

# FOTHERGILL SEGALE & VALLEY

Certified Public Accountants



John E. (Jeff) Fothergill, CPA  
Michael L. Segale, CPA  
Sheila R. Valley, CPA  
Teresa H. Kajenski, CPA  
Donald J. Murray, CPA

January 17, 2014

To the City Council  
City of Montpelier, Vermont

We have audited the 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 for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 27, 2013. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. As described in Note 1 to the financial statements, the City changed accounting policies by adopting Statement of Governmental Accounting Standards Board No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net position* and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

- Management's estimate of the useful lives of capital assets is based on historical experience and common practice. We evaluated the key factors and assumptions used to

develop the estimated lives in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the allowance for doubtful accounts is based on historical collections and evaluation of each individual account.

The financial statement disclosures are neutral, consistent and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. In addition, none of the misstatements detected as a result of audit procedures and not corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

The uncorrected misstatements of the financial statements were due to prior and current year deferred revenue not being booked due to availability of receivables, a prior and current year allowance for bad debt not being recorded, prior and current year accounts payables not being booked. On the Governmental Activities, an additional uncorrected misstatement occurred due to not correctly recording the gain on trade in of capital assets. Management has determined, and we agree, that its effects are immaterial, both individually and in the aggregate, to the financial statements as a whole.

We proposed one adjustment to your financial statements which was accepted and recorded by management.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 17, 2014.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

*Supplementary Information*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements, or to the financial statements themselves.

This information is intended solely for the use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Fothergill Segale Valley, CPAs*

FOTHERGILL SEGALE & VALLEY, CPAs  
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**CITY OF MONTPELIER, VERMONT**  
**AUDIT REPORT AND FINANCIAL STATEMENTS**  
**JUNE 30, 2013**  
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# FOTHERGILL SEGALE & VALLEY

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Montpelier, Vermont  
Montpelier, VT 05602

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Montpelier, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other-Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion on pages 3-12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montpelier's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or 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 combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2014 on our consideration of the City of Montpelier's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Montpelier's internal control over financial reporting and compliance.

Respectfully submitted,

*Fothergill Segale & Valley, CPAs*

FOTHERGILL SEGALE & VALLEY, CPAs  
Montpelier, Vermont  
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January 17, 2014

**CITY OF MONTPELIER, VERMONT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

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, 2013. Please read it in conjunction with the City's financial statements which begin on Exhibit A.

## **Financial Highlights**

### ***Government-Wide Statements***

As a result of the implementation of GASB #63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" the government-wide and proprietary financial statements and this Management's Discussion and Analysis now use the term "net position" in place of "net assets". Net position is the residual of all other elements presented in a Statement of Net Position.

During the current fiscal year, the District Heat Project became a viable utility under which the City will be providing heat to various customers who sign up and pay to be connected to the City's distribution system. As a result, the assets, liabilities and net position related to District Heat were transferred from the Capital Projects Fund, which is a governmental activity, to a new District Heat proprietary fund which is a business activity. This decreased the net position of the governmental activities by \$1,806,669 and increased the net position of the business-type activities by \$1,806,669.

Excluding the effect of the transfer of District Heat discussed above, the total net position of the governmental activities increased by \$909,101 or 4.4 percent and the total net position of the business-type activities increased by \$1,686,616 or 8.2 percent. The City's total net position increased by \$2,595,717 or 6.3%, 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 \$16,935,220 in fiscal year 2013 which is almost exactly the same as the \$16,975,707 cost in fiscal year 2012. Total revenue for all the City's programs decreased from \$20,387,744 in 2012 to \$19,530,937 in 2013, which is a 4% decrease from the previous year. This decrease is due to a reduction in capital grant activities although overall, capital grant and contributions remains high at \$2,199,618.

### ***Fund Statements***

During fiscal year 2013, the General Fund reported a net increase in the fund balance of \$48,026.

The General Fund balances totaled \$1,667,549 as of June 30, 2013. The fund balances that are nonspendable, restricted, committed and assigned totaled \$954,472 as of June 30, 2013. 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 \$713,077 which is \$251,064 lower than the prior year's unassigned fund balance.

The Community Development Fund ended the year with a restricted and committed fund balance of \$476,927, which was \$17,378 higher than the prior year fund balance of \$459,549. 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 \$2,025,571 which was \$1,248,393 higher than the prior year fund balance of \$777,178. Much of the increase in the Capital Projects fund balance is the result of the receipt of \$1,462,500 in bond proceeds for public works projects. A transfer of a negative fund balance of \$278,277 to the district heat fund also added to the fund balance. \$1,579,588 of these funds are restricted by bonding constraints and impact fee ordinances, \$619,129 are committed for various capital improvement projects leaving an unassigned fund deficit of (\$173,146).

Other nonmajor governmental funds ended the year with a fund balance of \$964,180, which was \$38,322 lower than the prior year fund balance of \$1,002,502. \$474,392 of these funds are Non-Expendable by Trust Agreements. \$640,630 of these funds are restricted and committed by donations and permanent funds. The unassigned deficit of \$150,842 is a result of interfund loans payable in the Montpelier Senior Citizens fund which will be paid back with future operations revenue.

**CITY OF MONTPELIER, VERMONT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

The Water Fund ended the year with a net position of \$8,932,191 which was \$110,801 more than the prior year balance of \$8,821,390. Of the total net position balance, \$9,400,979 is invested in property and equipment. This leaves an unrestricted deficit of \$468,788 to be recovered in future periods. This unrestricted deficit is \$15,048 more than the \$453,740 unrestricted deficit as of June 30, 2012. An unexpected major water line repair limited the Water Fund's ability to reduce its unrestricted deficit in fiscal year 2013. \$297,500 of the 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 a net position of \$11,684,618, which was \$242,711 higher than the prior year balance of \$11,441,907. Of the total net position balance, \$11,566,086 is invested in property and equipment. This leaves an unrestricted net position balance of \$118,532.

The Parking Fund ended the year with net position of \$314,560, which was \$24,538 higher than the prior year balance of \$290,022. Of the total net position balance, \$342,848 is invested in property and equipment and \$2,417 is restricted for various projects. This leaves a deficit of \$30,705 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.

As discussed earlier, the District Heat Fund was established in fiscal year 2013 and ended its first year with a total net position of \$3,115,235. Of the total net position balance, \$3,115,235 is invested in property and equipment.

### **Using This Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Position 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 Position 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 position and changes in them. You can think of the City's net position - 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 position 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 Position 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, parking and district heat activities are reported here.

**CITY OF MONTPELIER, VERMONT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

***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 Financial Position and the Statement of Activities) and governmental funds on the exhibits that follow each financial statement.

***Proprietary funds*** - When the City charges customers for the services it provides - whether to outside customers or to other units of the City - these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Financial Position 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.

Our analysis below separately considers the operations of governmental and business-type activities as well as the City as a whole.

**CITY OF MONTPELIER, VERMONT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

**The City as a Whole**

The City's combined net position increased by \$2,595,717 from a year ago - increasing from \$41,086,641 to \$43,682,358. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**Table 1**  
**Net Position**

	<i>June 30, 2013</i>			<i>June 30, 2012</i>		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
			Primary Government			Primary Government
Current and other assets	\$ 7,316,724	1,008,662	8,325,386	6,317,659	715,829	7,033,488
Capital assets	21,788,552	39,541,908	61,330,460	22,958,068	35,817,293	58,775,361
<b>Total assets</b>	<b>29,105,276</b>	<b>40,550,570</b>	<b>69,655,846</b>	<b>29,275,727</b>	<b>36,533,122</b>	<b>65,808,849</b>
Long term liabilities	8,535,691	15,105,910	23,641,601	7,494,327	15,767,516	23,261,843
Other liabilities	933,831	1,398,056	2,331,887	1,248,078	212,287	1,460,365
<b>Total liabilities</b>	<b>9,469,522</b>	<b>16,503,966</b>	<b>25,973,488</b>	<b>8,742,405</b>	<b>15,979,803</b>	<b>24,722,208</b>
Net position:						
Invested in capital assets, net of debt	18,032,714	24,425,148	42,457,862	19,337,797	21,042,778	40,380,575
Restricted	2,426,160	2,417	2,428,577	2,051,598	2,417	2,054,015
Unrestricted	(823,120)	(380,961)	(1,204,081)	(856,073)	(491,876)	(1,347,949)
<b>Total net position</b>	<b>\$ 19,635,754</b>	<b>24,046,604</b>	<b>43,682,358</b>	<b>20,533,322</b>	<b>20,553,319</b>	<b>41,086,641</b>

**CITY OF MONTPELIER, VERMONT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

**Table 2**  
**Change in Net Position**

	<i>June 30, 2013</i>			<i>June 30, 2012</i>		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
			Primary Government			Primary Government
<b>REVENUES:</b>						
Program revenues:						
Charges for services	\$ 970,495	6,742,163	7,712,658	954,703	6,397,323	7,352,026
Operating grants and contributions	949,812	0	949,812	1,931,796	0	1,931,796
Capital grants and contributions	380,452	1,819,166	2,199,618	2,724,031	133,541	2,857,572
General Revenues:						
Property taxes, penalties and interest	7,537,608	0	7,537,608	7,124,124	0	7,124,124
Payment in lieu of taxes	940,841	0	940,841	964,912	0	964,912
Unrestricted investment earnings	110,293	0	110,293	88,998	0	88,998
Gain (loss) on sale of capital assets	(4,995)	0	(4,995)	8,328	(321)	8,007
Other revenues	76,727	0	76,727	54,709	0	54,709
Contributions to permanent endowments	8,375	0	8,375	5,600	0	5,600
<b>Total revenues</b>	<b>10,969,608</b>	<b>8,561,329</b>	<b>19,530,937</b>	<b>13,857,201</b>	<b>6,530,543</b>	<b>20,387,744</b>
<b>PROGRAM EXPENSES:</b>						
General government	1,607,457	0	1,607,457	1,797,853	0	1,797,853
Public safety	4,455,692	0	4,455,692	4,410,840	0	4,410,840
Public works	2,525,163	0	2,525,163	2,608,649	0	2,608,649
Culture and recreation	1,045,957	0	1,045,957	1,348,697	0	1,348,697
Community development	9,089	0	9,089	296,673	0	296,673
Cemetery	188,072	0	188,072	173,854	0	173,854
Interest on long-term debt	239,077	0	239,077	233,305	0	233,305
Water	0	2,338,067	2,338,067	0	2,254,147	2,254,147
Sewer	0	3,295,906	3,295,906	0	3,159,956	3,159,956
Parking	0	723,882	723,882	0	691,733	691,733
District Heat	0	506,858	506,858	0	0	0
<b>Total program expenses</b>	<b>10,070,507</b>	<b>6,864,713</b>	<b>16,935,220</b>	<b>10,869,871</b>	<b>6,105,836</b>	<b>16,975,707</b>
Excess before special item and transfers	899,101	1,696,616	2,595,717	2,987,330	424,707	3,412,037
Flood/Fire Insurance Proceeds	0	0	0	43,742	158,402	202,144
Transfers	10,000	(10,000)	0	10,000	(10,000)	0
<b>Increase (decrease) in net position</b>	<b>909,101</b>	<b>1,686,616</b>	<b>2,595,717</b>	<b>3,041,072</b>	<b>573,109</b>	<b>3,614,181</b>
Transfer to District Heat Fund	(1,806,669)	1,806,669	0	0	0	0
<b>Total increase (decrease) in net position</b>	<b>\$ (897,568)</b>	<b>3,493,285</b>	<b>2,595,717</b>	<b>3,041,072</b>	<b>573,109</b>	<b>3,614,181</b>

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

Excluding the transfer of District Heat, the total net position of the City's governmental activities increased \$909,101 or 4.4%. This increase is the result of capital grants for storm-related damages and a new fire truck.

Excluding the transfer of District Heat, the total net position of the business-type activities increased by \$1,686,616 or 8.2%. This increase is due to a \$374,308 operations surplus and \$1,312,308 in capital grants for District Heat.

**CITY OF MONTPELIER, VERMONT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

**Governmental Activities**

The City's tax rate increased from \$0.8489 to \$0.8823 per \$100 of assessed value (up 4%) from fiscal year 2012 to fiscal year 2013.

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, parking and district heat - as well as each program's net cost (total cost less revenue generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

**Table 3**  
**Costs of Programs**

	<b>June 30, 2013</b>				<b>June 30, 2012</b>			
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>Net Revenues</b>		<b>Net Revenues</b>		<b>Net Revenues</b>		<b>Net Revenues</b>	
	<b>Total Cost</b>	<b>(Cost)</b>	<b>Total Cost</b>	<b>(Cost)</b>	<b>Total Cost</b>	<b>(Cost)</b>	<b>Total Cost</b>	<b>(Cost)</b>
	<b>of Services</b>	<b>of Services</b>	<b>of Services</b>	<b>of Services</b>	<b>of Services</b>	<b>of Services</b>	<b>of Services</b>	<b>of Services</b>
General government	\$ 1,607,457	(1,226,051)	0	0	1,797,853	(1,364,405)	0	0
Public safety	4,455,692	(3,426,841)	0	0	4,410,840	(3,611,000)	0	0
Public works	2,525,163	(1,992,362)	0	0	2,608,649	492,735	0	0
Culture and recreation	1,045,957	(717,230)	0	0	1,348,697	(711,608)	0	0
Community development	9,089	(9,089)	0	0	296,673	301,354	0	0
Water	0	0	2,338,067	98,301	0	0	2,254,147	85,534
Sewer	0	0	3,295,906	255,211	0	0	3,159,956	357,344
Parking	0	0	723,882	34,538	0	0	691,733	(17,850)
District Heat	0	0	506,858	1,308,566	0	0	0	0
All others	427,149	(398,175)	0	0	407,159	(366,417)	0	0
<b>Totals</b>	<b>\$ 10,070,507</b>	<b>(7,769,748)</b>	<b>6,864,713</b>	<b>1,696,616</b>	<b>10,869,871</b>	<b>(5,259,341)</b>	<b>6,105,836</b>	<b>425,028</b>

**The City's Funds**

As the City completed the year, its governmental funds (as presented in the Balance Sheet on Exhibit C) reported a combined fund balance of \$5,134,227 which is \$1,275,475 higher than last year's total of \$3,858,752. Included in this year's total change in fund balance are an increase of \$48,026 in the City's General Fund; an increase of \$17,378 in the Community Development Fund; an increase of \$970,116 in the Capital Projects Fund and a decrease of \$38,322 in Other Governmental Funds. A transfer of a negative fund balance of \$278,277 to the District Heat Fund also increased the Capital Projects Fund balance. Much of the increase in the City fund balance is in the Capital Projects Fund as a result of the receipt of bond proceeds for public works projects in the amount of \$1,462,500.

**General Fund Budgetary Highlights**

When comparing budget to actual net change in fund balance for the year ending June 30, 2013 there is a favorable variance of \$122,526 (as presented in Exhibit F).

Revenue is \$217,005 more than budgeted. Although there are many variances in many revenue line items, overall, this additional revenue is grant funds received for public safety equipment. Other significant favorable variances in revenue are \$67,356 ambulance call charges, \$26,566 project management fees and \$22,530 local payment in lieu of taxes (PILOT). Unfavorable variances in revenue are \$49,071 State PILOT and \$20,911 Transfer from Community Development Fund for administrative fees.

**CITY OF MONTPELIER, VERMONT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

Expenditures are over budget by \$302,850. Similar to revenue, a significant amount of the unbudgeted expenditures is related to equipment purchased with federal grant funds and the purchase of a fire truck. The cost of the fire truck was covered by bond proceeds (\$207,500 see Debt Proceeds in Other financing sources) and a federal grant. Some of the significant unbudgeted expenditures are; \$39,732 City Hall Building Repair (Elevator repair), \$36,346 Misc. Use of Fund Balance and \$24,475 Police Overtime. The \$88,495 overage in Small Equipment is partially offset by grant funds. Savings of Department of Public Works Operating Supplies and Salaries in Planning and City Manager Departments (vacancies) help offset these overages in expenditures.

Employee health insurance costs are lower than anticipated and \$26,700 in funds are set aside (committed) for possible, future health reimbursement arrangement overages.

The unassigned fund balance decreased from \$964,141 on June 30, 2012 to \$713,077 on June 30, 2013. This \$251,064 reduction is due to the fiscal year's \$48,026 net change in fund balance less the \$299,090 increase in nonspendable, restricted and committed funds. \$250,000 of this increase is funds committed by the City Council to Capital Projects in June of 2013. The City of Montpelier's Fund Balance Policy sets a long-term goal of an Unassigned Fund Balance that is 15% of budgeted General Fund Expenditures.

**Capital Asset and Debt Administration**

**Capital Assets**

At June 30, 2013, the City has \$61,330,460 compared to \$58,775,361 at June 30, 2012 invested in a broad range of capital assets, including police, fire, and department of public works equipment, buildings, park facilities, roads, bridges, water, sewer, district heat lines. (See Table 4 below) This amount represents a net increase (including additions and deductions) of \$2,555,099 over last year. This increase is related to the District Heat construction in progress and many other improvements to facilities, infrastructure and equipment.

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

	<i>June 30, 2013</i>			<i>June 30, 2012</i>		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
			Primary Government			Primary Government
Land	\$ 742,050	250,672	992,722	742,050	250,672	992,722
Capital improvements and equipment	19,879,395	34,576,537	54,455,932	19,271,741	35,566,621	54,838,362
Construction in progress	1,167,107	4,714,699	5,881,806	2,944,277	0	2,944,277
<b>Totals</b>	<b>\$ 21,788,552</b>	<b>39,541,908</b>	<b>61,330,460</b>	<b>22,958,068</b>	<b>35,817,293</b>	<b>58,775,361</b>

**CITY OF MONTPELIER, VERMONT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

This year's major additions included:

City Hall Elevator	\$ 42,423
City Hall Access Control for Doors	21,018
City Hall Attic Insulation	38,750
Senior Center Kitchen Improvements	21,646
Senior Center Kitchen Equipment	45,509
Police 2012 Chevrolet Impala	22,978
Police Roof Top Chiller	13,909
Fire Station Skylight	20,344
Fire 2013 Ford Explorer	24,166
Fire-2 Autopulse Resuscitation Systems	17,174
Fire Truck -Typhoon Pumper	357,073
Fire -2 Mounted Cameras on Fire Truck	12,759
Infrastructure-Streets	615,594
Infrastructure-Flood Repairs	152,713
Infrastructure-Retaining Walls	163,441
Infrastructure-CV Bike Path	64,151
Infrastructure-Carr Lot	78,695
DPW vehicles (3 Dump Trucks & Wheel Loader)	144,009
DPW - Wheel Loader	121,820
GPS Equipment-Shared-DPW,W&S	13,950
DPW Generator Project -In Progress	5,121
Water-2 vehicles 50%	25,553
Water -Dump Truck -50%	34,723
Water-Electric Generator Repairs	24,032
Water -Pump Repairs	19,680
Water System Improvements -In Progress	85,954
Sewer-2 vehicles 50%	25,553
Sewer -Dump Truck -50%	34,723
Sewer -Bridge & Tank Refurbish	47,080
Sewer -River St Line - In Progress	69,812
District Heat Project-In Progress	2,528,814
	<u>\$ 4,893,167</u>

**CITY OF MONTPELIER, VERMONT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

**Long Term - Debt**

At June 30, 2013, the City has \$23,246,619 in bonds and notes outstanding versus \$22,812,377 on June 30, 2012 - an increase of \$434,242 - as shown in Table 5.

**Table 5**  
**Outstanding Debt at Year-End**

	Balance at June 30, 2012	Additions	Payments	Balance at June 30, 2013
<i>Notes, capital leases and bonds payable:</i>				
Governmental activities	\$ 7,145,362	1,670,000	571,735	8,243,627
Proprietary Funds	15,667,015	435,060	1,099,083	15,002,992
<b>Totals</b>	<b>\$ 22,812,377</b>	<b>2,105,060</b>	<b>1,670,818</b>	<b>23,246,619</b>

New debt in Governmental activities resulted from loans for the City's multi-modal transit center project street and facilities improvements as well as a fire truck replacement. New debt in Proprietary Funds was for the District Heat project.

**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 2014 budget, property tax rates, and fees that will be charged for the business-type activities.

Economic factors considered include the unemployment in the City, which stood at 5.3% (August 2013) compared with 4.1% (August 2012). Also considered was the Consumer Price Index percent change over one year (August 2011-August 2012) which was 2%. Montpelier's estimated household income in 2011 was \$56,951 which is higher than the Vermont average of \$52,776. Montpelier's estimated median house or condo value in 2011 was \$203,165 which is lower than the Vermont average of \$213,700.

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. The combination of a slow-growing economy, little growth in the grand list and Montpelier's relatively high property tax rates, has resulted in a council goal to produce budgets with tax rate increases at or below inflation. The 2014 municipal budget provides for an increase equivalent to the change in the consumer price index, with all additional revenues dedicated to infrastructure investments.

To meet the City's fiscal challenges, it was necessary to reduce staffing in the 2014 budget. 4 full-time city positions were eliminated in the agencies of Fire, Police, Public Works and Planning. Although these changes will have some impact on City services, the City's ability to meet basic public health and safety will not be adversely affected. The City Council approved a multiyear capital plan to rebuild and maintain the city's infrastructure. The FY14 municipal budget requires a one-half cent tax rate increase which, at 0.5% is less than the 2% inflation rate for 2012.

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 increased very slightly effective July 1, 2013. 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 proposing a new rate structure to assure annual revenues will be generated to cover all costs and eliminate previous years' deficits in the Water Fund.

**CITY OF MONTPELIER, VERMONT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

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 \$37.50.

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 \$31.25.

The City's District Heat utility will begin operating a "mini-system" in the fall of 2013 as it awaits the completion of the state's bio-mass heating plant. Full operation is planned for the 2014-2015 heating season.

**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.

## CITY OF MONTPELIER, VERMONT

## Statement of Net Position

June 30, 2013

	Governmental Activities	Business-type Activities	Total
<b>Assets:</b>			
Cash	\$ 1,302,167	\$ 50	\$ 1,302,217
Investments	1,925,322	0	1,925,322
Receivables ( net of allowance for uncollectibles)	651,831	2,842,246	3,494,077
Loans receivable	1,047,547	0	1,047,547
Note receivable	116,431	0	116,431
Deposits	0	1,600	1,600
Prepaid expenses	141,583	22,371	163,954
Inventories	135,689	138,549	274,238
Internal balances	1,996,154	(1,996,154)	0
Capital assets:			
Land	742,050	250,672	992,722
Construction in progress	1,167,107	4,714,699	5,881,806
Other capital assets, (net of accumulated depreciation)	19,879,395	34,576,537	54,455,932
<b>Total assets</b>	<b>29,105,276</b>	<b>40,550,570</b>	<b>69,655,846</b>
<b>Liabilities:</b>			
Accounts payable	563,604	93,735	657,339
Construction payable	0	761,591	761,591
Due to state of vermont	0	439,000	439,000
Accrued payroll and related expenses	214,111	48,677	262,788
Deferred revenue	110,078	4,304	114,382
Accrued interest	46,038	50,749	96,787
Noncurrent liabilities:			
Due within one year	656,263	1,110,496	1,766,759
Due in more than one year	7,879,428	13,995,414	21,874,842
<b>Total liabilities</b>	<b>9,469,522</b>	<b>16,503,966</b>	<b>25,973,488</b>
<b>Net position:</b>			
Invested in capital assets, net of related debt	18,032,714	24,425,148	42,457,862
Restricted	2,426,160	2,417	2,428,577
Unrestricted	(823,120)	(380,961)	(1,204,081)
<b>Total net position</b>	<b>\$ 19,635,754</b>	<b>\$ 24,046,604</b>	<b>\$ 43,682,358</b>

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT  
Statement of Activities  
Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 1,607,457	\$ 187,501	\$ 193,905	\$ 0	\$ (1,226,051)	\$ 0	\$ (1,226,051)
Public safety	4,455,692	563,115	323,236	142,500	(3,426,841)	0	(3,426,841)
Public works	2,525,163	117,411	235,838	179,552	(1,992,362)	0	(1,992,362)
Culture and recreation	1,045,957	73,494	196,833	58,400	(717,230)	0	(717,230)
Community development	9,089	0	0	0	(9,089)	0	(9,089)
Cemetery	188,072	28,974	0	0	(159,098)	0	(159,098)
Interest on long-term debt	239,077	0	0	0	(239,077)	0	(239,077)
<b>Total governmental activities</b>	<b>10,070,507</b>	<b>970,495</b>	<b>949,812</b>	<b>380,452</b>	<b>(7,769,748)</b>	<b>0</b>	<b>(7,769,748)</b>
<b>Business-type activities:</b>							
Water	2,338,067	2,432,626	0	3,742	0	98,301	98,301
Sewer	3,295,906	3,551,117	0	0	0	255,211	255,211
Parking	723,882	758,420	0	0	0	34,538	34,538
District Heat	506,858	0	0	1,815,424	0	1,308,566	1,308,566
<b>Total business-type activities</b>	<b>6,864,713</b>	<b>6,742,163</b>	<b>0</b>	<b>1,819,166</b>	<b>0</b>	<b>1,696,616</b>	<b>1,696,616</b>
<b>Total</b>	<b>\$ 16,935,220</b>	<b>\$ 7,712,658</b>	<b>\$ 949,812</b>	<b>\$ 2,199,618</b>	<b>(7,769,748)</b>	<b>1,696,616</b>	<b>(6,073,132)</b>
<b>General revenues:</b>							
Property taxes, penalties and interest					7,537,608	0	7,537,608
Payment in lieu of taxes					940,841	0	940,841
Unrestricted investment earnings					110,293	0	110,293
Gain (loss) on sale of equipment					(4,995)	0	(4,995)
Other revenues					76,727	0	76,727
Contributions to Permanent Endowments					8,375	0	8,375
<b>Transfers</b>					10,000	(10,000)	0
<b>Total general revenues and transfers</b>					<b>8,678,849</b>	<b>(10,000)</b>	<b>8,668,849</b>
<b>Change in net position</b>					<b>909,101</b>	<b>1,686,616</b>	<b>2,595,717</b>
<b>Net Position - July 1, 2012</b>					<b>20,533,322</b>	<b>20,553,319</b>	<b>41,086,641</b>
<b>Reclassification of district heat</b>					<b>(1,806,669)</b>	<b>1,806,669</b>	<b>0</b>
<b>Net Position after reclassification - July 1, 2012</b>					<b>18,726,653</b>	<b>22,359,988</b>	<b>41,086,641</b>
<b>Net Position - June 30, 2013</b>					<b>\$ 19,635,754</b>	<b>\$ 24,046,604</b>	<b>\$ 43,682,358</b>

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT  
Balance Sheet  
Governmental Funds  
June 30, 2013

	General Fund	Community Development Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Cash	\$ 996,395	\$ 292,650	\$ 0	\$ 13,122	\$ 1,302,167
Investments	988,893	0	0	936,429	1,925,322
Receivables (net of allowance for uncollectibles)	484,266	0	149,772	17,793	651,831
Interfund loans receivable	0	167,724	0	0	167,724
Loans (net of allowance for uncollectibles)	0	768,547	0	279,000	1,047,547
Note receivable	116,431	0	0	0	116,431
Prepaid expenses	139,381	0	0	2,202	141,583
Inventories	135,281	0	0	408	135,689
Due from other funds	0	13,143	2,106,224	548,917	2,668,284
<b>Total assets</b>	<b>\$ 2,860,647</b>	<b>\$ 1,242,064</b>	<b>\$ 2,255,996</b>	<b>\$ 1,797,871</b>	<b>\$ 8,156,578</b>
<b>Liabilities:</b>					
Accounts payable	\$ 460,632	\$ 13,974	\$ 66,176	\$ 22,822	\$ 563,604
Accrued payroll and related expenses	202,264	0	0	11,847	214,111
Deferred revenue	209,870	751,163	164,249	279,500	1,404,782
Interfund loans payable	0	0	0	167,724	167,724
Due to other funds	320,332	0	0	351,798	672,130
<b>Total liabilities</b>	<b>1,193,098</b>	<b>765,137</b>	<b>230,425</b>	<b>833,691</b>	<b>3,022,351</b>
<b>Fund balances (deficit):</b>					
Nonspendable for:					
Inventories	135,281	0	0	0	135,281
Note receivable	116,431	0	0	0	116,431
Prepays	139,381	0	0	0	139,381
Trustees of public funds	0	0	0	474,392	474,392
Restricted, reported in:					
General Fund	132,540	0	0	0	132,540
Community Development Fund	0	287,079	0	0	287,079
Capital Projects Funds	0	0	1,579,588	0	1,579,588
Special Revenue Funds	0	0	0	148,493	148,493
Trustees of public funds	0	0	0	349,193	349,193
Committed, reported in:					
General Fund	430,839	0	0	0	430,839
Community Development Fund	0	189,848	0	0	189,848
Capital Projects Funds	0	0	619,129	0	619,129
Special Revenue Funds	0	0	0	142,944	142,944
Unassigned, reported in:					
General Fund	713,077	0	0	0	713,077
Capital Projects Fund	0	0	(173,146)	0	(173,146)
Special Revenue Funds	0	0	0	(150,842)	(150,842)
<b>Total fund balances</b>	<b>1,667,549</b>	<b>476,927</b>	<b>2,025,571</b>	<b>964,180</b>	<b>5,134,227</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,860,647</b>	<b>\$ 1,242,064</b>	<b>\$ 2,255,996</b>	<b>\$ 1,797,871</b>	
<b>Amounts reported for governmental activities in the statement of net position are different because:</b>					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.					21,788,552
Other assets are not available to pay for current-period expenditures, and, therefore, are deferred in the funds.					1,294,704
Long-term and accrued liabilities, are not due or payable in the current period and, therefore, are not reported in the funds.					(8,581,729)
<b>Net position of governmental activities</b>					<b>\$ 19,635,754</b>

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, 2013

	General Fund	Community Development Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property taxes, penalties and interest	\$ 8,263,382	\$ 0	\$ 0	\$ 0	\$ 8,263,382
Permits and licenses	79,795	0	0	0	79,795
Intergovernmental	1,074,899	3,140	235,379	79,928	1,393,346
Fees and charges for services	1,616,872	0	0	109,343	1,726,215
Fines and forfeitures	19,775	0	0	0	19,775
Investment income	53,075	12,305	0	44,913	110,293
Contributions	1,477	0	0	113,765	115,242
Rents and commissions	375	0	0	2,705	3,080
Equipment revenues	113,517	0	0	0	113,517
Loan principal repayments	0	39,162	0	0	39,162
Other revenues	29,366	0	34,667	12,694	76,727
<b>Total revenues</b>	<b>11,252,533</b>	<b>54,607</b>	<b>270,046</b>	<b>363,348</b>	<b>11,940,534</b>
<b>Expenditures:</b>					
General government	2,271,745	0	5,948	0	2,277,693
Public safety	4,271,655	0	15,132	0	4,286,787
Public works	2,063,065	0	41,777	0	2,104,842
Culture and recreation	469,556	0	24,564	512,894	1,007,014
Community development	0	34,089	0	10,000	44,089
Cemetery	0	0	0	176,757	176,757
Capital outlay:					
General government	42,423	0	59,768	0	102,191
Public safety	425,489	0	20,344	0	445,833
Public works	227,262	0	1,074,515	0	1,301,777
Culture and recreation	0	0	0	67,154	67,154
Debt service - principal	560,333	0	0	11,402	571,735
Debt service - interest	232,979	0	0	5,356	238,335
<b>Total expenditures</b>	<b>10,564,507</b>	<b>34,089</b>	<b>1,242,048</b>	<b>783,563</b>	<b>12,624,207</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>688,026</b>	<b>20,518</b>	<b>(972,002)</b>	<b>(420,215)</b>	<b>(683,673)</b>
<b>Other financing sources (uses):</b>					
Debt proceeds	207,500	0	1,462,500	0	1,670,000
Proceeds from sale of equipment	871	0	0	0	871
Transfers from other funds	0	0	479,618	542,782	1,022,400
Transfers to other funds	(848,371)	(3,140)	0	(160,889)	(1,012,400)
<b>Total other financing sources (uses)</b>	<b>(640,000)</b>	<b>(3,140)</b>	<b>1,942,118</b>	<b>381,893</b>	<b>1,680,871</b>
<b>Net change in fund balances</b>	<b>48,026</b>	<b>17,378</b>	<b>970,116</b>	<b>(38,322)</b>	<b>997,198</b>
<b>Fund balances - July 1, 2012</b>	<b>1,619,523</b>	<b>459,549</b>	<b>777,178</b>	<b>1,002,502</b>	<b>3,858,752</b>
<b>Reclassification of beginning deficit from capital projects fund to district heat proprietary fund</b>					
	0	0	278,277	0	278,277
<b>Fund balances after reclassification-July 1, 2012</b>	<b>1,619,523</b>	<b>459,549</b>	<b>1,055,455</b>	<b>1,002,502</b>	<b>4,137,029</b>
<b>Fund balances - June 30, 2013</b>	<b>\$ 1,667,549</b>	<b>\$ 476,927</b>	<b>\$ 2,025,571</b>	<b>\$ 964,180</b>	<b>\$ 5,134,227</b>

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, 2013

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

<b>Net change in fund balances - total government funds (Exhibit D)</b>	<b>\$ 997,198</b>
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost (\$1,916,955) of those assets is allocated over their estimated useful lives and reported as depreciation expense (\$1,050,487). This is the amount by which capital outlays exceeded depreciation in the current period.	866,468
The net effect of various transactions involving capital assets (i.e., sales, trade-ins) is to decrease net position.	(5,866)
Long term community development loans payments are recognized on an accrual basis in the statement of net position, not the modified accrual basis.	(39,162)
The issuance of long term community development loans consumes the current financial resources of government funds. The transaction, however, has no effect on net position.	10,000
Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis.	6,067
Revenues are recognized on an accrual basis in the statement of net position, not the modified accrual basis.	41,993
The issuance of long-term debt (\$1,670,000) (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt (\$571,735) consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,098,265)
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).	74,509
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).	56,901
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.	(742)
<b>Change in net position, governmental activities (Exhibit B)</b>	<b>\$ 909,101</b>

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 \$949,829, the general government expenses was decreased by \$707,026 and the public works was decreased by \$242,803.

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, 2013

EXHIBIT F

	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Property taxes, penalties and interest	\$ 8,293,105	\$ 8,263,382	\$ (29,723)
Intergovernmental	858,615	1,074,899	216,284
Fees and charges for services	1,883,808	1,914,252	30,444
<b>Total revenues</b>	<b>11,035,528</b>	<b>11,252,533</b>	<b>217,005</b>
<b>Expenditures:</b>			
City Council operations	33,391	29,504	3,887
City Manager's office	333,791	336,837	(3,046)
Clerk/Treasurer/Elections	187,252	177,164	10,088
Finance Department	463,646	429,024	34,622
Technology services	221,278	211,985	9,293
Property assessment	170,051	163,597	6,454
Planning and development	411,982	364,281	47,701
City Hall maintenance	192,340	203,643	(11,303)
Fifty Eight Barre Street	0	(623)	623
Police:			
General	1,550,888	1,586,780	(35,892)
Communications	518,546	518,819	(273)
School Resource Officer	88,553	95,317	(6,764)
Community Justice Center	99,904	108,610	(8,706)
Re-Entry Program	139,161	104,365	34,796
Fire and ambulance	1,735,869	1,754,269	(18,400)
Code/health enforcement	87,287	91,543	(4,256)
Emergency management	14,929	11,952	2,977
Public works:			
Streets	1,494,596	1,419,261	75,335
Fleet operations	546,859	575,465	(28,606)
Building operations	68,020	68,339	(319)
Wrightsville Beach	4,007	4,007	0
Kellogg-Hubbard Library	293,975	293,975	0
Outside agencies in budget	99,175	99,175	0
Community enhancements	37,800	37,680	120
Tree management and Board	36,446	27,513	8,933
Conservation Commission	6,750	7,206	(456)
Other governmental service	155,837	161,256	(5,419)
Small equipment	0	88,495	(88,495)
Tax abatement	56,000	61,715	(5,715)
Miscellaneous expense	3,200	8,089	(4,889)
Chamber of Commerce-Public Safety/SmartGov Community	0	36,346	(36,346)
Bad Debt Expense	0	432	(432)
Capital outlay:			
General government	55,600	42,423	13,177
Public safety	70,500	425,489	(354,989)
Public works	217,208	227,262	(10,054)
Debt service - principal	595,332	560,333	34,999
Debt service - interest	271,484	232,979	38,505
<b>Total expenditures</b>	<b>10,261,657</b>	<b>10,564,507</b>	<b>(302,850)</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>773,871</b>	<b>688,026</b>	<b>(85,845)</b>
<b>Other financing sources (uses):</b>			
Debt proceeds	0	207,500	207,500
Proceeds from sale of equipment	0	871	871
Transfer to other funds:			
Capital Projects	(384,274)	(384,274)	0
Cemetery	(145,755)	(145,755)	0
Parks	(149,970)	(149,970)	0
Senior Center	(116,372)	(116,372)	0
Events Fund	(11,000)	(11,000)	0
Affordable Housing Fund	(41,000)	(41,000)	0
<b>Total financing sources (uses)</b>	<b>(848,371)</b>	<b>(640,000)</b>	<b>208,371</b>
<b>Net change in fund balance</b>	<b>\$ (74,500)</b>	<b>48,026</b>	<b>\$ 122,526</b>
<b>Fund balance - July 1, 2012</b>		<b>1,619,523</b>	
<b>Fund balance - June 30, 2013</b>		<b>\$ 1,667,549</b>	

See accompanying notes to financial statements.

CITY OF MONTPELIER  
Statement of Net Position  
Proprietary Funds  
June 30, 2013

	Water Fund	Sewer Fund	Parking Fund	District Heat Fund	Total
<b>Assets:</b>					
<b>Current assets:</b>					
Cash	\$ 0	\$ 0	\$ 50	\$ 0	\$ 50
Receivables (net of allowance for uncollectibles)	712,381	674,180	49,129	1,406,556	2,842,246
Due from other funds	0	0	126,669	0	126,669
Deposits	0	0	1,600	0	1,600
Prepaid expenses	458	586	21,327	0	22,371
Inventory	115,506	23,043	0	0	138,549
<b>Total current assets</b>	<b>828,345</b>	<b>697,809</b>	<b>198,775</b>	<b>1,406,556</b>	<b>3,131,485</b>
<b>Noncurrent assets:</b>					
<b>Capital assets:</b>					
Land	32,000	0	218,672	0	250,672
Buildings	11,557,678	9,824,589	0	0	21,382,267
Improvements	10,418,423	21,592,926	273,495	0	32,284,844
Equipment and vehicles	866,349	1,036,232	151,828	0	2,054,409
Construction in Progress	85,955	69,812	0	4,558,932	4,714,699
Accumulated depreciation	(6,895,062)	(13,948,774)	(301,147)	0	(21,144,983)
<b>Total noncurrent assets</b>	<b>16,065,343</b>	<b>18,574,785</b>	<b>342,848</b>	<b>4,558,932</b>	<b>39,541,908</b>
<b>Total assets</b>	<b>\$ 16,893,688</b>	<b>\$ 19,272,594</b>	<b>\$ 541,623</b>	<b>\$ 5,965,488</b>	<b>\$ 42,673,393</b>
<b>Liabilities:</b>					
<b>Current liabilities:</b>					
Accounts payable	\$ 20,346	\$ 65,885	\$ 7,504	\$ 0	\$ 93,735
Construction payable	0	0	0	761,591	761,591
Due to state of vermont	0	0	0	439,000	439,000
Due to other funds	880,860	27,361	0	1,214,602	2,122,823
Accrued payroll and related expenses	16,493	21,029	11,155	0	48,677
Deferred revenue	4,304	0	0	0	4,304
Accrued interest payable	31,201	19,548	0	0	50,749
Capital leases - current portion	4,920	14,268	0	0	19,188
Bonds & notes payable - current portion	465,519	625,789	0	0	1,091,308
<b>Total current liabilities</b>	<b>1,423,643</b>	<b>773,880</b>	<b>18,659</b>	<b>2,415,193</b>	<b>4,631,375</b>
<b>Noncurrent liabilities:</b>					
Capital leases - long-term portion	22,041	63,916	0	0	85,957
Bonds & notes payable - long-term portion	6,469,384	6,709,595	192,500	435,060	13,806,539
Accrued compensated absences	46,429	40,585	15,904	0	102,918
<b>Total noncurrent liabilities</b>	<b>6,537,854</b>	<b>6,814,096</b>	<b>208,404</b>	<b>435,060</b>	<b>13,995,414</b>
<b>Total liabilities</b>	<b>7,961,497</b>	<b>7,587,976</b>	<b>227,063</b>	<b>2,850,253</b>	<b>18,626,789</b>
<b>Net position:</b>					
Invested in capital assets, net of related debt	9,400,979	11,566,086	342,848	3,115,235	24,425,148
Restricted	0	0	2,417	0	2,417
Unrestricted/(deficit)	(468,788)	118,532	(30,705)	0	(380,961)
<b>Total net position</b>	<b>8,932,191</b>	<b>11,684,618</b>	<b>314,560</b>	<b>3,115,235</b>	<b>24,046,604</b>
<b>Total liabilities and net position</b>	<b>\$ 16,893,688</b>	<b>\$ 19,272,594</b>	<b>\$ 541,623</b>	<b>\$ 5,965,488</b>	<b>\$ 42,673,393</b>

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT  
Statement of Revenues, Expenses  
and Change in Fund Net Position  
Proprietary Funds  
For the Year Ended June 30, 2013

	Water Fund	Sewer Fund	Parking Fund	District Heat Fund	Total
<b>Operating revenues:</b>					
Charges for services	\$ 2,394,895	\$ 3,518,476	\$ 758,420	\$ 0	\$ 6,671,791
Interest and penalties	24,389	23,595	0	0	47,984
Miscellaneous	13,342	9,046	0	0	22,388
<b>Total Operating Revenues</b>	<b>2,432,626</b>	<b>3,551,117</b>	<b>758,420</b>	<b>0</b>	<b>6,742,163</b>
<b>Operating expenses:</b>					
Administration	459,022	384,190	0	0	843,212
Supplies and treatment	483,339	1,530,925	0	0	2,014,264
Wastewater management	0	92,175	0	0	92,175
Distribution system	397,633	0	0	0	397,633
Collection system	0	438,584	0	0	438,584
Delinquent collection	16,047	15,700	0	0	31,747
Meter operations	58,610	0	0	0	58,610
Private sewer system maintenance	0	6,288	0	0	6,288
Parking enforcement	0	0	484,275	0	484,275
Parking lot leases	0	0	91,199	0	91,199
Parking lot maintenance	0	0	118,910	0	118,910
Depreciation expense	528,316	664,553	16,984	0	1,209,853
<b>Total operating expenses</b>	<b>1,942,967</b>	<b>3,132,415</b>	<b>711,368</b>	<b>0</b>	<b>5,786,750</b>
<b>Net operating income</b>	<b>489,659</b>	<b>418,702</b>	<b>47,052</b>	<b>0</b>	<b>955,413</b>
<b>Nonoperating revenues (expenses):</b>					
Interest expense	(395,100)	(163,491)	(12,514)	0	(571,105)
Capital grants	3,742	0	0	1,815,424	1,819,166
Sub-recipient grant expense	0	0	0	(506,858)	(506,858)
Transfers from other funds	12,500	0	0	0	12,500
Transfers to other funds	0	(12,500)	(10,000)	0	(22,500)
<b>Total nonoperating revenues (expenses)</b>	<b>(378,858)</b>	<b>(175,991)</b>	<b>(22,514)</b>	<b>1,308,566</b>	<b>731,203</b>
<b>Change in net position</b>	<b>110,801</b>	<b>242,711</b>	<b>24,538</b>	<b>1,308,566</b>	<b>1,686,616</b>
<b>Net position - July 1, 2012</b>	<b>8,821,390</b>	<b>11,441,907</b>	<b>290,022</b>	<b>0</b>	<b>20,553,319</b>
<b>Reclassification of district heat</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,806,669</b>	<b>1,806,669</b>
<b>Net position after reclassification - July 1, 2102</b>	<b>8,821,390</b>	<b>11,441,907</b>	<b>290,022</b>	<b>1,806,669</b>	<b>22,359,988</b>
<b>Net position - June 30, 2013</b>	<b>\$ 8,932,191</b>	<b>\$ 11,684,618</b>	<b>\$ 314,560</b>	<b>\$ 3,115,235</b>	<b>\$ 24,046,604</b>

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2013

	Water Fund	Sewer Fund	Parking Fund	District Heat Fund	Total
<b>Cash flows from operating activities:</b>					
Receipts from customers and users	\$ 2,401,972	\$ 3,487,593	\$ 707,612	\$ 0	\$ 6,597,177
Receipts from interfund services	0	0	23,852	0	23,852
Payments to suppliers	(480,765)	(1,189,670)	(196,019)	0	(1,866,454)
Payments for interfund services	(358,540)	(492,720)	(59,325)	0	(910,585)
Payments for wages and benefits	(629,181)	(793,639)	(445,135)	0	(1,867,955)
<b>Net cash provided by operating activities</b>	<b>933,486</b>	<b>1,011,564</b>	<b>30,985</b>	<b>0</b>	<b>1,976,035</b>
<b>Cash Flows from Noncapital Financing Activities:</b>					
Decrease (increase) in due from other funds	0	0	(8,471)	0	(8,471)
(Decrease) increase in due to other funds	101,432	(18,756)	0	1,078,074	1,160,750
Proceeds from loan payable	0	0	0	435,060	435,060
Transfers received from other funds	12,500	0	0	0	12,500
(Decrease) increase in accrued interest	(1,895)	3,637	0	0	1,742
Transfers paid to other funds	0	(12,500)	(10,000)	0	(22,500)
Interest payments on interfund balances	(26,157)	(2,204)	0	0	(28,361)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>85,880</b>	<b>(29,823)</b>	<b>(18,471)</b>	<b>1,513,134</b>	<b>1,550,720</b>
<b>Cash flows from capital and related financing activities:</b>					
Acquisition of capital assets	(193,942)	(181,594)	0	(1,582,464)	(1,958,000)
Receipts from capital grants	3,742	0	0	576,188	579,930
Sub-recipient grant payments	0	0	0	(506,858)	(506,858)
Principal payments on general obligation bonds and leases	(460,223)	(638,860)	0	0	(1,099,083)
Interest payments on general obligation bonds and leases	(368,943)	(161,287)	(12,514)	0	(542,744)
<b>Net cash used in capital and related financing activities</b>	<b>(1,019,366)</b>	<b>(981,741)</b>	<b>(12,514)</b>	<b>(1,513,134)</b>	<b>(3,526,755)</b>
<b>Net Increase in Cash</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash - July 1, 2012</b>	<b>0</b>	<b>0</b>	<b>50</b>	<b>0</b>	<b>50</b>
<b>Cash - June 30, 2013</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 50</b>	<b>\$ 0</b>	<b>\$ 50</b>
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>					
Net operating income	\$ 489,659	\$ 418,702	\$ 47,052	\$ 0	\$ 955,413
Depreciation expense	528,316	664,553	16,984	0	1,209,853
Decrease (increase) in accounts receivable	(25,357)	(63,524)	(26,956)	0	(115,837)
Decrease (increase) in prepaid expenses	(458)	(586)	(5,381)	0	(6,425)
Decrease (increase) in inventory	(46,242)	(6,581)	0	0	(52,823)
(Decrease) increase in accounts payable	(4,592)	(1,157)	686	0	(5,063)
(Decrease) increase in accrued payroll	(3,442)	(2,318)	(443)	0	(6,203)
(Decrease) increase in deferred revenue	(5,297)	0	0	0	(5,297)
(Decrease) increase in accrued vacation	899	2,475	(957)	0	2,417
<b>Net cash provided by operating activities</b>	<b>\$ 933,486</b>	<b>\$ 1,011,564</b>	<b>\$ 30,985</b>	<b>\$ 0</b>	<b>\$ 1,976,035</b>

**Non-cash transactions:**

None

See accompanying notes to financial statements.

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

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)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**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 position 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, 2013

**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.

District Heat Fund This fund accounts for the operations of District Heat Department.

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 position). Equity (i.e., net total position) is segregated into invested in capital assets, net of related debt; restricted net position; and unrestricted net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

(continued)

CITY OF MONTPELIER, VERMONT  
Notes to the Financial Statements  
June 30, 2013

**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 positions 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.

(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 nonspendable fund balance 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, 2013**

**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)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**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 position are classified based upon any restrictions that have been placed on those balances or any tentative plans management may have made for those balances. Under GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, fund balances are classified into five categories. Nonspendable fund balance consists of funds that are either not spendable form or are legally or contractually required to be maintained intact. Restricted fund balances and net position 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.

As a result of the implementation of GASB#63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" the government-wide and proprietary financial statements now use the term "net position" in place of "net assets". Net position is the residual of all other elements presented in a Statement of Net Position.

**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, 2013**

**3. Stewardship, Compliance and Accountability**

**3.a. Budgetary Information**

During December of each year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. In January, the Council finalizes a proposed budget to present to the City's residents. Public hearings are then conducted to obtain taxpayer comments. Annually, on the first Tuesday in March, the voters authorize a specific sum of budgeted tax appropriation for the support of all City departments.

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

There is no approved budget for the Community Development Fund.

**3.b. Excess of Expenditures Over Appropriations**

For the year ended June 30, 2013, expenditures exceeded appropriations in the General Fund by \$302,850. This was primarily due to the purchase of a fire truck for \$364,504 which was funded by grant proceeds of \$142,500 and bond proceeds of \$207,500.

**4. Detailed Notes on All Funds**

**4.a. Deposits and Investments**

Cash - Deposits with Financial Institutions	\$ 1,301,617
Cash on Hand	600
<b>Total Cash</b>	<b>1,302,217</b>
Investments - Certificates of Deposit	87,766
Money Market Mutual Funds	1,013,895
Mutual Funds - Mixed Holdings	96,585
Mutual Funds - Bonds	609,807
Mutual Funds - Stocks	114,054
Corporate Stock	3,215
<b>Total Investments</b>	<b>1,925,322</b>
<b>Total Cash and Investments</b>	<b>\$ 3,227,539</b>

**Investment Policy**

The City's investment policy is as follows:

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

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**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 will do 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, 2013**

**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)				Data not Available	N/A	Total
	0-1	1-5	6-10				
Certificates of Deposit	\$ 0	0	0	0	0	87,766	\$ 87,766
Money Market Mutual Funds	1,013,895	0	0	0	0	0	1,013,895
Mutual Funds - Mixed Holdings	0	0	0	96,585	0	0	96,585
Mutual Funds - Bonds	0	243,859	365,948	0	0	0	609,807
Mutual Funds - Stocks	0	0	0	0	0	114,054	114,054
Corporate Stock	0	0	0	0	0	3,215	3,215
	\$ 1,013,895	243,859	365,948	96,585	205,035	\$ 1,925,322	

**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	\$ 608,084	\$ 608,193
Collateralized Pledged Restricted Securities	735,367	2,022,037
Uninsured, Uncollateralized	45,932	45,932
Total Deposits	\$ 1,389,383	\$ 2,676,162

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**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	\$ 1,301,617
Investments – Certificate of Deposits	87,766
Total	<u>\$ 1,389,383</u>

**4.b. Receivables**

Receivables at June 30, 2013, as reported in the Statement of Net Position, net of applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities	Business-Type Activities	Total
Taxes, Penalties and Interest	\$ 129,881	\$ 0	\$ 129,881
Ambulance	157,097	0	157,097
Parking Tickets	0	209,106	209,106
Accounts Receivable	118,367	234,106	352,473
Grants	306,794	1,316,345	1,623,139
Billed Services	0	206,099	206,099
Unbilled Services	0	1,057,590	1,057,590
Other Receivables	29,592	0	29,592
Allowance for Doubtful Accounts	(89,900)	(181,000)	(270,900)
	<u>\$ 651,831</u>	<u>\$ 2,842,246</u>	<u>\$ 3,494,077</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%.

	\$ 3,152,005
Notes receivable, six (6) housing loans, 0% interest, due upon any conveyance or transfer of condominium units.	122,000
Total	3,274,005
Less allowance for doubtful loans	(2,226,458)
	<u>\$ 1,047,547</u>

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**4. Detailed Notes on All Funds (continued)**

**4.c. Loans Receivable (continued)**

Changes in loans receivable for the year ended June 30, 2013 were as follows:

Beginning Balance	Additions	Deletions	Ending Balance
\$ 3,278,167	35,000	39,162	\$ 3,274,005

**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, 2013 was \$116,431. This loan is secured by a building. The current principal due over the next twelve months is \$31,955.

**4.e. Capital Assets**

Capital assets activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 742,050	0	0	\$ 742,050
Construction in progress	2,944,277	306,556	2,083,726	1,167,107
Total capital assets, not being depreciated	3,686,327	306,556	2,083,726	1,909,157
Capital assets being depreciated:				
Buildings and building improvements	8,600,776	189,690	0	8,790,466
Vehicles and equipment	5,288,821	722,009	459,476	5,551,354
Infrastructure	12,533,591	821,646	0	13,355,237
Totals	26,423,188	1,733,345	459,476	27,697,057
Less accumulated depreciation for:				
Buildings and building improvements	2,350,256	205,053	0	2,555,309
Vehicles and equipment	3,312,408	372,138	384,272	3,300,274
Infrastructure	1,488,783	473,296	0	1,962,079
Totals	7,151,447	1,050,487	384,272	7,817,662
Total capital assets, being depreciated	19,271,741	682,858	75,204	19,879,395
Governmental activities capital assets, net	\$ 22,958,068	989,414	2,158,930	\$ 21,788,552

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**4. Detailed Notes on All Funds (continued)**

**4.e. Capital Assets (continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 250,672	0	0	\$ 250,672
Construction in progress	0	4,714,699	0	4,714,699
<b>Total capital assets, not being depreciated</b>	<b>250,672</b>	<b>4,714,699</b>	<b>0</b>	<b>4,965,371</b>
Capital Assets Being Depreciated:				
Buildings	21,382,267	0	0	21,382,267
Improvements	32,237,764	47,080	0	32,284,844
Equipment and vehicles	1,899,393	175,213	20,197	2,054,409
<b>Total capital assets, being depreciated</b>	<b>55,519,424</b>	<b>222,293</b>	<b>20,197</b>	<b>55,721,520</b>
Less accumulated depreciation for:				
Buildings	5,125,738	414,727	0	5,540,465
Improvements	13,706,635	678,917	0	14,385,552
Equipment and vehicles	1,120,430	116,209	17,673	1,218,966
<b>Totals</b>	<b>19,952,803</b>	<b>1,209,853</b>	<b>17,673</b>	<b>21,144,983</b>
<b>Total capital assets, being depreciated</b>	<b>35,566,621</b>	<b>(987,560)</b>	<b>2,524</b>	<b>34,576,537</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 35,817,293</b>	<b>3,727,139</b>	<b>2,524</b>	<b>\$ 39,541,908</b>

Depreciation was charged as follows:

**Governmental Activities:**

General Government	\$ 130,266
Public Safety	187,872
Public Works	682,091
Culture and Recreation	38,943
Cemetery	11,315
	<u>\$ 1,050,487</u>

**Business - Type Activities:**

Water	\$ 528,316
Sewer	664,553
Parking	16,984
District Heat	0
	<u>\$ 1,209,853</u>

The District Heat –Construction in Progress (Distribution System and Plant Capacity) was recorded in the Capital Projects Fund through June 30, 2012. For the fiscal year ending June 30, 2013, it was determined that the project was to become a separate utility for the City, so the value of the District Heat Construction in Progress of \$2,030,118 at June 30, 2012 was transferred to a new District Heat Proprietary Fund.

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**4. Detailed Notes on All Funds (continued)**

**4.f. Interfund Receivables, Payables and Transfers**

The composition of interfund balances at June 30, 2013 is as follows:

Fund	Receivable Fund	Payable Fund
General Fund	\$ 0	\$ 320,332
Community Development Fund	13,143	0
Capital Projects Fund	2,106,224	0
Other Governmental Funds	548,917	351,798
Water Fund	0	880,860
Sewer Fund	0	27,361
Parking Fund	126,669	0
District Heat Fund	0	1,214,602
<b>Total due to/from other funds</b>	<b>\$ 2,794,953</b>	<b>\$ 2,794,953</b>

Interfund transfers during the year ended June 30, 2013 were as follows:

Transfer From	Transfer To	Amount	Purpose
General Fund	Capital Projects Fund	\$ 384,274	Budgetary Authorization
General Fund	Green Mount Cemetery Fund	145,755	Budgetary Authorizations
General Fund	Montpelier Parks Commission	149,970	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	116,372	Budgetary Authorization
Community Development Fund	Capital Projects Fund	3,140	Grant Funds Transfer
Senior Center Fund	Capital Projects Fund	27,582	Board Authorized Transfer
Montpelier Foundation	Capital Projects Fund	64,622	Board Authorized Transfer
Montpelier Foundation	Senior Center	12,695	Board Authorized Transfer
Montpelier Foundation	Montpelier Parks Commission	886	Board Authorized Transfer
Expendable Cemetery Trust Fund	Green Mount Cemetery Fund	27,000	Budgetary Authorization
Non-Expendable Cemetery Trust Fund	Expendable Cemetery Trust Fund	28,030	Investment Income Transfer
Hubbard Park Trust Fund	Montpelier Parks Commission Fund	74	Interest Income Transfer
Sewer Fund	Water Fund	12,500	Expense Allocation Transfer
Parking Fund	Green Mount Cemetery Fund	10,000	Budgetary Authorization
<b>Total</b>		<b>\$ 1,034,900</b>	

Interfund loan balances at June 30, 2013 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	\$ 110,704	\$ (110,704)
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	57,020	(57,020)
<b>Total of interfund loans</b>	<b>\$ 167,724</b>	<b>\$ (167,724)</b>

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**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, 2013 were as follows:

Beginning Balance	Additions	Deletions	Ending Balance
\$ 174,850	0	7,126	\$ 167,724

**4.g. Deferred Revenue**

Deferred Revenue in the General Fund consists of \$90,889 of grant revenue received in advance, \$70,151 of delinquent taxes, \$25,000 of state pilot, \$14,990 of ambulance revenue and \$8,840 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 \$209,870.

Deferred Revenue in the Community Development Fund consists of \$751,163 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 \$164,249 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 \$279,500 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 \$279,500.

Deferred Revenue in the Water Fund consists of \$4,304 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, 2013**

**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, 2013 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.	\$ 20,000
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.	175,000
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.	155,000
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.	25,000
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.	270,000
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.	240,000
Bike path lighting project bond, interest at 4.67%, to Vermont Municipal Bond Bank, \$20,000 principal due annually, due in December 2021.	180,000
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.	570,000

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**4. Detailed Notes on All Funds (continued)**

**4.h. Long-term Liabilities (continued)**

City Hall improvement bond, various interest rates (1.87% - 5.09%), to Vermont Municipal Bond Bank, \$45,000 principal due annually from December 1, 2005 to December 1, 2014, \$40,000 principal due from December 1, 2015 to December 1, 2024.	490,000
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.	164,455
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.	10,545
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.	595,000
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.	23,598
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).	2,672,500
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.	75,638
Carr Lot, streets, fire truck and buildings improvement bond, various interest rates (1.098% - 3.908%), to Vermont Municipal Bond Bank, \$85,000 principal due annually from December 1, 2013 to December 1, 2026, \$80,000 principal due from December 1, 2027 to December 1, 2032.	1,670,000

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**4. Detailed Notes on All Funds (continued)**

**4.h. Long-term Liabilities (continued)**

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.		870,000
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.		36,891
Total governmental activities bonds , notes payable and leases payable		\$ 8,243,627

**Business-type Activities**

**Water Fund**

Water line improvement bond, various interest rates (3.865% - 4.665%) to Vermont Municipal Bond Bank, principal payments in annual installments of \$105,519 decreasing to \$80,195 until December 1, 2027.	\$	1,422,404
Water filtration system bond issued July 10, 1991 to Vermont Municipal Bond Bank, refunded by the Vermont Municipal Bond Bank August 2, 1995, from 1991 Series 1 to 1995 Series 1 and 2, net interest rate of 7.14%, interest payable June 1 and December 1, and principal payable in various annual installments increasing from \$25,000 to \$195,000 until December 1, 2021.		1,365,000
Vermont water system improvement bond refinanced July 2004 through the Vermont Bond Bank, various interest rates (1.87% - 5.09%), interest payable June 1 and December 1, and principal payable in various annual installments increasing from \$145,000 to \$310,000 until December 1, 2024.		2,880,000
Westside connector bond issued July 2004 to Vermont Municipal Bond Bank, interest rates (1.87% - 5.09%), interest payable June 1 and December 1, and principal payable in various annual installments increasing from \$50,000 to \$105,000 until December 1, 2024.		970,000

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**4. Detailed Notes on All Funds (continued)**

**4.h. Long-term Liabilities (continued)**

VMERS Refunding Bond, Vermont Municipal Bond Bank, interest rate at 6.501%, semi-annual interest only payments through May 15, 2017, principal payable starting November 15, 2017 in various annual installments increasing from \$30,000 to \$524,000 until November 15, 2032, (74.96% of bond reported in Governmental Activities, 8.35% reported in Water Fund, 11.29% reported in Sewer Fund and 5.40% reported in Parking Fund).		297,500
Honeywell Global Finance, LLC lease for energy efficient upgrades, interest at 4.53%, due in annual installments of principal and interest of \$25,600 until February 1, 2009, then \$26,890 until February 1, 2010, then \$30,431 until February 1, 2018, (61% of lease reported in Governmental Activities, 10% of lease reported in Water Fund and 29% reported in Sewer Fund), secured by equipment.		26,960
<b>Total Water Fund bonds and leases payable</b>		<b>\$ 6,961,864</b>

**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.	\$	88,196
Sewer system improvement Bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$38,856 until December 1, 2017.		194,277
Sewer system improvement bond, Vermont Municipal Bond Bank, net interest rate of 5.676%, annual principal of \$30,000 until December 1, 2016.		120,000
Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$14,156 until December 1, 2018.		84,937
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.		1,015,000
Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$35,497 until April 1, 2020.		248,479

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**4. Detailed Notes on All Funds (continued)**

**4.h. Long-term Liabilities (continued)**

Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$174,171 until July 1, 2025.	2,090,051
Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$13,807 until January 1, 2022.	124,264
Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$26,456 until July 1, 2022.	238,103
Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$34,432 until July 1, 2023.	344,319
Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments payments of \$28,100 until June 1, 2024.	309,096
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.	451,226
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.	700,000
River Street sewer line bond, Vermont Municipal Bond Bank, various interest rates (1.9% - 4.65%), principal payments of \$20,000 until November 15, 2028.	320,000
VMERS refunding bond, Vermont Municipal Bond Bank, interest rate at 6.501%, semi-annual interest only payments through May 15, 2017, principal payable starting November 15, 2017 in various annual installments increasing from \$30,000 to \$524,000 until November 15, 2032, (74.96% of bond reported in Governmental Activities, 8.35% reported in Water Fund, 11.29% reported in Sewer Fund and 5.40% reported in Parking Fund).	402,500

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

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

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.	78,184
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.	262,597
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.	342,339
Total Sewer Fund bonds and lease payable	\$ 7,413,568

**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

**District Heat Fund**

VEDA -CEDF Note for District Heat, interest at 1.00%, interest only payments until the project revenues exceed expenses by \$80,000 , then annual payments of principal of \$75,000 plus interest. Principal payments budgeted to start July 2030 to July 2039.	\$ 435,060
Total District Heat Fund note payable	\$ 435,060
Total Proprietary Funds bonds and leases payable	\$ 15,002,992

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**4. Detailed Notes on All Funds (continued)**

**4.h. Long-term Liabilities (continued)**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General Obligation Bonds	\$ 6,712,500	1,670,000	(450,000)	\$ 7,932,500	\$ 530,000
Capital Leases	397,862	0	(110,333)	287,529	114,598
Notes Payable	35,000	0	(11,402)	23,598	11,665
Compensated Absences	348,965	21,319	(78,220)	292,064	0
Total Governmental Activities Long-Term Liabilities	\$ 7,494,327	1,691,319	(649,955)	\$ 8,535,691	\$ 656,263
<b>Business-type Activities</b>					
General Obligation Bonds	\$ 15,543,523	0	(1,080,735)	\$ 14,462,788	\$ 1,091,308
Capital Leases	123,492	0	(18,348)	105,144	19,188
Notes Payable	0	435,060	0	435,060	0
Compensated Absences	100,501	12,891	(10,474)	102,918	0
Total Business-type Activities Long-Term Liabilities	\$ 15,767,516	447,951	(1,109,557)	\$ 15,105,910	\$ 1,110,496

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

Debt service requirements to maturity are as follows:

Year Ending June 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Capital Leases	Principal	Interest	Capital Leases
2014	\$ 541,665	\$ 379,300	\$ 126,156	\$ 1,091,308	\$ 506,635	\$ 23,736
2015	511,933	359,466	76,999	1,121,889	460,678	23,736
2016	455,000	338,962	37,126	1,132,483	417,047	23,736
2017	455,000	319,844	37,126	1,163,085	381,140	23,737
2018	472,488	299,740	37,126	1,149,165	346,351	23,737
2019-2023	1,813,588	1,201,709	0	5,596,722	1,122,959	0
2024-2028	1,657,080	787,355	0	2,527,481	273,835	0
2029-2033	2,049,344	320,911	0	905,655	125,510	0
2034-2038	0	0	0	210,060	1,952	0
Less Amounts Representing Interest	0	0	(27,004)	0	0	(13,538)
<b>Total</b>	<b>\$ 7,956,098</b>	<b>\$ 4,007,287</b>	<b>\$ 287,529</b>	<b>\$ 14,897,848</b>	<b>\$ 3,636,107</b>	<b>\$ 105,144</b>

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**4. Detailed Notes on All Funds (continued)**

**4.h. Long-term Liabilities (continued)**

The City has authorized, but has not issued long-term debt at June 30, 2013 as follows:

<u>Purpose</u>	<u>Authorized</u>	<u>Amount</u>
District Heat System Bonds	June 14, 2011	\$ 2,000,000
District Heat System Loan	June 14, 2011	\$ 314,940

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

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

The tax anticipation note had an interest rate of 2.22% and was paid in full with interest of \$54,892 in June 2013.

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

The restricted fund balances/net position of the City as of June 30, 2013 consisted of the following:

	<u>Balance</u> <u>June 30, 2013</u>
<b>Governmental Funds</b>	
General Fund:	
Act 60 Reappraisal - State Statute	\$ 52,299
Records Restoration - State Statute	51,629
Park Impact Fees - State Statute	26,126
Drug Seizure	2,486
Total General Fund	\$ 132,540
Community Development Fund:	
Community Development Grant Funds	\$ 287,079
Total Community Development Fund	\$ 287,079
Capital Projects Fund:	
Traffic Impact Fees	\$ 4,300
Bond Proceeds	1,575,288
Total Capital Projects Fund	\$ 1,579,588
Other Governmental Funds:	
Special Revenue Funds:	
Montpelier Events Fund - Donations	\$ 6,126
Montpelier Events Fund - Grants	12,255
Total Montpelier Events Fund	\$ 18,381
Green Mount Cemetery	35,695
Montpelier Foundation - Donations	94,417
Total Special Revenue Funds	\$ 148,493

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**4. Detailed Notes on All Funds (continued)**

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

Permanent Funds:	
Expendable Cemetery Trust	349,193
Total	\$ 349,193
Total Other Governmental Funds	\$ 497,686
Total Restricted Fund Balances - Governmental Funds	\$ 2,496,893

The committed fund balances/net position of the City as of June 30, 2013 consisted of the following:

	Balance June 30, 2013
Governmental Funds:	
Major Funds:	
General Fund:	
Committed for Fire Revenue Reserve	\$ 1,782
Committed for Conservation Commission	8,794
Committed for Health Reimbursement Arrangement	59,700
Committed for Equipment Reserve	360,563
Total General Fund	\$ 430,839
Community Development Fund:	
Committed for MBL Program	\$ 51,619
Committed for HPG Program	94,111
Committed for 25/25/ Loan write-offs	17,701
Committed for Community Development Program	26,417
Total Community Development Fund	\$ 189,848
Capital Projects Fund:	
Committed for Future Projects	\$ 282,619
Committed for Flood Mitigation-Phase II Project	336,510
Total Capital Projects Fund	\$ 619,129
Other Governmental Funds:	
Special Revenue Funds:	
Committed for Montpelier Park Commission	\$ 18,403
Committed for Montpelier Events Fund	13,341
Committed for Conservation Fund	34,932
Committed for Montpelier Housing Trust Fund	76,268
Total Special Revenue Funds	\$ 142,944
Total Committed Fund Balances - Governmental Funds	\$ 1,382,760

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**4. Detailed Notes on All Funds (continued)**

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

The negative unassigned fund balance of \$150,842 in the Montpelier Senior Citizens Fund is a result of the interfund loans payable used for building renovations and will be funded from future operations.

The negative unassigned fund balance of \$173,146 in the Capital Projects Fund is a result of \$123,344 in streets/sidewalks/ADA improvement expenses that will be funded from future bond proceeds and \$49,802 of grant expenses which will be funded from future grant funds.

**4.i. Restricted Net Position**

The restricted net position of the City (government-wide statements) as of June 30, 2013 consisted of the following:

<b>Governmental Activities:</b>	
Restricted by State Statute - Impact Fees	\$ 30,426
Restricted by State Statute – Other	103,928
Restricted by Donors	150,979
Restricted by Trust Agreements - Non-Expendable	474,392
Restricted by Trust Agreements - Expendable	349,193
Restricted by Community Development Loan/Grant Agreements	1,317,242
<b>Total Governmental Activities:</b>	<b>\$ 2,426,160</b>
 <b>Business-Type Activities:</b>	
Restricted by Impact Fees Statute	\$ 2,417
<b>Total Business-Type Activities</b>	<b>\$ 2,417</b>
<b>Total Restricted Net Position</b>	<b>\$ 2,428,577</b>

**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 6.5%, 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 \$6,169,851 while covered payroll was \$5,958,708. Pension expense for the year was \$374,102.

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

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**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.

**5. Other Information (continued)**

**5.b. Property Taxes (continued)**

The tax rate for fiscal year 2011-2013 was as follows:

		Residential		Non Residential
City, Cemetery and Outside Agencies	\$	0.8889	\$	0.8889
State Education Tax		1.3109		1.3853
Local Tax Agreements		0.0005		0.0005
Water/Sewer Benefit Charge		0.0900		0.0900
Recreation		0.0692		0.0692
<b>Total</b>	<b>\$</b>	<b>2.3595</b>	<b>\$</b>	<b>2.4339</b>

**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 \$91,200 per year. All are cancelable by the City. The City is responsible for the repair, maintenance and upkeep of the parking lots.

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**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.

**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, 2013 was \$2,000.

**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, 2013 was \$12,732.

The minimum lease payments are as follows:

2014	\$	7,836
2015		7,836
2016		<u>5,887</u>
	\$	<u>21,559</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 offer a Blue Cross Blue Shield of Vermont high deductible plan with an employer funded 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 the first three years, the actual use of the City's HRA funding was below 65%. Based on lower than budgeted employee HRA use in 2012, \$26,700 was added to a reserve fund to offset future HRA overages. The balance of the HRA reserve fund at June 30, 2013 is \$59,700.

When budgeting for the 2013 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 would exceed the budgeted cost by an estimated \$160,000. The risk of this overage is low based on the first three years' HRA experience and the funds available in the reserve fund.

(continued)

**CITY OF MONTPELIER, VERMONT**  
**Notes to the Financial Statements**  
**June 30, 2013**

**5.f. Postemployment Benefits Other Than Pensions**

As of January 1, 2012 retiring employees no longer are permitted to participate in the City health insurance plan after their Cobra benefit expires. Also, there are only two City retirees who are currently on the City's Health Insurance Plan. These two participants pay the same premiums as active employees and participate in the City's HRA program. Based on the policy change as of January 1, 2012, low participation, and adequate HRA reserves, GASB 45 calculations no longer apply. The Postemployment Benefits other than Pension (OPEB) liability on the Statement of Net Position at June 30, 2012 of \$74,509 was reversed during the fiscal year ending June 30, 2013.

**5. Other Information (continued)**

**5.g. Subsequent Events**

Subsequent to year end, the City issued additional debt as follows:

<u>Description</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Purpose</u>
Tax anticipation Note	\$2,500,000	2.80%	General Operating Short Term Funding
Bond anticipation Note	\$2,000,000	1.15%	District Heat System Project
VEDA-CDF Note	\$ 314,940	1.00%	District Heat System Project
Mortgage Note	\$ 400,000	4.50%	Property for Carr Lot Project

The City also signed a five year lease on a parking lot with annual payments starting at \$27,747 with 3.5% annual increases.

Subsequent to year end, the City purchased three properties for a total purchase price of \$2,012,038. The properties will be used to accommodate the building of a new Welcome and Multi-modal Transportation Center (Carr Lot).

The City has evaluated subsequent events through January 17, 2014, the date on which the financial statements were available to be issued.

CITY OF MONTPELIER, VERMONT  
Combining Balance Sheet  
Other Governmental Funds  
June 30, 2013

	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		
<b>Assets:</b>														
Cash	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,332	\$ 0	\$ 9,790	\$ 0	\$ 0	\$ 0	\$ 0	\$ 13,122	
Investments	3,215	0	0	0	0	96,585	0	15,896	73,103	732,967	14,663	0	936,429	
Receivables	12,606	5,187	0	0	0	0	0	0	0	0	0	0	17,793	
Due from other governments	0	0	0	0	0	0	0	0	0	0	0	0	0	
Loans receivable	0	0	0	0	0	0	279,000	0	0	0	0	0	279,000	
Prepaid Expenses	89	62	1,100	0	0	0	0	951	0	0	0	0	2,202	
Inventories	408	0	0	0	0	0	0	0	0	0	0	0	408	
Due from other funds	28,175	18,548	30,622	0	34,932	0	76,268	11,179	0	0	0	349,193	548,917	
<b>Total assets</b>	<b>\$ 44,493</b>	<b>\$ 23,797</b>	<b>\$ 31,722</b>	<b>\$ 0</b>	<b>\$ 34,932</b>	<b>\$ 99,917</b>	<b>\$ 355,268</b>	<b>\$ 37,816</b>	<b>\$ 73,103</b>	<b>\$ 732,967</b>	<b>\$ 14,663</b>	<b>\$ 349,193</b>	<b>\$ 1,797,871</b>	
<b>Liabilities and fund balances:</b>														
<b>Liabilities:</b>														
Accounts payable	\$ 5,481	\$ 2,776	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 14,522	\$ 0	\$ 0	\$ 43	\$ 0	\$ 22,822	
Accrued payroll and related expenses	3,317	2,118	0	0	0	0	0	6,412	0	0	0	0	11,847	
Deferred revenue	0	500	0	0	0	0	279,000	0	0	0	0	0	279,500	
Interfund loans payable	0	0	0	0	0	0	0	167,724	0	0	0	0	167,724	
Due to other funds	0	0	0	0	0	5,500	0	0	0	346,298	0	0	351,798	
<b>Total liabilities</b>	<b>8,798</b>	<b>5,394</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,500</b>	<b>279,000</b>	<b>188,658</b>	<b>0</b>	<b>346,298</b>	<b>43</b>	<b>0</b>	<b>833,691</b>	
<b>Fund balances (deficit):</b>														
Unspendable	0	0	0	0	0	0	0	0	73,103	386,669	14,620	0	474,392	
Restricted	35,695	0	18,381	0	0	94,417	0	0	0	0	0	349,193	497,686	
Committed	0	18,403	13,341	0	34,932	0	76,268	0	0	0	0	0	142,944	
Unassigned	0	0	0	0	0	0	0	(150,842)	0	0	0	0	(150,842)	
<b>Total fund balances (deficit)</b>	<b>35,695</b>	<b>18,403</b>	<b>31,722</b>	<b>0</b>	<b>34,932</b>	<b>94,417</b>	<b>76,268</b>	<b>(150,842)</b>	<b>73,103</b>	<b>386,669</b>	<b>14,620</b>	<b>349,193</b>	<b>964,180</b>	
<b>Total liabilities and fund balances</b>	<b>\$ 44,493</b>	<b>\$ 23,797</b>	<b>\$ 31,722</b>	<b>\$ 0</b>	<b>\$ 34,932</b>	<b>\$ 99,917</b>	<b>\$ 355,268</b>	<b>\$ 37,816</b>	<b>\$ 73,103</b>	<b>\$ 732,967</b>	<b>\$ 14,663</b>	<b>\$ 349,193</b>	<b>\$ 1,797,871</b>	

**CITY OF MONTPELIER, VERMONT**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Other Governmental Funds**  
**For the Year Ended June 30, 2013**

	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
<b>Revenues:</b>													
Intergovernmental	\$ 0	\$ 4,202	\$ 0	\$ 75,726	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 79,928
Fees and charges for services	28,974	0	0	0	0	0	0	71,994	0	8,375	0	0	109,343
Investment income (loss)	2,034	0	0	0	0	12,521	1,874	18	361	28,031	74	0	44,913
Contributions	0	9,797	6,309	0	0	36,445	0	61,214	0	0	0	0	113,765
Rents and commissions	0	2,705	0	0	0	0	0	0	0	0	0	0	2,705
Other revenues	0	700	0	0	0	0	0	11,994	0	0	0	0	12,694
<b>Total revenues</b>	<b>31,008</b>	<b>17,404</b>	<b>6,309</b>	<b>75,726</b>	<b>0</b>	<b>48,966</b>	<b>1,874</b>	<b>145,220</b>	<b>361</b>	<b>36,406</b>	<b>74</b>	<b>0</b>	<b>363,348</b>
<b>Expenditures:</b>													
Culture and recreation	0	155,437	19,018	75,726	0	5,000	0	257,713	0	0	0	0	512,894
Community development	0	0	0	0	0	0	10,000	0	0	0	0	0	10,000
Cemetery	176,757	0	0	0	0	0	0	0	0	0	0	0	176,757
Capital outlay:													
Senior Center	0	0	0	0	0	0	0	67,154	0	0	0	0	67,154
Debt service - principal	11,402	0	0	0	0	0	0	0	0	0	0	0	11,402
Debt service - interest	3,081	2,275	0	0	0	0	0	0	0	0	0	0	5,356
<b>Total expenditures</b>	<b>191,240</b>	<b>157,712</b>	<b>19,018</b>	<b>75,726</b>	<b>0</b>	<b>5,000</b>	<b>10,000</b>	<b>324,867</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>783,563</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(160,232)</b>	<b>(140,308)</b>	<b>(12,709)</b>	<b>0</b>	<b>0</b>	<b>43,966</b>	<b>(8,126)</b>	<b>(179,647)</b>	<b>361</b>	<b>36,406</b>	<b>74</b>	<b>0</b>	<b>(420,215)</b>
<b>Other financing sources (uses):</b>													
Debt proceeds	0	0	0	0	0	0	0	0	0	0	0	0	0
Sale of vehicle proceeds	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers in	182,755	150,930	11,000	0	0	0	41,000	129,067	0	0	0	28,030	542,782
Transfers out	0	0	0	0	0	(78,203)	0	(27,582)	0	(28,030)	(74)	(27,000)	(160,889)
<b>Total other financing sources (uses)</b>	<b>182,755</b>	<b>150,930</b>	<b>11,000</b>	<b>0</b>	<b>0</b>	<b>(78,203)</b>	<b>41,000</b>	<b>101,485</b>	<b>0</b>	<b>(28,030)</b>	<b>(74)</b>	<b>1,030</b>	<b>381,893</b>
<b>Net change in fund balance</b>	<b>22,523</b>	<b>10,622</b>	<b>(1,709)</b>	<b>0</b>	<b>0</b>	<b>(34,237)</b>	<b>32,874</b>	<b>(78,162)</b>	<b>361</b>	<b>8,376</b>	<b>0</b>	<b>1,030</b>	<b>(38,322)</b>
<b>Fund balance - July 1, 2012</b>	<b>13,172</b>	<b>7,781</b>	<b>33,431</b>	<b>0</b>	<b>34,932</b>	<b>128,654</b>	<b>43,394</b>	<b>(72,680)</b>	<b>72,742</b>	<b>378,293</b>	<b>14,620</b>	<b>348,163</b>	<b>1,002,502</b>
<b>Fund balance (deficit) - June 30, 2013</b>	<b>\$ 35,695</b>	<b>\$ 18,403</b>	<b>\$ 31,722</b>	<b>\$ 0</b>	<b>\$ 34,932</b>	<b>\$ 94,417</b>	<b>\$ 76,268</b>	<b>\$ (150,842)</b>	<b>\$ 73,103</b>	<b>\$ 386,669</b>	<b>\$ 14,620</b>	<b>\$ 349,193</b>	<b>\$ 964,180</b>

**CITY OF MONTPELIER, VERMONT**

**FEDERAL COMPLIANCE**

**JUNE 30, 2013**

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# FOTHERGILL SEGALE & VALLEY

Certified Public Accountants



John E. (Jeff) Fothergill, CPA  
Michael L. Segale, CPA  
Sheila R. Valley, CPA  
Teresa H. Kajenski, CPA  
Donald J. Murray, CPA

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

City of Montpelier  
Montpelier, Vermont

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 17, 2014.

### **Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City'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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

  
FOTHERGILL SEGALE & VALLEY, CPAs  
Montpelier, Vermont  
Vermont Public Accountancy License #110

January 17, 2014

# FOTHERGILL SEGALE & VALLEY

Certified Public Accountants



John E. (Jeff) Fothergill, CPA  
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Teresa H. Kajenski, CPA  
Donald J. Murray, CPA

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the City Council  
City of Montpelier  
Montpelier, Vermont

### Report on Compliance for Each Major Federal Program

We have audited the City of Montpelier, Vermont's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

### **Opinion on Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2013.

### **Internal Control Over Compliance**

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

*A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 17, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Respectfully submitted,

*Fothergill Segale & Valley, CPAs*  
FOTHERGILL SEGALE & VALLEY, CPAs  
Montpelier, Vermont  
Vermont Public Accountancy License #110

January 17, 2014

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2013

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	90AP2656/03	\$ 316,823	\$ 75,727
Total US Administration of Aging				<u>75,727</u>
<u>US Department of Energy</u>				
Recovery Act: Montpelier Community Renewable Energy	81.087	DE-EE0003071	8,000,000	1,677,861
SEP Formula Grants Under ARRA	81.041	DE-EE0000229,M001,M002	750,000	488,593
Total US Department of Energy				<u>2,166,454</u>
<u>U.S. Department of Agriculture, Forest Service</u>				
2012 Hazardous Fuels Woody Biomass Utilization	10.674	12-DG-11420004-262	248,556	138,183
Total US Department of Agriculture, Forest Service				<u>138,183</u>
<u>US Department of Justice</u>				
COPS Hiring Recovery Program	16.710	2009RKWX0869	209,571	28,274
Bulletproof Vest Partnership Program	16.607	OJP 15-04-0001	1,500	1,500
Passed through Vermont Department of Corrections: Second Chance Act Prisoner Reentry Initiative	16.812	210-CZ-BX-0028	50,000	18,751
Total US Department of Justice				<u>48,525</u>
<u>US Department of Homeland Security</u>				
FEMA Assistance to Firefighters-Vehicle Acquisition Passed through Vermont Department of Public Safety:	97.044	EMW-2011-FV-05507	142,500	142,500
US Department of Homeland Security Grant	97.067	2009-SS-T9-0075	11,931	11,931
US Department of Homeland Security Grant	97.067	2010-SS-TO-0083	37,054	36,629
Total passed through Vermont Department of Public Safety				<u>48,560</u>
Total US Department of Homeland Security				<u>191,060</u>
<u>US Department of Labor</u>				
Passed through Vermont Department of Labor: WIA Youth	17.259	125233152	4,252	4,202
Total US Department of Labor				<u>4,202</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-2010-Montpelier-00007	588,500	1,821
Total US Department of Housing and Urban Development				<u>1,821</u>
<u>US Department of Transportation</u>				
Passed through Vermont Agency of Transportation:				
FHWA-Transportation Enhancement Project (Carr Lot)	20.205	STP MMTC(3) & STP EH07(15)	5,344,250	57,465
Transportation Enhancement Project (Bike Path)	20.205	STP BIKE (33)S	2,748,612	52,014
Federal Highway Emergency Relief Program	20.205	FHWA ER -VT11-1	N/A	71,338
Federal Highway Emergency Relief Program	20.205	FHWA ER -VT11-2	N/A	32,554
Subtotal Cluster				<u>213,371</u>
FTA -Welcome & Multi-modal Trans. Center (Carr Lot) Total Passed through Vermont Agency of Transportation	20.500	FTA G-11,October 1, 2004	1,967,357	4,212
Passed through Vermont Department of Public Safety:				
State & Community Highway Safety	20.600	02140-1213-2228	4,000	1,412
Safety Belt Performance Grant	20.609	02140-0912-3526	5,000	5,000
Total Passed through Vermont Dept of Public Safety				<u>6,412</u>
Total US Department of Transportation				<u>223,995</u>
<u>Federal Emergency Management Agency</u>				
Passed through Vermont Agency of Transportation: FEMA Disaster Relief - May 2011 Flood	97.036	EA#40011211	N/A	7,405
Total Federal Emergency Management Agency				<u>7,405</u>
Total Expenditures of Federal Awards				<u>\$ 2,857,372</u>

CITY OF MONTPELIER, VERMONT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2013

**NOTE 1 - GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Montpelier, Vermont.

**NOTE 2 – BASIS OF ACCOUNTING**

Basis of accounting refers to when revenues and expenditures are recognized in the schedule. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred, if measurable.

CITY OF MONTPELIER, VERMONT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2013

**A. Summary of Auditor's Results**

1. The auditor's report expresses unmodified opinions on the 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.
2. No significant deficiencies in internal control disclosed during the audit of the financial statements are reported in Part B of this Schedule.
3. No instances of noncompliance material to the basic financial statements of the City of Montpelier, Vermont were disclosed during the audit.
4. The auditor's report on compliance for the major federal award programs for the City of Montpelier, Vermont expresses an unmodified opinion.
5. Audit findings relative to the major federal award programs for the City of Montpelier, Vermont are reported on Part C of this Schedule.
6. The program tested as a major programs includes:

Recovery Energy Research and Development	CFDA # 81.087
SEP Formula Grants Under ARRA	CFDA # 81.041
7. The threshold for distinguishing Types A and B programs was \$300,000.
8. The City of Montpelier, Vermont was determined not to be a low-risk auditee.

**B. Findings – Financial Statements Audit**

None

**C. Findings and Questioned Costs – Major Federal Award Programs Audit**

None

CITY OF MONTPELIER

SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2013

#2012-1 – Davis-Bacon Act - Controls

The City engaged the services of a contractor without identifying the need for the Davis-Bacon Act compliance. Under emergency circumstances, the City properly engaged contractors without the usual contracting provisions, but should have subsequently identified the applicability of Davis-Bacon Act requirements and obtained the required payroll certifications.

**Status:** The process has been reviewed and the Finance Department met with the Department of Public Works construction managers to ensure their understanding of the City's Davis Bacon Act compliance internal controls.