

**TOWN OF EAST MONTPELIER, VERMONT
AUDIT REPORT AND FINANCIAL STATEMENTS
MODIFIED CASH BASIS
JUNE 30, 2010**

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INDEPENDENT AUDITOR'S REPORT

December 21, 2010

To The Selectboard
Town of East Montpelier
East Montpelier, Vermont

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of East Montpelier, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the Town of East Montpelier, Vermont, prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of East Montpelier, as of June 30, 2010, and the respective changes in financial position – modified cash basis, and the budgetary comparison for the General Fund – modified cash basis for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2010, on our consideration of the Town's internal control over financial reporting and on 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 on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of East Montpelier's basic modified cash basis financial statements. The combining and individual nonmajor fund financial statements on page 28 and 29 are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,


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

TOWN OF EAST MONTPELIER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

Our discussion and analysis of the Town of East Montpelier, Vermont's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2010, within the limitations of the Town's modified cash basis of accounting. Please read it in conjunction with the Town's financial statements that begin on Exhibit A.

Financial Highlights

Government-Wide Financial Statements:

- The Town's net assets increased as a result of this year's operations by \$128,372. This is an approximate 8% increase from June 30, 2009.
- The cost of all of the Town's operations for fiscal year 6/30/10 was \$1,383,883 compared to 6/30/09 of \$1,549,037, an 11% decrease.

Funds Financial Statements:

- The Town's total General Fund revenues exceeded total expenditures and transfers, on the modified cash basis of accounting, by \$44,931, which was \$88,767 better than budget.
- The unreserved fund balance for the General Fund was \$179,943 as of June 30, 2010, compared to \$146,176 as of June 30, 2009. The special revenue funds increased by \$247,965, mainly as a result of the reappraisal cost and land conservation cost.

Using This Annual Report

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Town's modified cash basis of accounting. This report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (*Exhibit A & B*) provide information about the activities of the Town's government-wide financial statements under the modified cash basis. This reflects cash activity and recognizes capital assets as well as notes payable debt. The fund financial statements (starting on Exhibit C) focus on the individual parts of the Town government based on the cash activity. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant ("major") funds.

Basis of Accounting

The Town has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the Town's modified cash basis of accounting, revenues, expenses, related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities.

TOWN OF EAST MONTPELIER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010
(Continued)

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Town as a Whole

The Government-Wide Statement of Net Assets and the Statement of Activities

The financial statements of the Town as a whole are on Exhibit A and B. One of the most important questions asked about the Town's finances is, "Is the Town as a whole better off or worse off as a result of the year's modified cash activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all of the Town's assets and liabilities resulting from the use of the modified cash basis of accounting. These statements also report the Town's net assets and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the Town's net assets - the difference between assets and liabilities - as one way to measure the Town's financial health or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, the Town is made up of governmental activities. All of the Town's basic services are reported here, including the general administration, streets and highway, public safety, and cemetery. Property taxes, fines, and state aid finance most of these activities.

Reporting the Town's Most Significant Funds

The Fund Financial Statements

The fund financial statements begin on Exhibit C and provide detailed information about the most significant funds - not the Town as a whole. Some funds are required to be established by State law. However, the Town Selectboard establishes certain 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.

All of the Town'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 report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

TOWN OF EAST MONTPELIER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010
(Continued)

We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation in Exhibit D and F. The Town considers the General Fund, the Capital Reserve Fund, and Emergency Services Facility Fund to be its significant or major governmental funds. All other governmental funds are aggregated in a single column titled nonmajor funds.

The Town as a Whole (Government-Wide Financial Analysis)

The Town's combined net assets increased by \$128,372 as a result of the current year operations. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Town's governmental activities.

Table 1 - Net Assets

	6/30/2010	6/30/2009	Net Change
Current and other assets	\$ 985,584	\$ 741,638	\$ 243,946
Capital assets	3,110,445	1,239,208	1,871,237
Total assets	<u>4,096,029</u>	<u>1,980,846</u>	<u>2,115,183</u>
Current liabilities	2,459	1,409	1,050
Lease and note payable due within one year	67,103	114,239	(47,136)
Lease and note payable due after one year	2,258,235	225,338	2,032,897
Total liabilities	<u>2,327,797</u>	<u>340,986</u>	<u>1,986,811</u>
Net Assets:			
Invested in capital assets, net of related debt	785,107	949,631	(164,524)
Restricted	748,182	500,216	247,966
Unrestricted	234,943	190,013	44,930
Total net assets	<u>\$ 1,768,232</u>	<u>\$ 1,639,860</u>	<u>\$ 128,372</u>

Table 2 - Change in Net Assets

	6/30/10	6/30/09	Net Change
REVENUES			
General revenue:			
Property taxes	\$ 1,178,849	\$ 1,144,585	\$ 34,264
Earnings on investments	39,298	20,309	18,989
Other general revenue	5,611	8,305	(2,694)
Program revenue:			
Charges for services	87,542	85,804	1,738
Operating & Capital grants and contributions	200,955	428,308	(227,353)
Total revenues	<u>1,512,255</u>	<u>1,687,311</u>	<u>(175,056)</u>
PROGRAM EXPENSES			
Highways and roads	617,423	620,432	(3,009)
General government	458,617	579,771	(121,154)
Public safety	216,497	245,232	(28,735)
Culture and recreation	56,328	64,303	(7,975)
Health and welfare	20,164	15,541	4,623
Community development	0	15,187	(15,187)
Interest on long-term debt	14,854	8,571	6,283
Total program expenses	<u>1,383,883</u>	<u>1,549,037</u>	<u>(165,154)</u>
Increase (decrease) in net assets	<u>\$ 128,372</u>	<u>\$ 138,274</u>	<u>\$ (9,902)</u>

TOWN OF EAST MONTPELIER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010
(Continued)

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – changed from a \$190,013 balance at June 30, 2009, to a \$234,943 balance at June 30, 2010 for the governmental activities.

Total expenses for governmental activities, resulting from modified cash basis transactions, decreased 11% from 06/30/09 to 6/30/10. Of these total expenses in fiscal year ending 6/30/10, taxpayers and other general revenues funded 85% of total expenses compared to 74% in 2009.

Table 3 presents the cost of each of the Town's five largest programs – highway and roads, general government, public safety, culture and recreation, and health and welfare – 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 Town's taxpayers by each of these functions.

Table 3
Governmental Activities

	6/30/2010		6/30/2009	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Highways and roads	\$ 617,423	\$ 492,071	\$ 620,432	\$ 278,320
General government	458,617	298,659	579,771	415,950
Public safety	216,497	216,497	245,232	245,232
Culture and recreation	56,328	53,141	64,303	60,624
Health and welfare	20,164	20,164	15,541	15,541
Other cost	14,854	14,854	23,758	19,258
Total	<u>\$ 1,383,883</u>	<u>\$ 1,095,386</u>	<u>\$ 1,549,037</u>	<u>\$ 1,034,925</u>

The Town's Funds (*Fund Financial Statement Analysis*)

As the Town completed the fiscal year June 30, 2010, its governmental funds (as presented in the Balance Sheet on Exhibit C) reported a combined fund balance of \$983,125, which is approximately 42% higher than fiscal year ended June 30, 2009 total fund balance of \$690,228.

General Fund Budgetary Highlights

Monthly financial reports reviewed by the Select Board served as the vehicle for monitoring the actual results compared to budget for the year. Over the course of the year, the Town's management did not adjust the budget.

Exhibit G compares actual to budget which shows the favorable and unfavorable variances that arose during the fiscal year in the General Fund. The net revenues were greater than expenditures by \$44,931 which is \$88,767 better than budget.

TOWN OF EAST MONTPELIER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010
(Continued)

The larger variances are as follows:

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues and other sources:			
Property Taxes	\$ 1,273,494	\$ 1,178,849	\$ (94,645)
Center Road Grant	108,000	0	(108,000)
Highway aid	113,000	124,993	11,993
Paving Towne Hill Grant	120,000	0	(120,000)
Expenditures:			
Town officers	137,500	125,319	12,181
Treasurer legal fees	25,594	0	25,594
Highway & roads operations	375,925	280,711	95,214
Debt service principal payments	45,931	64,239	(18,308)
Paving Towne Hill Grant	134,000	0	134,000
Center Road grant project	120,000	0	120,000
'02 Chevy pickup	0	13717	(13,717)

The reasons for these variances are as follows:

Revenues:

Property Taxes – The ‘actual’ number includes both current year taxes received and delinquent taxes collected. The current year taxes uncollected exceeded the delinquent taxes by more than \$60,000. Also, Town Clerk/Treasurer legal expenses approved by the voters were paid in the prior year instead of the current year. Thus, when the tax rate was set, it was known that the Town did not have to raise this amount and it was removed from the calculation.

Grants – At budget setting time, the Town planned to apply for grants to cover 90% of some work on the Center Road and for paving a portion of Towne Hill Road. Those grants were not received. Therefore, the revenues are not there and neither are the expenditures (see below).

Highway Aid – The budget was established at a point in time when the State had withheld one quarterly payment to towns and it was uncertain whether, or when, the State would resume payments, so the budget expectation was set conservatively.

Expenditures:

Town Officers – The Municipal Assistant position was vacant for a portion of the year. In addition, the Delinquent Tax Collector, who receives the penalty associated with collecting delinquent taxes, received less than expected. It is customary to put the same amount in Revenues to be collected from penalties as the amount in Expenditures to be paid to the Delinquent Tax Collector. The amount is an estimate.

Treasurer Legal Fees – As noted above, this amount was authorized by the voters of the Town, but paid in the prior year, before this year’s tax rate was set. Therefore, taxes were not raised to cover this expense.

Highway & Roads Operations – There were savings almost across the board, however, some of the larger items with savings were the gravel, sand, chloride and diesel fuel.

Debt Service Principal Payments – The Town acquired a new loader, when it appeared the old loader was unsafe to operate.

Grants – As noted above, these grants were not received and the work was not performed.

TOWN OF EAST MONTPELIER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010
(Continued)

'02 Chevy Pick-up – A used pick-up was acquired to reduce the wear and tear on the dump trucks when picking up parts and performing smaller tasks, such as, removing trees, etc.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2010, the Town had \$3,110,445 invested in capital assets, net of depreciation, including buildings, equipment, vehicles and infrastructure (See table below). This represents a net increase of \$1,871,237 to June 30, 2009.

Capital Assets at Year-End
(Net of depreciation)

	Governmental Activities	
	6/30/2010	6/30/2009
Land	\$ 115,600	\$ 30,600
Buildings	2,127,484	240,852
Equipment and vehicles	588,907	656,782
Infrastructure	278,454	310,974
Totals	\$ 3,110,445	\$ 1,239,208

The capital asset changes during the fiscal year were equipment purchase of a truck and the purchase of land and construction cost of the Emergency Facility Building.

Debt - At June 30, 2010, the Town had \$2,325,338 in notes outstanding versus \$289,577 on June 30, 2009 – an increase of \$2,035,761. The new Emergency Facility was financed and two short-term notes were issued in fiscal year 2010.

Economic Factors and Next Year's Budget and Rates

The Town's elected and appointed officials considered many factors when setting the fiscal year 2011 budget for Town operations. There was concern for the continued effect of the sluggish economy. The Town has fallen behind on its paving program, so the Town officials asked the taxpayers to support an aggressive 10-year plan to improve its paved roads. In addition, the Town, along with the Town of Calais, built a new state-of-the-art emergency services facility in the East Village, which houses the East Montpelier Fire Department providing fire and ambulance services to the two towns. The facility has a meeting space that is used frequently by various community groups. With a Fund Balance, the Town is able to soften the impact of these new expenditures on the tax rate.

Contacting the Town's Financial Management

This report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Office at Town of East Montpelier, Vermont.

STATEMENT OF NET ASSETS
MODIFIED CASH BASIS

JUNE 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 985,584
Property, equipment, and infrastructure (net of allowance for depreciation of \$524,071)	<u>3,110,445</u>
Total assets	<u>4,096,029</u>
LIABILITIES	
Fees collected on behalf of the State	2,459
Note payable due within one year	67,103
Note payable due after one year	<u>2,258,235</u>
Total liabilities	<u>2,327,797</u>
NET ASSETS	
Unrestricted	234,943
Restricted	748,182
Invested in capital assets, net of related debt	<u>785,107</u>
Total net assets	<u><u>\$ 1,768,232</u></u>

STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS

FISCAL YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Assets Total
Governmental Activities:				
Highways and roads	\$ 617,423	\$ 0	\$ 125,352	\$ (492,071)
General government	458,617	84,355	75,603	(298,659)
Public safety	216,497	0	0	(216,497)
Culture and recreation	56,328	3,187	0	(53,141)
Health and welfare	20,164	0	0	(20,164)
Interest on long-term debt	14,854	0	0	(14,854)
Total governmental activities	<u>\$ 1,383,883</u>	<u>\$ 87,542</u>	<u>\$ 200,955</u>	<u>(1,095,386)</u>
General Revenues:				
Property taxes				1,178,849
Interest revenue				39,298
Other general revenue				5,611
Total general revenues				<u>1,223,758</u>
Change in net assets				128,372
Net assets - June 30, 2009				<u>1,639,860</u>
Net assets - June 30, 2010				<u>\$ 1,768,232</u>

BALANCE SHEET
GOVERNMENTAL FUNDS
MODIFIED CASH BASIS

JUNE 30, 2010

	Major Funds			Nonmajor Funds	Total Governmental Funds
	General Fund	Capital Reserve Fund	Emergency Services Facility Fund	Other Governmental Funds	
ASSETS					
Cash	\$248,306	\$395,693	\$ 105,510	\$ 236,075	\$ 985,584
Due from other funds	0	0	0	10,904	10,904
Total assets	<u>\$248,306</u>	<u>\$395,693</u>	<u>\$ 105,510</u>	<u>\$ 246,979</u>	<u>\$ 996,488</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Fees collected on behalf of the State	\$ 2,459	\$ 0	\$ 0	\$ 0	\$ 2,459
Due to other funds	10,904	0	0	0	10,904
Total liabilities	<u>13,363</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>13,363</u>
Fund Balances					
Reserved :					
Permanent:					
Non-expendable	0	0	0	128,725	128,725
Expendable	0	0	0	24,212	24,212
FY 2011 expenditures	55,000	0	0	0	55,000
Unreserved:					
General Fund	179,943	0	0	0	179,943
Special Revenue Funds	0	0	0	87,977	87,977
Capital Project Funds	0	395,693	105,510	6,065	507,268
Total fund balances	<u>234,943</u>	<u>395,693</u>	<u>105,510</u>	<u>246,979</u>	<u>983,125</u>
Total liabilities and fund balances	<u>\$248,306</u>	<u>\$395,693</u>	<u>\$ 105,510</u>	<u>\$ 246,979</u>	<u>\$ 996,488</u>

RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
MODIFIED CASH BASIS

JUNE 30, 2010

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 983,125
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$3,634,517, and the accumulated depreciation is \$524,072.	3,110,445
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Notes payable	<u>(2,325,338)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 1,768,232</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

FISCAL YEAR ENDED JUNE 30, 2010

	Major Funds			Nonmajor Funds	Total Governmental Funds
	General Fund	Capital Reserve Fund	Emergency Services Facility Fund	Other Governmental Funds	
REVENUES					
Property taxes	\$ 1,178,849	\$ 0	\$ 0	\$ 0	\$ 1,178,849
Licenses and fees	57,507	0	0	3,187	60,694
Intergovernmental	189,622	0	0	11,333	200,955
Fines and penalties	26,848	0	0	0	26,848
Interest	12,871	1,197	22,239	2,991	39,298
Other revenue	1,211	0	0	4,400	5,611
Total revenues	<u>1,466,908</u>	<u>1,197</u>	<u>22,239</u>	<u>21,911</u>	<u>1,512,255</u>
EXPENDITURES					
Current expenditures					
General government	406,003	0	0	28,788	434,791
Health and welfare	8,448	0	0	10,983	19,431
Culture and recreation	51,025	0	0	5,303	56,328
Public safety	216,497	0	0	0	216,497
Highways and roads	499,794	0	0	0	499,794
Debt service					
Principal	64,239	0	0	0	64,239
Interest	14,854	0	0	0	14,854
Capital outlay	13,717	0	1,999,708	0	2,013,425
Total expenditures	<u>1,274,577</u>	<u>0</u>	<u>1,999,708</u>	<u>45,074</u>	<u>3,319,359</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>192,331</u>	<u>1,197</u>	<u>(1,977,469)</u>	<u>(23,163)</u>	<u>(1,807,104)</u>
OTHER FINANCING SOURCES (USES)					
Loan Proceeds	0	0	2,100,000	0	2,100,000
Transfers in	0	127,500	0	19,900	147,400
Transfers out	(147,400)	0	0	0	(147,400)
Total other financing sources (uses)	<u>(147,400)</u>	<u>127,500</u>	<u>2,100,000</u>	<u>19,900</u>	<u>2,100,000</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>44,931</u>	<u>128,697</u>	<u>122,531</u>	<u>(3,263)</u>	<u>292,896</u>
FUND BALANCES - June 30, 2009	<u>190,012</u>	<u>266,996</u>	<u>(17,021)</u>	<u>250,242</u>	<u>690,229</u>
FUND BALANCES - June 30, 2010	<u>\$ 234,943</u>	<u>\$ 395,693</u>	<u>\$ 105,510</u>	<u>\$ 246,979</u>	<u>\$ 983,125</u>

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS

FISCAL YEAR ENDED JUNE 30, 2010

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$	292,896
Amounts reported for governmental activities in the statement of activities are different because:		
Payment of note payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		64,239
Long-term loan proceeds are reported as revenue on the fund financial statements, but these proceeds increase long-term liabilities in the statement of net assets.		(2,100,000)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays net of disposals and adjustments \$2,013,425 exceeds depreciation expense \$142,188 in the period.		<u>1,871,237</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>128,372</u></u>

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET TO ACTUAL
GENERAL FUND
MODIFIED CASH BASIS

FISCAL YEAR ENDED JUNE 30, 2010

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 1,273,494	\$ 1,178,849	\$ (94,645)
Licenses and fees:			
Recording fees	18,000	26,985	8,985
School services fee	8,500	8,500	0
Education retention fees	4,000	6,811	2,811
Other fees	17,250	15,211	(2,039)
Intergovernmental:			
Current use hold harmless taxes	60,000	56,380	(3,620)
Highway aid	113,000	124,993	11,993
Center Road Grant	108,000	0	(108,000)
Pilot Program Grant	4,000	3,600	(400)
Paving Towne Hill Grant	120,000	0	(120,000)
Wastewater study	0	2,048	2,048
FEMA Grant	0	359	359
Various miscellaneous grants	0	2,242	2,242
Interest:			
Delinquent tax interest	10,500	11,783	1,283
Investment interest	5,000	1,088	(3,912)
Fines and penalties:			
Traffic fines	13,000	15,567	2,567
Delinquent tax penalties	15,000	11,281	(3,719)
Miscellaneous	325	1,211	886
Total revenues	<u>1,770,069</u>	<u>1,466,908</u>	<u>(303,161)</u>
EXPENDITURES			
Current Expenditures			
General government			
Town officers	137,500	125,319	12,181
Employee benefits	124,064	123,772	292
Accounting & legal fees	29,605	28,055	1,550
Municipal building	19,390	11,949	7,441
Municipal operations	32,700	35,979	(3,279)
Computer equipment & services	8,500	11,394	(2,894)
Constable & animal control	3,550	2,283	1,267
Town clerk & treasurer	11,724	8,016	3,708

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET TO ACTUAL
GENERAL FUND
MODIFIED CASH BASIS

FISCAL YEAR ENDED JUNE 30, 2010

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Planning and zoning	27,400	26,494	906
Lister	21,698	25,900	(4,202)
Education tax reconciliation payment	8,000	0	8,000
Vermont League of Cities and Towns	2,873	2,873	0
Central Vermont Regional Planning Comm.	2,556	2,556	0
Farm contract abates	8,500	0	8,500
Treasurer legal fees	25,594	0	25,594
Miscellaneous other	900	1,413	(513)
Total general government	<u>464,554</u>	<u>406,003</u>	<u>58,551</u>
Health and welfare			
CV Solid Waste District	8,373	8,373	0
Northern Vt Resource	75	75	0
Displaced canine services	1,040	0	1,040
Total health and welfare	<u>9,488</u>	<u>8,448</u>	<u>1,040</u>
Culture and recreation			
Four Corners School Assoc	3,200	3,200	0
Kellogg Hubbard Library	32,296	32,296	0
Wrightsville Beach Recreation	1,500	1,329	171
Various other funding requests	14,200	14,200	0
Total culture and recreation	<u>51,196</u>	<u>51,025</u>	<u>171</u>
Public safety			
Law enforcement	24,100	22,695	1,405
Washington County expense	23,857	23,857	0
Ambulance service	65,545	65,545	0
Fire Department	104,400	104,400	0
Total public safety	<u>217,902</u>	<u>216,497</u>	<u>1,405</u>
Highways and roads			
Operations	375,925	280,711	95,214
Town garage cost	19,200	11,192	8,008
Repairs and maintenance	40,000	40,025	(25)
Highway labor	175,000	167,866	7,134
Total highways and roads	<u>610,125</u>	<u>499,794</u>	<u>110,331</u>

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET TO ACTUAL
GENERAL FUND
MODIFIED CASH BASIS

FISCAL YEAR ENDED JUNE 30, 2010

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Debt service			
Principal payments	45,931	64,239	(18,308)
Interest payments	13,309	14,854	(1,545)
Total debt service	<u>59,240</u>	<u>79,093</u>	<u>(19,853)</u>
Capital outlays			
Center Road grant project	120,000	0	120,000
Paving Towne Hill Grant	134,000	0	134,000
'02 Chevy Pickup	0	13,717	(13,717)
Total capital outlays	<u>254,000</u>	<u>13,717</u>	<u>240,283</u>
Total expenditures	<u>1,666,505</u>	<u>1,274,577</u>	<u>391,928</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>103,564</u>	<u>192,331</u>	<u>88,767</u>
OTHER FINANCING SOURCES (USES)			
Transfer to Capital Reserve Fund	(127,500)	(127,500)	0
Transfer to Recreation Committee Fund	(3,000)	(3,000)	0
Transfer to Cemetery Commission Fund	(10,900)	(10,900)	0
Transfer to Geologic Mapping	(6,000)	(6,000)	0
Total other financing sources (uses)	<u>(147,400)</u>	<u>(147,400)</u>	<u>0</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (43,836)</u>	44,931	<u>\$ 88,767</u>
FUND BALANCE - JUNE 30, 2009		<u>190,012</u>	
FUND BALANCE - JUNE 30, 2010		<u>\$ 234,943</u>	

TOWN OF EAST MONTPELIER, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

The Town of East Montpelier (the Town) is a unit of local government organized under the statutes of the State of Vermont. The Town is governed by a five-member Select Board. The Town provides various services as authorized and funded by State government or Town voters.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

U.S. generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements to the extent they are applicable to the modified cash basis of accounting. The more significant accounting policies established in GAAP and used by the Town are discussed below.

The Reporting Entity

The Town's modified cash basis statements include the accounts of all Town's operations. The criteria for including organizations as component units within the Town's reporting entity are set forth in GASB 14 as amended by GASB 39, and Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards.

Based on the criteria, the Town has no component units.

Government-Wide Financial Statements

The Town's modified cash basis financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). All of the activities of the Town are governmental activities.

In the government-wide Statement of Net Assets, the governmental funds (a) are presented on a consolidated basis by column, (b) and are reported on a modified cash basis, which, in addition to cash activity, recognizes capital assets as well as notes and bond payable debt. The Town's net assets are reported in three parts – investment in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities for which both restricted and unrestricted resources are available.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's governmental functions. The functions are also supported by general government revenue (property taxes and other local revenue). The Statement of Activities reduces gross expenditures by related program revenue, including operating and capital grants. Program revenue must be directly associated with the governmental function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by governmental function) are normally covered by general revenue (property taxes, interest income, or miscellaneous income).

This government-wide focus is more on the change in the Town's net assets resulting from the current year's modified cash basis activities.

TOWN OF EAST MONTPELIER, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, debt, fund equity, revenues and expenditures as reported on a modified cash basis. An emphasis is placed on major funds within the governmental category. GASB No. 34 and No. 37 set forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category/type) for the determination of major funds. The General Fund, Capital Reserve Fund, and Emergency Services Facility Fund are shown as major governmental funds. All other funds are nonmajor and are combined in a single column in the fund financial statements.

The Governmental funds of the financial reporting entity are described below:

General Fund is the main operating fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Town.

Permanent funds account for assets held by the Town pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

Basis of Accounting

Basis of accounting refers to the point at which revenue or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the management focus applied. In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures when they result from cash transactions with a provision for depreciation in the government-wide statements; note payable activity is not reflected on the fund financial statements but is reflected on the government-wide statements. This basis is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. As a result of the use of this modified cash basis of accounting, certain assets and their related revenues and certain liabilities and their related expenses are not recorded in these financial statements. If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting and all government-wide financials would be presented on the accrual basis of accounting.

TOWN OF EAST MONTPELIER, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

A capitalization threshold of \$5,000 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Buildings	50 years
Equipment and vehicles	5-20 years
Infrastructure (roads, bridges, traffic signals, etc.)	10-50 years

Interfund Activities

Interfund activity is reported as loans. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Net Assets

Net assets represent the difference between assets and liabilities in the statement of net assets. Net resources invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use on Town legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

Fund Balances

Fund balances of governmental fund types are classified as follows:

Unreserved - Indicates the portion of fund equity that is available for appropriation and expenditure in future periods.

Reserved - Indicates the portion of equity that has been legally segregated for specific future uses or not available for appropriation.

TOWN OF EAST MONTPELIER, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010
 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Accounting

The Town approves a budget for the General Fund at an annual Town Meeting and the Board, based on the budget and Grand List, determines the tax rate. Formal budgetary accounting is employed as a management control device during the year for the General Fund. The budget for the General Fund is adopted on a modified cash basis.

The Town is not legally required to adopt a budget for the Capital Reserve Fund, Emergency Services Facility Fund and Other Governmental Funds. Therefore, a budgetary comparison is not presented for these funds.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis method requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

The Treasurer invests excess cash according to policies established by the Selectboard.

Cash and investments are comprised of the following:

Cash		\$ 855,318
Investments - Certificates of deposit with maturities greater than three months		130,266
Total		\$ 985,584

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The table below shows the custodial credit risk of the Town's deposits.

Insured by FDIC		\$ 286,516
Uninsured - collateralized		762,229
Uninsured		0
Total		\$ 1,048,745

TOWN OF EAST MONTPELIER, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010
 (Continued)

NOTE 3 - NOTES RECEIVABLE

Notes receivable are not reflected on the financial statements since the statements are reflected under the modified cash method of accounting which reflects revenue when received.

The Town has a note receivable at June 30, 2010 with The Housing Foundation, Inc. The Town has obtained a federal grant through the Vermont Community Development Program and has loaned these funds to The Housing Foundation, Inc. for a septic system upgrade at Sandy Pines. The Town holds a \$318,900 note receivable with 3% interest, with terms, as amended in 2005, of monthly installments of \$1,319 from September 1, 2004 through October 1, 2005; deferral for five and a half (5.5) years, then continuation of monthly installments of \$1,319 until December 1, 2027 with a balloon payment due on December 1, 2027 for the remaining balance due at that time. The balance due on this loan at June 30, 2010 was \$311,472.

NOTE 4 – INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivable and payable balances at June 30, 2010 were:

	Interfund Receivable	Interfund Payables
General Fund	\$ 0	\$ 10,904
Nonmajor Funds:		
Geo Mapping Fund	6,000	0
Fire Station #1 Repair Fund	4,904	0
	\$ 10,904	\$ 10,904

Interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 5 - INTERFUND TRANSFERS

During the year, five interfund transfers occurred between funds. The following operating transfers were made in accordance with budgetary authorizations. Interfund transfers for the fiscal year ended June 30, 2010 consisted of the following funds receiving a transfer of: Capital Reserve Fund \$127,500, Cemetery Trust Fund \$10,900, and two Non-major fund transfers totaling \$9,000.

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

TOWN OF EAST MONTPELIER, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

NOTE 6 – CAPITAL ASSETS

The summary of capital assets as of June 30, 2010 is as follows:

	Balance 06/30/09	Additions/ Trade-ins	Depreciation	Balance 06/30/10
Capital assets not depreciated - Land	\$ 30,600	\$ 85,000	\$ 0	\$ 115,600
Capital assets being depreciated				
Buildings	287,674	1,914,709	0	2,202,383
Equipment and vehicles	885,988	13,716	0	899,704
Infrastructure	416,829	0	0	416,829
Total capital assets being depreciated	<u>1,590,491</u>	<u>1,928,425</u>	<u>0</u>	<u>3,518,916</u>
Less accumulated depreciation for:				
Buildings	46,822	0	28,077	74,899
Equipment and vehicles	229,207	0	81,590	310,797
Infrastructure	105,854	0	32,521	138,375
Total accumulated depreciation	<u>381,883</u>	<u>0</u>	<u>142,188</u>	<u>524,071</u>
Total capital assets, net	<u>\$ 1,239,208</u>	<u>\$ 2,013,425</u>	<u>\$ (142,188)</u>	<u>\$ 3,110,445</u>

Depreciation was charged as follows:

Governmental Activities:	
General Government	\$ 23,826
Highway and roads	117,629
Health & Welfare (Cemetery)	733
Total	<u>\$ 142,188</u>

NOTE 7 – SHORT TERM DEBT

The following is a summary of the changes in short-term debt:

Balance June 30, 2009	\$ 50,000
Proceeds from tax anticipation note	100,000
Principal payments	<u>(150,000)</u>
Balance June 30, 2010	<u>\$ 0</u>

TOWN OF EAST MONTPELIER, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

NOTE 8 – LONG-TERM LIABILITIES

Long-term debt at June 30, 2010 consisted of the following:

	Total	Due in one year
Dump truck note payable to the State of Vermont, annual principal payments of \$8,000 plus interest payments at 1.97%, due June 30, 2012.	\$ 16,000	\$ 8,000
Two plow/dump truck notes payable to Kansas State Bank, initial principal payment of \$65,000 paid, then annual principal and interest payments of \$45,460 at 4.69% interest, due July 15, 2012.	125,077	39,753
Emergency facility bond anticipation to People's United Bank, principal payment of \$2,100,000 plus interest was made on August 10, 2010 with Bond Proceeds Payable to St of Vermont of \$2,100,000, annual principal payment fo \$105,000 plus semi- annual interest payments at 1.54%-5.05%, due Nov. 15, 2030.	2,100,000	** 0
Bucket loader note payable to Kansas State Bank, Annual principal and interest payments of \$24,143 at 5.525% interest, due June 1, 2014.	84,261	19,350
Total long-term notes payable	\$ 2,325,338	\$ 67,103

** See Note 13 - Commitments & Contingencies regarding the
Town of Calais commitment to assist in the repayment of this loan.

Changes in long-term debt are as follows:

	June 30, 2009	Addition	Reduction	June 30, 2010
Note payable	\$ 289,577	\$ 2,100,000	\$ (64,239)	\$ 2,325,338

The maturity of the long-term debt is as follows:

Year ending:	Principal	Interest	Total
June 30, 2011	\$ 67,103	\$ 80,697	\$ 147,800
June 30, 2012	175,112	86,433	261,545
June 30, 2013	170,278	81,440	251,718
June 30, 2014	127,845	76,155	204,000
June 30, 2015	105,000	72,519	177,519
June 30, 2016 - 2020	525,000	314,281	839,281
June 30, 2021 - 2025	525,000	211,565	736,565
June 30, 2026 - 2030	525,000	90,762	615,762
June 30, 2031	105,000	2,651	107,651
Total	\$ 2,325,338	\$ 1,016,503	\$ 3,341,841

TOWN OF EAST MONTPELIER, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

NOTE 9 – RESTRICTED / RESERVED FUNDS

The restricted and reserved funds consist of the following as of June 30, 2010:

	<u>Reserved Fund Balance</u>	<u>Restricted Net Assets</u>
General Fund:		
FY 2011 expenditures	\$ 55,000	\$ 0
Special Revenue:		
Capital reserve	0	395,693
Emergency Services Facility	0	105,510
Bridge & culvert projects	0	1,161
Town Forest	0	26,662
Veterans' Memorial	0	435
Land conservation	0	26,891
Reappraisal reserve	0	12,241
Community development (Sandy Pines)	0	10,527
Fireworks fund	0	308
Record Restoration	0	938
Recreation Committee	0	3,975
Fire Station #1 repairs	0	4,904
Geo mapping	0	6,000
Permanent:		
Cemetery Trust	101,980	101,980
C. Smith Recreation	50,957	50,957
Total	<u>\$ 207,937</u>	<u>\$ 748,182</u>

NOTE 10 - PROPERTY TAXES

The Town is responsible for assessing and collecting property taxes for both the Town and Town School District. Property taxes are assessed based on valuations as of April 1, annually. Property taxes for the fiscal year ended June 30, 2010 were due on November 17, 2009 and May 15, 2010. All late payments are subject to a 1% per month interest if paid after the previously noted due dates; an 8% penalty after the May 15, 2010 due date.

The Town tax rate for the fiscal year ended June 30, 2010 was \$.4363.

TOWN OF EAST MONTPELIER, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

NOTE 11 - PENSION PLAN

Vermont Municipal Employees' Retirement System

The employees of the Town are eligible for coverage by the Vermont Municipal Employees' Retirement System (VMERS). VMERS is a cost sharing multiple-employer public employees' retirement system. Vermont State statutes provide the authority under which benefit provisions and the obligation to contribute are established. The Town and the employees make required contributions to the System based upon a valuation report prepared by the System's actuary.

There are three levels of contributions and benefits in the System called Group A, Group B and Group C. The Town's members participate in Group B. Under Group B the employee contributions are 4.5% and employer contributions are 5.0% of gross pay.

Of the Town's total payroll of \$354,327, \$277,197 was covered under the Vermont Municipal Employees' Retirement System. Total employer contributions to the Vermont Municipal Employees' Retirement Plan were \$13,855 for fiscal year 6/30/10, \$13,104 for fiscal year 6/30/09, and \$11,244 for fiscal year 06/30/08.

The State of Vermont issues an audited Financial Report that includes financial statements and required disclosures. This report may be obtained by writing the State Auditor of Accounts, 132 State Street, Montpelier, VT 05602.

Defined Contribution Plan

The State of Vermont authorized VMERS to establish a new defined contribution (DC) plan available to members on July 1, 2000. The DC plan is a tax-sheltered money purchase plan under IRC 401(a). The plan includes a 5% employee contribution and a 5% employer contribution. 100% vesting occurs after one year of municipal service.

Of the Town's total payroll of \$354,327, none was covered under the VMERS defined contribution plan.

NOTE 12 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The Town maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this commercial coverage in any of the past three (3) fiscal years.

TOWN OF EAST MONTPELIER, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

NOTE 13 – COMMITMENTS AND CONTINGENCIES

On June 30, 2010, the Town signed a Financing and Land Use Agreement with the Town of Calais relating to the land and building constructed for the fire and ambulance services. The property is owned and the bonding commitment of \$2,100,000 is a commitment of the Town of East Montpelier. In exchange for the use of this property, the Town of Calais has agreed to reimburse the Town of East Montpelier one-third of the annual bond principal and interest payment for twenty years. All future improvements to the property shall be split two-thirds by the Town of East Montpelier and one-third by the Town of Calais. After full payment of the bond debt, if either town wished to terminate this agreement, an appraisal will be done of the property where the buy out amount between the two parties will be two-thirds fair market value to the Town of East Montpelier and one-third fair market value to the Town of Calais.

NOTE 14 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 21, 2010, the date which the financial statements were available for issue. Management is not aware of any subsequent events which require disclosure except as noted below.

On September 2, 2010, the Town acquired a tax anticipation note for the amount of \$500,000 from People's United Bank. The full principal plus 2.35% interest is due on June 30, 2011.

See bond anticipation line of credit pay off and issuance of Bond Note in Note 8 – Long-term Liabilities.

TOWN OF EAST MONTPELIER, VERMONT

SCHEDULE 1

BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
MODIFIED CASH BASIS

JUNE 30, 2010

	Cemetery Trust Fund	Bridge & Culvert Projects	Town Forest	Veterans' Memorial	Land Conservation	Reappraisal Reserve	Community Development (Sandy Pines)	Fireworks Fund	Record Restoration	Recreation Committee	Fire Station #1 Repairs	Geo Map Grant	C. Smith Recreation Fund	Total
Cash	\$101,980	\$1,161	\$26,662	\$ 435	\$ 26,891	\$ 12,241	\$ 10,527	\$ 308	\$ 938	\$ 3,975	\$ 0	\$ 0	\$ 50,957	\$236,075
Due from other funds	0	0	0	0	0	0	0	0	0	0	4,904	6,000	0	10,904
Total assets	\$101,980	\$1,161	\$26,662	\$ 435	\$ 26,891	\$ 12,241	\$ 10,527	\$ 308	\$ 938	\$ 3,975	\$ 4,904	\$ 6,000	\$ 50,957	\$246,979

ASSETS

LIABILITIES AND FUND BALANCES

Liabilities	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Fund Balances - Reserved:														
Non-expendable	78,725	0	0	0	0	0	0	0	0	0	0	0	50,000	128,725
Expendable	23,255	0	0	0	0	0	0	0	0	0	0	0	957	24,212
Unreserved:														
Special revenue funds	0	0	26,662	435	26,891	12,241	10,527	308	938	3,975	0	6,000	0	87,977
Capital projects funds	0	1,161	0	0	0	0	0	0	0	0	4,904	0	0	6,065
Total liabilities and fund balances	\$101,980	\$1,161	\$26,662	\$ 435	\$ 26,891	\$ 12,241	\$ 10,527	\$ 308	\$ 938	\$ 3,975	\$ 4,904	\$ 6,000	\$ 50,957	\$246,979

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

FISCAL YEAR ENDED JUNE 30, 2010

	Cemetery Trust Fund	Bridge & Culvert Reserve	Town Forest	Veterans' Memorial	Land Conservation	Reappraisal Reserve	Community Development (Sandy Pines)	Fireworks Fund	Record Restoration	Sesqui-Centennial Fund	Recreation Committee	Fire Station #1 Repairs	Geo Map Grant	C. Smith Recreation Fund	Total
REVENUES															
Intergovernmental	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 11,333	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 11,333
Fees	0	0	0	0	0	0	0	0	0	0	3,187	0	0	0	3,187
Interest	1,261	2	676	0	201	14	36	0	1	0	0	0	0	800	2,991
Miscellaneous	4,400	0	0	0	0	0	0	0	0	0	0	0	0	0	4,400
Total revenues	5,661	2	676	0	201	11,347	36	0	1	0	3,187	0	0	800	21,911
EXPENDITURES															
General government	0	0	0	0	0	26,588	437	0	0	0	0	1,763	0	0	28,788
Health and welfare	10,983	0	0	0	0	0	0	0	0	0	0	0	0	0	10,983
Culture and recreation	0	0	0	0	0	0	0	0	0	0	5,303	0	0	0	5,303
Total expenditures	10,983	0	0	0	0	26,588	437	0	0	0	5,303	1,763	0	0	45,074
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(5,322)	2	676	0	201	(15,241)	(401)	0	1	0	(2,116)	(1,763)	0	800	(23,163)
OTHER FINANCING SOURCES (USES):															
Transfer from General Fund	10,900	0	0	0	0	0	0	0	0	0	3,000	0	6,000	0	19,900
Transfers to others	0	0	0	0	0	0	0	0	0	(937)	0	0	0	0	(937)
Transfers from others	0	0	0	0	0	0	0	0	937	0	0	0	0	0	937
Total other financing sources (uses)	10,900	0	0	0	0	0	0	0	937	(937)	3,000	0	6,000	0	19,900
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	5,578	2	676	0	201	(15,241)	(401)	0	938	(937)	884	(1,763)	6,000	800	(3,263)
FUND BALANCES - JUNE 30, 2009	96,402	1,159	25,986	435	26,690	27,482	10,928	308	0	937	3,091	6,667	0	50,157	250,242
FUND BALANCES - JUNE 30, 2010	\$ 101,980	\$ 1,161	\$ 26,662	\$ 435	\$ 26,891	\$ 12,241	\$ 10,527	\$ 308	\$ 938	\$ 0	\$ 3,975	\$ 4,904	\$ 6,000	\$ 50,957	\$ 246,979

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**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***

December 21, 2010

To The Selectboard
Town of East Montpelier
East Montpelier, Vermont

We have audited the modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of East Montpelier, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the following paragraphs, we identified certain deficiencies in internal control over financial reporting that we considered to be material weaknesses.

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 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. We considered the following deficiencies to be a material weakness:

2010-1: During our audit we noted a payment in the amount of \$8,875 was made with only a "request for payment" with no invoice to back up the purchase. Subsequently, as part of our audit, the invoice was obtained directly from the vendor. No bill should be entered into the accounting system for payment unless there is an invoice. We also noted in this payment cycle that the invoices were presented for review to the Town Auditor only a few hours before the Board meeting that the invoices were to be approved by the Board. We strongly recommend that the payment process be reviewed to ensure that the review process is done at least a day before the Board meeting, providing the time necessary to thoroughly review the invoices to reduce the risk of this type of error in the future.

2010-2: During our audit again this year, we noted that the Treasurer still had not done an overall reconciliation of the property taxes billed, property taxes collected and property taxes uncollected between the Tax Administration System and the General Ledger accounting system during the fiscal year. This overall reconciliation is a necessary step to ensure that all taxes collected are correctly reported on the individual taxpayers' accounts and on the overall Town's accounts. We strongly recommend that this overall property tax reconciliation be done on a quarterly basis.

The Town of East Montpelier's response to the findings identified in our audit is described in the following paragraph. We did not audit the Town of East Montpelier's response and, accordingly, we express no opinion on it.

Response to Findings: The town will be reviewing the payment process and property tax reconciliation process and implementing changes as necessary.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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.

We noted certain other matters that we reported to management of the Town in a separate letter dated December 21, 2010.

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

Respectfully submitted,

Fothergill Segale & Valley, CPAs
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