

**TOWN OF EAST MONTPELIER, VERMONT
 AUDIT REPORT AND FINANCIAL STATEMENTS
 MODIFIED CASH BASIS
 JUNE 30, 2011**

TABLE OF CONTENTS

		<u>Page #</u>
INDEPENDENT AUDITOR’S REPORT		1 - 2
MANAGEMENT’S DISCUSSION AND ANALYSIS		3 - 8
BASIC FINANCIAL STATEMENTS		
GOVERNMENT-WIDE FINANCIAL STATEMENTS		
Statement of Net Assets - Modified Cash Basis	Exhibit A	9
Statement of Activities - Modified Cash Basis	Exhibit B	10
FUND FINANCIAL STATEMENTS		
Balance Sheet – Governmental Funds – Modified Cash Basis	Exhibit C	11
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets – Modified Cash Basis	Exhibit D	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds - Modified Cash Basis	Exhibit E	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis	Exhibit F	14
Statement of Revenues, Expenditures and Change in Fund Balance - Budget to Actual - General Fund - Modified Cash Basis	Exhibit G	15 - 17
NOTES TO FINANCIAL STATEMENTS		18 – 28
SUPPLEMENTARY INFORMATION		
Balance Sheet – Nonmajor Governmental Funds – Modified Cash Basis	Schedule 1	29
Schedule of Revenues, Expenditures and Changes In Fund Balances – Nonmajor Governmental Funds – Modified Cash Basis	Schedule 2	30
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		31 – 33

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INDEPENDENT AUDITOR'S REPORT

January 16, 2012

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, 2011, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of 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, 2011, 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 accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2012, on our consideration of 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 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 taken as a whole.

Respectfully submitted,

Fothergill Segale & Valley, CPAs

FOTHERGILL SEGALE & VALLEY, CPAs
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TOWN OF EAST MONTPELIER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

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, 2011, 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 \$264,346, compared to \$128,372 in fiscal year 2010. This is an approximate 15% increase from June 30, 2010.
- The cost of all of the Town's operations for fiscal year 6/30/11 was \$1,608,075 compared to 6/30/10 of \$1,383,883, an 16% increase.

Funds Financial Statements:

- The Town's total General Fund increased by \$3,431, which was \$58,431 better than budget. This includes the effect of the flood damage expenditures of \$75,158.
- The Capital Reserve fund fund balance increased by \$77,969, from \$395,693 to \$473,662.
- The various other governmental funds decreased by \$36,680, from \$341,585 to \$304,905. The majority of this decrease related to expenditures in the Emergency Services Facility Fund.

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 long-term 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, 2011
(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 government operations, highway and roads, public safety, health and welfare, and culture and recreation. 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, 2011
(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 and the Capital Reserve 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 \$264,346 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. The restricted and unrestricted net assets for FY10 have been restated based on the new definitions under GASB 54. For more information, please see Note 1 of the financial statements.

Table 1 - Net Assets

	6/30/2011	6/30/2010	Net Change
Current and other assets	\$ 1,028,883	\$ 985,584	\$ 43,299
Capital assets	3,262,968	3,110,445	152,523
Total assets	<u>4,291,851</u>	<u>4,096,029</u>	<u>195,822</u>
Current liabilities	1,038	2,459	(1,421)
Note payable due within one year	175,113	67,103	108,010
Note payable due after one year	2,083,122	2,258,235	(175,113)
Total liabilities	<u>2,259,273</u>	<u>2,327,797</u>	<u>(68,524)</u>
Net Assets:			
Invested in capital assets, net of related debt	1,004,733	785,107	219,626
Restricted	253,047	240,914	12,133
Unrestricted	774,798	742,211	32,587
Total net assets	<u>\$ 2,032,578</u>	<u>\$ 1,768,232</u>	<u>\$ 264,346</u>

Table 2 - Change in Net Assets

	6/30/2011	6/30/2010	Net Change
REVENUES			
General revenue:			
Property taxes	\$ 1,407,154	\$ 1,178,849	\$ 228,305
Earnings on investments	31,956	39,298	(7,342)
Other general revenue	15,063	5,611	9,452
Program revenue:			
Charges for services	85,041	87,542	(2,501)
Operating & capital grants and contributions	408,365	200,955	207,410
Total revenues	<u>1,947,579</u>	<u>1,512,255</u>	<u>435,324</u>
PROGRAM EXPENSES			
Highways and roads	703,254	617,423	85,831
General government	472,293	458,617	13,676
Public safety	240,665	216,497	24,168
Culture and recreation	60,282	56,328	3,954
Health and welfare	37,666	20,164	17,502
Interest on long-term debt	93,915	14,854	79,061
Total program expenses	<u>1,608,075</u>	<u>1,383,883</u>	<u>224,192</u>
Extraordinary Item - Flood damage expenses	75,158	0	75,158
Increase (decrease) in net assets	<u>\$ 264,346</u>	<u>\$ 128,372</u>	<u>\$ 135,974</u>

TOWN OF EAST MONTPELIER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011
(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. This also includes funds with tax revenues that have been assigned for a certain type of expenses. The unrestricted net assets changed from a \$742,211 balance at June 30, 2010, to a \$774,798 balance at June 30, 2011 for the governmental activities.

Total program expenses for governmental activities, resulting from modified cash basis transactions, increased 16% from 06/30/10 to 6/30/11. Of total program expenses, taxpayers and other general revenues funded 90% in 2011 compared to 88% in 2010.

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

	6/30/2011		6/30/2010	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Highways and roads	\$ 703,254	\$ 436,592	\$ 617,423	\$ 492,071
General government	472,293	267,089	458,617	298,659
Public safety	240,665	240,665	216,497	216,497
Culture and recreation	60,282	55,702	56,328	53,141
Health and welfare	37,666	20,706	20,164	20,164
Other cost	93,915	93,915	14,854	14,854
Total	<u>\$ 1,608,075</u>	<u>\$ 1,114,669</u>	<u>\$ 1,383,883</u>	<u>\$ 1,095,386</u>

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

As the Town completed the fiscal year June 30, 2011, its governmental funds (as presented in the Balance Sheet on Exhibit C) reported a combined fund balance of \$1,027,845, which is approximately 5% higher than fiscal year ended June 30, 2010 total fund balance of \$983,125.

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 \$3,431 which is \$58,431 better than budget.

TOWN OF EAST MONTPELIER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011
(Continued)

The larger variances are as follows:

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues and other sources:			
Paving Grant	\$ 0	\$ 141,926	\$ 141,926
Expenditures:			
Employee benefits	137,450	113,330	24,120
Local agreement taxes	17,241	0	17,241
Highway & roads operations	385,875	308,561	77,314
Highway labor	176,150	189,254	(13,104)
Paving Grant	0	141,926	(141,926)

The reasons for these variances are as follows:

Revenues:

Paving Grant: After the FY11 budget, which did not include any paving grant revenue, was approved by the town, we applied for and received a VT Agency of Transportation Class 2 paving grant for the eastern half of Towne Hill Road. This grant paid for \$141,926 of the total project cost of \$205,486.

Expenditures:

Employee benefits: The costs of a variety of VLCT insurance products (health, workers compensation and liability protection) we provide for our employees were significantly below budget expectations. We moved to a high-deductible health plan with a health savings account component mid-way through FY11, resulting in a lower total cost for the town.

Local agreement taxes: Once again we unnecessarily included this line (\$17,241) in the budget to cover the direct cost of our various local agreements, including the farm contracts and voted exemptions. The required funding to offset the cost of these local agreements is raised through a separate component of our municipal tax rate.

Highway & roads operations: There were savings through lowered use in many of the highway operation elements, including gravel, chloride, salt & sand.

Highway labor: The town was very fortunate to rehire Mike Garand as our road foreman, but his experience warranted a higher salary level than originally budgeted. Also, the May 26/27 storm damage resulted in significant overtime for the road crew.

Paving Grant: As described above, we expended \$141,926 of the general fund for Towne Hill Road paving that was then reimbursed by a grant from VT AOT. The balance of the cost of that project was paid out of the Capital Reserve Fund.

TOWN OF EAST MONTPELIER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011
(Continued)

Capital Assets and Debt Administration

Capital Assets

At June 30, 2011, the Town had \$3,262,968 invested in capital assets, net of depreciation, including buildings, equipment, vehicles and infrastructure (See table below). This represents a net increase of \$152,523 to June 30, 2010.

Capital Assets at Year-End
(Net of depreciation)

	Governmental Activities	
	6/30/2011	6/30/2010
Land	\$ 115,600	\$ 115,600
Buildings	2,151,372	2,127,484
Equipment and vehicles	523,651	588,907
Infrastructure	472,345	278,454
Totals	\$ 3,262,968	\$ 3,110,445

The capital asset changes during the fiscal year were truck engine overhaul, additional construction related to the Emergency Facility Building and paving on the Towne Hill and Quacker Hill roads.

Debt - At June 30, 2011, the Town had \$2,258,235 in notes outstanding versus \$2,325,338 on June 30, 2010 – a decrease of \$67,103.

Economic Factors and Next Year's Budget and Rates

The Town's elected and appointed officials considered many factors when setting the fiscal year 2012 budget for Town operations. There was a continued desire to minimize any budget increase due to concerns over the weak economy. Three factors made a level-funded budget impractical: the first year the budget would reflect the true cost of the new emergency services facility, necessitating a bump of \$84,276 in debt funding; the much-applauded return of road foreman Mike Garand, leading to a highway labor cost increase of 14%; and a long-needed 35% rise in the listers budget to match the ever-growing requirements on that office. Fortunately, use of the Town's fund balance lessened the net effect of these increases 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, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 1,025,301
Due from other agencies	3,582
Land	115,600
Property, equipment, and infrastructure (net of allowance for depreciation of \$705,273)	<u>3,147,368</u>
Total assets	<u>4,291,851</u>
LIABILITIES	
Fees collected on behalf of the State	1,038
Long-term debt:	
Note payable due within one year	175,113
Note payable due after one year	<u>2,083,122</u>
Total liabilities	<u>2,259,273</u>
NET ASSETS	
Unrestricted	774,798
Restricted	253,047
Invested in capital assets, net of related debt	<u>1,004,733</u>
Total net assets	<u><u>\$ 2,032,578</u></u>

STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS

FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Charges for		Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Assets Total
	Expenses	Services			
Governmental Activities:					
Highways and roads	\$ 703,254	\$ 0	\$ 124,736	\$ 141,926	\$ (436,592)
General government	472,293	80,461	86,831	37,912	(267,089)
Public safety	240,665	0	0	0	(240,665)
Culture and recreation	60,282	4,580	0	0	(55,702)
Health and welfare	37,666	0	16,960	0	(20,706)
Interest on long-term debt	93,915	0	0	0	(93,915)
Total governmental activities	<u>\$ 1,608,075</u>	<u>\$ 85,041</u>	<u>\$ 228,527</u>	<u>\$ 179,838</u>	<u>(1,114,669)</u>
General Revenues:					
Property taxes					1,407,154
Interest revenue					31,956
Other general revenue					15,063
Total general revenues					<u>1,454,173</u>
Extraordinary Item - Flood damage expenses					<u>(75,158)</u>
Change in net assets					264,346
Net assets - June 30, 2010					<u>1,768,232</u>
Net assets - June 30, 2011					<u>\$ 2,032,578</u>

BALANCE SHEET
GOVERNMENTAL FUNDS
MODIFIED CASH BASIS

JUNE 30, 2011

	Major Funds		Nonmajor Funds	Total Governmental Funds
	General Fund	Capital Reserve Fund	Other Governmental Funds	
ASSETS				
Cash and investments	\$444,812	\$273,662	\$ 306,827	\$ 1,025,301
Due from other agencies	3,582	0	0	3,582
Due from other funds	0	200,000	4,006	204,006
Total assets	<u>\$448,394</u>	<u>\$473,662</u>	<u>\$ 310,833</u>	<u>\$ 1,232,889</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Fees collected on behalf of the State	\$ 1,038	\$ 0	\$ 0	\$ 1,038
Due to other funds	198,078	0	5,928	204,006
Total liabilities	<u>199,116</u>	<u>0</u>	<u>5,928</u>	<u>205,044</u>
Fund Balances				
Restricted:				
Permanent:				
Non-expendable	0	0	50,000	50,000
Expendable	0	0	1,580	1,580
Special revenue purposes	0	0	201,467	201,467
Assigned:				
FY 12 expenditures	95,000	0	0	95,000
Capital project purposes	0	473,662	51,858	525,520
GEO Maps purposes	6,000	0	0	6,000
Fire Station #1 purposes	4,904	0	0	4,904
Unassigned	143,374	0	0	143,374
Total fund balances	<u>249,278</u>	<u>473,662</u>	<u>304,905</u>	<u>1,027,845</u>
Total liabilities and fund balances	<u>\$448,394</u>	<u>\$473,662</u>	<u>\$ 310,833</u>	<u>\$ 1,232,889</u>

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

JUNE 30, 2011

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 1,027,845
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 \$3,968,241, and the accumulated depreciation is \$705,273.	3,262,968
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>(2,258,235)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,032,578</u></u>

TOWN OF EAST MONTPELIER, VERMONT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 FISCAL YEAR ENDED JUNE 30, 2011

EXHIBIT E

	Major Funds		Nonmajor Funds	Total Governmental Funds
	General Fund	Capital Reserve Fund	Other Governmental Funds	
REVENUES				
Property taxes	\$ 1,407,154	\$ 0	\$ 0	\$ 1,407,154
Licenses and fees	56,994	0	4,580	61,574
Intergovernmental	339,141	0	69,224	408,365
Fines and penalties	23,467	0	0	23,467
Interest	22,434	813	8,709	31,956
Other revenue	2,562	0	12,501	15,063
Total revenues	<u>1,851,752</u>	<u>813</u>	<u>95,014</u>	<u>1,947,579</u>
EXPENDITURES				
Current expenditures				
General government	431,459	0	18	431,477
Health and welfare	5,489	0	31,444	36,933
Culture and recreation	52,175	0	8,107	60,282
Public safety	240,665	0	0	240,665
Highways and roads	563,601	0	0	563,601
Debt service				
Principal	67,103	0	0	67,103
Interest	58,745	0	35,170	93,915
Capital outlay	141,926	122,844	68,955	333,725
Total expenditures	<u>1,561,163</u>	<u>122,844</u>	<u>143,694</u>	<u>1,827,701</u>
EXCESS REVENUES (EXPENDITURES)	<u>290,589</u>	<u>(122,031)</u>	<u>(48,680)</u>	<u>119,878</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	0	200,000	12,000	212,000
Transfers out	(212,000)	0	0	(212,000)
Total other financing sources (uses)	<u>(212,000)</u>	<u>200,000</u>	<u>12,000</u>	<u>0</u>
EXTRAORDINARY ITEM				
Flood damage expenditures	(75,158)	0	0	(75,158)
Net change in fund balances	<u>3,431</u>	<u>77,969</u>	<u>(36,680)</u>	<u>44,720</u>
FUND BALANCES -				
June 30, 2010, as originally stated	234,943	395,693	352,489	983,125
Reclassifications	10,904	0	(10,904)	0
June 30, 2010, as reclassified	<u>245,847</u>	<u>395,693</u>	<u>341,585</u>	<u>983,125</u>
FUND BALANCES -June 30, 2011	<u>\$ 249,278</u>	<u>\$ 473,662</u>	<u>\$ 304,905</u>	<u>\$ 1,027,845</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, 2011

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$	44,720
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.		67,103
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 \$333,725 exceeds depreciation expense \$181,202 in the period.		<u>152,523</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>264,346</u></u>

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

FISCAL YEAR ENDED JUNE 30, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 1,415,663	\$ 1,407,154	\$ (8,509)
Licenses and fees:			
Recording fees	20,000	28,715	8,715
School services fee	9,000	9,000	0
Education retention fees	4,000	6,979	2,979
Other fees	14,750	12,300	(2,450)
Intergovernmental:			
Current use hold harmless taxes	60,000	64,077	4,077
Highway aid	130,000	124,736	(5,264)
Pilot Program Grant	4,000	4,007	7
Paving Grant	0	141,926	141,926
Various miscellaneous grants	0	4,395	4,395
Interest:			
Delinquent tax interest	11,000	21,602	10,602
Investment interest	500	832	332
Fines and penalties:			
Traffic fines	13,000	8,455	(4,545)
Delinquent tax penalties	10,000	15,012	5,012
Miscellaneous	325	2,562	2,237
Total revenues	<u>1,692,238</u>	<u>1,851,752</u>	<u>159,514</u>
EXPENDITURES			
Current Expenditures			
General government			
Town officers	138,212	128,125	10,087
Employee benefits	137,450	113,330	24,120
Accounting & legal fees	22,250	28,718	(6,468)
Municipal building	17,700	14,206	3,494
Municipal operations	38,005	34,294	3,711
Computer equipment & services	13,250	11,229	2,021
Constable & animal control	3,600	2,196	1,404
Town clerk & treasurer	15,700	14,315	1,385
Planning and zoning	28,200	25,189	3,011
Internal auditors	11,900	10,713	1,187
Lister	24,900	28,211	(3,311)

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

FISCAL YEAR ENDED JUNE 30, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Education tax reconciliation payment	8,000	0	8,000
Vermont League of Cities and Towns	3,279	3,279	0
Central Vermont Regional Planning Comm.	3,726	3,726	0
Local agreement tax	17,241	0	17,241
Miscellaneous other	11,653	13,928	(2,275)
Total general government	<u>495,066</u>	<u>431,459</u>	<u>63,607</u>
Health and welfare			
CV Solid Waste District	8,373	5,414	2,959
Northern Vt Resource	75	75	0
Total health and welfare	<u>8,448</u>	<u>5,489</u>	<u>2,959</u>
Culture and recreation			
Four Corners School Assoc	3,900	3,900	0
Kellogg Hubbard Library	32,296	32,296	0
Wrightsville Beach Recreation	1,351	1,329	22
Various other funding requests	14,650	14,650	0
Total culture and recreation	<u>52,197</u>	<u>52,175</u>	<u>22</u>
Public safety			
Law enforcement	25,800	24,512	1,288
Washington County expense	22,515	22,515	0
Ambulance service	95,542	95,542	0
Fire Department	98,096	98,096	0
Total public safety	<u>241,953</u>	<u>240,665</u>	<u>1,288</u>
Highways and roads			
Operations	385,875	308,561	77,314
Town garage cost	18,200	15,288	2,912
Repairs and maintenance	40,000	50,498	(10,498)
Highway labor	176,150	189,254	(13,104)
Total highways and roads	<u>620,225</u>	<u>563,601</u>	<u>56,624</u>
Debt service			
Principal payments	67,103	67,103	0
Interest payments	50,246	58,745	(8,499)
Total debt service	<u>117,349</u>	<u>125,848</u>	<u>(8,499)</u>

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

FISCAL YEAR ENDED JUNE 30, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Capital outlays			
Paving Grant	0	141,926	(141,926)
Total capital outlays	<u>0</u>	<u>141,926</u>	<u>(141,926)</u>
Total expenditures	<u>1,535,238</u>	<u>1,561,163</u>	<u>(25,925)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>157,000</u>	<u>290,589</u>	<u>133,589</u>
OTHER FINANCING SOURCES (USES)			
Transfer to Capital Reserve Fund	(200,000)	(200,000)	0
Transfer to Recreation Committee Fund	(3,000)	(3,000)	0
Transfer to Cemetery Commission Fund	(9,000)	(9,000)	0
Total other financing sources (uses)	<u>(212,000)</u>	<u>(212,000)</u>	<u>0</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER USES	(55,000)	78,589	133,589
EXTRAORDINARY ITEM			
Flood damage expenditures	<u>0</u>	<u>(75,158)</u>	<u>(75,158)</u>
Net Change in Fund Balances	<u>\$ (55,000)</u>	3,431	<u>\$ 58,431</u>
FUND BALANCE - JUNE 30, 2010, as reclassified		<u>245,847</u>	
FUND BALANCE - JUNE 30, 2011		<u>\$ 249,278</u>	

TOWN OF EAST MONTPELIER, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 and (b) are reported on a modified cash basis, which, in addition to cash activity, recognizes capital assets as well as long term 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, 2011
(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, and Capital Reserve 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; long-term debt 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, 2011
(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

Beginning with fiscal year 2011, the Town implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balances - Indicates the portion of fund equity that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.

TOWN OF EAST MONTPELIER, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted fund balances - Indicates the portion of fund equity that is mandated for a specific purpose by external parties, constitutional provisions, or enabling legislation (e.g. federal and state grants, bondholders, trust and trustee accounts).

Committed fund balances - Indicates the portion of fund equity that is set aside for a specific purpose by the Board. Formal action must be taken prior to the end of the fiscal year (e.g. capital projects, etc.). The same formal action must be taken to remove or change the limitations placed on the funds.

Assigned fund balances - Indicates the portion of fund equity that is set aside with the intent to be used for a specific purpose by the Board or body or official that has been given the authority to assign funds (e.g. encumbrances, subsequent budgets). Assigned funds cannot cause a deficit in unassigned fund balance.

Unassigned fund balances - Indicates the portion of fund equity that has not been classified in the previous four categories. All funds in this category are considered spendable resources. This category provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

The Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as special incentives). Assigned fund balance is established by the Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service or other purposes).

When an expenditure is incurred that would qualify for payment with either restricted or unrestricted funds, it will be paid from restricted funds.

When an expenditure is incurred that qualifies for payment from either of the three unrestricted fund balance categories, it will be applied in the following order:

1. Committed
2. Assigned
3. Unassigned

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.

TOWN OF EAST MONTPELIER, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011
 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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	\$ 1,152,847
Investments - Certificates of deposit with maturities greater than three months	176,380
Total	\$ 1,329,227

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	\$ 286,481
Uninsured - collateralized	1,042,746
Uninsured	0
Total	\$ 1,329,227

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, 2011 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 \$309,303 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, 2011 was \$309,303. Total principal payments received on this loan during fiscal year 2011 was \$2,170.

TOWN OF EAST MONTPELIER, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

NOTE 4 – INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivable and payable balances at June 30, 2011 were:

	<u>Interfund Receivable</u>	<u>Interfund Payables</u>
General Fund	\$ 0	\$ 198,078
Capital Reserve Fund	200,000	0
Nonmajor Funds:		
Veterans' Memorial	947	0
EMSLI Fund	59	0
VECAN Fund	3,000	0
Community Development	0	4,981
Record Restoration	0	947
	<u>\$ 204,006</u>	<u>\$ 204,006</u>

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, interfund transfers occurred between funds. The operating transfers were made in accordance with budgetary authorizations. Interfund transfers for the fiscal year ended June 30, 2011 consisted of the following:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 0	\$ 212,000
Capital Reserve Fund	200,000	0
Other Governmental Funds:		
Cemetery Fund	9,000	0
Recreation Committee	3,000	0
Subtotal	<u>212,000</u>	<u>212,000</u>
Veterans' Memorial	947	0
Record Restoration	0	947
EMSLI Fund	8,000	0
Community Development	0	8,000
Subtotal	<u>8,947</u>	<u>8,947</u>
Totals	<u>\$ 220,947</u>	<u>\$ 220,947</u>

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, 2011
(Continued)

NOTE 6 – CAPITAL ASSETS

The summary of capital assets as of June 30, 2011 is as follows:

	Balance 06/30/10	Additions/ Trade-ins	Depreciation	Balance 06/30/11
Capital assets not depreciated - Land	\$ 115,600	\$ 0	\$ 0	\$ 115,600
Capital assets being depreciated				
Buildings	2,202,383	68,955	0	2,271,338
Equipment and vehicles	899,704	20,000	0	919,704
Infrastructure	416,829	244,770	0	661,599
Total capital assets being depreciated	<u>3,518,916</u>	<u>333,725</u>	<u>0</u>	<u>3,852,641</u>
Less accumulated depreciation for:				
Buildings	74,899	0	45,067	119,966
Equipment and vehicles	310,797	0	85,256	396,053
Infrastructure	138,375	0	50,879	189,254
Total accumulated depreciation	<u>524,071</u>	<u>0</u>	<u>181,202</u>	<u>705,273</u>
Total capital assets, net	<u>\$ 3,110,445</u>	<u>\$ 333,725</u>	<u>\$ (181,202)</u>	<u>\$ 3,262,968</u>

Depreciation was charged as follows:

Governmental Activities:	
General Government	\$ 40,816
Highway and roads	139,653
Health & Welfare (Cemetery)	733
Total	<u>\$ 181,202</u>

NOTE 7 – SHORT TERM DEBT

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

Balance June 30, 2010	\$ 0
Proceeds from tax anticipation note	200,000
Principal payments	(200,000)
Balance June 30, 2011	<u>\$ 0</u>

The total amount of short-term interest paid during fiscal year 2011 was \$1,240.

TOWN OF EAST MONTPELIER, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

NOTE 8 – LONG-TERM DEBT

Long-term debt at June 30, 2011 consisted of the following:

	<u>Total</u>	<u>Due in one year</u>
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.	\$ 8,000	\$ 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.	85,325	41,662
Emergency facility bond note to Vermont Municipal Bond Bank, annual principal payment of \$105,000 plus semi-annual interest payments at 1.54%-5.05%, due Nov. 15, 2030.	2,100,000	** 105,000
Bucket loader note payable to Kansas State Bank, Annual principal and interest payments of \$24,143 at 5.525% interest, due June 1, 2014.	<u>64,910</u>	<u>20,451</u>
Total long-term notes payable	<u>\$ 2,258,235</u>	<u>\$ 175,113</u>

** See Note 16 - Commitments & Contingencies regarding the
Town of Calais commitment to assist in the repayment of this loan.

Changes in long-term debt are as follows:

	<u>June 30, 2010</u>	<u>Addition</u>	<u>Reduction</u>	<u>June 30, 2011</u>
Note and Bond payable	<u>\$ 2,325,338</u>	<u>\$ 0</u>	<u>\$ (67,103)</u>	<u>\$ 2,258,235</u>

The total amount of interest paid on these long-term debts during fiscal year 2011 was \$115,867, of which \$23,192 was reimbursed by the Town of Calais (see note above) resulting in \$93,915 net interest paid.

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

Year ending:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2012	\$ 175,113	\$ 86,433	\$ 261,546
June 30, 2013	170,278	81,440	251,718
June 30, 2014	127,844	75,885	203,729
June 30, 2015	105,000	72,519	177,519
June 30, 2016	105,000	69,794	174,794
June 30, 2017 - 2021	525,000	295,717	820,717
June 30, 2022 - 2026	525,000	188,570	713,570
June 30, 2027 - 2031	<u>525,000</u>	<u>65,178</u>	<u>590,178</u>
Total	<u>\$ 2,258,235</u>	<u>\$ 935,536</u>	<u>\$ 3,193,771</u>

TOWN OF EAST MONTPELIER, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

NOTE 9 – RESTRICTED FUND BALANCES/NET ASSETS

The restricted funds consist of the following as of June 30, 2011:

	<u>Restricted</u>
Bridge & culvert projects	\$ 1,165
Town Forest	26,734
Veterans' Memorial	1,383
Land conservation	26,936
Reappraisal reserve	23,606
Community development (Sandy Pines)	7,811
Fireworks Fund	134
Recreation Committee	4,565
Rally Day Fund	209
EMSLI Fund	59
VECAN	3,000
Permanent:	
Cemetery Trust	105,865
C. Smith Recreation	51,580
Total	<u><u>\$ 253,047</u></u>

NOTE 10 – RECLASSIFIED FUND BALANCE

As a result of GASB 54, the fund balance classification have been redefined. The effect of this is that two funds, the GEO Maps project and Fire Station #1 repairs project are no longer shown as Other Governmental Funds but are now reflected as part of the General Fund as assigned fund balances.

NOTE 11 - 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, 2011 were due on November 17, 2010 and May 15, 2011. All late payments are subject to a 1% per month interest if paid after the previously noted due dates; and 8% penalty after the May 15, 2011 due date.

The Town tax rate approved for the fiscal year ended June 30, 2011 was \$.5003.

TOWN OF EAST MONTPELIER, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

NOTE 12 - 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 \$368,870, \$287,877 was covered under the Vermont Municipal Employees' Retirement System. Total employer contributions to the Vermont Municipal Employees' Retirement Plan were \$14,394 for fiscal year 6/30/11, \$13,855 for fiscal year 6/30/10, and \$13,104 for fiscal year 6/30/09.

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 \$368,870, none was covered under the VMERS defined contribution plan.

NOTE 13 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2011, expenditures exceeded appropriations in the General Fund by \$101,083. The excess expenditures were funded by use of excess revenues, primarily from grant related revenues and other financing sources.

NOTE 14 – EXTRAORDINARY ITEMS

Record flooding in the spring of 2011 caused extensive damage throughout the State of Vermont. The Town of East Montpelier suffered infrastructure damage as a result of this flooding. Claims were filed with the Federal Emergency Management Agency (FEMA) and the State of Vermont to recoup a portion of these costs and are expected to be received in fiscal year 2012.

TOWN OF EAST MONTPELIER, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

NOTE 15 - 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.

NOTE 16 – 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 17 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 16, 2012, 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 July 27, 2011, the Town acquired a tax anticipation note for the amount of \$500,000 from People's United Bank. In August 2011, \$200,000 was drawn on this loan with full payment plus interest made in November 2011. The terms on the loan is full principal plus 2.20% interest is due on June 30, 2012.

On August 24, 2011, the Town purchased a 2008 Volvo Excavator for \$141,915, with after trade-ins and applied previous rental payments, the balance of \$126,610 was financed over 5 years with annual payment requirements of \$27,953.

TOWN OF EAST MONTPELIER, VERMONT

BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
MODIFIED CASH BASIS

JUNE 30, 2011

	Special Revenue Funds											Permanent Funds				
	Capital Projects Emergency Services Facility Fund	Cemetery Fund	Bridge & Culvert Projects	Town Forest	Veterans' Memorial	Land Conservation	Reappraisal Reserve	Community Development (Sandy Pines)	Fireworks Fund	Record Restoration	Recreation Committee	Rally Day Fund	EMSLI Fund	VECAN Grant	C. Smith Recreation Fund	Total
Cash	\$ 51,858	\$105,865	\$1,165	\$26,734	\$ 436	\$ 26,936	\$ 23,606	\$ 12,792	\$ 134	\$ 947	\$ 4,565	\$ 209	\$ 0	\$ 0	\$51,580	\$306,827
Due from other funds	0	0	0	0	947	0	0	0	0	0	0	0	59	3,000	0	4,006
Total assets	\$ 51,858	\$105,865	\$1,165	\$26,734	\$1,383	\$ 26,936	\$ 23,606	\$ 12,792	\$ 134	\$ 947	\$ 4,565	\$ 209	\$ 59	\$ 3,000	\$51,580	\$310,833
LIABILITIES AND FUND BALANCES																
Liabilities																
Due to other funds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,981	\$ 0	\$ 947	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,928
Fund Balances - Restricted:																
Non-expendable	0	0	0	0	0	0	0	0	0	0	0	0	0	0	50,000	50,000
Expendable	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,580	1,580
Special revenue purpose	0	105,865	1,165	26,734	1,383	26,936	23,606	7,811	134	0	4,565	209	59	3,000	0	201,467
Assigned:																
Capital projects purpose	51,858	0	0	0	0	0	0	0	0	0	0	0	0	0	0	51,858
Total liabilities and fund balances	\$ 51,858	\$105,865	\$1,165	\$26,734	\$1,383	\$ 26,936	\$ 23,606	\$ 12,792	\$ 134	\$ 947	\$ 4,565	\$ 209	\$ 59	\$ 3,000	\$51,580	\$310,833

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

FISCAL YEAR ENDED JUNE 30, 2011

	Special Revenue Funds													Permanent Funds				
	Capital Projects	Emergency Services	Facility Fund	Cemetery Fund	Bridge & Culvert Reserve	Town Forest	Veterans' Memorial	Land Conservation	Reappraisal Reserve	Community Development (Sandy Pines)	Fireworks Fund	Record Restoration	Recreation Committee		Rally Day Fund	EMSLI Fund	VECAN Grant	C. Smith Recreation Fund
REVENUES																		
Intergovernmental	\$ 37,912	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 11,352	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 16,960	\$ 3,000	\$ 0	\$ 69,224
Fees	0	0	0	0	0	0	0	0	0	0	0	0	4,580	0	0	0	0	4,580
Interest	3,931	878	4	72	1	45	13	3,132	1	9	0	0	0	0	0	0	623	8,709
Miscellaneous	8,630	550	0	0	0	0	0	2,170	625	0	0	0	0	526	0	0	0	12,501
Total revenues	50,473	1,428	4	72	1	45	11,365	5,302	626	9	4,580	526	16,960	3,000	623	0	95,014	
EXPENDITURES																		
General government	0	0	0	0	0	0	0	18	0	0	0	0	0	0	0	0	0	18
Health and welfare	0	6,543	0	0	0	0	0	0	0	0	0	0	24,901	0	0	0	0	31,444
Culture and recreation	0	0	0	0	0	0	0	0	800	0	6,990	317	0	0	0	0	0	8,107
Debt service - Interest	35,170	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	35,170
Capital outlay	68,955	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	68,955
Total expenditures	104,125	6,543	0	0	0	0	0	18	800	0	6,990	317	24,901	0	0	0	0	143,694
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(53,652)	(5,115)	4	72	1	45	11,365	5,284	(174)	9	(2,410)	209	(7,941)	3,000	623	0	(48,680)	
OTHER FINANCING SOURCES (USES):																		
Transfer from General Fund	0	9,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	12,000
Transfers to others	0	0	0	0	0	0	0	(8,000)	0	(947)	0	0	0	0	0	0	0	(8,947)
Transfers from others	0	0	0	0	947	0	0	0	0	0	0	0	8,000	0	0	0	0	8,947
Total other financing sources (uses)	0	9,000	0	0	947	0	0	(8,000)	0	(947)	3,000	0	8,000	0	0	0	0	12,000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	(53,652)	3,885	4	72	948	45	11,365	(2,716)	(174)	(938)	590	209	59	3,000	623	0	(36,680)	
FUND BALANCES - JUNE 30, 2010	105,510	101,980	1,161	26,662	435	26,891	12,241	10,527	308	938	3,975	0	0	0	50,957	0	341,585	
FUND BALANCES - JUNE 30, 2011	\$ 51,858	\$ 105,865	\$ 1,165	\$ 26,734	\$ 1,383	\$ 26,936	\$ 23,606	\$ 7,811	\$ 134	\$ 0	\$ 4,565	\$ 209	\$ 59	\$ 3,000	\$ 51,580	\$ 3,000	\$ 304,905	

FOTHERGILL SEGALE & VALLEY

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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*

January 16, 2012

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, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 deficiencies, significant deficiencies, or material weaknesses. 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 material weaknesses:

2010-1: As required, the Board approved the tax rate for fiscal year June 30, 2011. During the processing of the tax bills, the Lister/Treasurer did not use the rate as approved by the Board. The approval process is in place to provide oversight and to ensure a review of the calculation is done before taxpayers are billed. Any concerns or correction of the tax rate should be brought back to the Board. We strongly recommend that procedures are in place to ensure that this type of override is prevented in the future.

Response to Findings: The Board understands that the Treasurer, in August of 2010 after receipt of an updated Grand List total from the Listers, altered the approved 2010/11 tax rate to ensure that the town raised the same tax revenue as expected when the Board approved the tax rate using the then-current Grand List figure. The Board belatedly recognized this error and put a plan in place to ensure that this did not occur again. Essentially the Board explained to the Treasurer that only the Board can amend the approved tax rate. The Board verified, prior to mailing, that the approved 2011/12 tax rate was correctly used on the tax bills. The Board as a whole took responsibility for this corrective action.

2010-2: The Town contracts out their payroll processing services. Due to confidentiality between the Town and the governmental agencies (Internal Revenue Service and State of Vermont), all payroll notices for taxes due are sent to the Treasurer. During the year, underpayment of taxes notices were sent to the Town and were not addressed. As a result, the IRS levied the Town's bank account and withdrew the funds for taxes due, plus the assessed interest and penalties. The underpayment of taxes was the result of funds being applied to the incorrect quarter, which generally a phone call to the governmental agency upon receipt of the notice could have resolved the issue. In another instance, the State of Vermont withheld payment from civil refunds due to the Town to be applied toward overdue taxes. We strongly recommend that procedures be implemented so that all underpayment of tax notices are communicated immediately to the payroll service and follow up is done to ensure these are handled in a timely manner.

Response to Findings: The Town will be reviewing its mail distribution procedures and will implement changes as necessary. The Board, the Treasurer, and the Town Clerk will be responsible for developing procedures to improve this process.

2010-3: During our audit, we noted that the Treasurer had not done an overall reconciliation of the property taxes billed, property taxes collected and property taxes uncollected for *all* years between the Tax Administration System and the General Ledger accounting system during the fiscal year. We have strongly recommended in the past many years this be done on a quarterly basis. 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. Upon our request during this year's audit, the Assistant Treasurer did a reconciliation for the *current* year taxes. We strongly recommend that procedures and oversight be implemented and training be provided to ensure that this overall property tax reconciliation noted above be done on a quarterly basis.

Response to Findings: The Town will be reviewing its reconciliation procedures and will implement changes as necessary. The Board, the Auditors, and the Treasurer will be responsible for developing procedures to improve this process.

2010-4: The Town manages many grants and special purpose funds (ie: capital projects funds). During our audit we noticed many journal entries proposed by the Town Auditor to the Treasurer in attempt to correct the posting of these grants activities and the interfund activities. Additionally, as part of our audit, we had more entries to correct these activities. It is critical to have an up to date correct accounting of these activities so that management does not overspend these funds. Since there was some confusion regarding this activity, some grant activity was being tracked manually, outside of the accounting system. The risk with this is that items could easily be omitted. But since all revenues and expenses are required to be processed through the accounting system, this risk is reduced. The accounting software used by the Town is capable of tracking these grants and special purpose funds. We strongly recommend that training be provided to the Treasurer to do this or that preapproval of entries by someone with the knowledge be done before items are posted in the system originally.

Response to Findings: The Town will be reviewing its bookkeeping procedures and will implement changes as necessary. The Board, the Auditors, and the Treasurer will be responsible for developing procedures to improve this process.

The Town of East Montpelier's response to the findings identified in our audit are described in the above paragraphs. We did not audit the Town of East Montpelier's response and, accordingly, we express no opinion on them.

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. The results of our test disclosed no instances of noncompliance or other matters that are required to be expected under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Town in a separate letter dated January 16, 2012.

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
FOTHERGILL SEGALE & VALLEY, CPAs
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