
Culture and recreation	469,619	0	30,900	835,787	1,336,306
Community development	0	314,845	0	105,000	419,845
Cemetery	0	0	0	164,218	164,218
Capital outlay;					
General government	17,140	0	0	0	17,140
Public safety	40,142	0	0	0	40,142
Public works	29,653	0	3,568,462	0	3,598,115
Culture and recreation	0	0	1,613,409	0	1,613,409
Cemetery	0	0	0	63,471	63,471
Debt service - principal	566,228	0	0	10,898	577,126
Debt service - interest	224,466	0	0	5,058	229,524
Total expenditures	9,804,160	314,845	5,506,909	1,184,432	16,810,346
Excess (deficiency) of revenues over expenditures	908,949	342,822	(2,507,070)	(487,467)	(1,742,766)
Other financing sources (uses):					
Debt proceeds	0	0	0	35,000	35,000
Proceeds from sale of equipment	3,796	0	0	11,805	15,601
Insurance reimbursements	0	0	43,742	0	43,742
Transfers from other funds	0	0	1,271,234	514,180	1,785,414
Transfers to other funds	(936,267)	(305,360)	0	(533,787)	(1,775,414)
Total other financing sources (uses)	(932,471)	(305,360)	1,314,976	27,198	104,343
Net change in fund balances	(23,522)	37,462	(1,192,094)	(460,269)	(1,638,423)
Fund balances - July 1, 2011	1,643,045	422,087	1,969,272	1,462,771	5,497,175
Fund balances - June 30, 2012	\$ 1,619,523	\$ 459,549	\$ 777,178	\$ 1,002,502	\$ 3,858,752

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, 2012

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

Net change in fund balances - total government funds (Exhibit D) **\$ (1,638,423)**

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost (\$5,332,277) of those assets is allocated over their estimated useful lives and reported as depreciation expense (\$955,249). This is the amount by which capital outlays exceeded depreciation in the current period.	4,377,028
The net effect of various transactions involving capital assets (i.e., sales, trade-ins) is to decrease net assets.	(13,848)
Long term community development loans payments are recognized on an accrual basis in the statement of net assets, not the modified accrual basis.	(49,556)
The issuance of long term community development loans consumes the current financial resources of government funds. The transaction, however, has no effect on net assets.	105,000
Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis.	(27,230)
Revenues are recognized on an accrual basis in the statement of net assets, not the modified accrual basis.	(197,496)
The issuance of long-term debt (\$35,000) (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt (\$577,126) 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.	542,126
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).	(24,727)
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).	(28,021)
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.	(3,781)

Change in net assets, governmental activities (Exhibit B) **\$ 3,041,072**

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 \$926,253, the general government expenses was decreased by \$701,005 and the public works was decreased by \$225,248.

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, 2012

	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Property taxes, penalties and interest	\$ 7,966,261	\$ 7,932,266	\$ (33,995)
Intergovernmental	863,815	902,273	38,458
Fees and charges for services	2,032,303	1,878,570	(153,733)
Total revenues	10,862,379	10,713,109	(149,270)
Expenditures:			
City Council operations	29,871	34,796	(4,925)
City Manager's office	316,704	341,121	(24,417)
Clerk/Treasurer/Elections	233,135	254,945	(21,810)
Finance Department	339,500	344,406	(4,906)
Technology services	209,884	199,276	10,608
Property assessment	190,286	165,048	25,238
Planning and development	403,420	401,156	2,264
City Hall maintenance	186,340	200,416	(14,076)
Fifty Eight Barre Street	1,500	4,263	(2,763)
Police:			
General	1,516,186	1,598,744	(82,558)
Communications	496,655	522,018	(25,363)
Outside pay	0	0	0
Canine	0	1,888	(1,888)
School Resource Officer	87,601	86,396	1,205
Community Justice Center	114,626	100,222	14,404
Re-Entry Program	116,269	111,456	4,813
Fire and ambulance	1,769,385	1,657,629	111,756
Code/health enforcement	85,043	83,725	1,318
Emergency management	6,969	14,669	(7,700)
Public works:			
Streets	1,472,909	1,422,576	50,333
Fleet operations	519,892	538,378	(18,486)
Building operations	61,150	58,077	3,073
Wrightsville Beach	4,007	4,007	0
Kellogg-Hubbard Library	293,975	293,975	0
Outside agencies in budget	98,675	99,175	(500)
Community enhancements	37,800	37,974	(174)
Tree management and Board	32,692	31,311	1,381
Conservation Commission	5,750	3,177	2,573
Other governmental service	155,971	155,860	111
Small equipment	0	64,799	(64,799)
Tax abatement	53,000	58,043	(5,043)
Miscellaneous expense	3,200	10,728	(7,528)
Capital Needs Assessment/SmartGov Community	0	27,062	(27,062)
Bad Debt Expense	0	(785)	785
Capital outlay:			
General government	39,534	17,140	22,394
Public safety	87,300	40,142	47,158
Public works	143,661	29,653	114,008
Debt service - principal	566,227	566,228	(1)
Debt service - interest	246,995	224,466	22,529
Total expenditures	9,926,112	9,804,160	121,952
Excess (deficiency) of revenues over expenditures	936,267	908,949	(27,318)
Other financing sources (uses):			
Debt proceeds	0	0	0
Proceeds from sale of equipment	0	3,796	3,796
Proceeds from sale of land	0	0	0
Transfers from other funds:	0	0	0
Transfer to other funds:			
Capital Projects	(491,024)	(491,024)	0
Cemetery	(137,029)	(137,029)	0
Parks	(130,507)	(130,507)	0
Senior Center	(125,707)	(125,707)	0
Events Fund	(11,000)	(11,000)	0
Affordable Housing Fund	(41,000)	(41,000)	0
Total financing sources (uses)	(936,267)	(932,471)	3,796
Net change in fund balance	\$ 0	(23,522)	\$ (23,522)
Fund balance - July 1, 2011		1,643,045	
Fund balance - June 30, 2012		\$ 1,619,523	

See accompanying notes to financial statements.

CITY OF MONTPELIER
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Water Fund	Sewer Fund	Parking Fund	Total
Assets:				
Current assets:				
Cash	\$ 0	\$ 0	\$ 50	\$ 50
Receivables (net of allowance for uncollectibles)	687,024	610,656	22,174	1,319,854
Due from other funds	0	0	118,198	118,198
Deposits	0	0	1,600	1,600
Prepaid expenses	0	0	15,946	15,946
Inventory	69,264	16,462	0	85,726
Total current assets	756,288	627,118	157,968	1,541,374
Noncurrent assets:				
Capital assets:				
Land	32,000	0	218,672	250,672
Buildings	11,557,678	9,824,589	0	21,382,267
Improvements	10,418,423	21,545,846	273,495	32,237,764
Equipment and vehicles	758,361	989,204	151,828	1,899,393
Accumulated depreciation	(6,366,745)	(13,301,895)	(284,163)	(19,952,803)
Total noncurrent assets	16,399,717	19,057,744	359,832	35,817,293
Total assets	\$ 17,156,005	\$ 19,684,862	\$ 517,800	\$ 37,358,667
Liabilities:				
Current liabilities:				
Accounts payable	\$ 24,938	\$ 67,042	\$ 6,818	\$ 98,798
Due to other funds	779,428	46,117	0	825,545
Accrued payroll and related expenses	19,935	23,347	11,599	54,881
Deferred revenue	9,601	0	0	9,601
Accrued interest payable	33,096	15,911	0	49,007
Capital leases - current portion	4,704	13,643	0	18,347
Bonds payable - current portion	345,296	735,441	0	1,080,737
Total current liabilities	1,216,998	901,501	18,417	2,136,916
Noncurrent liabilities:				
Capital leases - long-term portion	26,961	78,184	0	105,145
Bonds payable - long-term portion	7,045,126	7,225,160	192,500	14,462,786
Accrued compensated absences	45,530	38,110	16,861	100,501
Total noncurrent liabilities	7,117,617	7,341,454	209,361	14,668,432
Total liabilities	8,334,615	8,242,955	227,778	16,805,348
Net assets:				
Invested in capital assets, net of related debt	9,275,130	11,407,816	359,832	21,042,778
Restricted	0	0	2,417	2,417
Unrestricted/(deficit)	(453,740)	34,091	(72,227)	(491,876)
Total net assets	8,821,390	11,441,907	290,022	20,553,319
Total liabilities and net assets	\$ 17,156,005	\$ 19,684,862	\$ 517,800	\$ 37,358,667

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, 2012

	Water Fund	Sewer Fund	Parking Fund	Total
Operating revenues:				
Charges for services	\$ 2,312,841	\$ 3,358,366	\$ 673,883	\$ 6,345,090
Interest and penalties	19,579	19,675	0	39,254
Miscellaneous	7,261	5,718	0	12,979
Total Operating Revenues	2,339,681	3,383,759	673,883	6,397,323
Operating expenses:				
Administration	438,044	383,938	0	821,982
Supplies and treatment	427,754	1,432,505	0	1,860,259
Wastewater management	0	92,087	0	92,087
Distribution system	369,503	0	0	369,503
Collection system	0	391,834	0	391,834
Delinquent collection	21,937	21,828	0	43,765
Meter operations	60,530	0	0	60,530
Private sewer system maintenance	0	5,759	0	5,759
Parking enforcement	0	0	470,205	470,205
Parking lot leases	0	0	88,379	88,379
Parking lot maintenance	0	0	104,312	104,312
Depreciation expense	530,574	672,262	16,322	1,219,158
Total operating expenses	1,848,342	3,000,213	679,218	5,527,773
Net operating income	491,339	383,546	(5,335)	869,550
Nonoperating revenues (expenses):				
Interest expense	(405,932)	(159,743)	(12,515)	(578,190)
Capital grants	0	133,541	0	133,541
Bad debt recovery	127	0	0	127
Loss on sale of equipment	0	(321)	0	(321)
Treatment plant flood insurance reimbursement	0	158,402	0	158,402
Transfers from other funds	0	0	0	0
Transfers to other funds	0	0	(10,000)	(10,000)
Total nonoperating revenues (expenses)	(405,805)	131,879	(22,515)	(296,441)
Change in net assets	85,534	515,425	(27,850)	573,109
Net assets - July 1, 2011	8,735,856	10,926,482	317,872	19,980,210
Net assets - June 30, 2012	\$ 8,821,390	\$ 11,441,907	\$ 290,022	\$ 20,553,319

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

	Water Fund	Sewer Fund	Parking Fund	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,338,496	\$ 3,548,648	\$ 674,308	\$ 6,561,452
Receipts from interfund services	0	0	24,164	24,164
Payments to suppliers	(376,886)	(1,201,626)	(157,089)	(1,735,601)
Payments for interfund services	(345,385)	(487,466)	(55,160)	(888,011)
Payments for wages and benefits	(607,264)	(751,975)	(442,633)	(1,801,872)
Net cash provided by operating activities	1,008,961	1,107,581	43,590	2,160,132
Cash Flows from Noncapital Financing Activities:				
Decrease (increase) in due from other funds	0	0	30,178	30,178
(Decrease) increase in due to other funds	(151,455)	(359,123)	0	(510,578)
Proceeds from general obligation bonds	0	0	0	0
Transfers received from other funds	0	0	0	0
(Decrease) increase in accrued interest	(959)	198	0	(761)
Transfers paid to other funds	0	0	(10,000)	(10,000)
Interest payments on interfund balances	(14,936)	(1,118)	0	(16,054)
Net cash provided by (used in) noncapital financing activities	(167,350)	(360,043)	20,178	(507,215)
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(10,597)	(215,761)	(51,253)	(277,611)
Receipts from capital grants	0	133,541	0	133,541
Receipts from flood insurance proceeds	0	158,402	0	158,402
Principal payments on general obligation bonds and leases	(440,018)	(665,095)	0	(1,105,113)
Interest payments on general obligation bonds and leases	(390,996)	(158,625)	(12,515)	(562,136)
Net cash used in capital and related financing activities	(841,611)	(747,538)	(63,768)	(1,652,917)
Net Increase in Cash	0	0	0	0
Cash - July 1, 2011	0	0	50	50
Cash - June 30, 2012	\$ 0	\$ 0	\$ 50	\$ 50
Adjustments to reconcile operating income to net cash provided by operating activities:				
Net operating income	\$ 491,339	\$ 383,546	\$ (5,335)	\$ 869,550
Depreciation expense	530,574	672,262	16,322	1,219,158
Decrease (increase) in accounts receivable	(5,366)	164,889	24,589	184,112
Decrease (increase) in prepaid expenses	0	0	3,646	3,646
Decrease (increase) in inventory	(16,572)	(8,986)	0	(25,558)
(Decrease) increase in accounts payable	(3,185)	(103,185)	806	(105,564)
(Decrease) increase in accrued payroll	6,335	5,767	1,813	13,915
(Decrease) increase in deferred revenue	4,181	0	0	4,181
(Decrease) increase in accrued vacation	1,655	(6,712)	1,749	(3,308)
Net cash provided by operating activities	\$ 1,008,961	\$ 1,107,581	\$ 43,590	\$ 2,160,132

Non-cash transactions:

None

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

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 Mount 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, 2012

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, 2012

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)

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, 2012

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	\$10,000	N/A
Buildings	\$10,000	40-100 years
Building Improvements	\$10,000	20-75 years
Improvements	\$10,000	15-75 years
Equipment and Vehicles	\$10,000	5-20 years
Infrastructure	\$10,000	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 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, 2012

3. Stewardship, Compliance and Accountability
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.

4. Detailed Notes on All Funds

4.a. Deposits and Investments

Cash - Deposits with Financial Institutions	\$ 1,511,692
Cash on Hand	600
Total Cash	1,512,292
Investments - Certificates of Deposit	127,601
Money Market Mutual Funds	21,347
Government Bonds	40,771
Mutual Funds - Mixed Holdings	89,183
Mutual Funds - Bonds	626,804
Mutual Funds - Stocks	87,422
Corporate Stock	3,187
Total Investments	996,315
Total Cash and Investments	\$ 2,508,607

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)

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, 2012

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	127,601	\$ 127,601
Money Market Mutual Funds	21,347	0	0	0	0	21,347
Government Bonds	0	40,771	0	0	0	40,771
Mutual Funds - Mixed Holdings	0	0	0	89,183	0	89,183
Mutual Funds - Bonds	0	99,537	527,267	0	0	626,804
Mutual Funds - Stocks	0	0	0	0	87,422	87,422
Corporate Stock	0	0	0	0	3,187	3,187
	\$ 21,347	140,308	527,267	89,183	218,210	\$ 996,315

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	\$ 442,737	\$ 437,673
Insured by Private Surety Bond	1,132,976	1,971,061
Uninsured, Uncollateralized	84,927	84,877
Total Deposits	\$ 1,660,640	\$ 2,493,611

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

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	\$ 1,511,692
Investments – Certificate of Deposits	127,601
Investments – Money Market Funds	21,347
Total	<u>\$ 1,660,640</u>

4.b. Receivables

Receivables at June 30, 2012, 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	\$ 127,925	\$ 0	\$ 127,925
Ambulance	653,819	0	653,819
Parking Tickets	0	195,944	195,944
Accounts Receivable	98,437	74,671	173,108
Grants	1,448,472	0	1,448,472
Billed Services	0	165,541	165,541
Unbilled Services	0	1,066,758	1,066,758
Other Receivables	27,249	0	27,249
Allowance for Doubtful Accounts	(610,500)	(183,060)	(793,560)
	<u>\$ 1,745,402</u>	<u>\$ 1,319,854</u>	<u>\$ 3,065,256</u>

4.c. Loans Receivable

Governmental Activities:

There are approximately 80 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 five 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%.

	\$ 3,166,167
Notes receivable, six (7) housing loans, 0% interest, due upon any conveyance or transfer of condominium units.	112,000
Total	3,278,167
Less allowance for doubtful loans	(2,226,458)
	<u>\$ 1,051,709</u>

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

4. Detailed Notes on All Funds (continued)

4.c. Loans Receivable (continued)

Changes in loans receivable for the year ended June 30, 2012 were as follows:

Beginning Balance	Additions	Deletions	Ending Balance
\$ 2,924,549	403,174	49,556	\$ 3,278,167

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, 2012 was \$150,103. This loan is secured by a building. The current principal due over the next twelve months is \$31,047.

4.e. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 742,050	0	0	\$ 742,050
Construction in progress	1,094,053	1,904,248	54,024	2,944,277
Total capital assets, not being depreciated	1,836,103	1,904,248	54,024	3,686,327
Capital assets being depreciated:				
Buildings and building improvements	7,121,839	1,478,937	0	8,600,776
Vehicles and equipment	5,211,489	120,753	43,421	5,288,821
Infrastructure	10,657,803	1,875,788	0	12,533,591
Totals	22,991,131	3,475,478	43,421	26,423,188
Less accumulated depreciation for:				
Buildings and building improvements	2,190,141	160,115	0	2,350,256
Vehicles and equipment	2,951,150	397,406	36,148	3,312,408
Infrastructure	1,091,055	397,728	0	1,488,783
Totals	6,232,346	955,249	36,148	7,151,447
Total capital assets, being depreciated	16,758,785	2,520,229	7,273	19,271,741
Governmental activities capital assets, net	\$ 18,594,888	4,424,477	61,297	\$ 22,958,068

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

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	0	0	0	0
Total capital assets, not being depreciated	250,672	0	0	250,672
Capital Assets Being Depreciated:				
Buildings	21,224,490	157,777	0	21,382,267
Improvements	32,161,099	76,665	0	32,237,764
Equipment and vehicles	1,863,506	45,169	9,282	1,899,393
Total capital assets, being depreciated	55,249,095	279,611	9,282	55,519,424
Less accumulated depreciation for:				
Buildings	4,713,828	411,910	0	5,125,738
Improvements	13,035,168	671,467	0	13,706,635
Equipment and vehicles	991,610	135,781	6,961	1,120,430
Totals	18,740,606	1,219,158	6,961	19,952,803
Total capital assets, being depreciated	36,508,489	(939,547)	2,321	35,566,621
Business-type activities capital assets, net	\$ 36,759,161	(939,547)	2,321	\$ 35,817,293

Depreciation was charged as follows:

Governmental Activities:		Business - Type Activities:	
General Government	\$ 117,687	Water	\$ 530,574
Public Safety	209,876	Sewer	672,262
Public Works	605,659	Parking	16,322
Culture and Recreation	12,391		<u>\$ 1,219,158</u>
Cemetery	9,636		
	<u>\$ 955,249</u>		

During the fiscal year ended June 30, 2011, the Sewer Treatment Plant was damaged by flooding. At the time of the flood, 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 fiscal year 2011. A capital asset impairment loss of \$12,466 was recorded in fiscal year 2011 on the Statement of Revenues, Expenses and Changes in Fund Net Assets. Additional insurance proceeds in the amount of \$158,402 were received in the current fiscal year ended June 30, 2012.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

4. Detailed Notes on All Funds (continued)

4.f. Interfund Receivables, Payables and Transfers

The composition of interfund balances at June 30, 2012 is as follows:

Fund	Receivable Fund	Payable Fund
General Fund	\$ 576,178	\$ 0
Capital Projects Fund	114,176	0
Other Governmental Funds	472,536	455,543
Water Fund	0	779,428
Sewer Fund	0	46,117
Parking Fund	118,198	0
Total due to/from other funds	\$ 1,281,088	\$ 1,281,088

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

Transfer From	Transfer To	Amount	Purpose
General Fund	Capital Projects Fund	\$ 491,024	Budgetary Authorization
General Fund	Green Mount Cemetery Fund	137,029	Budgetary Authorization
General Fund	Montpelier Parks Commission	130,507	Budgetary Authorizations
General Fund	Montpelier Events Fund	11,000	Budgetary Authorization
General Fund	Montpelier Housing Trust Fund	41,000	Budgetary Authorization
General Fund	Senior Center	125,707	Budgetary Authorization
Community Development Fund	Capital Projects Fund	305,360	Grant Funds Transfer
Senior Center Fund	Capital Projects Fund	200,000	Board Authorized Transfer
Senior Center Fund	Capital Projects Fund	174,850	Board Authorized Transfer
Montpelier Foundation	Capital Projects Fund	100,000	Board Authorized Transfer
Expendable Cemetery Trust Fund	Green Mount Cemetery Fund	27,000	Budgetary Authorization
Non-Expendable Cemetery Trust Fund	Expendable Cemetery Trust Fund	31,811	Interest Income Transfer
Hubbard Park Trust Fund	Montpelier Parks Commission Fund	126	Interest Income Transfer
Parking Fund	Green Mount Cemetery Fund	10,000	Budgetary Authorization
Total		\$ 1,785,414	

Interfund loan balances at June 30, 2012 were as follows:

	Community Development Fund Receivable	Senior Citizens Fund Payable
Community Development (Capital Plaza) loan of \$114,850, interest at 3.25% per annum, monthly installments of \$651.42, due July 15, 2012 to July 15, 2032	\$ 114,850	\$ (114,850)
Community Development (ADA) loan of \$60,000, interest at 4% per annum, monthly installments of \$443.81, due July 15, 2012 to July 15, 2027	60,000	(60,000)
Total of interfund loans	\$ 174,850	\$ (174,850)

During the year ended June 30, 2012, the Community Development Fund loaned the Senior Citizens Fund a total of \$174,850 for renovations at 58 Barre Street.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

4. Detailed Notes on All Funds (continued)

4.f. Interfund Receivables, Payables and Transfers (continued)

Changes in interfund loans for the year ended June 30, 2012 were as follows:

Beginning Balance	Additions	Deletions	Ending Balance
\$ -	174,850	-	\$ 174,850

4.g. Deferred Revenue

Deferred Revenue in the General Fund consists of \$31,754 of grant revenue received in advance, \$64,084 of delinquent taxes, \$28,673 of ambulance revenue and \$10,359 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 \$134,870.

Deferred Revenue in the Community Development Fund consists of \$765,325 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 \$193,193 of grant receivables not collected within sixty (60) days after year-end as these would not be available to liquidate current liabilities.

Deferred Revenue in the Other Governmental Funds consists of \$269,000 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 \$269,000.

Deferred Revenue in the Water Fund consists of \$9,601 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.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

4. Detailed Notes on All Funds (continued)

4.h. Long-term Liabilities (continued)

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, 2012 were as follows:

Governmental Activities

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.	\$ 25,000
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.	210,000
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.	190,000
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.	50,000
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.	315,000
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.	270,000
Bike path lighting project bond, interest at 4.67%, to Vermont Municipal Bond Bank, \$20,000 principal due annually, due in December 2021.	200,000
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.	645,000
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.	535,000

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

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;">\$ 193,153</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;">20,660</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;">640,000</p>
<p>Community National Bank Municipal Note, interest at 2.30%, annual payments of principal and interest of \$12,208 due from January 2013 to January 2015, secured by a truck.</p>	<p style="margin: 0;">35,000</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;">111,498</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;">960,000</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;">72,551</p>
<p>Total governmental activities bonds and notes payable</p>	<p style="margin: 0;">\$ 7,145,362</p>

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

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

Business-type Activities

Water Fund

<p>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.</p>	<p>\$ 1,527,922</p>
<p>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.</p>	<p>1,475,000</p>
<p>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.</p>	<p>3,060,000</p>
<p>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.</p>	<p>1,030,000</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>297,500</p>
<p>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.</p>	<p>31,665</p>
<p>Total Water Fund bonds and leases payable</p>	<p>\$ 7,422,087</p>

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

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

Sewer Fund

Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$22,049 until December 1, 2016.	\$ 110,245
Sewer system improvement Bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$38,856 until December 1, 2017.	233,133
Sewer system improvement bond, Vermont Municipal Bond Bank, net interest rate of 5.676%, annual principal of \$30,000 until December 1, 2016.	150,000
Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$14,156 until December 1, 2018.	99,093
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.	1,080,000
Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$35,497 until April 1, 2020.	283,976
Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$174,171 until July 1, 2025.	2,264,222
Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$13,807 until January 1, 2022.	138,071
Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$26,456 until July 1, 2022.	264,558
Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$34,432 until July 1, 2023.	378,751

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

4. Detailed Notes on All Funds (continued)

4.h. Long-term Liabilities (continued)

<p>Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments payments of \$28,100 until June 1, 2024.</p>	\$	337,196
<p>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.</p>		485,936
<p>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.</p>		740,000
<p>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.</p>		340,000
<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>		402,500
<p>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.</p>		91,827
<p>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.</p>		282,078
<p>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.</p>		370,842
<p>Total Sewer Fund bonds and lease payable</p>	\$	8,052,428

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

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

Parking Fund

VMERS refunding bond, Vermont Municipal Bond Bank, interest rate at 6.501%, semi-annual interest only payments through May 15, 2017, principal payable starting November 15, 2017 in various annual installments increasing from \$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	\$	15,667,015

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	\$ 7,172,500	0	(460,000)	\$ 6,712,500	\$ 450,000
Capital Leases	504,090	0	(106,228)	397,862	110,332
Notes Payable	10,898	35,000	(10,898)	35,000	0
Compensated Absences	320,944	28,021	0	348,965	0
Total Governmental Activities Long-Term Liabilities	\$ 8,008,432	63,021	(577,126)	\$ 7,494,327	\$ 560,332
Business-type Activities					
General Obligation Bonds	\$ 16,631,093	0	(1,087,570)	\$ 15,543,523	\$ 1,080,737
Capital Leases	141,035	0	(17,543)	123,492	18,347
Compensated Absences	103,809	0	(3,308)	100,501	0
Total Business-type Activities Long-Term Liabilities	\$ 16,875,937	0	(1,108,421)	\$ 15,767,516	\$ 1,099,084

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

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

4. Detailed Notes on All Funds (continued)

4.h. Long-term Liabilities (continued)

Debt service requirements to maturity are as follows:

Year Ending June 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Capital Leases	Principal	Interest	Capital Leases
2013	\$ 461,402	\$ 353,964	\$ 126,155	\$ 1,080,737	\$ 535,625	\$ 23,734
2014	456,665	334,383	126,156	1,091,308	505,118	23,735
2015	426,933	314,977	76,999	1,121,889	473,033	23,734
2016	370,000	296,544	37,126	1,132,481	439,390	23,735
2017	370,000	278,762	37,126	1,163,085	404,220	23,939
2018-2022	1,553,124	1,134,269	37,127	5,721,403	1,439,378	23,542
2023-2027	1,205,890	786,980	0	3,214,995	517,092	0
2028-2032	1,510,514	383,632	0	664,450	152,078	0
2033-2037	392,972	12,772	0	353,175	4,263	0
Less Amounts Representing Interest	0	0	(42,827)	0	0	(18,927)
Total	\$ 6,747,500	\$ 3,896,283	\$ 397,862	\$ 15,543,523	\$ 4,470,197	\$ 123,492

The City has authorized, but has not issued long-term debt at June 30, 2012 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
Streets, Fire Truck, Facilities Bonds	March 19, 2012	\$ 870,000

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

Beginning Balance	\$ 0
Proceeds of Tax Anticipation Note – General Fund	1,800,000
Repayment of Tax Anticipation Note – General Fund	(1,800,000)
Ending Balance	\$ 0

The tax anticipation note had an interest rate of 1.59% and was paid in June 2012.

Subsequent to year end, the City issued a \$2,500,000 tax anticipation note at 2.22% interest.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

4. Detailed Notes on All Funds (continued)

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

The restricted fund balances/net assets of the City as of June 30, 2012 consisted of the following:

	Balance
	June 30, 2012
Governmental Funds	
General Fund:	
Act 60 Reappraisal - State Statute	\$ 50,904
Records Restoration - State Statute	50,493
Park Impact Fees - State Statute	24,626
Drug Seizure	3,705
Total General Fund	\$ 129,728
Community Development Fund:	
Community Development Grant Funds	\$ 247,184
Total Community Development Fund	\$ 247,184
Capital Projects Fund:	
Traffic Impact Fees	\$ 10,050
Bond Proceeds	582,591
Total Capital Projects Fund	\$ 592,641
Other Governmental Funds:	
Special Revenue Funds:	
Montpelier Events Fund - Donations	\$ 5,001
Montpelier Events Fund - Grants	14,155
Total Montpelier Events Fund	\$ 19,156
Green Mount Cemetery	13,172
Montpelier Foundation - Donations	128,654
Total Special Revenue Funds	\$ 160,982
Permanent Funds:	
Hubbard Park Trust	\$ 14,620
Expendable Cemetery Trust	348,163
Total	\$ 362,783
Total Other Governmental Funds	\$ 523,765
Total Restricted Fund Balances - Governmental Funds	\$ 1,493,318

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

4. Detailed Notes on All Funds (continued)

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

The committed fund balances/net assets of the City as of June 30, 2012 consisted of the following:

	Balance
	June 30, 2012
Governmental Funds:	
Major Funds:	
General Fund:	
Committed for Fire Revenue Reserve	\$ 7,541
Committed for Conservation Commission	9,250
Committed for Health Reimbursement Arrangement	33,000
Committed for Equipment Reserve	171,219
Total General Fund	\$ 221,010
Community Development Fund:	
Committed for MBL Program	\$ 51,119
Committed for HPG Program	119,501
Committed for 25/25/ Loan write-offs	17,701
Committed for Community Development Program	24,044
Total Community Development Fund	\$ 212,365
Capital Projects Fund:	
Committed for Future Projects	\$ 233,850
Committed for Flood Mitigation-Phase II Project	342,445
Committed for Retaining Wall Projects	119,134
Total Capital Projects Fund	\$ 695,429
Other Governmental Funds:	
Special Revenue Funds:	
Committed for Montpelier Park Commission	\$ 7,781
Committed for Montpelier Events Fund	14,275
Committed for Conservation Fund	34,932
Committed for Montpelier Housing Trust Fund	43,394
Total Special Revenue Funds	\$ 100,382
Total Committed Fund Balances - Governmental Funds	\$ 1,229,186

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

4. Detailed Notes on All Funds (continued)

4.i. Restricted Net Assets

The restricted net assets of the City (government-wide statements) as of June 30, 2012 consisted of the following:

Governmental Activities:	
Restricted by State Statute - Impact Fees	\$ 34,676
Restricted by State Statute – Other	101,397
Restricted by Donors	137,360
Restricted by Trust Agreements - Non-Expendable	378,293
Restricted by Trust Agreements - Expendable	348,163
Restricted by Community Development Loan/Grant Agreements	1,051,709
Total Governmental Activities:	\$ 2,051,598
Business-Type Activities:	
Restricted by Impact Fees Statute	\$ 2,417
Total Business-Type Activities	\$ 2,417
Total Restricted Net Assets	\$ 2,054,015

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 \$6,042,606 while covered payroll was \$5,836,516. Pension expense for the year was \$365,239.

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.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

5. Other Information (continued)

5.b. Property Taxes (continued)

The tax rate for fiscal year 2011-2012 was as follows:

		Residential		Non Residential
City, Cemetery and Outside Agencies	\$	0.8546	\$	0.8546
State Education Tax		1.2967		1.3844
Local Tax Agreements		0.0009		0.0009
Water/Sewer Benefit Charge		0.0900		0.0900
Recreation		0.0730		0.0730
Total	\$	2.3152	\$	2.4029

5.c. Risk Management

The City of Montpelier, Vermont is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Montpelier, Vermont maintains insurance coverage through the Vermont League of Cities and Town's Property and Casualty Intermunicipal Fund, Inc. covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City of Montpelier, Vermont. Settled claims have not exceeded this coverage in any of the past three fiscal years. The City must remain a member for a minimum of one year and may withdraw from the Fund after that time by giving sixty days notice. Fund underwriting and rate setting policies have been established after consultation with actuaries. Fund members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Fund were to be exhausted, members would be responsible for the Fund's liabilities. 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 \$88,000 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.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2012

5. Other Information (continued)

5.d. Commitments (continued)

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, 2012 was \$18,000.

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, 2012 was \$12,732.

The minimum lease payments are as follows:

2013	\$	8,244
2014		7,836
2015		7,836
2016		<u>5,887</u>
	\$	<u>29,803</u>

5.e. Contingency – Health Care Benefits

On January 1, 2012, the City changed the employee health insurance carrier and increased the deductible amount from \$3,500/\$7,000 to a \$4,000/\$8,000 high deductible health plan. The City continues to fund a Health Reimbursement Arrangement (HRA) to help employees pay for their deductible costs. All eligible employees who choose to participate are enrolled in the BlueCross BlueShield's CDHP Blue Consumer Directed Health Plan \$4,000/\$8,000. The City is responsible for the \$3,500 toward the maximum out-of-pocket health expenses for the single person plan. The City is responsible for the \$7,000 toward the maximum out-of-pocket health expenses for the two person and family plans. In 2010 and 2011, 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 and a \$33,000 reserve fund was established to offset future HRA overages.

When budgeting for the 2012 employee health insurance program costs, the City projected a use of 70% of the City's potential out-of-pocket funding obligation. If all employees used 100% of the City's out-of-pocket funding, health insurance costs could be \$208,000 over budgeted costs. The risk remains that the city will have unbudgeted costs if usage is higher than the projected 70%. Based on the first two year's HRA experience of 62%, this risk is 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)

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 2012, 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 City 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 City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 63,781
Interest on net OPEB obligation	1,493
Adjustment to annual required contribution	(4,170)
Annual OPEB cost (expense)	61,104
Contributions made	(36,377)
Increase in net OPEB obligation	24,727
Net OPEB obligation—beginning of year	49,782
Net OPEB obligation—end of year	\$ 74,509

Funded Status and Funding Progress

As of June 30, 2012, the actuarial accrued liability for benefits was \$510,890, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$5,836,516, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 8.75 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)

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 Generational 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 .05 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 City'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.

(continued)

5. Other Information (continued)

5.g. Subsequent Events

Subsequent to year end, the City obtained a tax anticipation note of \$2,500,000 from Community National Bank with interest at 2.22% and due June 28, 2013.

The City has evaluated subsequent events through January 4, 2013, the date on which the financial statements were available to be issued.

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)— Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b - a)	(a / b)	(c)	((b - a) / c)
6/30/2010	0	479,000	479,000	0.0	5,456,892	8.78
6/30/2011	0	495,747	495,747	0.0	5,722,355	8.66
6/30/2012	0	510,890	510,890	0	5,836,516	8.75

CITY OF MONTPELIER, VERMONT
 Combining Balance Sheet
 Other Governmental Funds
 June 30, 2012

	Special Revenue Funds										Permanent Funds				Total Other Governmental Funds												
	Green Mount Cemetery Fund		Montpelier Parks Commission Fund		Montpelier Events Fund		Reach Fund		Conservation Fund		Montpelier Foundation Fund		Montpelier Housing Trust Fund			Montpelier Senior Citizens Fund		George Blanchard Trust Fund		Non-Expendable Cemetery Trust Fund		Hubbard Park Trust Fund		Expendable Cemetery Trust Fund			
Assets:																											
Cash	\$	0	\$	0	\$	0	\$	0	\$	0	\$	67,662	\$	0	\$	43,002	\$	0	\$	0	\$	0	\$	0	\$	110,664	
Investments		3,187		0		0		0		0		90,069		0		90,438		72,742		725,216		14,663		0		996,315	
Receivables		13,731		6,186		0		0		0		0		0		0		0		0		0		0		19,917	
Due from other governments		0		0		0		78,100		0		0		0		0		0		0		0		0		78,100	
Loans receivable		0		0		0		0		0		0		269,000		0		0		0		0		0		269,000	
Due from other funds		3,713		7,088		35,246		0		34,932		0		43,394		0		0		0		0		348,163		472,536	
Total assets	\$	20,631	\$	13,274	\$	35,246	\$	78,100	\$	34,932	\$	157,731	\$	312,394	\$	133,440	\$	72,742	\$	725,216	\$	14,663	\$	348,163	\$	1,946,532	
Liabilities and fund balances:																											
Liabilities:																											
Accounts payable	\$	4,149	\$	3,468	\$	1,815	\$	11,554	\$	0	\$	0	\$	0	\$	10,652	\$	0	\$	0	\$	43	\$	0	\$	31,681	
Accrued payroll and related expenses		3,310		2,025		0		0		0		0		0		7,621		0		0		0		0		12,956	
Deferred revenue		0		0		0		0		0		0		269,000		0		0		0		0		0		269,000	
Interfund loans payable		0		0		0		0		0		0		0		174,850		0		0		0		0		174,850	
Due to other funds		0		0		0		66,546		0		29,077		0		12,997		0		346,923		0		0		455,543	
Total liabilities	\$	7,459	\$	5,493	\$	1,815	\$	78,100	\$	0	\$	29,077	\$	269,000	\$	206,120	\$	0	\$	346,923	\$	43	\$	0	\$	944,030	
Fund balances (deficit):																											
Unspendable		0		0		0		0		0		0		0		0		72,742		378,293		0		0		451,035	
Restricted		13,172		0		19,156		0		0		128,654		0		0		0		0		14,620		348,163		523,765	
Committed		0		7,781		14,275		0		34,932		0		43,394		0		0		0		0		0		100,382	
Unassigned		0		0		0		0		0		0		0		(72,680)		0		0		0		0		(72,680)	
Total fund balances (deficit)	\$	13,172	\$	7,781	\$	33,431	\$	0	\$	34,932	\$	128,654	\$	43,394	\$	(72,680)	\$	72,742	\$	378,293	\$	14,620	\$	348,163	\$	1,002,502	
Total liabilities and fund balances	\$	20,631	\$	13,274	\$	35,246	\$	78,100	\$	34,932	\$	157,731	\$	312,394	\$	133,440	\$	72,742	\$	725,216	\$	14,663	\$	348,163	\$	1,946,532	

City of Montpelier Vermont
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

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	\$ 146,027
Rural Elder Assistance for Care and Health (REACH)	93.048	90AP2656/03	316,823	241,096
Total US Administration of Aging				<u>387,123</u>
<u>US Department of Energy</u>				
SEP Formula Grants Under ARRA	81.041	DE-EE0000229	518,356	518,356
SEP Formula Grants Under ARRA	81.041	DE-EE0000229, M001, M002	750,000	243,202
Recovery Act: Montpelier Community Renewable Energy	81.087	DE-EE0003071	8,000,000	369,827
Energy Efficiency and Conservation Block Grant Program	81.128	DE-EE0000859	350,000	350,000
Total US Department of Energy				<u>1,481,385</u>
<u>United States Department of the Interior</u>				
Passed through Vermont Division for Historic Preservation				
Certified Local Government Program				
Historic City Plans & Map Digitization	15.904	CLG -11-09	10,911	7,228
Total US Department of the Interior				<u>7,228</u>
<u>US Department of Justice</u>				
COPS Hiring Recovery Program	16.710	2009RKWX0869	209,571	58,586
Second Chance Act Prisoner Reentry Initiative	16.812	210-CZ-BX-0028	25,000	6,249
Total US Department of Justice				<u>64,835</u>
<u>US Department of Homeland Security</u>				
Passed through Vermont Department of Public Safety:				
US Department of Homeland Security Grant	97.067	2008-GE-T8-0045	4,698	2,364
US Department of Homeland Security Grant-FEMA Region I	97.039	FEMA-DR-1698-VT	449,756	429,989
Total Passed through Vermont Dept of Public Safety				<u>432,353</u>
Passed through Vermont Agency of Transportation:				
FEMA Disaster Relief	97.036	EA#40011211	N/A	94,194
FEMA Disaster Relief	97.036	EA#40221211	N/A	9,275
Total Passed through Vermont Agency of Transportation				<u>103,469</u>
Total US Department of Homeland Security				<u>535,822</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	14.228	IG-III-2008-Montpelier-00016	74,000	1,671
Community Development Block Grants/State's program	14.228	IG-2010-Montpelier-00007	588,500	339,509
Housing Preservation Grant	14.228	HPG-2007	50,000	8,152
Total US Department of Housing and Urban Development				<u>349,332</u>
<u>US Department of Transportation-Federal Highway Administration</u>				
Passed through Vermont Agency of Transportation:				
FHWA-Transportation Enhancement Project (Carr Lot)	20.205	STP MMT(3)	246,000	71,430
Safe Routes to School	20.205	STP SRIN 11/300	101,700	98,962
Federal Highway Emergency Relief Program	20.205	FHWA-ER-VT11-1	N/A	521,801
Federal Highway Emergency Relief Program	20.205	FHWA-ER-VT11-2	N/A	21,746
Total Passed through Vermont Agency of Transportation				<u>713,939</u>
Passed through Vermont Department of Public Safety:				
Governor's Highway Safety Program	20.613	02140-0911-3530	9,495	2,057
Total Passed through Vermont Dept of Public Safety				<u>2,057</u>
Total US Department of Transportation				<u>715,996</u>
Total Expenditures of Federal Awards			<u>\$</u>	<u>3,541,721</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, 2012, which collectively comprise the City of Montpelier, Vermont's basic financial statements and have issued our report thereon dated January 4, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Montpelier, Vermont's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

January 4, 2013

Vt. Reg. #357