

TOWN OF MANCHESTER, VERMONT

Financial Statements and Schedules

June 30, 2011

(With Independent Auditors' Report Thereon)

Love, Cody & Company, CPAs

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Independent Auditors' Report

The Select Board
Town of Manchester, Vermont

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Manchester, Vermont, as of and for the year ended June 30, 2011, which collectively comprise the Town of Manchester's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Manchester, Vermont's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Manchester, Vermont, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2012, on our consideration of the Town of Manchester, Vermont'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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, the budgetary comparison information on pages 37 through 49, and the schedule of funding progress on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Manchester, Vermont's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

February 2, 2012

Vt. Reg. #357

Love, Cody & Company, CPAs

**TOWN OF MANCHESTER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011**

The following is Management's Discussion and Analysis of the Town of Manchester, Vermont's financial performance. It provides an overview of the Town's financial activities for the fiscal year ended June 30, 2011. It focuses on the year-end results and provides an objective analysis of the various funds the Town operates in the conduct of its business from a management perspective. It discusses both the government-wide and fund-based financial statements. Please read it in conjunction with the Town's financial statements, which immediately follow this section.

Financial Highlights

Government-wide financial statements:

- ❖ The assets of the Town of Manchester exceeded its liabilities at the close of the most recent fiscal year by \$16,208,816 (net assets). Of this amount, \$2,118,171 (unrestricted net assets) may be used by the various funds of the Town to meet the Town's ongoing obligations to its citizens and creditors.
- ❖ The Town's total net assets stand at \$16,208,816. Of this amount, net assets attributable to governmental activities are \$10,446,958 while net assets attributable to business-type activities are \$5,761,858.

Fund financial statements:

- ❖ As of the close of the 2011 fiscal year, the Town of Manchester's governmental funds reported combined ending fund balances of \$3,834,255, an increase of \$372,706, in comparison with the prior year. Of this total amount, \$52,971 is available for spending at the government's discretion (unassigned fund balance).

Overview of the Financial Statements

The financial section of this report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and additional required supplementary information. The basic financial statements include two kinds of statements that present different views of the Town. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements for governmental activities report how these services were financed in the short term as well as what remains for future spending. 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 funds. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

**TOWN OF MANCHESTER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011**

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers a broad overview of the Town of Manchester's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Town of Manchester's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Manchester is improving or deteriorating.

The statement of activities presents information showing how the government's net assets have changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the Town of Manchester that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town of Manchester include general government, public safety, public works, health and social services, recreation and parks, conservation and development, and public improvements. The business-type activities of the Town of Manchester include water and wastewater treatment operations.

Government-wide financial statements are designed to include the primary government unit as well as any legally separate entities for which the primary government is financially accountable. These separate entities are known as component units. The Town of Manchester has no such entities that qualify as component units.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Manchester, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Manchester can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Most 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 are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that

**TOWN OF MANCHESTER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011**

can be spent in the near future to finance the Town's programs. The differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are reconciled in the schedules following each of the governmental fund financial statements.

Proprietary Funds

When the Town charges customers for the services it provides—whether to outside customers or to other units of the Town, these services are generally reported in proprietary funds. The Town of Manchester uses two proprietary funds: the Water Fund and Sewer Fund (also known as Wastewater Treatment). Proprietary funds use the accrual basis of accounting. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

Fiduciary Funds

The Town is Trustee, or fiduciary, for assets that belong to others, such as the private-purpose trust and agency funds. The Town is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The Town excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

Notes

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information to provide additional financial information not included in the basic financial statements. The notes to financial statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Town's budget with actual General Fund revenues and expenditures. Other supplementary information consists of combining statements for the non-major governmental funds.

**TOWN OF MANCHESTER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011**

The following table summarizes the major features of the Town's financial statements, including the portion of the Town's activities covered and the types of information within.

Major Features of the Government-Wide and Fund Financial Statements

| | Government-Wide Statements | Fund Financial Statements | | |
|----------------------------------------|------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire Town (except fiduciary funds) | The activities of the Town that are not proprietary or fiduciary. Includes general fund and special revenue funds. | The activities of the Town for which a fee is charged to external users (such as water and wastewater treatment activities). | Instances in which the Town administers resources on behalf of another, such as trust accounts. |
| Required financial statements | -Statement of net assets -Statement of activities | -Balance Sheet -Statement of revenues, expenditures, and changes in fund balances | -Statement of net assets or balance sheet -Statement of revenues, expenses and changes in fund net assets -Statement of cash flows | -Statement of fiduciary net assets -Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual basis of accounting and economic resources measurement focus | Modified accrual basis of accounting and current financial resources measurement focus | Accrual basis of accounting and economic resources measurement focus | Accrual basis of accounting and economic resources measurement focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both short-term and long-term; including capital assets | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they may |
| Type of inflow/outflow of information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable | All additions and deductions during the year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

**TOWN OF MANCHESTER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011**

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

This section summarizes information and data as related to the Statements of Net Assets as of June 30, 2011 and the Statement of Activities for the Year Ended June 30, 2011.

Government-wide Statements

The Town's combined net assets increased to approximately \$16.2 million at June 30, 2011. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Town's governmental and business-type activities including a 2010 comparative analysis of government-wide data.

**Table 1
Net Assets (in Thousands)**

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------------------|----------------------------|----------------|-----------------------------|----------------|----------------|----------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Current and other assets | \$ 4,428 | 4,055 | 2,772 | 2,070 | 7,200 | 6,125 |
| Capital assets | 7,529 | 7,545 | 9,030 | 7,150 | 16,559 | 14,695 |
| Total assets | 11,957 | 11,600 | 11,802 | 9,220 | 23,759 | 20,820 |
| Current liabilities | (632) | (537) | (1,062) | (321) | (1,694) | (858) |
| Long-term liabilities | (878) | (790) | (4,978) | (3,100) | (5,856) | (3,890) |
| Total liabilities | (1,510) | (1,327) | (6,040) | (3,421) | (7,550) | (4,748) |
| Net assets: | | | | | | |
| Invested in capital assets, net of debt | 6,509 | 6,612 | 3,861 | 3,868 | 10,370 | 10,480 |
| Restricted | 3,711 | 782 | 10 | - | 3,721 | 782 |
| Unrestricted | 227 | 2,879 | 1,891 | 1,931 | 2,118 | 4,810 |
| Total net assets | \$ 10,447 | 10,273 | 5,762 | 5,799 | 16,209 | 16,072 |

The Town's liquidity – the ability to pay for its most immediate obligations – is measured by comparing current assets to current liabilities. The Town has current assets approximately 4 times greater than it does current liabilities.

The Town's solvency – the ability to fulfill its total obligations – is measured by comparing debt-to-assets ratio and debt-to-net assets ratio. Debt-to-assets ratio, which equals 32%, computes the percent of assets financed with debt. Debt-to-net assets ratio, which equals 47%, computes the amount that is owed for debt on every dollar that the Town has available for use providing programs.

**TOWN OF MANCHESTER, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011**

The Town's capital assets, such as infrastructure, buildings and equipment, less outstanding debt used to acquire them, amount to \$10.4 million. These assets represent the largest portion of the Town's net assets. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net assets of \$3.7 million have been restricted by the voters or sources external to the Town to be used for specific purposes. The unrestricted net assets of \$2.1 million may be used to meet the Town's ongoing activities.

**Table 2
Changes in Net Assets (in Thousands)**

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------|----------------------------|--------------|-----------------------------|------------|--------------|--------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | | | |
| Program revenues: \$ | | | | | | |
| Charges for services | 311 | 422 | 920 | 936 | 1,231 | 1,358 |
| Grants and contributions | 430 | 751 | - | 1 | 430 | 752 |
| General revenues: | | | | | | |
| Property taxes | 2,171 | 2,221 | - | - | 2,171 | 2,221 |
| Other general revenues | 1,857 | 1,655 | 112 | 44 | 1,969 | 1,699 |
| Total revenues | 4,769 | 5,049 | 1,032 | 981 | 5,801 | 6,030 |
| | | | | | | |
| Program expenses: | | | | | | |
| General government | 4,606 | 4,100 | - | - | 4,606 | 4,100 |
| Water | - | - | 696 | 603 | 696 | 603 |
| Wastewater treatment | - | - | 362 | 293 | 362 | 293 |
| Total expenses | 4,606 | 4,100 | 1,058 | 896 | 5,664 | 4,996 |
| | | | | | | |
| Excess before transfers | 163 | 949 | (26) | 85 | 137 | 1,034 |
| | | | | | | |
| Transfers | 11 | 34 | (11) | (34) | - | - |
| | | | | | | |
| Change in net assets | \$ 174 | 983 | (37) | 51 | 137 | 1,034 |

Net assets of the Town's governmental activities increased by \$174 thousand, including net operating transfers from business-type activities of \$11 thousand. Unrestricted net assets comprise approximately 2% of the total net assets of governmental activities.

The net assets related to business-type activities decreased by approximately \$37 thousand.

**TOWN OF MANCHESTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011**

**Table 3
Cost of Services -
Governmental Activities (in Thousands)**

| | Total | | Net | |
|----------------------------|------------------|-------|------------------|-------|
| | Cost of Services | | Cost of Services | |
| | 2011 | 2010 | 2011 | 2010 |
| General government | \$ 1,942 | 1,971 | 1,707 | 1,722 |
| Public safety | 1,096 | 974 | 1,015 | 933 |
| Public works | 964 | 771 | 672 | 73 |
| Parks and recreation | 293 | 300 | 166 | 115 |
| Public health | 1 | 1 | 1 | 1 |
| Cemetery | 3 | 3 | (4) | 3 |
| Capital Outlay | 238 | 13 | 239 | 13 |
| Interest on long-term debt | 69 | 67 | 69 | 67 |
| | \$ 4,606 | 4,100 | 3,865 | 2,927 |

The costs of providing governmental services amounted to approximately \$4.6 million for the year ended June 30, 2011. The cost of providing services is offset by charges for services and program-specific operating and capital grants, resulting in a net cost of services of approximately \$3.9 million. The net cost of services is funded by property and sales taxes, investment earnings, and grants and contributions not restricted to specific programs.

**Table 4
Capital Assets at Year-end
Net of depreciation (in Thousands)**

| | Governmental | Business-Type | Total |
|--------------------------|--------------|---------------|------------|
| | Activities | Activities | Primary |
| | | | Government |
| Land and improvements | \$ 1,618 | 139 | 1,757 |
| Buildings | 1,815 | 447 | 2,262 |
| Infrastructure | 960 | 282 | 1,242 |
| System and improvements | - | 6,034 | 6,034 |
| Machinery and equipment | 266 | 103 | 369 |
| Vehicles | 1,216 | - | 1,216 |
| Construction in progress | 1,654 | 2,026 | 3,680 |
| Totals | \$ 7,529 | 9,031 | 16,560 |

**TOWN OF MANCHESTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011**

**Table 5
Outstanding Debt, at Year-end
(in Thousands)**

| | Governmental Activities | Business-Type Activities | Total Primary Government |
|---------------------------|------------------------------------|-------------------------------------|-----------------------------------------|
| General obligation bonds: | | | |
| Principal | \$ 1,020 | 5,170 | 6,190 |
| Accrued interest | - | 12 | 12 |
| Totals | \$ 1,020 | 5,182 | 6,202 |

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

This section summarizes the significant changes in the Town's governmental and business-type funds. As noted earlier, the governmental funds account only for current activities. Therefore, this section does not discuss the long-term financial health of the Town's governmental funds.

One of the largest capital projects in 2011 was the reconstruction on Highland Avenue (including new water and sewer lines and drainage), the rebuilding of the Depot Historic Parking Lot, and realignment of the Barnumville Road and Main Street intersection. The Town made significant progress on the Junction Improvement Project ("Roundabout") in 2011. The Town will put the project out to bid in the winter of 2011-2012 and the project will start in the spring. The \$5 million project will include reconstruction of the intersections of Routes 7A and 11/30, and roadway reconstruction; new sidewalks and curbing; installation of crosswalks; installation of signage; undergrounding and backlotting of overhead utilities (electrical and communications); replacement and extension of water and sewer mains; and landscaping and streetscaping.

Due to Tropical Storm Irene, which landed here on August 28, 2011, including personnel costs, the Town spent an estimated \$225,000 on the response, with about \$110,000 to rebuild Rootville Road and the water main running underneath Rootville Road. The Town's public safety departments conducted a post-incident review of the Town's response to Irene, which included specific recommendations. The Fiscal Year 2013 budget submitted to the voters incorporates many of the recommendations of the post-incident review, most notably improvements to the Town's overall emergency communications system.

And finally, the Town made significant improvements to the Dana L. Thompson Memorial Park ("Rec Park") as well as Adams Park downtown.

Additional Financial Information

Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Town of Manchester, Finance Office, 6039 Main Street in Manchester, VT 05255. Please contact Ruth Woodard at (802) 362-1313 X4.

TOWN OF MANCHESTER, VERMONT
Statement of Net Assets
June 30, 2011

| | Primary Government | | |
|----------------------------------------------------------|------------------------------------|-------------------------------------|-------------------|
| | Governmental Activities | Business-type Activities | Total |
| Assets: | | | |
| Cash | \$ 554,559 | 1,910,148 | 2,464,707 |
| Investments | 3,588,049 | 481,637 | 4,069,686 |
| Accounts and notes receivable | 9,438 | 245,768 | 255,206 |
| Delinquent taxes receivable, net | 263,850 | - | 263,850 |
| Internal balances | (123,355) | 123,467 | 112 |
| Due from other governments | 87,392 | - | 87,392 |
| Prepaid expenses | 23,777 | 1,628 | 25,405 |
| Tax sale land acquisition | 22,451 | - | 22,451 |
| Deferred charges | 933 | 8,306 | 9,239 |
| Capital assets: | | | |
| Land | 1,643,309 | 139,076 | 1,782,385 |
| Other capital assets, net of accumulated depreciation | 5,886,188 | 8,891,495 | 14,777,683 |
| Total assets | \$ 11,956,591 | 11,801,525 | 23,758,116 |
| Liabilities: | | | |
| Accounts payable | \$ 79,624 | 829,703 | 909,327 |
| Accrued liabilities | 307,054 | 40,075 | 347,129 |
| Deferred revenue | 102,847 | - | 102,847 |
| Bonds payable: | | | |
| Due within one year | 142,554 | 192,447 | 335,001 |
| Due in more than one year | 877,554 | 4,977,442 | 5,854,996 |
| Total liabilities | 1,509,633 | 6,039,667 | 7,549,300 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 6,509,389 | 3,860,682 | 10,370,071 |
| Restricted | 3,710,574 | 10,000 | 3,720,574 |
| Unrestricted | 226,995 | 1,891,176 | 2,118,171 |
| Total net assets | 10,446,958 | 5,761,858 | 16,208,816 |
| Total liabilities and net assets | \$ 11,956,591 | 11,801,525 | 23,758,116 |

TOWN OF MANCHESTER, VERMONT
Statement of Activities
June 30, 2011

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---------------------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|-------------------------------------------------|--------------------------|--------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | |
| | | | | | Governmental Activities | Business-type Activities | Total |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 1,941,756 | 145,126 | 87,314 | 2,780 | (1,706,536) | - | (1,706,536) |
| Public safety: | | | | | | | |
| Police and civil defense | 940,873 | 28,550 | 150 | 51,165 | (861,008) | - | (861,008) |
| Fire | 153,538 | - | - | - | (153,538) | - | (153,538) |
| Public works | 964,458 | 11,243 | - | 281,627 | (671,588) | - | (671,588) |
| Parks and recreation | 292,528 | 126,325 | - | 215 | (165,988) | - | (165,988) |
| Public health | 1,152 | - | - | - | (1,152) | - | (1,152) |
| Cemetery | 3,163.00 | - | 6,729 | - | 3,566 | - | 3,566 |
| Capital outlay | 238,971 | - | - | - | (238,971) | - | (238,971) |
| Interest | 69,258 | - | - | - | (69,258) | - | (69,258) |
| Total governmental activities | 4,605,697 | 311,244 | 94,193 | 335,787 | (3,864,473) | - | (3,864,473) |
| Business-type activities: | | | | | | | |
| Water | 696,118 | 578,747 | - | - | - | (117,371) | (117,371) |
| Sewer | 362,011 | 340,765 | - | - | - | (21,246) | (21,246) |
| Total business-type activities | 1,058,129 | 919,512 | - | - | - | (138,617) | (138,617) |
| Total primary government | \$ 5,663,826 | 1,230,756 | 94,193 | 335,787 | (3,864,473) | (138,617) | (4,003,090) |
| General revenues: | | | | | | | |
| Property taxes | | | | | 2,171,219 | - | 2,171,219 |
| Sales tax | | | | | 978,505 | - | 978,505 |
| Investment earnings | | | | | 525,652 | 111,286 | 636,938 |
| Miscellaneous | | | | | 351,761 | 1,179 | 352,940 |
| Transfers | | | | | 11,420 | (11,420) | - |
| Total general revenues and transfers | | | | | 4,038,557 | 101,045 | 4,139,602 |
| Change in net assets | | | | | 174,084 | (37,572) | 136,512 |
| Net assets - beginning | | | | | 10,272,874 | 5,799,430 | 16,072,304 |
| Net assets - ending | | | | | \$ 10,446,958 | 5,761,858 | 16,208,816 |

TOWN OF MANCHESTER, VERMONT
Balance Sheet
Governmental Funds
June 30, 2011

| | General Fund | UDAG Fund | Other Governmental Funds | Total |
|--------------------------------------------------------------------------------------------|-------------------|------------------|--------------------------------|------------------|
| Assets: | | | | |
| Cash | \$ 389,856 | - | 164,703 | 554,559 |
| Investments | - | 1,641,494 | 1,946,555 | 3,588,049 |
| Delinquent taxes receivable, net of allowance for uncollectible accounts of \$13,547 | 263,850 | - | - | 263,850 |
| Accounts and notes receivables | 9,389 | - | 49 | 9,438 |
| Prepaid expenses | 23,777 | - | - | 23,777 |
| Tax sale land acquisition | 22,451 | - | - | 22,451 |
| Due from other governments | 87,392 | - | - | 87,392 |
| Due from other funds | 120,676 | 358,835 | 19,782 | 499,293 |
| Total assets | \$ 917,391 | 2,000,329 | 2,131,089 | 5,048,809 |
| Liabilities: | | | | |
| Accounts payable | \$ 74,721 | - | - | 74,721 |
| Accrued liabilities | 174,413 | - | 726 | 175,139 |
| Due to other funds | - | - | 622,648 | 622,648 |
| Deferred revenue | 342,046 | - | - | 342,046 |
| | 591,180 | - | 623,374 | 1,214,554 |
| Fund balance: | | | | |
| Restricted | 20,000 | 2,000,329 | 1,128,874 | 3,149,203 |
| Committed | 60,000 | - | 10,710 | 70,710 |
| Unassigned | 246,211 | - | 368,131 | 614,342 |
| | 326,211 | 2,000,329 | 1,507,715 | 3,834,255 |
| Total liabilities and fund balance | \$ 917,391 | 2,000,329 | 2,131,089 | 5,048,809 |

TOWN OF MANCHESTER, VERMONT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2011

Total fund balances - governmental funds, page 13 \$ 3,834,255

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

| | | |
|-------------------------------|--------------------|-----------|
| Governmental capital assets | \$ 11,212,112 | |
| Less accumulated depreciation | <u>(3,682,615)</u> | 7,529,497 |

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Other long-term assets (property taxes receivable) are not available to pay for current period expenditures and therefore are deferred in the funds. | 239,199 |
|------------------------------------------------------------------------------------------------------------------------------------------------------|---------|

| | |
|---------------------|-----|
| Bond issuance costs | 933 |
|---------------------|-----|

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | (1,156,926) |
|--------------------------------------------------------------------------------------------------------------------------------------------|-------------|

| | |
|-----------------------------------------------|----------------------|
| Net assets - governmental activities, page 11 | <u>\$ 10,446,958</u> |
|-----------------------------------------------|----------------------|

TOWN OF MANCHESTER, VERMONT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2011

| | General Fund | UDAG Fund | Other Governmental Funds | Total |
|-------------------------------------------------------------------------------------------------------------|-----------------|--------------|--------------------------------|-----------|
| Revenues: | | | | |
| Property taxes | \$ 2,265,085 | - | - | 2,265,085 |
| Sales tax revenue | 978,505 | - | - | 978,505 |
| Penalties and interest on delinquent accounts | 128,379 | - | - | 128,379 |
| Charges for services | 165,108 | - | - | 165,108 |
| Intergovernmental revenue | 247,431 | - | - | 247,431 |
| Licenses, permits and fines | 109,497 | - | - | 109,497 |
| Investment income | - | 266,863 | 258,789 | 525,652 |
| Grant income | 93,062 | - | 118,049 | 211,111 |
| Donations | 215 | - | 3,278 | 3,493 |
| Other | 433,762 | - | 24,199 | 457,961 |
| | 4,421,044 | 266,863 | 404,315 | 5,092,222 |
| Expenditures: | | | | |
| General government | 1,738,667 | - | - | 1,738,667 |
| Public safety | 918,395 | - | 39,622 | 958,017 |
| Public works | 770,969 | - | - | 770,969 |
| Parks and recreation | 254,359 | - | 2,669 | 257,028 |
| Public health | 1,152 | - | - | 1,152 |
| Cemetery | - | - | 3,163 | 3,163 |
| Capital outlay | 474,706 | - | 103,511 | 578,217 |
| Debt management | 211,812 | - | - | 211,812 |
| Other | 189,931 | 9,331 | 12,649 | 211,911 |
| | 4,559,991 | 9,331 | 161,614 | 4,730,936 |
| Excess (deficiency) of revenues over expenditures | (138,947) | 257,532 | 242,701 | 361,286 |
| Other financing sources (uses): | | | | |
| Operating transfers in (out) | 138,947 | - | (127,527) | 11,420 |
| | 138,947 | - | (127,527) | 11,420 |
| Excess of revenue and other financing sources over expenditures and other financing uses | - | 257,532 | 115,174 | 372,706 |
| Fund balance, July 1, 2010 | 326,211 | 1,742,797 | 1,392,541 | 3,461,549 |
| Fund balance, June 30, 2011 | \$ 326,211 | 2,000,329 | 1,507,715 | 3,834,255 |

TOWN OF MANCHESTER, VERMONT
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2011

Net change in fund balances - governmental funds, page 15 \$ 372,706

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

Governmental funds report capital outlays as expenditures however, in the statement of activities, the cost of these assets is depreciated over their estimated useful lives.

| | | |
|--------------------------------------------------|------------------|----------|
| Expenditures for capital assets | \$ 395,550 | |
| Less: current year depreciation and amortization | <u>(410,642)</u> | (15,092) |

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

| | | |
|--------------------------------|----------------|----------|
| Proceeds from issuance of bond | (230,000) | |
| Repayment of bond principal | <u>142,554</u> | (87,446) |

Revenues in the statement of activities that do not provide current financial resources (property taxes not collected within 60 days of fiscal year end) are not reported as revenues in the funds. This amount represents a decrease in deferred property taxes. (93,866)

Non-current accrued compensated absences are not recorded as an expenditure in the governmental funds. This amount represents the increase in accrued vacation and other post-retirement employee benefits pay in the governmental funds. (2,218)

Change in net assets - governmental activities, page 12 \$ 174,084

TOWN OF MANCHESTER, VERMONT
Statement of Net Assets
Proprietary Funds
June 30, 2011

| | Business-type Activites - Enterprise Funds | | |
|----------------------------------------------------|---------------------------------------------------|-----------------------|-------------------|
| | Water Fund | Sewer Fund | Totals |
| Assets: | | | |
| Current assets: | | | |
| Cash | \$ 877,003 | 1,033,145 | 1,910,148 |
| Investments | 481,637 | - | 481,637 |
| Accounts receivable | 158,651 | 87,117 | 245,768 |
| Due from other funds | 668,556 | - | 668,556 |
| Prepaid expenses | 814 | 814 | 1,628 |
| Deferred charges | 6,215 | 2,091 | 8,306 |
| Total current assets | 2,192,876 | 1,123,167 | 3,316,043 |
| Capital assets: | | | |
| Distribution and collection systems | 10,117,607 | 1,196,580 | 11,314,187 |
| Land | 139,076 | - | 139,076 |
| Buildings and equipment | 205,753 | 4,398,403 | 4,604,156 |
| Less accumulated depreciation | (2,891,802) | (4,135,046) | (7,026,848) |
| Total non-current assets | 7,570,634 | 1,459,937 | 9,030,571 |
| Total assets | \$ 9,763,510 | 2,583,104 | 12,346,614 |
| Liabilities: | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 780,575 | 49,128 | 829,703 |
| Accrued liabilities | 24,806 | 15,269 | 40,075 |
| Due to other funds | - | 545,089 | 545,089 |
| Bonds payable, current portion | 169,319 | 23,128 | 192,447 |
| Total current liabilities | 974,700 | 632,614 | 1,607,314 |
| Bonds payable, less current portion | 3,669,319 | 1,308,123 | 4,977,442 |
| Total liabilities | 4,644,019 | 1,940,737 | 6,584,756 |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 3,731,996 | 128,686 | 3,860,682 |
| Restricted | 5,000 | 5,000 | 10,000 |
| Unrestricted - designated | 1,382,495 | 508,681 | 1,891,176 |
| Total net assets | 5,119,491 | 642,367 | 5,761,858 |
| Total liabilities and net assets | \$ 9,763,510 | 2,583,104 | 12,346,614 |

TOWN OF MANCHESTER, VERMONT
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2011

| | Business-type Activites - Enterprise Funds | | |
|-------------------------------------------------|---------------------------------------------------|-----------------------|------------------|
| | Water Fund | Sewer Fund | Totals |
| Operating revenues: | | | |
| Charges for services | \$ 574,669 | 338,274 | 912,943 |
| Interest on delinquent accounts | 4,078 | 2,491 | 6,569 |
| Sale of equipment | 1,179 | - | 1,179 |
| Total operating revenues | 579,926 | 340,765 | 920,691 |
| Operating expenses: | | | |
| Personnel services | 167,005 | 165,854 | 332,859 |
| Materials and supplies | 4,969 | 3,838 | 8,807 |
| Repairs and maintenance | 31,805 | 28,399 | 60,204 |
| Professional services | 16,205 | 14,262 | 30,467 |
| Utilities | 36,607 | 40,459 | 77,066 |
| Depreciation and amortization | 235,486 | 29,654 | 265,140 |
| Other | 33,278 | 22,631 | 55,909 |
| Total operating expenses | 525,355 | 305,097 | 830,452 |
| Operating income | 54,571 | 35,668 | 90,239 |
| Nonoperating revenues (expenses): | | | |
| Investment income | 104,952 | 6,334 | 111,286 |
| Interest expense | (170,763) | (56,914) | (227,677) |
| | (65,811) | (50,580) | (116,391) |
| Income (loss) before operating transfers | (11,240) | (14,912) | (26,152) |
| Operating transfers in (out) | (3,340) | (8,080) | (11,420) |
| | (3,340) | (8,080) | (11,420) |
| Change in net assets | (14,580) | (22,992) | (37,572) |
| Total net assets - beginning | 5,134,071 | 665,359 | 5,799,430 |
| Total net assets - ending | \$ 5,119,491 | 642,367 | 5,761,858 |

TOWN OF MANCHESTER, VERMONT
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011

| | Business-type Activities - Enterprise Funds | | |
|------------------------------------------------------------------------------------------------|----------------------------------------------------|-----------------------|------------------|
| | Water Fund | Sewer Fund | Totals |
| <i>Cash flows from operating activities:</i> | | | |
| Cash receipts from customers | \$ 578,342 | 344,495 | 922,837 |
| Cash from sale of equipment | 1,179 | - | 1,179 |
| Cash payments to suppliers of goods or services | 641,665 | (147,304) | 494,361 |
| Cash payments to employees for services | (167,005) | (165,854) | (332,859) |
| <i>Net cash provided by operating activities</i> | 1,054,181 | 31,337 | 1,085,518 |
| <i>Cash flows from non-capital financing activities:</i> | | | |
| Operating transfers to other funds | (3,340) | (8,080) | (11,420) |
| Advances from other funds | (577,059) | 714,387 | 137,328 |
| <i>Net cash provided by (used in) non-capital financing activities</i> | (580,399) | 706,307 | 125,908 |
| <i>Cash flows from capital and related financing activities:</i> | | | |
| Principal payments on bonds | (161,242) | (21,205) | (182,447) |
| Proceeds from issuance of bonds | 1,310,000 | 760,000 | 2,070,000 |
| Purchase of fixed assets | (1,285,181) | (859,643) | (2,144,824) |
| Interest on bonds | (170,763) | (56,914) | (227,677) |
| <i>Net cash used in capital and related financing activities</i> | (307,186) | (177,762) | (484,948) |
| <i>Cash flows from investing activities:</i> | | | |
| Interest on cash investments | 104,952 | 6,334 | 111,286 |
| Purchase of investments | (195,396) | - | (195,396) |
| Maturities and sales of investments | 102,537 | - | 102,537 |
| <i>Net cash provided by investing activities</i> | 12,093 | 6,334 | 18,427 |
| <i>Net increase in cash</i> | 178,689 | 566,216 | 744,905 |
| <i>Cash, beginning</i> | 698,314 | 466,929 | 1,165,243 |
| <i>Cash, ending</i> | \$ 877,003 | 1,033,145 | 1,910,148 |
| <i>Reconciliation of operating income to net cash provided by operating activities:</i> | | | |
| Operating income | \$ 54,571 | 35,668 | 90,239 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 235,142 | 29,583 | 264,725 |
| Change in assets and liabilities: | | | |
| (Increase) decrease in accounts receivable and other receivables | (405) | 3,730 | 3,325 |
| Increase in accounts payable and accrued liabilities | 764,873 | (37,644) | 727,229 |
| <i>Net cash provided by operating activities</i> | \$ 1,054,181 | 31,337 | 1,085,518 |

TOWN OF MANCHESTER, VERMONT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

| | Private-Purpose Trust Funds | | | | Total |
|-----------------------------------------|----------------------------------------|---------------------------|------------------------|-------------------------|----------------|
| | Madeline Warner Cemetery Fund | Otto Conderman Fund | Joseph Burr Fund | Yetta Isaacs Fund | |
| Assets | | | | | |
| Cash | \$ - | - | 7,457 | - | 7,457 |
| Investments | 36,307 | 85,435 | - | 43,043 | 164,785 |
| Total assets | \$ 36,307 | 85,435 | 7,457 | 43,043 | 172,242 |
| Liabilities | | | | | |
| Due to other funds | \$ 112 | - | - | - | 112 |
| | 112 | - | - | - | 112 |
| Net assets | | | | | |
| Net Assets: | | | | | |
| Restricted | 36,195 | 85,435 | 7,457 | 43,043 | 172,130 |
| | 36,195 | 85,435 | 7,457 | 43,043 | 172,130 |
| Total liabilities and net assets | \$ 36,307 | 85,435 | 7,457 | 43,043 | 172,242 |

TOWN OF MANCHESTER, VERMONT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2011

| | Private-Purpose Trust Funds | | | | Total |
|----------------------------------------------------------|----------------------------------------|---------------------------|------------------------|-------------------------|---------|
| | Madeline Warner Cemetery Fund | Otto Conderman Fund | Joseph Burr Fund | Yetta Isaacs Fund | |
| Revenues: | | | | | |
| Investment income (loss) | \$ 2,279 | 4,232 | 61 | 2,290 | 8,862 |
| | 2,279 | 4,232 | 61 | 2,290 | 8,862 |
| Operating expenses | | | | | |
| Other | 56 | - | - | 6,000 | 6,056 |
| | 56 | - | - | 6,000 | 6,056 |
| Excess (deficiency) of revenues over expenditures | 2,223 | 4,232 | 61 | (3,710) | 2,806 |
| Net assets, July 1, 2010 | 33,972 | 81,203 | 7,396 | 46,753 | 169,324 |
| Net assets, June 30, 2011 | \$ 36,195 | 85,435 | 7,457 | 43,043 | 172,130 |

TOWN OF MANCHESTER, VERMONT

Notes to Financial Statements

(1) **Summary of Significant Accounting Policies**

(a) Introduction

The Town of Manchester, Vermont (the "Town") is a unit of local government chartered in 1761. The Town operates under a Select Board - Manager form of government and provides services as outlined in its charter.

The financial statements of the Town of Manchester, Vermont include all of the financial activity of the general fund, special revenue funds, proprietary funds, and trust funds. All these components are included because they are under the direct control of the Select Board and the Town Manager, with the exception of the water department which is overseen by the Board of Water Commissioners. The Town exercises significant oversight and financial interdependence exists.

The Town applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

(b) Basis of Presentation

Government-wide Statements

The Statement of Net Assets and the Statement of Activities present financial information about the Town's governmental and business-type activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Adjustments have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, State aid, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental and business-type activities. Direct expenses are those that are specifically associated with a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund statements provide information about the Town's funds, including fiduciary funds. Separate statements for each fund category (governmental, proprietary and fiduciary) are presented. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as non-major funds.

The financial activities of the Town that are reported in the accompanying financial statements have been classified in the funds listed below. In addition, descriptions of the fiduciary funds are listed below.

(continued)

TOWN OF MANCHESTER, VERMONT

Notes to Financial Statements

(1) **Summary of Significant Accounting Policies (continued)**

(b) **Basis of Presentation - (continued)**

General Fund - The General Fund is used to account for all revenues and expenditures applicable to the general operations of the governmental agencies of the Town. All general operating revenues which are not restricted as to use by sources external to the Town are recorded in the General Fund, except for local sales tax revenue as described in Note 12.

Special Revenue Funds - The Special Revenue Funds are operating funds for which the use of revenues is restricted, generally by Federal and State governments. The Town has ten Special Revenue Funds; the UDAG Fund, Property Tax Reserve Fund, Recreation Committee Fund, Service Officer's Fund, Factory Point Cemetery Fund, Police Benevolent Fund, Junction Development Project Fund, Reappraisal Reserve Fund, Byrne Grant Fund, and the Bicenquagenary Celebration Fund.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital assets or facilities (other than those financed by Proprietary Funds or Trust Funds). The Town has three Capital Projects Funds, the Fire Department Equipment Fund, the Water Capital Improvement Fund, and the Sewer Capital Improvement Fund.

Permanent Funds - Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the programs. The Town has one permanent fund, the Factory Point Cemetery Trust Fund.

Proprietary Fund Type

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town uses two Enterprise Funds: the Water Fund and the Sewer Fund.

Fiduciary Fund Types

Private-purpose Trust Funds - Private-purpose Trust Funds are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The Town has four Private-purpose trust funds; the Madeline Warner Cemetery Fund, Otto Conderman Fund, Joseph Burr Fund and the Yetta Isaacs Fund.

(c) **Measurement Focus and Basis of Accounting**

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the Town gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

(continued)

TOWN OF MANCHESTER, VERMONT

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (continued)

(c) Measurement Focus and Basis of Accounting

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within one year after the end of the fiscal year, except for property taxes which are recognized if collected within 60 days of year-end.

(d) Budgets and Budgetary Accounting

The Town Manager prepares the annual operating budget for the General Fund and submits the budget to the Select Board for approval. After the budget is approved, the Select Board publishes a warning in the Town newspaper for the annual Town meeting to discuss the budget. The budget is legally enacted by a general Town vote by floor vote on the Saturday prior to the first Tuesday in March prior to the new fiscal year. Once adopted, budget revisions are not made. Appropriations lapse at the end of the Town's fiscal year if not encumbered. Formal budgetary integration is employed as a management control device during the year for the General Fund. The budget for the General Fund is adopted on the modified accrual basis.

Budgets for the Sewer Fund and the Water Fund are approved annually by the Boards of Sewer and Water Commissioners. Rate changes, if required, are approved by the Commissioners.

(e) Cash

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Town, except for the cash equivalents in the investment accounts which are reported as investments.

(f) Allowance for Uncollectible Accounts

The Town provides an allowance for uncollectible accounts for the estimated losses that will be incurred in the collection of all receivables. The estimated losses are based on the judgment of management and a review of the current status of existing receivables.

(g) Investments

Investments are reported at fair value. Unrealized gains and losses in the value of investments are included in revenue.

(h) Capital Assets

Property and equipment is stated at known or estimated historical cost. Net interest costs are capitalized on projects during the construction period. Depreciation is computed using the straight-line method over estimated useful lives as follows: office furniture and equipment – 5 to 10 years, motor vehicles and heavy equipment – 5 to 15 years, buildings and building improvements – 20 to 40 years, and infrastructure – 25 to 40 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals or betterments.

(continued)

TOWN OF MANCHESTER, VERMONT

Notes to Financial Statements

(1) *Summary of Significant Accounting Policies (continued)*

(h) *Capital Assets*

GASBS No. 34 requires the Town to report and depreciate new infrastructure assets effective for the fiscal year ending June 30, 2006. Infrastructure assets include roads, bridges, sidewalks, traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Town. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure assets is optional for the Town of Manchester, and the Town has chosen not to incur the costs of retroactive reporting.

(i) *Long-term Debt and Deferred Charges*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financial sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Accumulated unpaid vacation pay and compensatory leave is accrued when incurred in proprietary funds (using the accrual basis of accounting). The current portion of accumulated unpaid vacation pay and compensatory leave is accrued when incurred in governmental funds (using the modified accrual basis of accounting). Accumulated unpaid sick pay is paid to Town employees only while employed and is not recorded as the ultimate liability is not subject to reasonable estimation.

(j) *Net Assets/Governmental Fund Balance*

Beginning with fiscal year 2011, the Town implemented GASB Statement No. 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 balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable fund balance is either not in spendable form (such as inventory), or is required to be maintained intact legally or contractually.

Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance—amounts constrained to specific purposes by the Town itself, using its highest level of decision-making authority (i.e., Selectboard). To be reported as committed, amounts cannot be used for any other purpose unless the Selectboard takes the same highest level action to remove or change the constraint.

Assigned fund balance—amounts the Town intends to use for a specific purpose. Intent can be expressed by the Selectboard or by an official or body to which the Selectboard delegates the authority.

(continued)

TOWN OF MANCHESTER, VERMONT

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (continued)

(j) Net Assets/Governmental Fund Balance (continued)

Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the Town's governmental funds have been restated to reflect the above classifications.

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – This category includes both designated and undesignated net assets of the Town. Designated net assets include reserves that were established by the Board, which are considered internally designated. Undesignated net assets are not restricted for any project or other purpose.

(k) Interfund Receivables and Payables

Short-term advances between funds are accounted for in the appropriate interfund receivable and payable accounts. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditure or expense (transfers out) in the reimbursing fund and as reductions of the expenditure or expense (transfers in) in the fund that is reimbursed.

(l) Encumbrance Accounting

Encumbrances outstanding at year-end are recorded as a reservation of fund balance in the Town's governmental funds, since they do not constitute expenditures or liabilities.

(m) Use of Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

TOWN OF MANCHESTER, VERMONT

Notes to Financial Statements

(2) Explanation of Certain Differences Between Governmental Fund Statements and the Government-wide Statements

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the government-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

Total Fund Balances of Governmental Funds vs. Net Assets of Governmental Activities

The total of fund balances of the Town's governmental funds differs from "net assets" of governmental activities reported in the Statement of Net Assets. This difference primarily results from the additional long-term economic focus of the Statement of Net Assets versus the solely current financial resources focus of the governmental fund Balance Sheets.

Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of the categories listed below.

1. Long-Term Revenue and Expense Differences - Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.
2. Long-Term Debt Transaction Differences - Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.
3. Capital Assets - Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.

(3) Cash

At June 30, 2011, the carrying amount of the Town's cash was \$2,472,164 and the bank balance was \$2,551,374. Of the bank balance, \$386,328 was covered by Federal depository insurance and \$2,165,046 was covered by additional private insurance.

(4) Investments

The Town is not restricted by state statute as to the type of investments that it is authorized to hold except for public funds under the control of the Trustees of Public Funds. The Town has adopted an investment policy for all non-operational dedicated funds which provides investment guidelines for the Town Treasurer, the Trustees of Public Funds and the Investment Advisory Committee. The Town's investments are insured or registered securities held by the Town or its agent in the Town's name.

(continued)

TOWN OF MANCHESTER, VERMONT

Notes to Financial Statements

(4) Investments (continued)

At June 30, 2011, the Town had the following investments:

| | Fair Value | Investments Maturities (In Years) | | |
|-------------------------|--------------|-----------------------------------|---------|---------|
| | | Less Than 1 | 1 - 5 | 6 - 10 |
| Cash equivalents | \$ 617,498 | 617,498 | - | - |
| Certificates of deposit | 98,507 | 98,507 | - | - |
| Common stock | 1,301,429 | 1,301,429 | - | - |
| Mutual funds - equities | 1,462,769 | 1,462,769 | - | - |
| U.S. Government bonds | 297,474 | 35,701 | 203,614 | 58,159 |
| Corporate bonds | 456,794 | 25,772 | 290,995 | 140,027 |
| | \$ 4,234,471 | 3,541,676 | 494,609 | 198,186 |

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments. At year end, none of the Town's investments were subject to custodial credit risk.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparts to an investment in debt securities will not fulfill its obligation. The Town's investment policy minimizes credit risk by diversifying the investment portfolio so that potential losses on individual securities will be minimized. The credit quality rating of the Town's investments in corporate bonds is as follows: AA - \$235,036 and A - \$221,758. The U.S. Government Securities are not considered to have credit risk and do not require disclosure of credit quality.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's investment policy reduces this risk by structuring the investment portfolio so that the securities mature to meet cash needs for ongoing operations, thus avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in short-term securities or similar investment pools.

Investments by fund at June 30, 2011 are as follows:

Governmental Funds

Special Revenue Funds:

| | |
|-----------------------------------|------------------|
| UDAG Fund | \$ 1,641,494 |
| Property Tax Reserve Fund | 764,318 |
| Reappraisal Reserve Fund | 74,542 |
| Recreation Committee Fund | 40,275 |
| Police Benevolent Fund | 70,353 |
| Junction Development Project Fund | 95,121 |
| Subtotal | <u>2,686,103</u> |

Capital Projects Funds:

| | |
|--------------------------------|----------------|
| Fire Department Equipment Fund | 278,503 |
| Sewer Capital Improvement Fund | 474,824 |
| Subtotal | <u>753,327</u> |

(continued)

TOWN OF MANCHESTER, VERMONT

Notes to Financial Statements

(4) Investments (continued)

Permanent Fund:

Factory Point Cemetery Trust Fund 148,619

Subtotal for Governmental Funds 3,588,049

Enterprise Funds:

Water Fund 481,637

Subtotal for Enterprise Funds 481,637

Fiduciary Funds - Private-Purpose Trust:

Madeline Warner Cemetery Fund 36,307

Otto Conderman Fund 85,435

Yetta Isaacs Fund 43,043

Subtotal for Fiduciary Funds 164,785

Total investments \$ 4,234,471

(5) Capital Assets

Capital asset activity for the year was as follows:

| | Balance June 30, 2010 | Additions | Transfers and Disposals | Balance June 30, 2011 |
|-----------------------------------------|--------------------------|------------------|----------------------------|--------------------------|
| Governmental activities: | | | | |
| Land and improvements | \$ 1,808,118 | - | - | 1,808,118 |
| Buildings | 2,963,095 | - | - | 2,963,095 |
| Machinery and equipment | 1,113,141 | 71,084 | - | 1,184,225 |
| Vehicles | 2,071,460 | 149,735 | - | 2,221,195 |
| Infrastructure | 1,381,134 | - | - | 1,381,134 |
| Construction in progress | 1,479,613 | 174,732 | - | 1,654,345 |
| Totals at historical cost | 10,816,561 | 395,551 | - | 11,212,112 |
| Less accumulated depreciation for: | | | | |
| Land and improvements | (164,809) | (23,858) | - | (188,667) |
| Buildings | (1,073,941) | (74,437) | - | (1,148,378) |
| Machinery and equipment | (857,424) | (61,504) | - | (918,928) |
| Vehicles | (864,203) | (141,326) | - | (1,005,529) |
| Infrastructure | (311,595) | (109,518) | - | (421,113) |
| | (3,271,972) | (410,643) | - | (3,682,615) |
| Governmental capital assets, net | \$ 7,544,589 | (15,092) | - | 7,529,497 |

Depreciation expense was charged to governmental functions as follows:

| | |
|--------------------|-------------------|
| Public safety | \$ 157,786 |
| Public works | 201,019 |
| General government | 16,338 |
| Recreation | 35,500 |
| | <u>\$ 410,643</u> |

(continued)

TOWN OF MANCHESTER, VERMONT

Notes to Financial Statements

(5) Capital Assets (continued)

Capital asset activity for the year was as follows:

| | Balance June 30, 2010 | Additions | Transfers and Disposals | Balance June 30, 2011 |
|------------------------------------|--------------------------|-----------|----------------------------|--------------------------|
| Business-type activities: | | | | |
| Building | \$ 3,357,819 | 274,836 | - | 3,632,655 |
| Land | 139,076 | - | - | 139,076 |
| Water system and improvements | 8,761,763 | 44,711 | 7,907 | 8,814,381 |
| Infrastructure | 1,196,580 | - | - | 1,196,580 |
| Machinery and equipment | 248,647 | - | - | 248,647 |
| Construction in progress | 208,711 | 1,825,276 | (7,907) | 2,026,080 |
| Totals at historical cost | 13,912,596 | 2,144,823 | - | 16,057,419 |
| Less accumulated depreciation for: | | | | |
| Buildings | (3,177,506) | (8,625) | - | (3,186,131) |
| Water system and improvements | (2,555,729) | (223,997) | - | (2,779,726) |
| Infrastructure | (896,772) | (18,355) | - | (915,127) |
| Machinery and equipment | (132,117) | (13,747) | - | (145,864) |
| | (6,762,124) | (264,724) | - | (7,026,848) |
| Business-type capital assets, net | \$ 7,150,472 | 1,880,099 | - | 9,030,571 |

(6) Deferred Revenue

Deferred revenue in the General Fund consists of \$239,199 in delinquent taxes receivable and related penalties and interest not collected within 60 days of year-end, as well as \$40,347 of recreation fees, and \$62,500 of rental income collected in advance for the 2012 fiscal year.

(7) Accrued Compensated Absences

The Town permits employees to accumulate earned but unused vacation benefits and compensatory time off. No liability is reported for unpaid accumulated sick leave because it is not a vested benefit. No expenditure is reported for these amounts in the governmental funds until paid.

(8) Bonds Payable

Long-term liability activity for the year ended June 30, 2011 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due within One Year |
|----------------------------------|----------------------|-----------|------------|-------------------|------------------------|
| Governmental Activities: | | | | | |
| Bonds payable | \$ 932,662 | 230,000 | (142,554) | 1,020,108 | 142,554 |
| Other liabilities: | | | | | |
| Compensated absences | 207,988 | 8,169 | - | 216,157 | - |
| | \$ 1,140,650 | 238,169 | (142,554) | 1,236,265 | 142,554 |
| Business-type Activities: | | | | | |
| Bonds payable | \$ 3,282,336 | 2,070,000 | (182,447) | 5,169,889 | 192,447 |
| | \$ 3,282,336 | 2,070,000 | (182,447) | 5,169,889 | 192,447 |

(continued)

TOWN OF MANCHESTER, VERMONT

Notes to Financial Statements

(8) Bonds Payable (continued)

Bonds payable consisted of:

| Description | Interest Rate | Maturity Date | Balance June 30, 2011 |
|-------------------------------------|---------------|---------------|--------------------------|
| Junction improvements bond | 3.628% | 12/01/12 | \$ 55,108 |
| Public safety facility bond | 3.874% | 12/01/15 | 475,000 |
| Highway garage expansion bond | 4.756% | 12/01/34 | 260,000 |
| Infrastructure improvements | 4.901% | 12/01/40 | 230,000 |
| Sewer improvements bond | 3.628% | 12/01/12 | 11,637 |
| Sewer improvements bond | 4.724% | 12/01/39 | 559,614 |
| Sewer infrastructure improvements | 4.901% | 12/01/40 | 760,000 |
| Water improvements bond | 3.628% | 12/01/12 | 53,253 |
| Water improvements bond refinancing | 5.159% | 12/01/17 | 620,000 |
| Water improvements bond | 4.756% | 12/01/34 | 960,000 |
| Water improvements bond | 5% | 12/01/39 | 895,385 |
| Water infrastructure improvements | 4.9005% | 12/01/40 | 1,310,000 |
| | | | <u>\$ 6,189,997</u> |

All bonds payable are secured by the general revenue raising powers of the Town.

Maturities of bonds payable are as follows:

| | Governmental Activities | | | Business-Type Activities | | |
|-----------|-------------------------|----------------|------------------|--------------------------|------------------|------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2011 | \$ 142,554 | 63,246 | 205,800 | 192,447 | 223,832 | 416,279 |
| 2012 | 142,554 | 55,090 | 197,644 | 197,441 | 215,306 | 412,747 |
| 2013 | 115,000 | 47,804 | 162,804 | 170,000 | 207,361 | 377,361 |
| 2014 | 115,000 | 41,397 | 156,397 | 170,000 | 201,092 | 371,092 |
| 2015 | 115,000 | 34,969 | 149,969 | 175,000 | 193,413 | 368,413 |
| 2016-2020 | 177,433 | 140,461 | 317,894 | 1,057,569 | 822,924 | 1,880,493 |
| 2021-2025 | 136,667 | 88,680 | 225,347 | 858,333 | 646,059 | 1,504,392 |
| 2024-2028 | 75,900 | 41,697 | 117,597 | 894,099 | 456,815 | 1,350,914 |
| 2029-2033 | - | - | - | 835,000 | 270,130 | 1,105,130 |
| 2034-2038 | - | - | - | 620,000 | 76,897 | 696,897 |
| | \$ 1,020,108 | 513,344 | 1,533,452 | 5,169,889 | 3,313,829 | 8,483,718 |

TOWN OF MANCHESTER, VERMONT

Notes to Financial Statements

(9) Internal Balances

Internal balances at June 30, 2011 consisted of the following:

| Receivable Fund | Payable Fund | Amount |
|------------------------------|------------------------------|---------------------|
| General | Property Tax Relief | \$ 202,947 |
| General | Factory Point Cemetery | 59,120 |
| General | Sewer | 32,394 |
| General | Recreation Committee | 18,136 |
| General | Factory Point Cemetery Trust | 16,110 |
| General | Bicenquingenary | 5,225 |
| General | Madeline Warner Cemetery | 112 |
| UDAG | General | 32 |
| UDAG | Recreation Committee | 190,125 |
| UDAG | Fire Department Equipment | 168,678 |
| Junction Development Project | General | 8,362 |
| Water | General | 167,281 |
| Water | Sewer | 504,615 |
| Fire Department Equipment | General | 37,693 |
| Water Capital Improvement | Water | 3,340 |
| Sewer Capital Improvement | Sewer | 8,080 |
| Factory Point Cemetery | Factory Point Cemetery Trust | 25,386 |
| | | \$ 1,447,636 |

Internal transfers for the year ended June 30, 2011 were as follows:

| Transfer From | Transfer To | Amount | Purpose |
|------------------------------|---------------------------|-------------------|---------------------|
| Property Tax Reserve | General | \$ 202,947 | Fund Capital Outlay |
| General | Fire Equipment Reserve | 75,000 | Fund Capital Outlay |
| Sewer | Sewer Capital Improvement | 8,080 | Fund Capital Outlay |
| Factory Point Cemetery Trust | General | 16,000 | Fund Capital Outlay |
| General | Bicenquingenary | 5,000 | Operating Transfer |
| Water | Water Capital Improvement | 3,340 | Operating Transfer |
| | | \$ 310,367 | |

(continued)

TOWN OF MANCHESTER, VERMONT

Notes to Financial Statements

(10) Fund Balance

The Town's fund balance classifications at year-end are as follows:

| | General Fund | Special Revenue Funds | Total |
|---------------------------------|-------------------|-----------------------------|------------------|
| Restricted for: | | | |
| Employee benefits and insurance | \$ 20,000 | - | 20,000 |
| UDAG | - | 2,000,329 | 2,000,329 |
| Property tax relief | - | 561,371 | 561,371 |
| Junction development project | - | 200,791 | 200,791 |
| Public safety | - | 73,477 | 73,477 |
| Fire equipment | - | 149,031 | 149,031 |
| Reappraisal | - | 74,542 | 74,542 |
| Water capital improvements | - | 3,340 | 3,340 |
| Sewer capital improvements | - | 482,904 | 482,904 |
| Cemetery | - | 133,822 | 133,822 |
| Other purposes | - | 10,967 | 10,967 |
| Committed for: | | | |
| Future property tax relief | 60,000 | - | 60,000 |
| Parks and recreation | - | 10,710 | 10,710 |
| Unassigned | 246,211 | (193,240) | 52,971 |
| Total fund balances | \$ 326,211 | 3,508,044 | 3,834,255 |

(11) Property Taxes

Property taxes attach as an enforceable lien on property as of the first day of April. Property taxes for fiscal year 2011 were levied July 09, 2010 and were payable in installments due on September 10, 2010 and February 4, 2011.

(12) Sales Tax

Local sales tax revenues in excess (or deficiency) of the amount budgeted in the General Fund are reported in the Property Tax Reserve Fund.

(13) Risk Management

The Town is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, employee health and accident and environmental liability. The Town obtains coverage for the risks of losses to which it is exposed through participation in Property and Casualty Intermunicipal Fund, Inc. (PACIF), a self-insurance program sponsored by the Vermont League of Cities and Towns. PACIF is a non-profit corporation owned by the participating municipalities.

(14) Contingencies

In the normal course of operations, the Town receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of such audits is not believed to be material.

TOWN OF MANCHESTER, VERMONT

Notes to Financial Statements

(15) Deferred Compensation and Pension Plans

Deferred Compensation Plan

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457, which is administered by the International City Manager's Association Retirement Corporation. The plan permits participating employees to defer a portion of their salary until future years. In addition, certain employees continue to contribute to a predecessor Section 457 plan administered by American Life and Casualty Insurance Company. Compensation deferred under these plans is not available to employees until termination, retirement, or death.

Defined Contribution Plan

The Town participates in a defined contribution retirement plan administered by Metropolitan Insurance Company. All full-time employees who have completed 18 months of continuous service by the plan anniversary date of May 1st are eligible to participate. The Town contributes 6% of covered payroll for participating employees. Plan investments are self-directed by participants. Pursuant to collective bargaining agreements, the Town's union employees and police management participate in the Vermont Municipal Employees Retirement System (VMERS) in lieu of the defined contribution plan.

The Town's total payroll for the year ended June 30, 2011 was \$1,665,961 and covered payroll amounted to \$768,243. Town contributions to the plan amounted to \$46,095.

Defined Benefit Plan

The Town contributes to the Vermont Municipal Employees Retirement System (VMERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Vermont. VMERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Retirement System Division of the Vermont State Treasurer's Office issues a publicly available financial report that includes financial statements and required supplementary information for VMERS. That report may be obtained by writing to Retirement System Division, Vermont State Treasurer's Office, 133 State Street, Montpelier, Vermont 05602.

Plan members are required to contribute 9.25% of their annual covered compensation and the Town is required to contribute at an actuarially determined rate. The current rate is 6.5% of annual covered payroll. The contribution requirements of plan members and the Town of Manchester are established and may be amended by the Retirement Board, Vermont Municipal Employees Retirement System. Covered compensation for the year ended June 30, 2010 amounted to \$643,755.

The Town's contributions to VMERS amounted to \$37,949. The Town made contributions to VMERS for the years ended June 30, 2009 and 2008 in the amounts of \$35,233 and \$34,507, respectively.

(16) Other Post Employment Benefits

Plan Description

The Town of Manchester provides under the "Combined Agreement by and Between The Town of Manchester and AFSCME Council 93, Local #490, Manchester Police Chapter" through June 30, 2012, post-retirement health care benefits for police union employees who retire from the Town employment after attaining age 55 and have at minimum 20 years of service. The Town will pay 55% of a single premium in effect provided that the employee does not have access to an equivalent health plan until the employees reach age 65. The Town's portion of the benefits is funded on a pay-as-you-go basis and included in health care expenditures.

(continued)

TOWN OF MANCHESTER, VERMONT

Notes to Financial Statements

(16) Other Post Employment Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation

The Town's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Funding Policy

The Town's portion of the benefits is funded on a pay-as-you-go basis and included in health care expenditures. Currently no employees are eligible to participate and the Town did not make any contributions.

The following shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for post-retirement health care benefits:

| | | |
|----------------------------------------|----|---------------|
| Annual required contribution | \$ | 12,480 |
| Interest on net OPEB obligation | | - |
| Annual OPEB cost | | <u>12,480</u> |
| Contributions made | | - |
| Increase in net OPEB obligation | | <u>12,480</u> |
| Net OPEB obligation, beginning of year | | <u>51,824</u> |
| Net OPEB obligation, end of year | \$ | <u>64,304</u> |

Funded Status and Funding Progress

As of June 30, 2011, the actuarial accrued liability for benefits was \$93,367, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$711,429, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 13 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information in subsequent years about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive agreement (the agreement as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit

(continued)

TOWN OF MANCHESTER, VERMONT

Notes to Financial Statements

(16) Other Post Employment Benefits (continued)

Methods and Assumptions (continued)

costs between the employer and members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees—Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 55, or at the first subsequent year in which the member would qualify for benefits.

Mortality—Life expectancies were based on mortality tables from Internal Revenue Service regulations and based on the “RP-2000 Mortality Tables Report” issued by the Society of Actuaries.

Turnover—Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate—The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services and in conjunction with experience of premium increases obtained by the Town. A rate of 5.6 percent was used.

Health insurance premiums—2011 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate—The expected long-term inflation assumption was assumed to equal the increase in healthcare costs.

Payroll growth rate—The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the Town's short-term investment portfolio, a discount rate of 1 percent was used. In addition, a simplified version of the unit credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, was thirty years.

(17) Subsequent Events

Damages caused by Hurricane Irene approximate \$250,000. The amount of reimbursement from Federal and state sources is not known at this time.

The Town has evaluated subsequent events through February 2, 2012, the date on which the financial statements were available to be issued.

TOWN OF MANCHESTER, VERMONT
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2011

| | Budget | Actual | Variance Favorable (Unfavorable) |
|----------------------------------|--------------|-----------|----------------------------------------|
| Revenues: | | | |
| Taxes | | | |
| Property Taxes | \$ 2,304,115 | 2,265,085 | (39,030) |
| | 2,304,115 | 2,265,085 | (39,030) |
| Administration | | | |
| Vendors Fees | 4,500 | 5,400 | 900 |
| Town Hall User Fees | 100 | 80 | (20) |
| | 4,600 | 5,480 | 880 |
| Finance Department | | | |
| Miscellaneous | 100 | 23 | (77) |
| | 100 | 23 | (77) |
| Assessing Department | | | |
| State Aid | 2,900 | 2,911 | 11 |
| Listers Education | 400 | 412 | 12 |
| | 3,300 | 3,323 | 23 |
| Planning Department | | | |
| Grant - Planning | 20,000 | - | (20,000) |
| Zoning Applications/Appeals | 25,000 | 15,194 | (9,806) |
| Zoning Maps/Ordinances | 200 | - | (200) |
| Sign Fees | 2,500 | 1,733 | (767) |
| Fines | 250 | - | (250) |
| Recording Fees | 2,500 | 2,345 | (155) |
| | 50,450 | 19,272 | (31,178) |
| Public Works - Facilities | | | |
| Mechanic Fees | 10,000 | 9,958 | (42) |
| Recording Fees | 100 | 70 | (30) |
| | 10,100 | 10,028 | (72) |
| Public Works - Highways | | | |
| Permit Fees | 2,000 | 1,215 | (785) |
| State Aid - Roads | 152,000 | 149,205 | (2,795) |
| Miscellaneous | 100 | 125 | 25 |
| | 154,100 | 150,545 | (3,555) |

(continued)

TOWN OF MANCHESTER, VERMONT
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund (continued)
Year Ended June 30, 2011

| | Budget | Actual | Variance Favorable (Unfavorable) |
|------------------------------------------|----------------|----------------|-------------------------------------------------|
| Revenues (continued): | | | |
| Police Department | | | |
| Ordinance Fines - Animal Control | 100 | 90 | (10) |
| Justice & Court Fines | 15,000 | 11,400 | (3,600) |
| Fingerprint Process Fee | - | 720 | 720 |
| Alarm Board Charges | 14,500 | 14,074 | (426) |
| Alarm Board Fines | 1,000 | 750 | (250) |
| Parking Fines | 250 | 210 | (40) |
| Ordinance Fines | 250 | 25 | (225) |
| Police Reports | 1,000 | 1,173 | 173 |
| VIN ID Fees | 50 | 94 | 44 |
| Miscellaneous | 100 | 14 | (86) |
| Grant-Cruiser Computers-3 | - | 22,975 | 22,975 |
| Grant-Fingerprinting | - | 28,190 | 28,190 |
| | 32,250 | 79,715 | 47,465 |
| Parks & Recreation Department | | | |
| Pool Passes | 12,000 | 10,724 | (1,276) |
| Pool Memberships | 18,000 | 17,750 | (250) |
| Swim Lessons | 10,000 | 9,836 | (164) |
| Swim Team | 13,000 | 17,320 | 4,320 |
| Tennis - Lessons | 100 | - | (100) |
| Applejack Field Rental | 4,000 | 4,000 | - |
| Applejack Field Gate Rece | 21,000 | 13,302 | (7,698) |
| Rental Income | 4,000 | 4,277 | 277 |
| Precision Walk Sponsorship | 500 | 381 | (119) |
| Concession Income | 1,000 | 941 | (59) |
| Programs | 75,100 | 27,145 | (47,955) |
| Day Camp | - | 20,649 | 20,649 |
| | 158,700 | 126,325 | (32,375) |
| Health Department | | | |
| Fines | 50 | - | (50) |
| | 50 | - | (50) |
| Town Clerk | | | |
| Liquor Licenses | 3,430 | 4,050 | 620 |
| Tobacco Licenses | - | 10 | 10 |
| Photocopies | - | 5,963 | 5,963 |
| Motor Veh Reg Renewals | - | 850 | 850 |

(continued)

TOWN OF MANCHESTER, VERMONT
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund (continued)
Year Ended June 30, 2011

| | Budget | Actual | Variance Favorable (Unfavorable) |
|--------------------------------------|------------------|----------------|----------------------------------------|
| Revenues (continued): | | | |
| Town Clerk (continued) | | | |
| Passport Fees | - | 2,400 | 2,400 |
| Dog Licenses | 3,000 | 5,352 | 2,352 |
| Dog Fines | 1,000 | 1,275 | 275 |
| Marriage Licenses | - | 1,315 | 1,315 |
| Fish & Wildlife Licenses | - | 588 | 588 |
| F&G Gift Certificates | - | (9) | (9) |
| Records Search Fees | - | 1,277 | 1,277 |
| Recording Fees | - | 50,722 | 50,722 |
| Town Recording Fees | - | 2,160 | 2,160 |
| UCC Filing Fees | - | 770 | 770 |
| Vital Statistics Fees | - | 4,320 | 4,320 |
| Miscellaneous | - | 547 | 547 |
| Fees Contingency | 75,000 | - | (75,000) |
| | 82,430 | 81,590 | (840) |
| Capital Revenue | | | |
| Grant- Paving | 15,000 | 39,117 | 24,117 |
| Sale of Vehicle - Highway | 5,000 | 5,000 | - |
| Bond Proceeds - Highway Construction | 215,000 | 230,000 | 15,000 |
| State Aid-Roundabout (Utilities) | 462,500 | - | (462,500) |
| Fed/State Aid-Rdbout -(Construction) | 755,000 | - | (755,000) |
| Roundabout Design | 22,500 | - | (22,500) |
| Sale of Vehicle - Police Department | 4,500 | - | (4,500) |
| Donations for Park Improvement | - | 215 | 215 |
| Efficiency VT Grant | - | 2,780 | 2,780 |
| Cap-Gazebo-UDAG Fund | 60,000 | - | (60,000) |
| Cap-Gazebo-Federal Grant | 240,000 | - | (240,000) |
| Rescue Squad Reimb. - Heat Fuel | 4,000 | 7,503 | 3,503 |
| Rescue Squad Reimb. - Water | 300 | 416 | 116 |
| Rescue Squad Reimb. - Grounds | 300 | 629 | 329 |
| | 1,784,100 | 285,660 | (1,498,440) |
| General Revenue | | | |
| MEMS - Grounds Mowing | - | 2,500 | 2,500 |
| Photocopy Sales | 500 | 192 | (308) |
| Postage Reimbursements | - | 49 | 49 |
| Act 68 Administrative Aid | 35,500 | 35,461 | (39) |

(continued)

TOWN OF MANCHESTER, VERMONT
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund (continued)
Year Ended June 30, 2011

| | Budget | Actual | Variance Favorable (Unfavorable) |
|------------------------------------|-----------|-----------|----------------------------------------|
| Revenues (continued): | | | |
| General Revenue (continued) | | | |
| Int Earned on Investments | 70,000 | 45,952 | (24,048) |
| Int on Delinquent Taxes | 60,000 | 73,448 | 13,448 |
| Penalty on Del Taxes | 50,000 | 54,931 | 4,931 |
| Tax Sale Costs Reimbursed | - | 7,562 | 7,562 |
| Current Use State Payment | 22,000 | 39,022 | 17,022 |
| Payments in Lieu of Taxes | 25,000 | 20,420 | (4,580) |
| Rental Income | 133,000 | 132,655 | (345) |
| Miscellaneous | 500 | 3,301 | 2,801 |
| Allocated Surplus | 80,000 | - | (80,000) |
| | 476,500 | 415,493 | (61,007) |
| Local Option Taxes Revenues | | | |
| Local Option Sales Tax | 700,000 | 653,823 | (46,177) |
| Local Opt-Meals/Alcohol Tax | 180,000 | 324,682 | 144,682 |
| Local Opt-Rooms Tax | 135,000 | - | (135,000) |
| | 1,015,000 | 978,505 | (36,495) |
| Total revenues | 6,075,795 | 4,421,044 | (1,654,751) |
| Expenditures: | | | |
| Legislative | | | |
| Citizen Recognition | 1,000 | 276 | 724 |
| Miscellaneous | 1,000 | 1,207 | (207) |
| | 2,000 | 1,483 | 517 |
| Administration | | | |
| Advertising | 1,000 | 3,755 | (2,755) |
| Travel and Transportation | 3,800 | 3,600 | 200 |
| Dues and Subscriptions | 250 | 75 | 175 |
| Printing and Publications | 500 | 345 | 155 |
| Miscellaneous | 250 | 84 | 166 |
| | 5,800 | 7,859 | (2,059) |
| Finance Department | | | |
| Advertising | 200 | - | 200 |
| Travel and Transportation | 250 | 95 | 155 |
| Printing and Publications | 1,100 | 732 | 368 |
| Software Support | 1,500 | 780 | 720 |
| Miscellaneous | 100 | - | 100 |
| | 3,150 | 1,607 | 1,543 |

(continued)

TOWN OF MANCHESTER, VERMONT
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund (continued)
Year Ended June 30, 2011

| | Budget | Actual | Variance Favorable (Unfavorable) |
|-----------------------------------|--------|--------|----------------------------------------|
| Expenditures (continued): | | | |
| Assessing Department | | | |
| Salaries and Wages-Full Time | - | 5 | (5) |
| Travel and Transportation | 1,500 | 442 | 1,058 |
| Training | 900 | 753 | 147 |
| Dues and Subscriptions | 400 | 220 | 180 |
| Software Support | 1,200 | 957 | 243 |
| Miscellaneous | 100 | 120 | (20) |
| | 4,100 | 2,497 | 1,603 |
| Planning Department | | | |
| Grant expenses | 5,000 | 443 | 4,557 |
| Advertising | 2,000 | 762 | 1,238 |
| Travel and Transportation | 1,500 | 261 | 1,239 |
| Dues and Subscriptions | 600 | 597 | 3 |
| Printing and Publications | 1,500 | 25 | 1,475 |
| Recording Fees | 2,500 | 2,020 | 480 |
| Software Support | 1,100 | 1,050 | 50 |
| Miscellaneous | 100 | 354 | (254) |
| | 14,300 | 5,512 | 8,788 |
| Department of Public Works | | | |
| Advertising | 500 | - | 500 |
| Travel | 300 | - | 300 |
| Uniforms and Clothing | 4,200 | 4,315 | (115) |
| Electricity | 3,800 | 3,583 | 217 |
| Heating Fuels | 8,200 | 9,993 | (1,793) |
| Equipment Maintenance-Parts | 54,000 | 40,803 | 13,197 |
| Fuel-Gas | 7,000 | 8,443 | (1,443) |
| Fuel-Diesel | 40,000 | 34,903 | 5,097 |
| Oil and Lubricants | 3,700 | 2,645 | 1,055 |
| Expendable Supplies | 10,000 | 11,428 | (1,428) |
| Equipment Maintenance-Non-Fleet | 1,500 | 694 | 806 |
| Mechanic Tools | 2,000 | 3,116 | (1,116) |
| Miscellaneous | 500 | 100 | 400 |
| Permit Fees | 250 | 310 | (60) |
| Recording Fees | 100 | 100 | - |

(continued)

TOWN OF MANCHESTER, VERMONT
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund (continued)
Year Ended June 30, 2011

| | Budget | Actual | Variance Favorable (Unfavorable) |
|------------------------------------------------|---------|---------|----------------------------------------|
| Expenditures (continued): | | | |
| Department of Public Works (continued) | | | |
| Equipment Acquisition (non-computer) | 2,000 | 1,220 | 780 |
| Radios and Communications | 500 | 676 | (176) |
| | 138,550 | 122,332 | 16,218 |
| Department of Public Works - Facilities | | | |
| Facilities Maintenance/Improvements | 34,000 | 43,101 | (9,101) |
| Facilities - Cleaning Supplies | 14,000 | 13,267 | 733 |
| Tree Removal/Planting/Care | 5,000 | 2,983 | 2,017 |
| Parks/Grounds Maintenance | 18,000 | 19,031 | (1,031) |
| Waste Disposal - Facilities | 7,250 | 6,007 | 1,243 |
| | 78,250 | 84,389 | (6,139) |
| Department of Public Works - Highways | | | |
| Cutting Edges | 8,000 | 5,186 | 2,814 |
| Asphalt-Patchwork | 2,000 | 1,451 | 549 |
| Winter Sand/Salt | 140,000 | 192,316 | (52,316) |
| Chloride | 11,900 | 11,896 | 4 |
| Gravel | 10,000 | 4,561 | 5,439 |
| Signs & Posts | 5,000 | 3,897 | 1,103 |
| Culverts/Drainage Appert | 4,000 | 2,232 | 1,768 |
| Street Cleaning | 1,500 | 828 | 672 |
| Curb & Sidewalk Repair | 1,000 | 4 | 996 |
| Guard Railings | 1,000 | 385 | 615 |
| Bridge Repair | 500 | - | 500 |
| Line Painting | 8,000 | 6,293 | 1,707 |
| Traffic Signals | 4,800 | 6,628 | (1,828) |
| | 197,700 | 235,677 | (37,977) |
| Police Department | | | |
| Special Police Byrne Grant | - | 20 | (20) |
| Special Police/Prisoner Transport | - | 592 | (592) |
| Animal Control Officer - Wages | - | 174 | (174) |
| Animal Control Officer - Mileage | 500 | 148 | 352 |
| Animal Control Officer - Boarding/Admin. | 5,700 | 5,686 | 14 |
| Animal Control Officer - Miscellaneous | 200 | - | 200 |
| Animal Control Officer - Veterinary Care | 750 | 434 | 316 |

(continued)

TOWN OF MANCHESTER, VERMONT
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund (continued)
Year Ended June 30, 2011

| | Budget | Actual | Variance Favorable (Unfavorable) |
|--------------------------------------|--------|---------|----------------------------------------|
| Expenditures (continued): | | | |
| Police Department (continued) | | | |
| Advertising | 500 | 111 | 389 |
| Travel | 1,500 | 659 | 841 |
| Training | 3,000 | 5,195 | (2,195) |
| Supplies | 1,000 | 2,159 | (1,159) |
| Dues and Subscriptions | 1,200 | 1,044 | 156 |
| Uniforms and Clothing | 5,000 | 16,777 | (11,777) |
| Uniforms - Cleaning Allowance | 7,000 | 2,800 | 4,200 |
| Vehicle Maintenance | 9,000 | 9,046 | (46) |
| Fuel-Gas | 17,000 | 17,013 | (13) |
| Equipment Maintenance | 13,500 | 20,237 | (6,737) |
| Miscellaneous | 200 | 189 | 11 |
| Equipment Acquisition | 2,500 | 703 | 1,797 |
| Grant - Cruiser Computers - 3 | - | 17,536 | (17,536) |
| Grant - Fingerprinting | - | 32,042 | (32,042) |
| | 68,550 | 132,565 | (64,015) |
| Fire Department | | | |
| Training - Firefighters | 3,000 | 1,809 | 1,191 |
| Supplies - Fire Prevention | 1,100 | 1,060 | 40 |
| Vehicles/Equip. Maintenance/Repairs | 11,000 | 13,639 | (2,639) |
| Fuel - Gas | 250 | 1,125 | (875) |
| Fuel-Diesel | 3,250 | 2,040 | 1,210 |
| Communications - Acquisition/Repair | 7,000 | 2,985 | 4,015 |
| Miscellaneous | 2,000 | 1,837 | 163 |
| Hazardous Waste Supplies | 1,000 | - | 1,000 |
| Equipment Acquisition | 14,000 | 20,687 | (6,687) |
| | 42,600 | 45,182 | (2,582) |
| Emergency Management | | | |
| Travel | 500 | - | 500 |
| Equipment Maintenance | 500 | - | 500 |
| Miscellaneous | 500 | - | 500 |
| | 1,500 | - | 1,500 |

(continued)

TOWN OF MANCHESTER, VERMONT
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund (continued)
Year Ended June 30, 2011

| | Budget | Actual | Variance Favorable (Unfavorable) |
|----------------------------------------|---------|---------|----------------------------------------|
| Expenditures (continued): | | | |
| Parks And Recreation Department | | | |
| HF Park Maint Baseball Field | - | 4,650 | (4,650) |
| Advertising/Printing/Publications | 2,500 | 1,843 | 657 |
| Advertising - Applejack Field | 1,000 | - | 1,000 |
| Credit Card Fees | - | 1,099 | (1,099) |
| Travel | 1,000 | 57 | 943 |
| Supplies | 1,000 | 1,111 | (111) |
| Dues and Subscriptions | 500 | 165 | 335 |
| Precision Walk | 500 | 234 | 266 |
| Electricity | 6,000 | 5,525 | 475 |
| Electricity - Applejack Field | 6,000 | 3,688 | 2,312 |
| Heating Fuels | 4,300 | 2,719 | 1,581 |
| Pool Maintenance/Supplies | 10,000 | 16,622 | (6,622) |
| Pool Uniforms | 750 | 491 | 259 |
| Pool Heater (Propane) | 8,200 | 4,124 | 4,076 |
| Applejack Field Maintenance | 18,000 | 11,904 | 6,096 |
| Maintenance Contracts | 3,500 | 500 | 3,000 |
| Miscellaneous | 200 | 12 | 188 |
| Equipment Acquisition | 2,500 | 1,774 | 726 |
| Programs | 53,000 | 44,684 | 8,316 |
| Swim Team Expense | 5,500 | 7,165 | (1,665) |
| | 124,450 | 108,367 | 16,083 |
| Health Officer | | | |
| Milage | 250 | - | 250 |
| Supplies | 100 | 32 | 68 |
| Recording Fees | 50 | - | 50 |
| Miscellaneous | 100 | - | 100 |
| | 500 | 32 | 468 |
| Town Clerk | | | |
| Records Preservation | 6,000 | 5,051 | 949 |
| Travel | - | 379 | (379) |
| Dues and subscriptions | - | 547 | (547) |
| Maintenance Contracts | - | 4,000 | (4,000) |
| Town Clerk Contingency | 7,200 | - | 7,200 |
| Miscellaneous | - | 299 | (299) |
| | 13,200 | 10,276 | 2,924 |

(continued)

TOWN OF MANCHESTER, VERMONT
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund (continued)
Year Ended June 30, 2011

| | Budget | Actual | Variance Favorable (Unfavorable) |
|-------------------------------------------------------|---------|---------|----------------------------------------|
| Expenditures (continued): | | | |
| Elections & Board of Civil Authority (BCA) | | | |
| Training | 300 | - | 300 |
| Contract Services | 5,000 | 3,783 | 1,217 |
| Printing and Publications | 1,000 | - | 1,000 |
| Maintenance Contracts | 700 | - | 700 |
| Miscellaneous | 380 | 314 | 66 |
| | 7,380 | 4,097 | 3,283 |
| Town Hall/Public Safety Buildings | | | |
| Water - Town Hall | 500 | 328 | 172 |
| Water - PSF | 1,600 | 1,665 | (65) |
| Electricity - Town Hall | 8,700 | 9,749 | (1,049) |
| Electricity - PSF | 13,700 | 14,864 | (1,164) |
| Heating Fuels - Town Hall | 17,400 | 19,096 | (1,696) |
| Heating Fuels - PSF | 26,900 | 34,985 | (8,085) |
| | 68,800 | 80,687 | (11,887) |
| General Expenditures | | | |
| Telephone | 9,100 | 9,049 | 51 |
| Internet Services | 1,200 | 2,033 | (833) |
| Cell Phone | 2,800 | 5,642 | (2,842) |
| Photocopiers | 8,500 | 7,924 | 576 |
| Travel | - | 82 | (82) |
| Carpool Vehicle Lease (travel) | - | 3,435 | (3,435) |
| Carpool Vehicle Lease (fuel) | - | 137 | (137) |
| Postage | 11,000 | 8,963 | 2,037 |
| Training - General | 4,000 | 4,413 | (413) |
| Computer & Office Supplies/Equip. | 16,000 | 19,693 | (3,693) |
| Pre-Employment Expenses | 750 | 484 | 266 |
| Town Report Printing/Mailing/Adv. | 10,500 | 7,705 | 2,795 |
| Legal/Consulting | 37,000 | 30,944 | 6,056 |
| Legal-Real Estate Tax Appeal | - | 7,599 | (7,599) |
| Legal -Tax Sales Real Estate | - | 10,243 | (10,243) |
| Property Maps | 6,200 | 5,930 | 270 |
| Audit | 9,100 | 8,750 | 350 |
| MEMS- Shared Services Agreement | 120,000 | 150,000 | (30,000) |
| MEMS- Contingency | 30,000 | - | 30,000 |

(continued)

TOWN OF MANCHESTER, VERMONT
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund (continued)
Year Ended June 30, 2011

| | Budget | Actual | Variance Favorable (Unfavorable) |
|-----------------------------------------|----------------|----------------|----------------------------------------|
| Expenditures (continued): | | | |
| General Expenditures (continued) | | | |
| State Property Tax | 28,000 | - | 28,000 |
| Bennington County Regional Comm. | 4,100 | 3,813 | 287 |
| County Taxes | 117,000 | 106,100 | 10,900 |
| Tax Appeals - Court Imposed | 1,000 | 5,706 | (4,706) |
| Uncollectible Taxes | 3,000 | (16,858) | 19,858 |
| Tax Abatements | 500 | 4,717 | (4,217) |
| Street Lights | 35,000 | 32,011 | 2,989 |
| VT League - Cities & Towns | 4,757 | 4,757 | - |
| Village Allocation - Highways | 35,000 | 28,836 | 6,164 |
| Village Alloc. - Street Lights/Sidewalk | 7,000 | 7,502 | (502) |
| Solid Waster Disposal | 16,000 | 17,965 | (1,965) |
| Recycling | 10,500 | 12,623 | (2,123) |
| Memorial Day | 1,500 | 1,400 | 100 |
| Insurance | 48,000 | 47,306 | 694 |
| Transfer Out- High Deductible Fund | 10,000 | - | 10,000 |
| Debt - Principal & Interest | 197,385 | 211,812 | (14,427) |
| VT Coalition of Municipalities | 250 | 250 | - |
| Miscellaneous | 200 | 103 | 97 |
| | 785,342 | 751,069 | 34,273 |
| Personnel-Salaries | | | |
| Legislative-Selectboard | 6,000 | 6,000 | - |
| Admin-Town Mgr Office | 90,022 | 90,408 | (386) |
| Admin-Human Resources | 33,210 | 33,570 | (360) |
| Finance-Full time | 57,101 | 57,321 | (220) |
| Finance-Treasurer | 23,560 | 23,558 | 2 |
| Finance-Bd Tax Abatemt | - | 65 | (65) |
| Assessing-Full time | 23,778 | 24,459 | (681) |
| Assessing-Listers | 19,000 | 7,243 | 11,757 |
| Planning/Zoning-Full time | 72,977 | 75,276 | (2,299) |
| Planning/Zoning-Part time | 24,024 | 12,303 | 11,721 |
| Planning/Zoning-Econ Development | 23,778 | 22,886 | 892 |
| DPW-Director/Mechanic-Full time | 100,940 | 101,146 | (206) |
| DPW-Dir/Mechan-Overtime | 12,000 | 16,218 | (4,218) |
| DPW-Mechanic-Outside Bill | 8,000 | 5,923 | 2,077 |
| DPW-Mech-Outside Billable\Overtime | - | 191 | (191) |
| DPW-Facilities-Full time | 76,468 | 76,698 | (230) |

(continued)

TOWN OF MANCHESTER, VERMONT
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund (continued)
Year Ended June 30, 2011

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---------------------------------------|-----------|-----------|----------------------------------------|
| Expenditures (continued): | | | |
| Personnel-Salaries (continued) | | | |
| DPW-Facilities-Full Time -Overtime | 2,200 | 8,014 | (5,814) |
| DPW-Facilities-Seasonal | 25,000 | 25,961 | (961) |
| DPW-Facilities-Seasonal -Overtime | - | 23 | (23) |
| DPW-Highways-Full time | 76,392 | 78,852 | (2,460) |
| DPW-Highways-FT-Overtime | 24,000 | 15,447 | 8,553 |
| DPW-Highways-Seasonal | 5,000 | 98 | 4,902 |
| Police Dept-Police Chief | 75,000 | 30,620 | 44,380 |
| Police-Officers- FullTime | 346,000 | 374,204 | (28,204) |
| Police-Officers- Overtime | 45,000 | 62,625 | (17,625) |
| PD-Off-OT-Drug Interdiction | - | 1,899 | (1,899) |
| PD-GHSP Grant | - | 276 | (276) |
| Dispatcher-Full time | 165,200 | 170,515 | (5,315) |
| Dispatch-Overtime | 23,000 | 22,345 | 655 |
| Police-Part time/Prisoner Transport | 17,000 | 33,561 | (16,561) |
| Dispatch-Spare | 16,500 | 15,185 | 1,315 |
| Police-Animal Control-Hourly Wage | 1,000 | 198 | 802 |
| Fire Dept-Administration | 7,000 | 7,688 | (688) |
| Fire Dept-Firefighters | 21,000 | 19,838 | 1,162 |
| Emergency Management | 1,692 | 1,694 | (2) |
| Parks/Rec-Full time | 69,558 | 53,037 | 16,521 |
| Parks/Rec-Part time | 32,000 | 24,393 | 7,607 |
| Parks/Rec-Pool-Straight time | 40,000 | 41,301 | (1,301) |
| Parks/Rec-Pool-Overtime | - | 605 | (605) |
| Parks/Rec-Swim Team | 7,500 | 5,662 | 1,838 |
| Parks/Rec-Swim Team-OT | - | 36 | (36) |
| Parks/Rec-Camp Counselors | 25,000 | 20,958 | 4,042 |
| Health Officer-Stipend | 2,563 | 1,030 | 1,533 |
| Health Officer-HourlyWage | 500 | 90 | 410 |
| Town Clerk-Salary | 40,000 | 38,020 | 1,980 |
| Assistant-Salary | 23,000 | 23,265 | (265) |
| Contracted Serv-Assistant | 2,000 | 195 | 1,805 |
| BCA-Elections | 3,500 | 1,845 | 1,655 |
| BCA-Tax Appeals | 500 | 1,610 | (1,110) |
| Employee Performance Bonuses | 11,500 | 9,250 | 2,250 |
| Longevity/Sick/Holiday Wages | 17,000 | 13,459 | 3,541 |
| Police Dept Bonus Wages | 17,000 | 14,900 | 2,100 |
| | 1,713,463 | 1,671,964 | 41,499 |

(continued)

TOWN OF MANCHESTER, VERMONT
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund (continued)
Year Ended June 30, 2011

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---------------------------------------|------------------|----------------|----------------------------------------|
| Expenditures (continued): | | | |
| Allocable Expenditures | | | |
| FICA/Medicare | 127,000 | 126,429 | 571 |
| Contingency - Town Clerk Benefits | 38,000 | - | 38,000 |
| Unemployment Insurance | 5,000 | 5,100 | (100) |
| Health Insurance Premium Retiree | 14,000 | - | 14,000 |
| Health Insurance | 122,100 | 143,036 | (20,936) |
| HSA Employer Share | 77,000 | 91,135 | (14,135) |
| Health Insurance Premium - Union | 90,420 | 60,437 | 29,983 |
| HSA Union contribution | 53,500 | 42,115 | 11,385 |
| Health Care Wellness | 3,000 | - | 3,000 |
| AD/D and Life Insurance | 17,000 | 17,032 | (32) |
| Worker's Compensation Insurance | 54,000 | 37,347 | 16,653 |
| Pension and Retirement | 80,000 | 89,084 | (9,084) |
| Dental Insurance | 19,000 | 17,315 | 1,685 |
| Section 125 Administration Fees | 750 | 729 | 21 |
| | 700,770 | 629,759 | 71,011 |
| Capital Expenditures | | | |
| Energy Audit Implementation | 20,000 | 8,404 | 11,596 |
| Vehicle Acquisition - Highway | 134,000 | 135,645 | (1,645) |
| Road Drainage Constr-Highland Ave | 80,000 | 95,148 | (15,148) |
| Road Constr - Main St./Barnumville | 50,000 | 50,350 | (350) |
| Parking Lot Reconstruction Depot St | 100,000 | 119,339 | (19,339) |
| Roundabout Design | 22,500 | - | 22,500 |
| Roundabout -Phase II(Power/Comm) | 725,000 | - | 725,000 |
| Roundabout -Phase II(Storm Drains) | 140,000 | - | 140,000 |
| Roundabout -Phase III(Bridge Constr) | 115,000 | - | 115,000 |
| Roundabout -Phase IV (Roadway) | 500,000 | - | 500,000 |
| Beautification/Signs | 10,000 | 4,020 | 5,980 |
| Bench Replacement - Downtown | 5,000 | 5,308 | (308) |
| Trash Containers | 10,000 | 5,323 | 4,677 |
| Vehicle Acquisition - Police | 28,000 | 15,179 | 12,821 |
| Equipment Acquisition-Fire(air packs) | 17,500 | - | 17,500 |
| Adams Park Design Construction | 25,000 | 23,924 | 1,076 |
| Master Plan & Survey Recreation | 5,000 | - | 5,000 |
| E-Commerce Initiative | 20,000 | 12,066 | 7,934 |
| Gazebo - Factory Point Town Green | 300,000 | - | 300,000 |
| Cemetery - Headstones Acquisitions | 3,500 | - | 3,500 |
| | 2,310,500 | 474,706 | 1,835,794 |

(continued)

TOWN OF MANCHESTER, VERMONT
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund (continued)
Year Ended June 30, 2011

| | Budget | Actual | Variance Favorable (Unfavorable) |
|-----------------------------------------------------------------------------------|------------------|------------------|----------------------------------------|
| Expenditures (continued): | | | |
| Town Appropriations | | | |
| RSVP | 3,250 | 3,250 | - |
| SW VT Council on Aging | 4,000 | 4,000 | - |
| Manchester Rescue Squad | 15,000 | 15,000 | - |
| Community Action SW VT (BROC) | 1,811 | 1,811 | - |
| PAVE-Against Violence | 1,850 | 1,850 | - |
| Benn Area Habitat for Humanity | 2,400 | 2,400 | - |
| Neighbor to Neighbor | 1,500 | 1,500 | - |
| Center for Independent Living | 420 | 420 | - |
| Tutorial Center | 2,500 | 2,500 | - |
| Benn County Court Diversion | 2,000 | 2,000 | - |
| Benn County Coalition/Homeless | 1,500 | 1,500 | - |
| VABVI - Blind and Visually Impaired | 500 | 500 | - |
| Mark Skinner Library | 153,200 | 153,200 | - |
| | 189,931 | 189,931 | - |
| Total expenditures | 6,470,836 | 4,559,991 | 1,910,845 |
| Excess (deficiency) of revenues over expenditures | (395,041) | (138,947) | 256,094 |
| Other financing sources (uses): | | | |
| Operating transfers in (out) | | | |
| Bicenquingenary Celebration | (5,000) | (5,000) | - |
| Factory Point Cemetery (Operation) | 16,000 | 16,000 | - |
| Fire Dept Equipment Reserve Fund | (57,500) | (75,000) | (17,500) |
| Property Tax Relief Fund | 260,000 | 202,947 | (57,053) |
| Town Service Officer | (250) | - | 250 |
| UDAG-Roundabout (Utilities) | 262,500 | - | (262,500) |
| Total other financing sources (uses) | 475,750 | 138,947 | (336,803) |
| Excess (deficiency) of revenues over expenditures and other financing uses | \$ 80,709 | - | (80,709) |

TOWN OF MANCHESTER, VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for Health Care Benefits

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Simplified Credit Cost (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|-----------------------------------------|------------------------------------------------------|-----------------------------------------------------------------------------------------------|----------------------------------------------|-----------------------------------|------------------------------------|----------------------------------------------------------------------------------|
| 6/30/2010 | \$ - | 107,795 | \$ 107,795 | 0.0% | 649,780 | 16.6% |
| 6/30/2011 | - | 93,367 | 93,367 | 0.0% | 711,429 | 13.1% |

TOWN OF MANCHESTER, VERMONT
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2011

| | Special Revenue Funds | | | | | | | | | | Capital Projects Funds | | | | Permanent Fund | |
|----------------------|---------------------------|---------------------------|-----------------------------------|------------------------|-----------------------------|------------------------|------------------------------|--------------------------|------------------|--------------------------------|--------------------------------|--------------------------------|-----------------------------------|-----------------------------------|----------------|--|
| | Property Tax Reserve Fund | Recreation Committee Fund | Junction Development Project Fund | Service Officer's Fund | Factory Point Cemetery Fund | Police Benevolent Fund | Bicentennial Quiggenary Fund | Reappraisal Reserve Fund | Byrne Grant Fund | Fire Department Equipment Fund | Water Capital Improvement Fund | Sewer Capital Improvement Fund | Factory Point Cemetery Trust Fund | Total Nonmajor Governmental Funds | | |
| Assets | | | | | | | | | | | | | | | | |
| Cash | \$ - | - | 97,423 | 306 | 19,801 | 510 | - | 2,308 | 1,513 | - | - | 26,699 | 164,703 | | | |
| Investments | 764,318 | 40,275 | 95,121 | - | - | 70,353 | 74,542 | - | 278,503 | - | 474,824 | 148,619 | 1,946,555 | | | |
| Accounts receivable | - | - | - | - | - | - | 49 | - | - | - | - | - | 49 | | | |
| Due from other funds | - | - | 8,362 | - | - | - | - | - | - | 3,340 | 8,080 | - | 19,782 | | | |
| | \$ 764,318 | 40,275 | 200,906 | 306 | 19,801 | 70,863 | 74,542 | 2,308 | 280,016 | 3,340 | 482,904 | 175,318 | 2,131,089 | | | |
| Liabilities | | | | | | | | | | | | | | | | |
| Accrued liabilities | \$ - | - | 115 | - | 611 | - | - | - | - | - | - | - | 726 | | | |
| Due to other funds | 202,947 | 208,261 | - | - | 33,734 | - | 5,225 | - | 130,985 | - | - | 41,496 | 622,648 | | | |
| | 202,947 | 208,261 | 115 | - | 34,345 | - | 5,225 | - | 130,985 | - | - | 41,496 | 623,374 | | | |
| Fund Balances | | | | | | | | | | | | | | | | |
| Restricted | - | - | 200,791 | 306 | - | 70,863 | 10,967 | 2,308 | 149,031 | 3,340 | 482,904 | 133,822 | 1,128,874 | | | |
| Committed | - | 10,710 | - | - | - | - | - | - | - | - | - | - | 10,710 | | | |
| Unassigned | 561,371 | (178,696) | - | - | (14,544) | - | - | - | - | - | - | - | 368,131 | | | |
| | 561,371 | (167,986) | 200,791 | 306 | (14,544) | 70,863 | 10,967 | 2,308 | 149,031 | 3,340 | 482,904 | 133,822 | 1,507,715 | | | |
| | \$ 764,318 | 40,275 | 200,906 | 306 | 19,801 | 70,863 | 74,542 | 2,308 | 280,016 | 3,340 | 482,904 | 175,318 | 2,131,089 | | | |

TOWN OF MANCHESTER, VERMONT
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2011

| | Special Revenue Funds | | | | | | | | | | Capital Projects Funds | | | | | Permanent Funds | |
|---------------------------------------------------------------------------------------------------------------|---------------------------|---------------------------|-----------------------------------|------------------------|-----------------------------|------------------------|-------------------------------|--------------------------|------------------|--------------------------------|--------------------------------|--------------------------------|---------------------|------------|-----------------------------------|-----------------|--|
| | Property Tax Reserve Fund | Recreation Committee Fund | Junction Development Project Fund | Service Officer's Fund | Factory Point Cemetery Fund | Police Benevolent Fund | Bicenquennial Quisgenary Fund | Reappraisal Reserve Fund | Byrne Grant Fund | Fire Department Equipment Fund | Water Capital Improvement Fund | Sewer Capital Improvement Fund | Cemetery Trust Fund | Point Fund | Total Nonmajor Governmental Funds | | |
| Revenues: | | | | | | | | | | | | | | | | | |
| Investment income | \$ 147,030 | 1,538 | 899 | 3 | 99 | 3,697 | 76 | 66 | 34 | 9,699 | - | 88,480 | 7,168 | 258,789 | | | |
| Grant income | - | - | 93,305 | - | - | - | 24,744 | - | - | - | - | - | - | 118,049 | | | |
| Donations | - | - | - | - | - | 150 | 3,128 | - | - | - | - | - | - | 3,278 | | | |
| Miscellaneous income | - | 17,470 | - | - | 5,579 | - | - | - | - | - | - | - | 1,150 | 24,199 | | | |
| | 147,030 | 19,008 | 94,204 | 3 | 5,678 | 3,847 | 3,204 | 24,810 | 34 | 9,699 | - | 88,480 | 8,318 | 404,315 | | | |
| Expenditures: | | | | | | | | | | | | | | | | | |
| Public safety | - | - | - | 232 | - | 903 | - | - | 1,180 | 37,307 | - | - | - | 39,622 | | | |
| Recreation expenses | - | 2,669 | - | - | - | - | - | - | - | - | - | - | - | 2,669 | | | |
| Cemetery expenses | - | - | - | - | 3,163 | - | - | - | - | - | - | - | - | 3,163 | | | |
| Capital outlay | - | - | 103,511 | - | - | - | - | - | - | - | - | - | - | 103,511 | | | |
| Other | 4,812 | - | - | - | - | 5,224 | - | - | - | - | - | 2,613 | - | 12,649 | | | |
| | 4,812 | 2,669 | 103,511 | 232 | 3,163 | 903 | 5,224 | - | 1,180 | 37,307 | - | 2,613 | - | 161,614 | | | |
| Excess (deficiency) of revenues over expenditures | 142,218 | 16,339 | (9,307) | (229) | 2,515 | 2,944 | (2,020) | 24,810 | (1,146) | (27,608) | - | 85,867 | 8,318 | 242,701 | | | |
| Other financing sources (uses): | | | | | | | | | | | | | | | | | |
| Operating transfers in | - | - | - | - | - | - | 5,000 | - | - | 75,000 | 3,340 | 8,080 | - | 91,420 | | | |
| Operating transfers out | (202,947) | - | - | - | (16,000) | - | - | - | - | - | - | - | - | (218,947) | | | |
| | (202,947) | - | - | - | (16,000) | - | 5,000 | - | - | 75,000 | 3,340 | 8,080 | - | (127,527) | | | |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | (60,729) | 16,339 | (9,307) | (229) | (13,485) | 2,944 | 2,980 | 24,810 | (1,146) | 47,392 | 3,340 | 93,947 | 8,318 | 115,174 | | | |
| Total fund balances, July 1, 2010 | 622,100 | (184,325) | 210,098 | 535 | (1,059) | 67,919 | 7,987 | 49,732 | 3,454 | 101,639 | - | 388,957 | 125,504 | 1,392,541 | | | |
| Total fund balances, June 30, 2011 | \$ 561,371 | (167,986) | 200,791 | 306 | (14,544) | 70,863 | 10,967 | 74,542 | 2,308 | 149,031 | 3,340 | 482,904 | 133,822 | 1,507,715 | | | |



**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**

The Select Board
Town of Manchester, Vermont

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Manchester, Vermont, as of and for the year ended June 30, 2011, which collectively comprise the Town of Manchester, Vermont's basic financial statements and have issued our report thereon dated (to be determined.) 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 Town of Manchester, Vermont's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Manchester, Vermont's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Manchester, Vermont's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

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

February 2, 2012

Vt. Reg. #357

Love, Cody & Company, CPAs