

CITY OF MONTPELIER, VERMONT

AUDIT REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2015

TABLE OF CONTENTS

		<u>Page #</u>
INDEPENDENT AUDITOR'S REPORT		1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS		3 - 12
BASIC FINANCIAL STATEMENTS		
GOVERNMENT-WIDE FINANCIAL STATEMENTS		
Statement of Net Position	Exhibit A	13
Statement of Activities	Exhibit B	14
FUND FINANCIAL STATEMENTS		
Balance Sheet and Reconciliation to the Statement of Net Position - Governmental Funds	Exhibit C	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	Exhibit D	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances, Governmental Funds to the Statement of Activities	Exhibit E	17
Statement of Revenues, Expenditures and Change in Fund Balance - Budget and Actual – General Fund	Exhibit F	18
Statement of Net Position – Proprietary Funds	Exhibit G	19
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	Exhibit H	20
Statement of Cash Flows – Proprietary Funds	Exhibit I	21
NOTES TO FINANCIAL STATEMENTS		22 - 55
SUPPLEMENTARY INFORMATION		
Combining and Individual Balance Sheet – Other Governmental Funds	Schedule 1	56
Combining and Individual Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Other Governmental Funds	Schedule 2	57
Schedule of Proportionate Share of Net Pension Liability-VMERS and Schedule of Contributions –VMERS	Schedule 3	58
INTERNAL CONTROL AND COMPLIANCE REPORT		
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 <i>Government Auditing Standards</i>		59 - 60

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

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 as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City'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, 2015, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budget 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 and analysis on page 3-12 and Schedule 3 pension related information on page 58 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'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 of individual and 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 15, 2016 on our consideration of the City'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's internal control over financial reporting and compliance.

Respectfully submitted,



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

January 15, 2016

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2015

This discussion and analysis is intended to serve as an introduction to the City of Montpelier, Vermont's basic financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Financial Highlights

Government-Wide Statements

In July of 2014, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. As a result of the adoption of GASB 68, the June 30, 2014 balances had to be restated. The net effect of the restatement is a reduction of governmental activities net position of \$616,243, and a reduction of business-type activities net position of \$183,258 as of June 30, 2014.

During fiscal year 2015, the total net position of the governmental activities increased by \$1,367,138 or 6.08 percent and the total net position of the business-type activities increased by \$305,346 or 1.13 percent. The City's total net position increased by \$1,672,484 or 3.38%, as a result of this year's operations. The increase in the governmental activities is the result of a large estate donation of \$455,192 which is classified as extraordinary, capital grants invested in police equipment and infrastructure of \$401,769 and an excess of charges for services and operating grants revenue over program expenses of \$510,177. The increase in the business-type activities is largely the result of charges for services revenue being higher than program expenses and transfers out by \$263,358 and a capital grant of \$34,308.

Total revenue for all the City's programs decreased from \$26,777,769 in 2014 to \$19,470,282 in 2015, which is a 27.29% decrease from the previous year. The cost of all of the City's programs decreased from \$20,245,502 cost in fiscal year 2014 to \$18,252,990 in fiscal year 2015 which is 9.84 percent lower than the previous year. The revenue and expense decreases are primarily due to a decrease in capital grant activities, most notably, the District Heat project which was completed in the prior year.

Fund Statements

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* entries are recorded on the proprietary fund statements but not on the City's governmental fund statements.

During fiscal year 2015, the General Fund reported a net increase in the fund balance of \$27,919. This was primarily due to unbudgeted transfers from the Capital Projects Fund of \$43,400 (prior year flood grant funds available to reimburse the general fund for prior year public works flood cleanup work), and \$1,884 (street light project funds available to offset general fund street light repairs), less a budgeted transfer from the District Heat fund of \$20,154 for debt that was not needed as the debt is now in the District Heat fund. Operating revenues less operating expenditures are favorable by \$2,789.

The General Fund balances totaled \$1,358,692 as of June 30, 2015. The fund balances that are nonspendable, restricted, committed and assigned totaled \$456,669 as of June 30, 2015, which is a decrease of \$51,321, mostly due to the early payoff of a note receivable. 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 \$902,023 which is \$79,240 higher than the prior year's unassigned fund balance.

The Community Development Fund ended the year with a restricted and committed fund balance of \$478,513, which was \$34,129 lower than the prior year fund balance of \$512,642. 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 \$1,677,872 which was \$138,258 lower than the prior year fund balance of \$1,816,130. The decrease was the result of \$367,993 of grant funds which were spent but not recognized as revenue because they were not collected within sixty (60) days after year-end and \$27,876 of overspend projects which will be funded by future appropriations. These total \$395,869 and are classified as a

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2015

negative unassigned fund balance. The remaining fund balance consists of \$1,110,935 which is restricted by bonding constraints and impact fee ordinances and \$962,806 which are committed for various capital improvement projects (including \$250,000 for unidentified projects).

Other nonmajor governmental funds ended the year with a fund balance of \$1,534,474, which was \$479,509 higher than the prior year fund balance of \$1,054,965. The increase is primarily due to an estate donation of \$350,000 to the senior center fund which is classified as an extraordinary item. The remaining increase is unspent appropriations of \$66,280 in the Senior Center Fund and \$41,000 in the Montpelier Housing Trust fund. The ending fund balance consists of \$489,860 Non-Expendable by Trust Agreements, \$542,754 restricted and \$501,860 committed.

Due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the net position of the Water Fund at June 30, 2014 was reduced by \$57,656. The Water Fund ended the 2015 fiscal year with a net position of \$9,171,953 which was \$217,616 more than the prior year restated balance of \$8,954,337. Of the total net position balance, \$9,546,080 is invested in property and equipment. This leaves an unrestricted deficit of \$374,127 to be recovered in future periods. The unrestricted deficit is \$104,851 less than the \$478,978 unrestricted deficit as of June 30, 2014. \$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.

Due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the net position of the Sewer Fund at June 30, 2014 was reduced by \$84,486. The Sewer Fund ended the year with a net position of \$12,037,546, which was \$197,705 higher than the prior year restated balance of \$11,839,841. Of the total net position balance, \$11,777,836 is invested in property and equipment. This leaves an unrestricted net position balance of \$259,710, which is \$161,535 lower than the previous year.

Due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the net position of the Parking Fund at June 30, 2014 was reduced by \$38,085. The Parking Fund ended the year with net position of \$315,158, which was \$62,392 higher than the prior year restated balance of \$252,766. Of the total net position balance, \$331,327 is invested in property and equipment and \$2,417 is restricted for various projects. This leaves a deficit of \$18,586 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.

Due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the net position of the District Heat Fund at June 30, 2014 was reduced by \$3,031. The District Heat Fund ended the year with net position of \$5,727,753, which was \$172,367 lower than the prior year restated balance of \$5,900,120. Of the total net position balance, \$5,818,320 is invested in property and equipment. This leaves an operating deficit of \$90,567 to be recovered in future periods.

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.

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2015

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.

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. The City's main governmental fund is the General Fund. The Community Development Fund, the Capital Projects Fund and Other Nonmajor Governmental Funds are included in the governmental funds financial statements and schedules.

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. The City has four proprietary funds; the Water Fund, the Sewer Fund, the Parking Fund and the District Heat Fund.

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2015

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

The City as a Whole

The City's combined net position increased by \$1,672,484 from a year ago - increasing from \$49,415,124 to \$51,087,608. 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.

As stated previously, the June 30, 2014 balances were restated due to the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Table 1
Net Position

	<i>June 30, 2015</i>			<i>6/30/2014 - Restated</i>		
	Governmental Activities	Business-type Activities	Total Primary Government	Governmental Activities	Business-type Activities	Total Primary Government
Current and other assets	\$ 7,410,445	\$ 787,107	\$ 8,197,552	\$ 7,262,628	\$ 5,913,119	\$ 13,175,747
Capital assets	26,048,279	43,143,946	69,192,225	25,589,108	43,712,589	69,301,697
Total assets	33,458,724	43,931,053	77,389,777	32,851,736	49,625,708	82,477,444
Deferred outflows	305,984	90,993	396,977	0	0	0
Total assets and deferred outflows	33,764,708	44,022,046	77,786,754	32,851,736	49,625,708	82,477,444
Long term liabilities	8,229,740	16,121,345	24,351,085	8,825,780	17,176,667	26,002,447
Net pension liability	209,857	62,406	272,263	209,857	62,406	272,263
Other liabilities	782,261	375,444	1,157,705	941,653	5,318,719	6,260,372
Total liabilities	9,221,858	16,559,195	25,781,053	9,977,290	22,557,792	32,535,082
Deferred inflows	707,652	210,441	918,093	406,386	120,852	527,238
Total liabilities and deferred inflows	9,929,510	16,769,636	26,699,146	10,383,676	22,678,644	33,062,320
Net position:						
Invested in capital assets, net of debt	22,127,271	27,473,563	49,600,834	21,400,960	27,359,460	48,760,420
Restricted	2,439,577	2,417	2,441,994	2,493,337	2,417	2,495,754
Unrestricted	(731,650)	(223,570)	(955,220)	(1,426,237)	(414,813)	(1,841,050)
Total net position	\$ 23,835,198	\$ 27,252,410	\$ 51,087,608	\$ 22,468,060	\$ 26,947,064	\$ 49,415,124

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Table 2
Change in Net Position

	<i>June 30, 2015</i>			<i>June 30, 2014</i>		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
			Primary Government			Primary Government
REVENUES:						
Program revenues:						
Charges for services	\$ 1,158,816	\$ 7,759,109	\$ 8,917,925	\$ 1,033,881	\$ 7,092,526	\$ 8,126,407
Operating grants and contributions	1,032,749	0	1,032,749	932,205	0	932,205
Capital grants and contributions	401,769	34,308	436,077	2,889,871	5,836,078	8,725,949
General Revenues:						
Property taxes, penalties and interest	7,908,336	0	7,908,336	7,735,975	0	7,735,975
Payment in lieu of taxes	887,165	0	887,165	954,271	0	954,271
Unrestricted investment earnings	129,012	3,396	132,408	112,618	25,523	138,141
Gain (loss) on sale of capital assets	83,207	4,284	87,491	13,549	12,000	25,549
Other revenues	59,971	0	59,971	132,452	0	132,452
Contributions to permanent endowments	8,160	0	8,160	6,820	0	6,820
Total revenues	11,669,185	7,801,097	19,470,282	13,811,642	12,966,127	26,777,769
PROGRAM EXPENSES:						
General government	1,845,248	0	1,845,248	1,662,130	0	1,662,130
Public safety	4,766,228	0	4,766,228	4,536,745	0	4,536,745
Public works	2,644,934	0	2,644,934	2,799,404	0	2,799,404
Culture and recreation	1,067,276	0	1,067,276	1,107,516	0	1,107,516
Community development	4,138	0	4,138	35,462	0	35,462
Cemetery	214,862	0	214,862	188,685	0	188,685
Interest on long-term debt	236,553	0	236,553	251,392	0	251,392
Water	0	2,420,023	2,420,023	0	2,416,290	2,416,290
Sewer	0	3,615,274	3,615,274	0	3,513,938	3,513,938
Parking	0	761,748	761,748	0	757,637	757,637
District Heat	0	676,706	676,706	0	2,976,303	2,976,303
Total program expenses	10,779,239	7,473,751	18,252,990	10,581,334	9,664,168	20,245,502
Excess before extraordinary item and transfers	889,946	327,346	1,217,292	3,230,308	3,301,959	6,532,267
Transfers	22,000	(22,000)	0	10,000	(10,000)	0
Increase in net position before extraordinary item	911,946	305,346	1,217,292	3,240,308	3,291,959	6,532,267
Extraordinary item:						
Estate donation	455,192	0	455,192	0	0	0
Increase in net position	\$ 1,367,138	\$ 305,346	\$ 1,672,484	\$ 3,240,308	\$ 3,291,959	\$ 6,532,267

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

The total net position of the City's governmental activities increased \$1,367,138 or 6.08%. This increase is the result of a large estate donation of \$455,192 which is classified as extraordinary, capital grants of \$401,769 invested in police equipment and infrastructure and \$510,177 in excess of all other revenues over program expenses.

The total net position of the business-type activities increased by \$305,346 or 1.13%. This increase is due to charges for services revenue being higher than program expenses and transfers out by \$263,358 and a capital grant of \$34,308.

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Governmental Activities

The City's tax rate increased from \$0.8882 to \$0.9012 per \$100 of assessed value (up 1.46%) from fiscal year 2014 to fiscal year 2015.

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

	June 30, 2015				June 30, 2014			
	Governmental Activities		Business-type Activities		Governmental Activities		Business-type Activities	
	Net Revenues		Net		Net Revenues		Net	
	Total Cost	(Cost)	Total Cost	(Cost)	Total Cost	(Cost)	Total Cost	(Cost)
of Services	of Services	of Services	of Services	of Services	of Services	of Services	of Services	
General government	\$ 1,845,248	\$ (1,403,091)	\$ 0	\$ 0	\$ 1,662,130	\$ (1,306,014)	\$ 0	\$ 0
Public safety	4,766,228	(3,599,865)	0	0	4,536,745	(3,437,896)	0	0
Public works	2,644,934	(2,057,826)	0	0	2,799,404	187,915	0	0
Culture and recreation	1,067,276	(718,987)	0	0	1,107,516	(721,797)	0	0
Community development	4,138	(4,138)	0	0	35,462	(35,462)	0	0
Water	0	0	2,420,023	198,332	0	0	2,416,290	60,552
Sewer	0	0	3,615,274	209,309	0	0	3,513,938	221,436
Parking	0	0	761,748	84,392	0	0	757,637	(13,709)
District Heat	0	0	676,706	(172,367)	0	0	2,976,303	2,996,157
All others	451,415	(401,998)	0	0	440,077	(412,123)	0	0
Totals	\$ 10,779,239	\$ (8,185,905)	\$ 7,473,751	\$ 319,666	\$ 10,581,334	\$ (5,725,377)	\$ 9,664,168	\$ 3,264,436

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 \$5,049,551 which is \$335,041 higher than last year's total of \$4,714,510. Included in this year's total change in fund balance is an increase of \$27,919 in the City's General Fund; a decrease of \$34,129 in the Community Development Fund; a decrease of \$138,258 in the Capital Projects Fund and an increase of \$479,509 in Other Governmental Funds.

General Fund Budgetary Highlights

When comparing budget to actual net change in fund balance for the year ended June 30, 2015, there is a favorable variance of \$27,919 (as presented in Exhibit F). Operating revenues less operating expenditures are favorable by \$2,789. Transfers from other funds are favorable by \$25,130 due to unbudgeted transfers from the Capital Projects Fund of \$43,400 (prior year flood grant funds available to reimburse the general fund for prior year public works flood cleanup work), and \$1,884 (street light project funds available to offset general fund street light repairs), less a budgeted transfer from the District Heat fund of \$20,154 for debt that was not needed as the debt is now in the District Heat fund.

Revenue (excluding transfers noted above) is \$162,249 more than budgeted. Although there are many variances in many revenue line items, overall, this additional revenue is unbudgeted grant funds of \$125,617 received for public safety operations. Other significant favorable variances in revenue are \$25,549 in property taxes, \$41,215 in unbudgeted downtown improvement taxes, \$19,415 current use tax, \$19,258 in building permits and \$31,602 in interest income. Unfavorable variances in revenue are \$58,511 in state and local payment in lieu of taxes (PILOT), \$14,335 in recording fees, and \$32,094 in ambulance call charges.

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Expenditures are over budget by \$159,460. Similar to revenue, a significant amount of the unbudgeted expenditures is related to police operations funded mostly by federal grant funds (general police operations over by \$144,972). Some other significant unbudgeted expenditures are; \$59,265 city legal services, \$50,144 clerk records restoration (offset by a records restoration reserve), and \$50,890 in outside agencies downtown improvement expenditures (offset by downtown improvement taxes noted above). Significant favorable expense variations which help offset the overages in expenditures are \$15,923 Community Justice Center expenses (\$11,010 for health insurance), \$40,023 fire and ambulance expenses (\$28,522 health insurance and \$16,244 professional services), \$47,199 public works fleet operations expenses (savings of \$69,168 supplies and \$25,354 wages & benefits offset partially by overages of \$30,068 vehicle/equipment maintenance and \$16,185 less in fuel reimbursements).

Employee health insurance costs across departments are \$160,841 lower than anticipated and \$119,700 in funds are set aside (committed) for possible, future health reimbursement arrangement overages.

The unassigned fund balance increased from \$822,783 on June 30, 2014 to \$902,023 on June 30, 2015. This \$79,240 increase is mainly due to the decrease in nonspendable items such as inventories, note receivables and prepaid expenses. 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, 2015, the City has \$69,192,225 compared to \$69,301,697 at June 30, 2014 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 decrease (including additions and deductions) of \$109,472 over last year. Governmental net capital assets increased by \$459,171 (\$1,764,471 additions less \$32,248 deletions and \$1,273,052 accumulated depreciation) and business net capital assets decreased by \$568,643 (\$896,269 additions less \$4,216 deletions and \$1,460,696 accumulated depreciation).

	<i>June 30, 2015</i>			<i>June 30, 2014</i>		
	Governmental Activities	Business-type Activities	Total Primary Government	Governmental Activities	Business-type Activities	Total Primary Government
Land	\$ 2,762,937	\$ 250,672	\$ 3,013,609	\$ 2,762,937	\$ 250,672	\$ 3,013,609
Capital improvements and equipment	21,803,275	42,846,146	64,449,421	20,880,738	33,676,143	54,556,881
Construction in progress	1,682,067	47,128	1,729,195	1,945,433	9,785,774	11,731,207
Totals	\$ 26,048,279	\$ 43,143,946	\$ 69,192,225	\$ 25,589,108	\$ 43,712,589	\$ 69,301,697

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2015

This year's capital asset additions are:

City Hall doors (back & teen center) & Light Pole	\$ 27,427
Police-Radio System & Equipment upgrades	192,504
Police-new truck	34,226
Police-new car	14,234
Police-Console system installed	19,800
Generator installed & Generator Building	27,712
DPW-2015 Dump Truck	74,416
DPW-Asphalt Roller & attachments	13,325
DPW-2014 F150 Pickup	18,576
DPW-Trackless MT6 Tractor, hydraulic Sander	104,640
DPW-2008 Silverado 2500 Pickup	8,500
DPW -2015 Ford F550	42,953
DPW-2014 Dump Truck	46,810
DPW-9' Fisher Blade, Dump Body & Hydraulics	31,835
DPW-2015 Salso TP44 Sidewalk Paver	34,965
Parks - 2006 Ford F250	8,500
Infrastructure-Streets	209,837
Infrastructure-Sidewalks	370,408
Infrastructure-Bridges -Granite & Cumming Street	54,548
Infrastructure-Winooski Flood Prevention Work	24,028
Infrastructure- Culvert-Terrace Street	21,853
Infrastructure-Retaining Walls	1,055
Infrastructure-Slope Stabilization-Cherry Street	120,182
Infrastructure-CV Bike Path-CIP	86,670
Infrastructure-Carr Lot Transit Center-CIP	131,168
Infrastructure-Carr Lot Bike Path-CIP	44,299
Water-2015 Silverado Pickup w/Plow	32,536
Water -CVMC Pump # 1 & #2 Repairs	35,520
Water System Improvements -Guernsey	42,210
Sewer-Heat Pump System	16,955
Sewer -Install Sludge Transfer Pump	6,638
Sewer -Dewatering Compressor Refurbish	10,331
Sewer-Pump & Motor Refurbish	10,728
Sewer-Sewer Line Baldwin Street	39,660
Sewer-River Street Sewer Line	142,186
Sewer-WW Methane Burner -CIP	47,128
Parking - Cale System-CWT	23,500
District Heat Distribution System	206,997
District Heat Plant Capacity	111,481
District Heat Project -Machinery & Equipment	170,399
	<u>\$ 2,660,740</u>

CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Long Term - Debt

At June 30, 2015, the City has \$23,890,227 in bonds, notes and leases outstanding versus \$25,564,221 on June 30, 2014 - a decrease of \$1,673,994 - as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Balance at			Balance at	
	June 30, 2014	Additions	Reductions	June 30, 2015	
Notes, capital leases and bonds payable:					
Governmental activities	\$ 8,492,491	\$ 0	\$ 613,348	\$ 7,879,143	
Proprietary Funds	17,071,730	111,481	1,172,127	16,011,084	
Totals	\$ 25,564,221	\$ 111,481	\$ 1,785,475	\$ 23,890,227	

The new long term debt in the Proprietary Funds during the year was a Note Payable to the State of Vermont for the District Heat City Room at the Heat Plant.

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 2016 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 3.7% (August 2014) compared with 4% (August 2013). Also considered was the Consumer Price Index percent change over one year (August 2013-August 2014) which was 1.3%. Montpelier's Vermont Personal Adjusted Gross Income in 2013 was \$58,331 (up 4%) which is higher than the Vermont average of \$56,117. Montpelier's estimated median house or condo value in 2013 was \$212,762 (up 1.6%) which is lower than the Vermont average of \$218,300. The City's population is 7,787 with slight decreases over the past few years.

In recent years, the City of Montpelier's budgets contained no appreciable annual revenue growth or increase in taxable property. Costs continue to increase annually and demands for services often are expanded. 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 2016 municipal budget provides for an increase slightly above the change in the consumer price index, with all additional revenues dedicated to infrastructure investments.

The City Council is committed to making Montpelier affordable for all its residents and at the same time invest in the city's infrastructure. The City Council is in the third year of a multi-year capital plan to rebuild and improve the city's roads and sidewalks. The FY16 municipal budget requires a 2.7 cent tax rate increase which, at 2.8% is higher than the 1.3% inflation rate for 2015. The budget includes a new appropriation to study a regional public safety authority. The municipal tax rate for fiscal year 2016 is \$1.0034 per \$100 of property value.

The City continues to partner 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 and a recent flood mitigation project reduces the risk of future flood events. The City also is moving ahead with two other grant-funded projects; a new transit center on Taylor Street and a bike path through the city.

In addition to balancing and controlling the municipal budget, taxes and services, the City Council has identified the goals of being a bike and pedestrian friendly city and becoming the first "net zero (energy) capital city".

**CITY OF MONTPELIER, VERMONT
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

As for the City's business-type activities, water and sewer rates increased slightly effective July 1, 2015. 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 continues consider rate changes to assure annual revenues will be generated to cover all costs and eliminate previous years' deficits in the Water Fund. The 2014-15 heating season was the first full year of complete operation for the City's District Heat utility which partners with the state's biomass heating plant. This new business-type activity reduces the City's reliance on fossil fuels. Parking fees were increased substantially in early 2014, to secure financial stability for the Parking Fund, and to provide funding for alternative transportation initiatives.

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 \$42.50.

Current quarterly sewer rates are as follows: \$8.89 per 1,000 gallons of water used and a fixed charge for all for meter reading, billing and other administrative service costs of \$42.50.

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, 2015

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash	\$ 3,057,507	\$ 50	\$ 3,057,557
Investments	1,058,714	0	1,058,714
Receivables (net of allowance for uncollectibles)	950,085	1,640,087	2,590,172
Loans receivable	1,037,777	0	1,037,777
Deposits	0	1,600	1,600
Prepaid expenses	52,422	21,311	73,733
Inventories	155,385	222,614	377,999
Internal balances	1,098,555	(1,098,555)	0
Capital assets:			
Land	2,762,937	250,672	3,013,609
Construction in progress	1,682,067	47,128	1,729,195
Other capital assets, (net of accumulated depreciation)	21,603,275	42,846,146	64,449,421
Total assets	33,458,724	43,931,053	77,389,777
Deferred outflow of Resources:			
Pension related	305,984	90,993	396,977
Total assets plus deferred outflows of resources	33,764,708	44,022,046	77,786,754
Liabilities:			
Accounts payable	315,503	134,266	449,769
Construction payable	0	26,366	26,366
Accrued payroll and related expenses	309,675	64,428	374,103
Unearned grant revenue	25,703	0	25,703
Unearned fees and charges for services revenue	90,096	98,014	188,110
Accrued interest	41,284	52,370	93,654
Net pension liability	209,857	62,406	272,263
Noncurrent liabilities:			
Due within one year	537,822	1,205,755	1,743,577
Due in more than one year	7,691,918	14,915,590	22,607,508
Total liabilities	9,221,858	16,559,195	25,781,053
Deferred inflow of Resources:			
Pension related	707,652	210,441	918,093
Total liabilities plus deferred inflows of resources	9,929,510	16,769,636	26,699,146
Net position:			
Invested in capital assets, net of related debt	22,127,271	27,473,563	49,600,834
Restricted	2,439,577	2,417	2,441,994
Unrestricted	(731,650)	(223,570)	(955,220)
Total net position	\$ 23,835,198	\$ 27,252,410	\$ 51,087,608

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Statement of Activities
Year Ended June 30, 2015

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
Governmental activities:							
General government	\$ 1,845,248	\$ 219,088	\$ 223,069	\$ 0	\$ (1,403,091)	\$ 0	\$ (1,403,091)
Public safety	4,766,228	570,839	410,220	185,304	(3,599,865)	0	(3,599,865)
Public works	2,644,934	198,029	247,511	141,568	(2,057,826)	0	(2,057,826)
Culture and recreation	1,067,276	121,443	151,949	74,897	(718,987)	0	(718,987)
Community development	4,138	0	0	0	(4,138)	0	(4,138)
Cemetery	214,862	49,417	0	0	(165,445)	0	(165,445)
Interest on long-term debt	236,553	0	0	0	(236,553)	0	(236,553)
Total governmental activities	10,779,239	1,158,816	1,032,749	401,769	(8,185,905)	0	(8,185,905)
Business-type activities:							
Water	2,420,023	2,618,355	0	0	0	198,332	198,332
Sewer	3,615,274	3,824,583	0	0	0	209,309	209,309
Parking	761,748	846,140	0	0	0	84,392	84,392
District Heat	676,706	470,031	0	34,308	0	(172,367)	(172,367)
Total business-type activities	7,473,751	7,759,109	0	34,308	0	319,666	319,666
Total	\$ 18,252,990	\$ 8,917,925	\$ 1,032,749	\$ 436,077	(8,185,905)	319,666	(7,866,239)
General revenues:							
Property taxes, penalties and interest					7,908,336	0	7,908,336
Payment in lieu of taxes					887,165	0	887,165
Unrestricted investment earnings					129,012	3,396	132,408
Gain (loss) on sale of equipment					83,207	4,284	87,491
Other revenues					59,971	0	59,971
Contributions to Permanent Endowments					8,160	0	8,160
Transfers					22,000	(22,000)	0
Total general revenues and transfers					9,097,851	(14,320)	9,083,531
Change in net position before extraordinary item					911,946	305,346	1,217,292
Extraordinary item:							
Estate donation					455,192	0	455,192
Change in net position					1,367,138	305,346	1,672,484
Net Position - July 1, 2014					23,084,303	27,130,322	50,214,625
GASB 68 restatement					(616,243)	(183,258)	(799,501)
Net Position after GASB 68 restatement - July 1, 2014					22,468,060	26,947,064	49,415,124
Net Position - June 30, 2015					\$ 23,835,198	\$ 27,252,410	\$ 51,087,608

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
 Balance Sheet and Reconciliation to the Statement of Net Position
 Governmental Funds
 June 30, 2015

	General Fund	Community Development Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash	\$ 2,698,119	\$ 337,714	\$ 0	\$ 21,674	\$ 3,057,507
Investments	0	0	0	1,058,714	1,058,714
Receivables (net of allowance for uncollectibles)	373,809	0	467,458	108,818	950,085
Interfund loans receivable	0	152,689	0	0	152,689
Loans (net of allowance for uncollectibles)	0	783,777	0	274,000	1,037,777
Prepaid expenses	34,330	0	17,750	342	52,422
Inventories	155,385	0	0	0	155,385
Due from other funds	0	0	1,667,871	1,083,222	2,751,093
Total assets	\$ 3,261,643	\$ 1,254,180	\$ 2,153,079	\$ 2,546,770	\$ 9,215,672
Liabilities, deferred inflows of resources, and fund balances					
Liabilities:					
Accounts payable	\$ 163,234	\$ 29,592	\$ 99,305	\$ 23,372	\$ 315,503
Accrued payroll and related expenses	291,679	0	0	17,996	309,675
Unearned grants	25,203	0	0	500	25,703
Unearned fees and charges for services	58,626	0	0	31,470	90,096
Interfund loans payable	0	0	0	152,689	152,689
Due to other funds	1,245,461	0	0	407,077	1,652,538
Total liabilities	1,784,203	29,592	99,305	633,104	2,546,204
Deferred inflows of resources:					
Unavailable revenue -taxes	93,374	0	0	0	93,374
Unavailable fees and charges for services	21,129	0	0	0	21,129
Unavailable revenue -grants	4,245	0	375,902	0	380,147
Unavailable revenue -contributions	0	0	0	105,192	105,192
Unavailable revenue-loans receivable	0	746,075	0	274,000	1,020,075
Total deferred inflows of resources	118,748	746,075	375,902	379,192	1,619,917
Fund balances (deficit):					
Nonspendable for:					
Inventories	155,385	0	0	0	155,385
Prepays	34,330	0	0	0	34,330
Trustees of public funds	0	0	0	489,860	489,860
Restricted, reported in:					
General Fund	85,491	0	0	0	85,491
Community Development Fund	0	296,097	0	0	296,097
Capital Projects Funds	0	0	1,110,935	0	1,110,935
Special Revenue Funds	0	0	0	135,362	135,362
Trustees of public funds	0	0	0	407,392	407,392
Committed, reported in:					
General Fund	181,463	0	0	0	181,463
Community Development Fund	0	182,416	0	0	182,416
Capital Projects Funds	0	0	962,806	0	962,806
Special Revenue Funds	0	0	0	501,860	501,860
Unassigned, reported in:					
General Fund	902,023	0	0	0	902,023
Capital Projects Fund	0	0	(395,869)	0	(395,869)
Total fund balances	1,358,692	478,513	1,677,872	1,534,474	5,049,551
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,261,643	\$ 1,254,180	\$ 2,153,079	\$ 2,546,770	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	26,048,279
Other assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.	1,619,917
Some liabilities, such as net pension liabilities, are not due and payable in the current period and, therefore, are not reported in the funds	(209,857)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds	(401,668)
Long-term and accrued liabilities, are not due or payable in the current period and, therefore, are not reported in the funds.	(8,271,024)

Net position of governmental activities **\$ 23,835,198**

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, 2015

	General Fund	Community Development Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes, penalties and interest	\$ 8,632,914	\$ 0	\$ 0	\$ 0	\$ 8,632,914
Permits and licenses	106,983	0	0	0	106,983
Intergovernmental	1,016,040	0	608,911	4,974	1,629,925
Fees and charges for services	1,714,795	0	1,000	172,270	1,888,065
Fines and forfeitures	26,234	0	0	0	26,234
Investment income	70,701	9,909	0	48,402	129,012
Contributions	750	0	0	146,475	147,225
Rents and commissions	275	0	98,900	13,200	112,375
Equipment revenues	86,108	0	0	0	86,108
Loan principal repayments	0	6,505	0	15,000	21,505
Other revenues	38,521	0	0	21,450	59,971
Total revenues	11,693,321	16,414	708,811	421,771	12,840,317
Expenditures:					
General government	2,420,930	0	43,161	0	2,464,091
Public safety	4,526,192	0	0	0	4,526,192
Public works	2,009,809	0	91,982	0	2,101,791
Culture and recreation	478,969	0	0	539,849	1,018,818
Community development	0	50,543	0	10,000	60,543
Cemetery	0	0	0	203,648	203,648
Capital outlay;					
General government	0	0	15,311	0	15,311
Public safety	0	0	246,766	0	246,766
Public works	0	0	1,432,896	0	1,432,896
Culture and recreation	0	0	0	8,500	8,500
Debt service - principal	575,202	0	26,213	11,933	613,348
Debt service - interest	208,286	0	16,988	14,555	239,829
Total expenditures	10,219,388	50,543	1,873,317	788,485	12,931,733
Excess (deficiency) of revenues over expenditures	1,473,933	(34,129)	(1,164,506)	(366,714)	(91,416)
Other financing sources (uses):					
Proceeds from sale of equipment	0	0	8,837	2,800	11,637
Proceeds from equipment insurance claim	0	0	42,820	0	42,820
Transfers from other funds	90,284	0	1,064,875	569,162	1,724,321
Transfers to other funds	(1,536,298)	0	(90,284)	(75,739)	(1,702,321)
Total other financing sources (uses)	(1,446,014)	0	1,026,248	496,223	76,457
Extraordinary item:					
Estate donation	0	0	0	350,000	350,000
Net change in fund balances	27,919	(34,129)	(138,258)	479,509	335,041
Fund balances - July 1, 2014	1,330,773	512,642	1,816,130	1,054,965	4,714,510
Fund balances - June 30, 2015	\$ 1,358,692	\$ 478,513	\$ 1,677,872	\$ 1,534,474	\$ 5,049,551

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, 2015

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

Net change in fund balances - total government funds (Exhibit D)	\$ 335,041
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost less disposals (\$1,764,471) of those assets is allocated over their estimated useful lives and reported as depreciation expense (\$1,273,052). This is the amount by which capital outlays exceeded depreciation in the current period.	491,419
The net effect of various transactions involving capital assets (i.e., sales, trade-ins) is to decrease net position.	(32,248)
Long term community development loans payments are recognized on an accrual basis in the statement of net position, not the modified accrual basis.	(11,505)
Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis.	(21,413)
Revenues are recognized on an accrual basis in the statement of net position, not the modified accrual basis.	1,810
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	4,718
The issuance of long-term debt (\$0) (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt (\$613,348) 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.	613,348
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).	(17,308)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	3,276
Change in net position, governmental activities (Exhibit B)	\$ 1,367,138

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 \$1,061,634, the general government expenses was decreased by \$754,226 and the public works was decreased by \$307,408.

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Statement of Revenues, Expenditures and Change in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2015

	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Property taxes, penalties and interest	\$ 8,606,655	\$ 8,632,914	\$ 26,259
Intergovernmental	905,849	1,016,040	110,191
Fees and charges for services	2,018,568	2,044,367	25,799
Total revenues	11,531,072	11,693,321	162,249
Expenditures:			
City Council operations	35,399	31,317	4,082
City Manager's office	400,561	469,883	(69,322)
Clerk/Treasurer/Elections	182,750	220,641	(37,891)
Finance Department	464,248	455,147	9,101
Technology services	228,030	227,329	701
Property assessment	180,576	169,261	11,315
Planning and development	344,215	354,273	(10,058)
City Hall maintenance	200,115	205,490	(5,375)
Police:			
General	1,659,973	1,804,945	(144,972)
Communications	528,961	525,201	3,760
School Resource Officer	95,388	92,427	2,961
Community Justice Center	118,251	97,454	20,797
Re-Entry Program	143,164	148,038	(4,874)
Fire and ambulance	1,802,141	1,762,118	40,023
Code/health enforcement	86,215	87,956	(1,741)
Emergency management	6,929	8,053	(1,124)
Public works:			
Streets	1,400,961	1,397,324	3,637
Fleet operations	593,778	546,579	47,199
Building operations	65,850	65,906	(56)
Wrightsville Beach	4,007	4,007	0
Kellogg-Hubbard Library	308,673	308,673	0
Downtown Improvement District Expense	0	50,890	(50,890)
Outside agencies in budget	108,925	102,350	6,575
Community enhancements	30,000	30,359	(359)
Tree management and Board	37,426	33,580	3,846
Conservation Commission	5,750	0	5,750
Other governmental service	161,396	159,543	1,853
Tax abatement	62,000	65,946	(3,946)
Miscellaneous expense	0	10,743	(10,743)
Bad Debt Expense	0	467	(467)
Debt service - principal	588,158	575,202	12,956
Debt service - interest	216,088	208,286	7,802
Total expenditures	10,059,928	10,219,388	(159,460)
Excess (deficiency) of revenues over expenditures	1,471,144	1,473,933	2,789
Other financing sources (uses):			
Proceeds from sale of equipment	0	0	0
Transfer from other funds:			
Capital Projects	65,154	90,284	25,130
Transfer to other funds:			
Capital Projects	(1,052,875)	(1,052,875)	0
Cemetery	(118,509)	(118,509)	0
Parks	(156,189)	(156,189)	0
Senior Center	(157,475)	(157,475)	0
Events Fund	(10,250)	(10,250)	0
Affordable Housing Fund	(41,000)	(41,000)	0
Total other financing sources (uses)	(1,471,144)	(1,446,014)	25,130
Net change in fund balance	\$ 0	27,919	\$ 27,919
Fund balance - July 1, 2014		1,330,773	
Fund balance - June 30, 2015		\$ 1,358,692	

See accompanying notes to financial statements.

CITY OF MONTPELIER
Statement of Net Position
Proprietary Funds
June 30, 2015

	Water Fund	Sewer Fund	Parking Fund	District Heat Fund	Total
Assets:					
Current assets:					
Cash	\$ 0	\$ 0	\$ 50	\$ 0	\$ 50
Receivables (net of allowance for uncollectibles)	686,326	717,206	35,239	201,316	1,640,087
Due from other funds	0	126,780	203,200	0	329,980
Deposits	0	0	1,600	0	1,600
Prepaid expenses	0	0	21,311	0	21,311
Inventory	123,929	84,863	0	13,822	222,614
Total current assets	810,255	928,849	261,400	215,138	2,215,642
Noncurrent assets:					
Capital assets:					
Land	32,000	0	218,672	0	250,672
Buildings	11,557,678	9,824,589	0	0	21,382,267
Improvements	10,641,083	22,405,073	273,495	9,473,951	42,793,602
Equipment and vehicles	948,048	1,108,195	175,328	170,399	2,401,970
Construction in Progress	0	47,128	0	0	47,128
Accumulated depreciation	(7,934,470)	(15,217,975)	(336,168)	(243,080)	(23,731,693)
Total noncurrent assets	15,244,339	18,167,010	331,327	9,401,270	43,143,946
Total assets	16,054,594	19,095,859	592,727	9,616,408	45,359,588
Deferred outflows of resources:					
Pension Related	28,628	41,950	18,910	1,505	90,993
Total assets plus deferred outflows of resources	\$ 16,083,222	\$ 19,137,809	\$ 611,637	\$ 9,617,913	\$ 45,450,581
Liabilities:					
Current liabilities:					
Accounts payable	\$ 27,570	\$ 91,055	\$ 10,476	\$ 5,165	\$ 134,266
Construction payable	0	11,669	0	14,697	26,366
Due to other funds	714,690	0	0	713,845	1,428,535
Accrued payroll and related expenses	18,326	28,753	16,274	1,075	64,428
Unearned fees and charges for services revenue	5,458	0	0	92,556	98,014
Accrued interest payable	23,820	18,808	0	9,742	52,370
Capital leases - current portion	5,381	15,605	0	0	20,986
Bonds & notes payable - current portion	500,519	665,428	0	18,822	1,184,769
Total current liabilities	1,295,764	831,318	26,750	855,902	3,009,734
Noncurrent liabilities:					
Net pension liability	19,634	28,771	12,969	1,032	62,406
Capital leases - long-term portion	11,514	33,389	0	0	44,903
Bonds & notes payable - long-term portion	5,478,345	6,065,583	192,500	3,023,998	14,760,426
Accrued compensated absences-long term	39,804	44,184	20,526	5,747	110,261
Total noncurrent liabilities	5,549,297	6,171,927	225,995	3,030,777	14,977,996
Total liabilities	6,845,061	7,003,245	252,745	3,886,679	17,987,730
Deferred inflows of resources:					
Pension Related	66,208	97,018	43,734	3,481	210,441
Total liabilities plus deferred inflows of resources	6,911,269	7,100,263	296,479	3,890,160	18,198,171
Net position:					
Invested in capital assets, net of related debt	9,546,080	11,777,836	331,327	5,818,320	27,473,563
Restricted	0	0	2,417	0	2,417
Unrestricted/(deficit)	(374,127)	259,710	(18,586)	(90,567)	(223,570)
Total net position	9,171,953	12,037,546	315,158	5,727,753	27,252,410
Total liabilities, deferred inflows of resources, and net position	\$ 16,083,222	\$ 19,137,809	\$ 611,637	\$ 9,617,913	\$ 45,450,581

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Statement of Revenues, Expenses
and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2015

	Water Fund	Sewer Fund	Parking Fund	District Heat Fund	Total
Operating revenues:					
Charges for services	\$ 2,596,831	\$ 3,805,272	\$ 846,140	\$ 470,031	\$ 7,718,274
Interest and penalties	18,337	17,111	0	0	35,448
Miscellaneous	3,187	2,200	0	0	5,387
Total Operating Revenues	2,618,355	3,824,583	846,140	470,031	7,759,109
Operating expenses:					
Administration	475,830	403,227	0	35,886	914,943
Supplies and treatment	506,373	1,689,901	0	0	2,196,274
Wastewater management	0	198,524	0	0	198,524
Distribution system	470,062	0	0	0	470,062
Collection system	0	472,624	0	0	472,624
Delinquent collection	14,485	14,243	0	0	28,728
Meter operations	56,569	0	0	0	56,569
Private sewer system maintenance	0	9,319	0	0	9,319
Parking enforcement	0	0	507,714	0	507,714
Parking lot leases	0	0	100,416	0	100,416
Parking lot maintenance	0	0	123,066	0	123,066
District heat operating expenses	0	0	0	294,281	294,281
Depreciation expense	546,605	652,974	18,037	243,080	1,460,696
Total operating expenses	2,069,924	3,440,812	749,233	573,247	6,833,216
Net operating income (loss)	548,431	383,771	96,907	(103,216)	925,893
Nonoperating revenues (expenses):					
Interest expense	(330,006)	(155,644)	(12,515)	(103,459)	(601,624)
Bad debt expense	(20,093)	(18,818)	0	0	(38,911)
Interest income	0	3,396	0	0	3,396
Gain on sale of equipment	4,284	0	0	0	4,284
Transfers from other funds	15,000	0	0	0	15,000
Transfers to other funds	0	(15,000)	(22,000)	0	(37,000)
Total nonoperating revenues (expenses)	(330,815)	(186,066)	(34,515)	(103,459)	(654,855)
Net income (loss) before contributions	217,616	197,705	62,392	(206,675)	271,038
Capital contributions	0	0	0	34,308	34,308
Change in net position	217,616	197,705	62,392	(172,367)	305,346
Net position - July 1, 2014	9,011,993	11,924,327	290,851	5,903,151	27,130,322
GASB 68 restatement	(57,656)	(84,486)	(38,085)	(3,031)	(183,258)
Net position after GASB 68 restatement - July 1, 2014	8,954,337	11,839,841	252,766	5,900,120	26,947,064
Net position - June 30, 2015	\$ 9,171,953	\$ 12,037,546	\$ 315,158	\$ 5,727,753	\$ 27,252,410

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2015

	Water Fund	Sewer Fund	Parking Fund	District Heat Fund	Total
Cash flows from operating activities:					
Receipts from customers and users	\$ 2,607,341	\$ 3,730,921	\$ 818,270	\$ 413,897	\$ 7,570,429
Receipts from interfund services	0	0	26,568	0	26,568
Payments to suppliers	(480,678)	(1,352,857)	(210,761)	(302,523)	(2,346,819)
Payments for interfund services	(426,050)	(556,604)	(66,953)	0	(1,049,607)
Payments for wages and benefits	(628,020)	(902,894)	(446,137)	(33,081)	(2,010,132)
Net cash provided by operating activities	1,072,593	918,566	120,987	78,293	2,190,439
Cash Flows from Noncapital Financing Activities:					
Decrease (increase) in due from other funds	0	301,717	(62,972)	0	238,745
(Decrease) increase in due to other funds	(156,718)	0	0	(336,508)	(493,226)
Transfers received from other funds	15,000	0	0	0	15,000
(Decrease) increase in accrued interest	(3,439)	(1,760)	0	8,770	3,571
Transfers paid to other funds	0	(15,000)	(22,000)	0	(37,000)
Interest receipts on interfund balances	0	3,396	0	0	3,396
Interest payments on interfund balances	(30,015)	0	0	(18,122)	(48,137)
Net cash provided by (used in) noncapital financing activities	(175,172)	288,353	(84,972)	(345,860)	(317,651)
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(110,266)	(387,767)	(23,500)	(2,711,154)	(3,232,687)
Proceeds from sale of equipment	8,500	0	0	0	8,500
Receipts from capital grants	0	0	0	5,568,172	5,568,172
Sub-recipient grant payments	0	0	0	(2,602,640)	(2,602,640)
Proceeds from long term debt	0	0	0	111,481	111,481
Principal payments on general obligation bonds and leases	(495,664)	(663,508)	0	(12,955)	(1,172,127)
Interest payments on general obligation bonds and leases	(299,991)	(155,644)	(12,515)	(85,337)	(553,487)
Net cash used in capital and related financing activities	(897,421)	(1,206,919)	(36,015)	267,567	(1,872,788)
Net Increase in Cash	0	0	0	0	0
Cash - July 1, 2014	0	0	50	0	50
Cash - June 30, 2015	\$ 0	\$ 0	\$ 50	\$ 0	\$ 50
Adjustments to reconcile operating income to net cash provided by operating activities:					
Net operating income (loss)	\$ 548,431	\$ 383,771	\$ 96,907	\$ (103,216)	\$ 925,893
Depreciation expense	546,605	652,974	18,037	243,080	1,460,696
Pension expense	(442)	(647)	(292)	(23)	(1,404)
Decrease (increase) in accounts receivable	(11,688)	(93,662)	(1,302)	(25,510)	(132,162)
Decrease (increase) in prepaid expenses	0	0	(155)	0	(155)
Decrease (increase) in inventory	(7,890)	(38,254)	0	(13,822)	(59,966)
(Decrease) increase in accounts payable	4,467	5,596	323	1,586	11,972
(Decrease) increase in accrued payroll	347	5,459	3,309	1,075	10,190
(Decrease) increase in unearned fees and charges for services revenue	674	0	0	(30,624)	(29,950)
(Decrease) increase in accrued vacation	(7,912)	3,329	4,160	5,747	5,324
Net cash provided by operating activities	\$ 1,072,592	\$ 918,566	\$ 120,987	\$ 78,293	\$ 2,190,438
Non-cash transactions:					
Bad debt write-offs	\$ 20,093	\$ 18,818	\$ 0	\$ 0	\$ 38,911
Due to the implementation of GASB#68, which changed the way pension liabilities are valued with no effect on foreseeable funding amounts payable the following assets, liabilities and equity accounts were affected:					
Deferred outflows of resources-pension related	\$ 28,628	\$ 41,950	\$ 18,910	\$ 1,505	\$ 90,993
Net pension liability	(19,634)	(28,771)	(12,969)	(1,032)	(62,406)
Deferred inflows of resources-pension related	(66,208)	(97,018)	(43,734)	(3,481)	(210,441)
Beginning of year equity	\$ 57,656	\$ 84,486	\$ 38,085	\$ 3,031	\$ 183,258

See accompanying notes to financial statements.

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

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.
- 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.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies (continued)

1.a. The Financial Reporting Entity (continued)

- 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.

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.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies (continued)

1.b. Basis of Presentation (continued)

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 the 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.

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.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies (continued)

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.

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.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies (continued)

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

Receivables

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

Internal Balances

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

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

Inventories and Prepaid Expenses

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

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

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

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 ended 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:

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies (continued)

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

Capital Assets (continued)

	<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.

Pensions

In July of 2014, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Vermont Municipal Employees' Retirement System (VMERS) and additions to/deductions from VMERS's fiduciary net position have been determined on the same basis as they are reported by VMERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

The City reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. The only deferred outflows of resources reported in this year's financial statements are a deferred outflow of resources for contributions made to the City's defined benefit pension plans between the measurement date of the net position liabilities from those plans and the end of the City's fiscal year. No deferred outflows of resources affect the governmental funds financial statements in the current year.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies (continued)

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

Deferred Inflows of Resources

The City's statements of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Deferred inflows of resources are reported in the City's statement of net position for 1) actual pension plan investment earnings in excess of the expected amounts included in determining pension expense and 2) changes in proportional share of contributions. These deferred inflows of resources are attributed to pension expense over a total of 5 years. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected not later than sixty days after the end of the City's fiscal year) under the modified accrual basis of accounting.

Long-term Liabilities

Long-term liabilities include notes, bonds and leases 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.

Government-wide and Proprietary Fund Net Position

Net position represents the difference between assets and liabilities in the statement of net position. Government-wide net position are divided into three components:

Invested in capital assets, net of related debt – consists of the historical cost of capital less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted net position – consists of assets that are restricted by the City's creditors, enabling legislation, by grantors, and by other contributors.

Unrestricted net position – all other net position is reported in this category.

The City first utilizes restricted resources to finance qualifying activities.

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance.

Assigned – Amounts the City intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies (continued)

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

Governmental Fund Balances (continued)

Unassigned – All amounts not included in other spendable classifications.

When a expenditure is incurred that qualifies for payment from any of the three unrestricted fund balance categories, it is applied in the following order: Committed, Assigned and then Unassigned.

2. Explanation of Differences Between Governmental Fund and Government-wide Statements

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

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

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

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

3. Stewardship, Compliance and Accountability

3.a. Budgetary Information

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

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

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

3. Stewardship, Compliance and Accountability (continued)

3.b. Excess of Expenditures Over Appropriations

For the year ended June 30, 2015, expenditures exceeded appropriations in the General Fund by \$159,460. City legal fees were higher than budgeted by \$69,322 due to a former employee litigation and a tax exemption dispute. Clerk expenses were over by \$37,891 due to using the records restoration reserve to digitize public records. Police expenses are over by \$144,972 due to an extra sergeant whose wages is covered by a grant, higher wages due to a new union contract and higher overtime due to several employees on extended leaves. Unbudgeted downtown improvement expenses of \$50,890 are funded 100% by special property taxes on downtown properties.

4. Detailed Notes on All Funds

4.a. Deposits and Investments

Cash - Deposits with Financial Institutions	\$ 3,056,957
Cash on Hand	600
Total Cash	3,057,557
Investments - Certificates of Deposit	88,254
Money Market Mutual Funds	62,890
Mutual Funds - Mixed Holdings	108,976
Mutual Funds - Bonds	618,982
Mutual Funds - Stocks	177,912
Corporate Stock	1,700
Total Investments	1,058,714
Total Cash and Investments	\$ 4,116,271

Investment Policy

The City's investment policy is as follows:

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

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

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

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4.a. Deposits and Investments (continued)

Investment Policy (continued)

- (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.

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

Investment Type	Remaining Maturity (In Years)					Total
	0-1	1-5	6-10	Data not Available	N/A	
Certificates of Deposit	\$ 0	\$ 0	\$ 0	\$ 0	\$ 88,254	\$ 88,254
Money Market Mutual Funds	62,890	0	0	0	0	62,890
Mutual Funds - Mixed Holdings	0	0	0	108,976	0	108,976
Mutual Funds - Bonds	0	98,704	520,278	0	0	618,982
Mutual Funds - Stocks	0	0	0	0	177,912	177,912
Corporate Stock	0	0	0	0	1,700	1,700
	\$ 62,890	\$ 98,704	\$ 520,278	\$ 108,976	\$ 267,866	\$ 1,058,714

Credit Risk

Generally, credit risk is the risk than 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.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4.a. Deposits and Investments (continued)

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.

	Bank Balance
Insured by FDIC	\$ 625,325
Collateralized Pledged Restricted Securities	2,890,773
Uninsured, Collateralized	0
Uninsured, Uncollateralized	90,500
Total Deposits	\$ 3,606,598

Deposits are comprised of the following:

Cash – Deposits with Financial Institutions	\$ 3,518,343
Investments – Certificate of Deposits	88,255
Total	\$ 3,606,598

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4.b. Receivables

Receivables at June 30, 2015, 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	\$ 133,938	\$ 0	\$ 133,938
Ambulance	78,164	0	78,164
Parking Tickets	0	231,239	231,239
Accounts Receivable	190,854	407,279	598,133
Contributions Receivable	105,192	0	105,192
Grants	458,514	15,683	474,197
Billed Services	0	159,010	159,010
Unbilled Services	0	1,074,099	1,074,099
Other Receivables	11,573	0	11,573
Allowance for Doubtful Accounts	(28,150)	(247,223)	(275,373)
	\$ 950,085	\$ 1,640,087	\$ 2,590,172

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%.

	\$ 3,147,235
Notes receivable, six (6) housing loans, 0% interest, due upon any conveyance or transfer of condominium units.	117,000
Total	3,264,235
Less allowance for doubtful loans	(2,226,458)
	\$ 1,037,777

Changes in loans receivable for the year ended June 30, 2015 were as follows:

Beginning Balance	Additions	Deletions	Ending Balance
\$ 3,229,336	\$ 56,405	\$ 21,506	\$ 3,264,235

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4.d. Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 2,762,937	\$ 0	\$ 0	\$ 2,762,937
Construction in progress	1,945,433	369,349	632,715	1,682,067
Total capital assets, not being depreciated	4,708,370	369,349	632,715	4,445,004
Capital assets being depreciated:				
Buildings and building improvements	8,959,538	15,311	0	8,974,849
Vehicles and equipment	6,220,291	672,996	273,842	6,619,445
Infrastructure	14,585,019	1,339,530	0	15,924,549
Totals	29,764,848	2,027,837	273,842	31,518,843
Less accumulated depreciation for:				
Buildings and building improvements	2,774,589	224,197	0	2,998,786
Vehicles and equipment	3,621,090	462,575	241,594	3,842,071
Infrastructure	2,488,431	586,280	0	3,074,711
Totals	8,884,110	1,273,052	241,594	9,915,568
Total capital assets, being depreciated	20,880,738	754,785	32,248	21,603,275
Governmental activities capital assets, net	\$ 25,589,108	\$ 1,124,134	\$ 664,963	\$ 26,048,279
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 250,672	\$ 0	\$ 0	\$ 250,672
Construction in progress	9,785,774	239,428	9,978,074	47,128
Total capital assets, not being depreciated	10,036,446	239,428	9,978,074	297,800
Capital Assets Being Depreciated:				
Buildings	21,382,267	0	0	21,382,267
Improvements	32,465,294	10,328,308	0	42,793,602
Equipment and vehicles	2,123,470	306,607	28,107	2,401,970
Total capital assets, being depreciated	55,971,031	10,634,915	28,107	66,577,839
Less accumulated depreciation for:				
Buildings	5,955,192	414,727	0	6,369,919
Improvements	15,045,606	911,800	0	15,957,406
Equipment and vehicles	1,294,090	134,169	23,891	1,404,368
Totals	22,294,888	1,460,696	23,891	23,731,693
Total capital assets, being depreciated	33,676,143	9,174,219	4,216	42,846,146
Business-type activities capital assets, net	\$ 43,712,589	\$ 9,413,647	\$ 9,982,290	\$ 43,143,946

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4.d. Capital Assets (continued)

Depreciation was charged as follows:

Governmental Activities:		Business - Type Activities:	
General Government	\$ 130,690	Water	\$ 546,605
Public Safety	236,926	Sewer	652,974
Public Works	845,549	Parking	18,037
Culture and Recreation	48,572	District Heat	243,080
Cemetery	11,315		<u>\$ 1,460,696</u>
	<u>\$ 1,273,052</u>		

4.e. Interfund Receivables, Payables and Transfers

The composition of interfund balances at June 30, 2015 is as follows:

Fund	Receivable Fund	Payable Fund
General Fund	\$ 0	\$ 1,245,461
Capital Projects Fund	1,667,871	0
Other Governmental Funds	1,083,222	407,077
Water Fund	0	714,690
Sewer Fund	126,780	0
Parking Fund	203,200	0
District Heat Fund	0	713,845
Total due to/from other funds	\$ 3,081,073	\$ 3,081,073

Approximately \$450,000 of District Heat's interfund payable is not expected to be paid within a year.

Interfund transfers during the year ended June 30, 2015 were as follows:

Transfer From	Transfer To	Amount	Purpose
General Fund	Capital Projects Fund	\$ 619,594	Budgetary Authorization
General Fund	Capital Projects Fund	433,281	Budgetary Authorization
General Fund	Green Mount Cemetery Fund	118,509	Budgetary Authorizations
General Fund	Montpelier Parks Commission	156,189	Budgetary Authorizations
General Fund	Montpelier Events Fund	10,250	Budgetary Authorization
General Fund	Montpelier Housing Trust Fund	41,000	Budgetary Authorization
General Fund	Senior Center	157,475	Budgetary Authorization
Capital Projects Fund	General Fund	45,000	Budgetary Authorization
Capital Projects Fund	General Fund	43,400	Prior Year Flood Grant Funds to reimburse prior year labor
Capital Projects Fund	General Fund	1,884	Street Light Repairs
Montpelier Foundation	Senior Center	10,000	Capital Campaign Donation
Expendable Cemetery Trust Fund	Green Mount Cemetery Fund	27,000	Budgetary Authorization
Non-Expendable Cemetery Trust Fund	Expendable Cemetery Trust Fund	38,686	Investment Income Transfer
Hubbard Park Trust Fund	Montpelier Parks Commission Fund	53	Interest Income Transfer
Sewer Fund	Water Fund	15,000	Budgetary Authorizations
Parking Fund	Capital Projects Fund	12,000	Board Authorized Transfer
Parking Fund	Green Mount Cemetery Fund	10,000	Budgetary Authorization
Total		\$ 1,739,321	

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

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

Interfund loan balances at June 30, 2015 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	\$ 101,998	\$ (101,998)
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	50,691	(50,691)
Total of interfund loans	\$ 152,689	\$ (152,689)

Changes in interfund loans for the year ended June 30, 2015 were as follows:

Beginning Balance	Additions	Deletions	Ending Balance
\$ 160,340	\$ 0	\$ 7,651	\$ 152,689

4.f. Unearned Revenue/Unavailable Revenue

Unearned revenue in the General Fund consists of \$25,203 of grant revenue and \$58,626 of fees and service revenue received in advance. Unavailable revenue in the General Fund consists of \$68,374 of delinquent taxes, \$25,000 of state pilot (payment in lieu of taxes), \$21,129 of ambulance revenue and \$4,245 grant revenue not collected within sixty (60) days after year-end as these would not be available to liquidate current liabilities.

Unavailable revenue in the Community Development Fund consists of \$746,075 of loans receivable not collected within sixty (60) days after year-end as these would not be available to liquidate current liabilities.

Unavailable revenue in the Capital Projects Fund consists of \$375,902 of grant receivables not collected within sixty (60) days after year-end as these would not be available to liquidate current liabilities.

Unearned revenue in the Other Governmental Funds consists of \$500 of grant revenue and \$31,470 of fees and services revenue received in advance. Unavailable revenue in the Other Governmental Funds consists of \$105,192 of an estate contribution and \$274,000 of loans receivable that were not collected within sixty (60) days after year-end as these would not be available to liquidate current liabilities.

Unearned revenue in the Water Fund consists of \$5,458 of water usage overpayments.

Unearned revenue in the District Heat Fund consists of \$90,840 of capacity revenue and \$1,716 of energy usage revenue received in advance.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4.g. 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.

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, 2015 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.	\$	10,000
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.		105,000
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.		90,000

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4.g. Long-term Liabilities (continued)

<p>Street improvement and sewer line bond, various interest rates (.44% to 4.854%), to Vermont Municipal Bond Bank, semi-annual principal of 1 payment of \$35,500 then \$69,000 due May and November 15, with final payment of \$33,500 due November 15, 2034, (51.45% reported in Governmental Activities and 48.55% reported in Sewer Fund).</p>	691,718
<p>Retaining wall bond, net interest at 4.789%, to Vermont Municipal Bond Bank, \$50,000 principal payments due annually from December 1, 1999 to December 1, 2003, \$45,000 from December 1, 2004 to December 1, 2018.</p>	180,000
<p>Library bond, various interest rates (4.344% - 5.644%), to Vermont Municipal Bond Bank, \$30,000 principal due annually from December 1, 2001 to December 1, 2020.</p>	180,000
<p>Bike path lighting project bond, interest at 4.67%, to Vermont Municipal Bond Bank, \$20,000 principal due annually, due in December 2021.</p>	140,000
<p>Montpelier Police Station bond, various interest rates (4.344% - 5.644%), to Vermont Municipal Bond Bank, \$75,000 principal due annually from December 1, 2001 to December 1, 2014, \$70,000 from December 1, 2015 to December 1, 2020.</p>	420,000
<p>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.</p>	400,000
<p>Honeywell Global Finance, LLC. Lease, for energy efficiency upgrades, interest at 4.53%, due in annual installments of principal and interest of \$25,600 until February 1, 2009 then \$26,890 until February 2010, then \$30,431 until February 1, 2018, (61% of lease reported in Governmental Activities, 10% of lease reported in Water Fund and 29% reported in Sewer Fund), secured by equipment.</p>	103,056
<p>City Hall/DPW improvement bond, various interest rates (3.835% - 4.665%) to Vermont Municipal Bond Bank, \$45,000 principal due annually from December 1, 2007 to December 1, 2022, \$40,000 due from December 1, 2023 and \$35,000 due from December 1, 2024 to December 1, 2026.</p>	505,000

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4.g. Long-term Liabilities (continued)

<p>VMERS refunding bond, Vermont Municipal Bond Bank, interest rate at 6.501%, semi-annual interest only payments through May 15, 2017, principal payable starting November 15, 2017 in various annual installments increasing from \$30,000 to \$524,000 until November 15, 2032, (74.96% of bond reported in Governmental Activities, 8.35% reported in Water Fund, 11.29% reported in Sewer Fund and 5.40% reported in Parking Fund).</p>	2,672,500
<p>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.</p>	1,500,000
<p>Sabins pasture/district heating/retaining walls/bridges improvement bond, various interest rates (1.391% to 4.981%) to Vermont Municipal Bond Bank, annual installments of \$95,000 decreasing to \$45,000 until November 15, 2029 (21.74% reported in District Heat Fund).</p>	518,661
<p>Trustees of Allen Carr Revocable Trust Note, interest at 4.5% adjusted on Jan 2019 and 2024, monthly payments of principal and interest of \$3,600 due until January 2, 2026, secured by mortgage on 1 Taylor St.</p>	363,208
<p>Total governmental activities bonds , notes payable and leases payable</p>	<p>\$ 7,879,143</p>

Business-type Activities

Water Fund

<p>Water line improvement bond, various interest rates (3.865% - 4.665%) to Vermont Municipal Bond Bank, principal payments in annual installments of \$105,519 decreasing to \$80,195 until December 1, 2027.</p>	<p>\$ 1,211,364</p>
<p>Water filtration system bond issued July 10, 1991 to Vermont Municipal Bond Bank, refunded by the Vermont Municipal Bond Bank August 2, 1995, from 1991 Series 1 to 1995 Series 1 and 2, net interest rate of 7.14%, interest payable June 1 and December 1, and principal payable in various annual installments increasing from \$25,000 to \$195,000 until December 1, 2021.</p>	1,125,000
<p>Vermont water system improvement bond refinanced July 2004 through the Vermont Bond Bank, various interest rates (1.87% - 5.09%), interest payable June 1 and December 1, and principal payable in various annual installments increasing from \$145,000 to \$310,000 until December 1, 2024.</p>	2,500,000

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4.g. Long-term Liabilities (continued)

<p>Westside connector bond issued July 2004 to Vermont Municipal Bond Bank, interest rates (1.87% - 5.09%), interest payable June 1 and December 1, and principal payable in various annual installments increasing from \$50,000 to \$105,000 until December 1, 2024.</p>	845,000		
<p>VMERS Refunding Bond, Vermont Municipal Bond Bank, interest rate at 6.501%, semi-annual interest only payments through May 15, 2017, principal payable starting November 15, 2017 in various annual installments increasing from \$30,000 to \$524,000 until November 15, 2032, (74.96% of bond reported in Governmental Activities, 8.35% reported in Water Fund, 11.29% reported in Sewer Fund and 5.40% reported in Parking Fund).</p>	297,500		
<p>Honeywell Global Finance, LLC lease for energy efficient upgrades, interest at 4.53%, due in annual installments of principal and interest of \$25,600 until February 1, 2009, then \$26,890 until February 1, 2010, then \$30,431 until February 1, 2018, (61% of lease reported in Governmental Activities, 10% of lease reported in Water Fund and 29% reported in Sewer Fund), secured by equipment.</p>	16,895		
<table border="0" style="width: 100%;"> <tr> <td style="width: 80%;">Total Water Fund bonds and leases payable</td> <td style="width: 20%; text-align: right;">\$ 5,995,759</td> </tr> </table>		Total Water Fund bonds and leases payable	\$ 5,995,759
Total Water Fund bonds and leases payable	\$ 5,995,759		

Sewer Fund

<p>Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$22,049 until December 1, 2016.</p>	\$ 44,098
<p>Sewer system improvement Bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$38,856 until December 1, 2017.</p>	116,566
<p>Sewer system improvement bond, Vermont Municipal Bond Bank, net interest rate of 5.676%, annual principal of \$30,000 until December 1, 2016.</p>	60,000
<p>Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$14,156 until December 1, 2018.</p>	56,625
<p>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.</p>	880,000

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4.g. Long-term Liabilities (continued)

Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$35,497 until April 1, 2020.	177,485
Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$174,171 until July 1, 2025.	1,741,709
Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$13,807 until January 1, 2022.	96,650
Sewer system improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$26,456 until July 1, 2022.	185,191
Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments of \$34,432 until July 1, 2023.	275,455
Water treatment improvement bond, State of Vermont Special Revolving Loan Fund, 0% interest, annual principal payments payments of \$28,100 until June 1, 2024.	252,897
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.	381,807
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.	620,000
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.	280,000
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, 2015

4. Detailed Notes on All Funds (continued)

4.g. 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. 48,994

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. 223,636

Street improvement and sewer line bond, various interest rates (.44% to 4.854%), to Vermont Municipal Bond Bank, semi-annual principal of 1 payment of \$35,500 then \$69,000 due May and November 15, with final payment of \$33,500 due November 15, 2034, (51.45% reported in Governmental Activities and 48.55% reported in Sewer Fund). 652,782

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. 283,610

Total Sewer Fund bonds and lease payable \$ 6,780,005

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

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4.g. Long-term Liabilities (continued)

District Heat Fund

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 (78.26% reported in Governmental Activities).	\$	181,339
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.		750,000
State of Vermont Note for District Heat, Design and Construction of City Room, at zero percent interest, seven monthly payments of \$838.20 from October to April for nineteen (19) years, last payment April 2034		111,481
A Vermont Municipal Bank \$2,000,000 bond was issued on July 1, 2014, various interest rates (.513% to 4.283%) due semi annually, annual principal of \$100,000 due November 15, 2019 to 2038.		2,000,000
Total District Heat Fund bonds and notes payable	\$	3,042,820
Total Proprietary Funds bonds notes and leases payable	\$	16,011,084

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General Obligation Bonds	\$ 7,918,206	\$ 0	\$ (505,327)	\$ 7,412,879	\$ 477,580
Capital Leases	172,931	0	(69,875)	103,056	32,825
Notes Payable	401,354	0	(38,146)	363,208	27,417
Compensated Absences	333,289	17,308	0	350,597	0
Total Governmental Activities Long-Term Liabilities	\$ 8,825,780	\$ 17,308	\$ (613,348)	\$ 8,229,740	\$ 537,822
Business-type Activities					
General Obligation Bonds	\$ 16,235,774	\$ 0	\$ (1,152,060)	\$ 15,083,714	\$ 1,178,902
Capital Leases	85,956	0	(20,067)	65,889	20,986
Notes Payable	750,000	111,481	0	861,481	5,867
Compensated Absences	104,937	5,324	0	110,261	0
Total Business-type Activities Long-Term Liabilities	\$ 17,176,667	\$ 116,805	\$ (1,172,127)	\$ 16,121,345	\$ 1,205,755

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

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4.g. Long-term Liabilities (continued)

Debt service requirements to maturity are as follows:

Year Ending June 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Capital Leases	Principal	Interest	Capital Leases
2016	\$ 504,997	\$ 371,205	\$ 37,126	\$ 1,184,769	\$ 510,798	\$ 23,737
2017	506,256	350,344	37,126	1,215,374	473,530	23,737
2018	525,062	328,991	37,126	1,201,452	413,841	23,737
2019	471,934	304,590	0	1,191,735	374,720	0
2020	439,619	282,000	0	1,301,976	331,717	0
2021-2025	1,975,986	1,131,953	0	5,923,279	949,854	0
2026-2030	1,906,172	669,743	0	1,682,701	487,651	0
2031-2035	1,446,061	138,544	0	1,468,909	220,345	0
2036-2040	0	0	0	775,000	45,514	0
2041-2045	0	0	0	0	0	0
Less Amounts Representing Interest	0	0	(8,322)	0	0	(5,322)
Total	\$ 7,776,087	\$ 3,577,370	\$ 103,056	\$ 15,945,195	\$ 3,807,970	\$ 65,889

The City did not have any authorized, unissued debt at June 30, 2015.

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

Beginning Balance (Recorded as long term debt)	\$ 2,000,000
Repayment of Bond Anticipation Note – District Heat	(2,000,000)
Proceeds of Tax Anticipation Note – General Fund	2,500,000
Repayment of Tax Anticipation Note – General Fund	(2,500,000)
Ending Balance	\$ 0

The bond anticipation note had an interest rate of 1.15% and was paid in full on August 1, 2014. Interest paid for the year ended June 30, 2015 was \$2,332. The tax anticipation note had an interest rate of 2.80% and was paid in full with interest of \$69,808 in June 2015.

4. h. Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the City's contributions to the Plan were \$396,977.

At June 30, 2015, the City reported a liability of \$272,263 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the City's proportion was 2.9832 percent, which was a decrease of 0.2696 from its proportion measured as of June 30, 2013.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4. h. Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2015, the City recognized pension expense of \$390,855 on the government-wide statements. The pension expense and the related pension liabilities and deferrals were split between government-wide and business-type based on the participating costs for fiscal year 2015. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on Plan investments	\$ 0	\$ 839,551
Changes in proportion and differences between City contributions and proportionate share of contributions	0	78,542
Member contributions subsequent to the measurement date	396,977	0
Total	\$ 396,977	\$ 918,093

The \$396,977 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2015.

Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2016	\$ (248,496)
2017	(248,496)
2018	(248,496)
2019	0
2020	0
Thereafter	0

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4. h. Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest rate – A select-and-ultimate interest rate set, specified below. The interest rate set is restarted every year.

Year 1	6.25%	Year 10	8.50%
Year 2	6.75%	Year 11	8.50%
Year 3	7.00%	Year 12	8.50%
Year 4	7.50%	Year 13	8.50%
Year 5	7.75%	Year 14	8.50%
Year 6	8.25%	Year 15	8.50%
Year 7	8.25%	Year 16	8.75%
Year 8	8.25%	Year 17 and later	9.00%
Year 9	8.50%		

Salary increase - 5% per year

Deaths

Active participants – 50% of the probabilities in the 1995 Buck Mortality Tables for males and females
 Non-disabled retirees and terminated vested participants – the 1995 Buck Mortality Tables with no set-back for males and one-year set-back for females
 Disabled retirees – RP-2000 Disabled Life Tables
 Beneficiaries – 1995 Buck Mortality Tables for males and females

Spouse's age – husbands are assumed to be three years older than their wives

Cost of Living Adjustments to Benefits of Terminated Vested and Retired Participants - Assumed to occur at the rate of 1.5% per annum for Group A members and 1.8% per annum for members of Groups B, C and D.

Asset Valuation Method (for funding purposes) - A smoothing method is used, under which the value of assets for actuarial purposes equals market value less a five-year phase-in of the differences between actual and assumed investment return. The value of assets for actuarial purposes may not differ from the market value of assets by more than 20%.

Inflation - The separately stated assumptions for investment return, salary increases and cost of living adjustments are consistent with an expected annual inflation rate of 3.00% to 3.25% per year.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4. h. Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (continued)

Long-term expected rate of return

The long-term expected rate of return on pension plan investments was determined using best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variable and the asset classes. These best estimate ranges were combined to produce forecasts of the short, intermediate, and longer term horizons by weighting the expected future nominal rates of return by the target asset allocation percentage. The various time horizons in the forecast are intended to capture more recent economic and capital market conditions as well as other plausible environments that could develop in the future over economic cycles. To reflect this in the rate-of-return assumption, a Select and Ultimate assumption setting approach, which is cited in Section 3.8.4 of Actuarial Standard of Practice No. 27 as an alternative to a single assumed rate of return, is employed.

Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	31.50%	6.70%
Fixed Income	33.00%	2.94%
Alternatives	15.50%	6.26%
Multi-strategy	20.00%	5.98%

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long-term inflation rate of 3.0%.

Discount Rate – The discount rate used to measure the total pension liability was 8.23%. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current System members. The assumed discount rate has been determined in accordance with the method prescribed by GASB 68.

Sensitivity of the City's proportionate share of the net pension liability to change in the discount rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 8.23 percent, as well as what the proportionate share would be if it were calculated using a discount rate that is 1-percentage-point lower (7.23 percent) or 1-percentage-point higher (9.23 percent) than the current rate:

<u>1% Decrease (7.23%)</u>	<u>Discount Rate (8.23%)</u>	<u>1% Increase (9.23%)</u>
\$ 2,293,660	\$ 272,264	\$ (1,423,628)

See note 6. a. for more information on the Pension Plan

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

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

The restricted fund balances/net position of the City as of June 30, 2015 consisted of the following:

	Balance
	June 30, 2015
Governmental Funds	
General Fund:	
Act 60 Reappraisal - State Statute	\$ 52,299
Records Restoration - State Statute	12,249
Park Impact Fees - State Statute	16,864
Police Canine Donation	1,269
Drug Seizure	2,810
Total General Fund	85,491
Community Development Fund:	
Community Development Grant Funds	296,097
Total Community Development Fund	296,097
Capital Projects Fund:	
Traffic Impact Fees	5,300
Bond Proceeds	1,105,635
Total Capital Projects Fund	1,110,935
Other Governmental Funds:	
Special Revenue Funds:	
Montpelier Events Fund - Donations	6,126
Montpelier Events Fund - Grants	7,531
Total Montpelier Events Fund	13,657
Green Mount Cemetery	9,893
Montpelier Foundation - Donations	111,812
Total Special Revenue Funds	135,362
Permanent Funds:	
Expendable Cemetery Trust	407,392
Total	407,392
Total Other Governmental Funds	542,754
Total Restricted Fund Balances - Governmental Funds	\$ 2,035,277

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

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

The committed fund balances/net position of the City as of June 30, 2015 consisted of the following:

	Balance
	June 30, 2015
Governmental Funds:	
Major Funds:	
General Fund:	
Committed for Fire Revenue Reserve	\$ 1,782
Committed for Justice Center Revolving Loan	4,632
Committed for Conservation Commission	8,794
Committed for Fiscal Year 2016 Spending	46,555
Committed for Health Reimbursement Arrangement	119,700
Total General Fund	181,463
Community Development Fund:	
Committed for MBL Program	51,663
Committed for HPG Program	81,579
Committed for 25/25/ Loan write-offs	17,702
Committed for Community Development Program	31,472
Total Community Development Fund	182,416
Capital Projects Fund:	
Committed for Future Projects	658,385
Committed for Flood Mitigation-Phase II Project	304,421
Total Capital Projects Fund	962,806
Other Governmental Funds:	
Special Revenue Funds:	
Committed for Montpelier Park Commission	28,632
Committed for Montpelier Events Fund	10,630
Committed for Conservation Fund	36,915
Committed for Montpelier Housing Trust Fund	171,215
Committed for Senior Center Fund	254,468
Total Special Revenue Funds	501,860
Total Committed Fund Balances - Governmental Funds	\$ 1,828,545

The negative unassigned fund balance of \$395,869 in the Capital Projects Fund is a result of \$367,993 of grant expenses that will be funded from future grant proceeds and \$24,876 of sidewalk enhancement expenses and \$3,000 of streets/ADA improvements which will be funded from future appropriated capital funds.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

4. Detailed Notes on All Funds (continued)

4.i. Restricted Net Position

The restricted net position of the City (government-wide statements) as of June 30, 2015 consisted of the following:

Governmental Activities:	
Restricted by State Statute - Impact Fees	\$ 22,164
Restricted by State Statute - Other	64,548
Restricted by Donors	139,441
Restricted by Trust Agreements - Non-Expendable	489,860
Restricted by Trust Agreements - Expendable	407,392
Restricted by Community Development Loan/Grant Agreements	1,316,172
Total Governmental Activities:	2,439,577
Business-Type Activities:	
Restricted by Impact Fees Statute	2,417
Total Business-Type Activities	2,417
Total Restricted Net Position	\$ 2,441,994

5. Prior Period Adjustment

The government-wide and proprietary net positions for July 1, 2014 were restated below to adjust the beginning balances of the City to add the beginning net pension liability in order to be in accordance with GASB 68. The opening net assets were restated as follows:

	Governmental Activities	Water Fund	Sewer Fund	Parking Fund	District Heat Fund
June 30, 2014, as previously reported	\$ 23,084,303	\$ 9,011,993	\$ 11,924,327	\$ 290,851	\$ 5,903,151
Deferred outflows, inflows and net pension liability	(616,243)	(57,656)	(84,486)	(38,085)	(3,031)
June 30, 2014, restated	<u>\$ 22,468,060</u>	<u>\$ 8,954,337</u>	<u>\$ 11,839,841</u>	<u>\$ 252,766</u>	<u>\$ 5,900,120</u>

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

6. Other Information

6.a. Pension Plan -VMERS

Plan description. The City contributes to the Vermont Municipal Employees' Retirement System (VMERS) which is a cost sharing multiple employer defined benefit pension plan that is administered by the State Treasurer and its Board of Trustees. It is designed for school districts and other municipal employees that work on a regular basis and also includes employees of museums and libraries if at least half of that institution's operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter. Any employee hired subsequent to the effective participation date of their employer who meets the minimum hourly requirements is required to join the system. During the year ended June 30, 2015, the retirement system consisted of 437 participating employers.

The plan was established effective July 1, 1975, and is governed by Title 24, V.S.A Chapter 125.

The general administration and responsibility for formulating administrative policy and procedures of the retirement system for its members and their beneficiaries is vested in the Board of Trustees, consisting of five members. They are the State Treasurer, two employee representatives elected by the membership of the system, and two employer representatives – one elected by the governing bodies of participating employers of the system and one selected by the Governor from a list of four nominees. The list of four nominees is jointly submitted by the Vermont League of Cities and Towns and the Vermont School Boards Association.

All assets are held in a single trust and are available to pay retirement benefits to all members. Benefits available to each group are based on average final compensation (AFC) and years of creditable service.

Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the State of Vermont's Comprehensive Annual Financial Report (CAFR). The CAFR can be viewed on the State's Department of Finance and Management website.

Summary of System Provisions

Membership is open to all full time employees of participating municipalities. The municipality elects coverage under Groups A, B, C, or D. The City only has Group B and C members.

Creditable service is service as a member plus purchased service.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

6. Other Information (continued)
6.a. Pension Plan – VMERS (continued)
Benefits provided and contributions

	Group A	Group B	Group C	Group D
Avg Final Compensation (AFC)	Average annual compensation during highest 5 consecutive years	Average annual compensation during highest 3 consecutive years	Average annual compensation during highest 3 consecutive years	Average annual compensation during highest 2 consecutive years
Service Retirement Allowance				
Eligibility	Earlier of age 65 with 5 years of service or age 55 with 35 years of service	Earlier of age 62 with 5 years of service or age 55 with 30 years of service	Age 55 with 5 years of service	Age 55 with 5 years of service
Amount	1.4% of AFC times service	1.7% of AFC times service as Group B member plus percentage earned as a Group A member times AFC	2.5% of AFC times service as Group C member plus percentage earned as a Group A or B member times AFC	2.5% of AFC times service as Group D member plus percentage earned as a Group A, B, or C member times AFC
Maximum Benefit	60% of AFC, including portion of allowance provided by member contributions		50% of AFC, including portion of allowance provided by member contributions	
Early Retirement Allowance				
Eligibility	Age 55 with 5 years of service		n/a	Age 50 with 20 years of service
Amount	Normal allowance based on service and AFC at early retirement, reduced by 6% for each year commencement precedes Normal Retirement Age		n/a	Normal allowance based on service and AFC at early retirement, without reduction
Vested Retirement Allowance				
Eligibility	5 years of service	5 years of service	5 years of service	5 years of service
Amount	Allowance beginning at normal retirement age based on AFC and service at termination. The AFC is to be adjusted annually by one-half of the percentage change in the CPI, subject to the limits on "Post-Retirement Adjustments" described below.			
Disability Retirement Allowance				
Eligibility	5 years of service and disability as determined by Retirement Board			
Amount	Immediate allowance based on AFC and service to date of disability; children's benefit of 10% of AFC payable to up to three minor children (or children up to age 23 if enrolled in full-time studies) of a disabled Group D member.			
Death Benefit				
Eligibility	After 5 years of service	After 5 years of service	After 5 years of service	After 5 years of service
Amount	Reduced early retirement allowance under 100% survivor option commencing immediately or, if greater, survivor's benefit under disability annuity computed as of the date of death.			70% of the unreduced accrued benefit plus children's benefit
Optional Benefit and Death after Retirement				
	Lifetime allowance or actuarially equivalent 50% or 100% joint and survivor allowance with refund of contributions guarantee.			Lifetime allowance or 70% contingent annuitant option with no reduction
Refund of Contribution	Upon termination, if the member so elects or if no other benefit is payable, the member's accumulated contributions are refunded.			
Post-Retirement Adjustments				
	Allowance in payment for at least one year, increased on each January 1 by one-half of the percentage increase in CPI but not more than the following percentage:			
	2%	3%	3%	3%
Member Contributions	2.5% effective 1/1/00	4.75% effective 7/1/14	9.625% eff. 7/1/14 and 9.75% eff. 1/1/15	11.25% effective 7/1/14
Employer Contributions	4%	5.375% effective 7/1/14	6.875% eff. 7/1/14 and 7% eff 1/1/15	9.75% effective 7/1/14
Retirement Stipend	\$25 per month payable at the option of the Board of Retirees			

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

6. Other Information (continued)

6.b. Property Taxes

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

The tax rate for fiscal year 2014-2015 was as follows:

	Residential	Non Residential
City, Cemetery and Outside Agencies	\$ 0.9082	\$ 0.9082
State Education Tax	1.5724	1.5472
Local Tax Agreements	0.0008	0.0008
Water/Sewer Benefit Charge	0.0900	0.0900
Recreation	0.0677	0.0677
Total	\$ 2.6391	\$ 2.6139

6.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 (VLCT) 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 Employment Resource and Benefits Trust, Inc.(VERB). This is the new name of the recently merged VLCT Health Trust and Unemployment Insurance Trust. The VERB Trust is a nonprofit corporation that continues to provide all of the services that its two predecessor trusts offered in 2014: unemployment insurance; health insurance consultation for all groups and health insurance for large groups; dental coverage; vision coverage; group life; long-term disability, and short-term disability insurances; optional additional life insurance plans for employees to purchase at group rates; and Health Advocate's Core Advocacy services. The trust is owned by the participating members. VERB underwriting and rate setting policies have been established after consultation with actuaries. The agreement does not permit the VERB Trust to make additional assessments to its members.

6.d. Commitments

Parking Lot Leases

The City leases four different parking lots around Montpelier for approximately \$100,416 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, 2015

6. Other Information (continued)

6.d. Commitments (continued)

Montpelier Fire District

The City and the Montpelier Fire District have an inter-local agreement that requires the City to pay approximately \$40,000 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.

Operating Leases

The City had a 60-month lease for three copiers ending in February 2016. The lease expense for the year ended June 30, 2015 was \$7,836. Subsequent to year end, the City entered into a new lease for 3 new copiers. The new lease is for 60 months with a monthly payment of \$661 starting November 2015 through October, 2020.

The minimum lease payments are as follows:

2016	\$ 7,900
2017	7,932
2018	7,932
2019	7,932
2020	2,644
	<u>\$ 34,340</u>

Solar Group Net Metering Agreements

On June 10, 2015 the City signed two "Solar Group Net Metering Agreements". The term of the agreements are 20 years with two (2) additional 5 year extensions, if elected by the City. The system owner plans to construct an array of photovoltaic panels in two different locations with an estimated annual output of 850,000 kilowatt hours of electricity (kWh). The system owner estimates that the system will be installed on or before July 31, 2016. Each agreement is a commitment to pay the System owner a fee (service price) of 85% of the net metering credit value attributable to output from the system that is allocated to the City's meters. The net metering credit value will be between \$.15 to \$.25 per kWh. The initial service price will be \$11,440, provided, however, that on the one year anniversary date of the service commencement date, and on each annual anniversary thereafter, the Parties shall agree to change the estimated monthly service price for the next twelve months of the term based on the parties good faith estimate of the average monthly actual service price for such twelve (12) month period. Both agreements have a purchase option which can be exercised by the City in year 7, 10 or 15 at the fair market value as determined by a mutually agreed upon independent appraiser.

6.e. Contingency – Health Care Benefits

Since January 1, 2012, the City offers a Blue Cross Blue Shield of Vermont high deductible plan with an employer funded Health Reimbursement Arrangement (HRA) to help employees pay for the 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 \$3,500 towards the maximum out-of-pocket health expenses for the single person plan. The City is responsible for \$7,000 toward the maximum out-of-pocket health expenses for two person and family plans. In the first five years, the actual use of the City's HRA funding was below the budgeted 65%. Based on lower than budgeted employee HRA use over the five years, a committed fund has been established to offset future HRA overages. The balance of the HRA committed fund balance at June 30, 2015 is \$119,700.

(continued)

CITY OF MONTPELIER, VERMONT
Notes to the Financial Statements
June 30, 2015

6. Other Information (continued)

6.e. Contingency – Health Care Benefits (continued)

When budgeting for the 2015 employee health insurance program costs, the City projected a use of 65% 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 \$194,000. The risk of this overage is low based on the first five years' HRA experience and the funds available in the reserve fund.

6.f. 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	\$1,500,000	2.80%	General Operating Short Term Funding- Matures on June 30, 2016

The City has evaluated subsequent events through January 15, 2016, the date on which the financial statements were available to be issued.

CITY OF MONTPELIER, VERMONT
Combining and Individual Fund Balance Sheet
Other Governmental Funds
June 30, 2015

	Special Revenue Funds						Permanent Funds				Total Other Governmental Funds	
	Green Mount Cemetery Fund	Montpelier Parks Commission Fund	Montpelier Events Fund	Conservation Fund	Montpelier Foundation Fund	Montpelier Housing Trust Fund	Montpelier Senior Citizens Fund	George Blanchard Trust Fund	Non-Expendable Cemetery Trust Fund	Hubbard Park Trust Fund		Expendable Cemetery Trust Fund
Assets:												
Cash	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,836	\$ 0	\$ 18,838	\$ 0	\$ 0	\$ 0	\$ 0	\$ 21,674
Investments	1,700	0	0	0	108,976	0	51,058	73,591	808,726	14,663	0	1,058,714
Receivables	3,443	183	0	0	0	0	105,192	0	0	0	0	108,818
Loans receivable	0	0	0	0	0	274,000	0	0	0	0	0	274,000
Prepaid Expenses	0	0	0	0	0	0	342	0	0	0	0	342
Due from other funds	15,365	35,897	33,762	36,915	0	171,215	382,676	0	0	0	407,392	1,083,222
Total assets	\$ 20,508	\$ 36,080	\$ 33,762	\$ 36,915	\$ 111,812	\$ 445,215	\$ 558,106	\$ 73,591	\$ 808,726	\$ 14,663	\$ 407,392	\$ 2,546,770
Liabilities, deferred inflows of resources, and fund balances												
Liabilities:												
Accounts payable	\$ 6,191	\$ 2,490	\$ 9,475	\$ 0	\$ 0	\$ 0	\$ 5,173	\$ 0	\$ 0	\$ 43	\$ 0	\$ 23,372
Accrued payroll and related expenses	4,424	4,458	0	0	0	0	9,114	0	0	0	0	17,996
Unearned grants	0	500	0	0	0	0	0	0	0	0	0	500
Unearned fees and charges for services	0	0	0	0	0	0	31,470	0	0	0	0	31,470
Interfund loans payable	0	0	0	0	0	0	152,689	0	0	0	0	152,689
Due to other funds	0	0	0	0	0	0	0	0	407,077	0	0	407,077
Total liabilities	10,615	7,448	9,475	0	0	0	198,446	0	407,077	43	0	633,104
Deferred inflows of resources:												
Unavailable revenue-contribution receivable	0	0	0	0	0	0	105,192	0	0	0	0	105,192
Unavailable revenue-loans receivable	0	0	0	0	0	274,000	0	0	0	0	0	274,000
Total deferred inflows of resources	0	0	0	0	0	274,000	105,192	0	0	0	0	379,192
Fund balances:												
Unspendable	0	0	0	0	0	0	0	73,591	401,649	14,620	0	489,860
Restricted	9,893	0	13,657	0	111,812	0	0	0	0	0	407,392	542,754
Committed	0	28,632	10,630	36,915	0	171,215	254,468	0	0	0	0	501,860
Total fund balances	9,893	28,632	24,287	36,915	111,812	171,215	254,468	73,591	401,649	14,620	407,392	1,534,474
Total liabilities, deferred inflows of resources, and fund balances	\$ 20,508	\$ 36,080	\$ 33,762	\$ 36,915	\$ 111,812	\$ 445,215	\$ 558,106	\$ 73,591	\$ 808,726	\$ 14,663	\$ 407,392	\$ 2,546,770

CITY OF MONTPELIER, VERMONT
Combining and Individual Fund Schedule of Revenues, Expenditures and Changes in Fund Balances
Other Governmental Funds
For the Year Ended June 30, 2015

	Special Revenue Funds							Permanent Funds				Total Other Governmental Funds
	Green Mount Cemetery Fund	Montpelier Parks Commission Fund	Montpelier Events 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	
Revenues:												
Intergovernmental	\$ 0	\$ 4,974	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,974
Fees and charges for services	49,417	0	0	0	0	0	114,693	0	8,160	0	0	172,270
Investment income (loss)	(356)	0	0	1,005	3,253	4,664	827	269	38,687	53	0	48,402
Contributions	0	1,075	0	0	10,000	0	135,400	0	0	0	0	146,475
Rents and commissions	0	13,200	0	0	0	0	0	0	0	0	0	13,200
Loan principal repayments	0	0	0	0	0	15,000	0	0	0	0	0	15,000
Other revenues	0	4,199	0	0	0	0	17,251	0	0	0	0	21,450
Total revenues	49,061	23,448	0	1,005	13,253	19,664	268,171	269	46,847	53	0	421,771
Expenditures:												
Culture and recreation	0	169,614	10,585	0	0	0	359,650	0	0	0	0	539,849
Community development	0	0	0	0	0	10,000	0	0	0	0	0	10,000
Cemetery	203,648	0	0	0	0	0	0	0	0	0	0	203,648
Capital outlay:												
Equipment and vehicles	0	8,500	0	0	0	0	0	0	0	0	0	8,500
Debt service - principal	11,933	0	0	0	0	0	0	0	0	0	0	11,933
Debt service - interest	2,564	2,275	0	0	0	0	9,716	0	0	0	0	14,555
Total expenditures	218,145	180,389	10,585	0	0	10,000	369,366	0	0	0	0	788,485
Excess (deficiency) of revenues over expenditures	(169,084)	(156,941)	(10,585)	1,005	13,253	9,664	(101,195)	269	46,847	53	0	(366,714)
Other financing sources (uses):												
Proceeds from sale of equipment	0	2,800	0	0	0	0	0	0	0	0	0	2,800
Transfers in	155,509	156,242	10,250	0	0	41,000	167,475	0	0	0	38,686	569,162
Transfers out	0	0	0	0	(10,000)	0	0	0	(38,686)	(53)	(27,000)	(75,739)
Total other financing sources (uses)	155,509	159,042	10,250	0	(10,000)	41,000	167,475	0	(38,686)	(53)	11,686	496,223
Extraordinary item:												
Bequest proceeds	0	0	0	0	0	0	350,000	0	0	0	0	350,000
Net change in fund balance	(13,575)	2,101	(335)	1,005	3,253	50,664	416,280	269	8,161	0	11,686	479,509
Fund balance (deficit) - July 1, 2014	23,468	26,531	24,622	35,910	108,559	120,551	(161,812)	73,322	393,488	14,620	395,706	1,054,965
Fund balance - June 30, 2015	\$ 9,893	\$ 28,632	\$ 24,287	\$ 36,915	\$ 111,812	\$ 171,215	\$ 254,468	\$ 73,591	\$ 401,649	\$ 14,620	\$ 407,392	\$ 1,534,474

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
VERMONT EMPLOYEES MUNICIPAL RETIREMENT PLAN
Last fiscal year

	<u>2014</u>
District's proportion of the net pension liability (asset)	2.9832%
District's proportionate share of the net pension liability (asset)	\$ 272,263
District's covered-employee payroll	\$ 5,935,366
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	4.59%
Plan fiduciary net position as a percentage of the total pension liability	98.32%

SCHEDULE OF CITY'S CONTRIBUTIONS
VERMONT EMPLOYEES MUNICIPAL RETIREMENT PLAN
Last three fiscal years

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contributions	\$ 396,977	\$ 384,812	\$ 374,544
Contributions in relation to the contractually required contribution	<u>(396,977)</u>	<u>(384,812)</u>	<u>(374,544)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's covered-employee payroll	\$ 5,882,736	\$ 5,935,366	\$ 6,210,176
Contributions as a percentage of covered-employee payroll	6.748%	6.483%	6.031%

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, 2015, 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 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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.

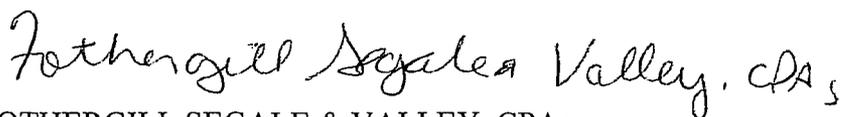
Compliance and Other Matters

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 15, 2016