

CITY OF RUTLAND, VERMONT  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

Corrette & Associates, P.C.

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# CORRETTE & ASSOCIATES

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## INDEPENDENT AUDITORS' REPORT

To the Board of Aldermen  
City of Rutland  
Rutland, Vermont

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rutland, Vermont, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rutland, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

As discussed in Note IV.G to the financial statements, the City has changed its measurement of the value of long-term receivables during fiscal year ended June 30, 2011.

In accordance with Government Auditing Standards, we have also issued a report dated February 14, 2012 on our consideration of the City of Rutland, 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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and 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 and budgetary information on pages 3 through 12 and pages 52 and 53 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 City of Rutland, Vermont's financial statements as a whole. The combining and individual non-major governmental funds financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major governmental funds 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.

Corrette & Associates, P.C.

February 14, 2012

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2011**

Presented here is Management's Discussion & Analysis report for the City of Rutland, Vermont for the fiscal year ended June 30, 2011. Responsibility for both the accuracy of the data and the completeness and fairness of this presentation, including all disclosures, rests with management. To the best of our knowledge and belief the data contained herein is accurate in all material respects. This data is reported in a manner designed to fairly present the City's financial position and the result of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an accurate understanding of the City's financial activities have been included.

The City is responsible for establishing an accounting and internal control structure designed to ensure that the physical, data, informational, intellectual, and human resource assets of the City are protected from loss, theft, and misuse and to ensure that adequate accounting information is maintained and reported in conformity with generally accepted accounting principles (GAAP). Management also strives to ensure that these assets are put to good and effective use. The internal control structure is designed to provide reasonable assurance that these objectives are attained.

**Financial Highlights**

- The assets of the City of Rutland exceeded liabilities at June 30, 2011 by \$29,626,062, comprised of investment in capital assets, net of related debt and restricted funds.
- The City's total net assets increased due to an increase in cash in both governmental and the proprietary funds and a reduction in both current and long term liabilities.
- Total unrestricted net assets in the proprietary funds are a deficit of \$490,439 at year end, an improvement of \$3,613,122 from the prior year.
- The City's General Fund fund balance increased by \$9,889. A budgeted decrease of \$725,744 was expected, due to the application of prior year's surplus toward the tax rate.
- The General Fund fund balance at year end is \$3,840,583 or 22.13% of General Fund revenues, and the unassigned fund balance in the General Fund was \$2,794,074 or 16.10% of General Fund revenues.
- The City implemented GASB statement 54 which changes the terminology and classifications used in reporting governmental fund balances, for greater clarity and compliance with standards.
- The Water Fund and Sewage Disposal Fund had cash at June 30, 2011, whereas no proprietary fund had cash at the end of the prior year.

## **Overview of the Financial Statements**

The financial statements presented herein include all of the activities of the City using the integrated approach as prescribed by GASB Statement 34.

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The basic financial statements comprise three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

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

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to most private-sector companies.

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

### ***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 City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current period inflows and outflows of spendable resources, as well as spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental activities statement of net assets and statement of activities.

The City maintains sixteen individual governmental funds. Information is presented in the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered a major fund. The remaining non-major government funds are included in supplemental schedules.

The City adopts an annual appropriation budget for its General Fund. A budgetary comparison has been provided for the General Fund with adopted budget to demonstrate compliance with the budget.

The City has seven fiduciary funds which are used to account for resources not owned by the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Government-Wide Financial Analysis**

***Net Assets at June 30 are as follows:***

	<b>2011 Total Primary Government</b>	<b>2010 Total Primary Government</b>
	<hr/>	<hr/>
Current and Other Assets:		
Current Assets	12,927,680	8,709,535
Capital Assets	47,199,249	49,972,512
Other Assets	1,169,957	1,412,493
Total Assets	<hr/> <b>\$ 61,296,886</b>	<hr/> <b>\$ 60,094,540</b>
Current and Other Liabilities:		
Long-term bonds and capital leases payable	15,129,185	16,836,220
Compensated absences payable	2,654,156	3,061,282
Other post employment benefits payable (OPEB)	12,290,283	15,443,844
Other liabilities	1,597,200	909,899
Total Liabilities	<hr/> <b>\$ 31,670,824</b>	<hr/> <b>\$ 36,251,245</b>
Net Assets:		
Invested in capital assets, net of related debt	32,070,064	33,136,292
Restricted for specific purposes	2,216,466	1,930,664
Unrestricted	(4,660,468)	(11,233,661)
Total net assets	<hr/> <b>\$ 29,626,062</b>	<hr/> <b>\$ 23,833,295</b>

### ***Statement of Activities***

The Statement of Activities reports total operating expenses and change in net assets for the year ending June 30, 2011:

	<b>2011 Total Primary Government</b>	<b>2010 Total Primary Government</b>
	<u>                    </u>	<u>                    </u>
Program Revenues:		
Charges for services	9,635,775	8,847,188
Operating grants	804,343	1,083,969
Capital grants & contributions	828,197	437,927
Total Program Revenues	<u>\$ 11,268,315</u>	<u>\$ 10,369,084</u>
General Revenues:		
Property Tax assessments (Includes PILOT)	13,829,903	13,135,840
Rooms, Meals & Entertainment Tax	447,386	441,157
Interest and investment earnings	74,767	183,475
Donations	240,124	551,610
Change in Other Post Employment Benefits	3,153,550	-
Sale of fixed assets, stock	-	400
Transfers	22,063	-
Miscellaneous	50,726	119,387
Total general revenues	<u>\$ 17,818,519</u>	<u>\$ 14,431,869</u>
Total revenues	<u>\$ 29,086,834</u>	<u>\$ 24,800,953</u>
General Expenses:		
General government	3,669,047	2,978,044
Public safety	7,653,274	7,696,023
Highways & Streets	2,259,572	2,089,077
DPW Administration	1,121,428	1,111,299
Economic Development	181,317	132,598
Culture & recreation	2,395,406	2,506,126
Total governmental activities:	<u>\$ 17,280,044</u>	<u>\$ 16,513,167</u>
Business-type activities	5,257,700	6,745,119
Total Primary Governmental activities	<u>\$ 22,537,744</u>	<u>\$ 23,258,286</u>
Change in net assets:		
Net assets-beginning of year (restated)	23,076,972	22,290,628
Net assets-end of year	29,626,062	23,833,295
Change in net assets:	<u>\$ 6,549,090</u>	<u>\$ 1,542,667</u>

### ***Government-wide Financial Analysis***

Net assets increased \$6,549,090 for the year ended June 30, 2011. Net assets for year ended June 30, 2010 were restated due to recognition of loss on present value of notes receivable due the City from community development housing projects. At year end the City of Rutland is able to report positive total net assets balances, for the government as a whole as well as for its governmental and business-type activities.

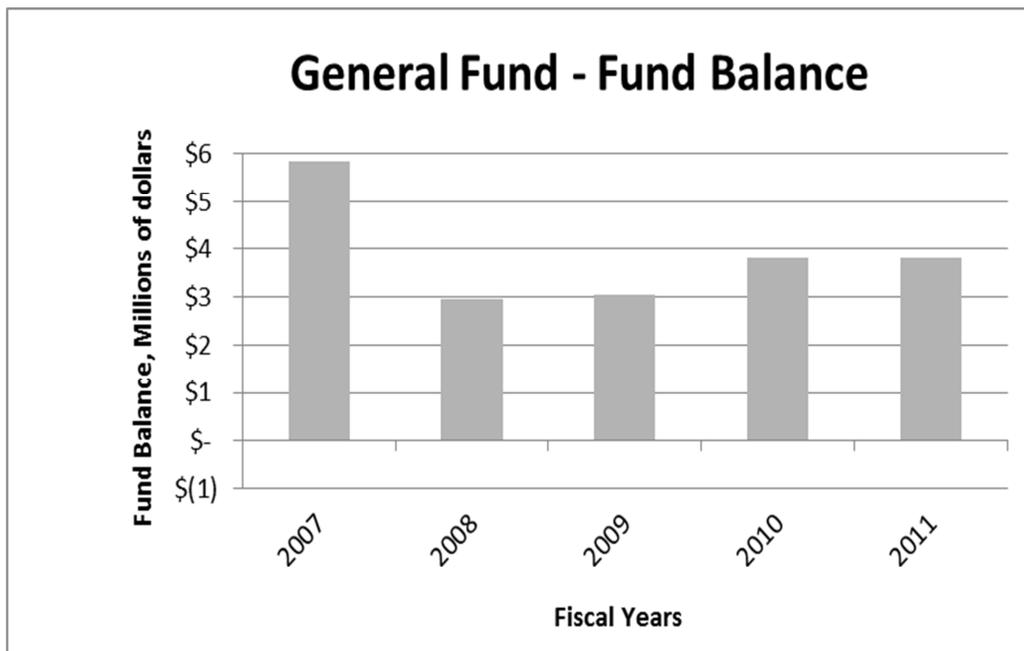
The net assets of the City of Rutland reflect its investment in capital assets (land, buildings and systems, improvements other than buildings, machinery and equipment, and infrastructure) less any related debt outstanding used to acquire those assets. The City of Rutland uses those assets to provide services to citizens; consequently they are not available for future spending. Although the City of Rutland's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to pay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

### **Governmental Funds**

At June 30, 2011 the City of Rutland's governmental funds reported combined fund balance of \$7,777,389, an improvement of \$995,674 over the prior period. The governmental funds are comprised of the General Fund and non-major government funds such as the Equipment Replacement Fund, Fire Equipment Fund, Zamias Fund, and others used for special purposes. The City of Rutland maintains sixteen governmental funds. Of these only the General Fund is considered to be a major governmental fund.

### ***General Fund-Fund Balance***

The General Fund shows a fund balance of \$3,840,583 at June 30, 2011. The fund balance at June 30, 2010 is \$3,830,694. Therefore, the General Fund fund balance increased \$9,889.



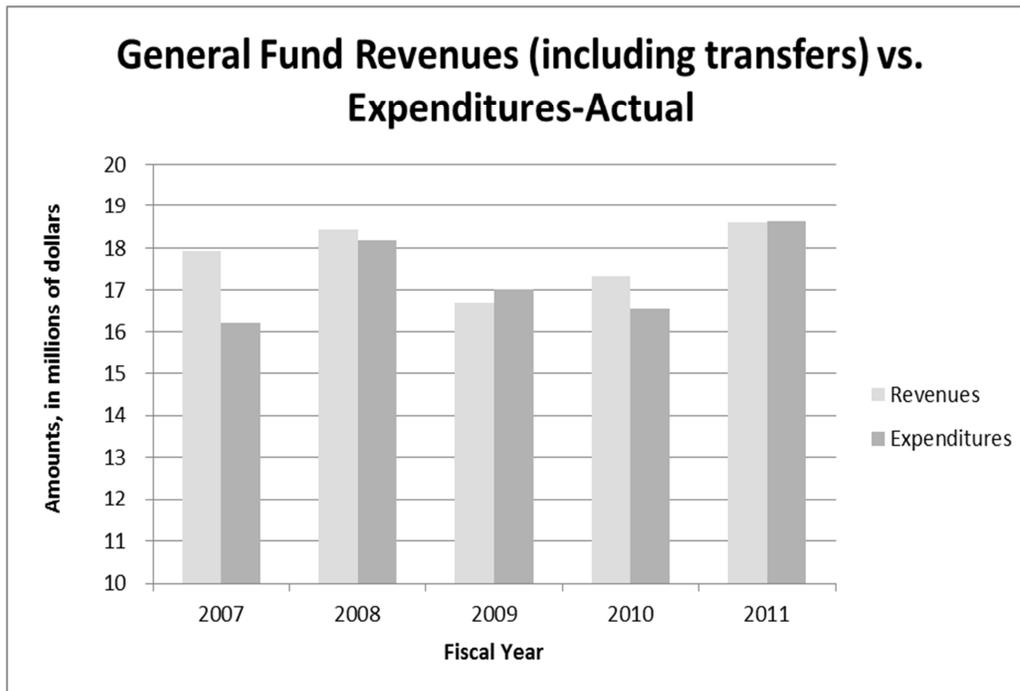
*Note: 2007 General Fund fund balance was overstated due to unresolved inter-fund activity between the General Fund and the proprietary funds. Prior period adjustments in 2008 corrected this overstatement.*

### ***General Fund Budget vs. Actual***

Final actual revenues exceeded budgeted revenues by \$1,433,151 before transfers. All sources of revenue, including grant revenues, were higher than expected except for taxes, PILOT, and charges for services. General tax revenues were lower than expected due to delinquencies at year end, errors and omissions, and other adjustments affecting the grand list. Increases in grant revenue were consumed by increased expenditures in grant programs. As a result of delinquent payments collected, penalties and interest revenue exceeded budget by 30%. Fines and forfeitures exceeded budget by 77% due to increased traffic ticket revenue, as the Town of Rutland paid the amount due the City earlier than expected, and increased collector's fees.

Final actual expenditures were higher than budgeted amounts by \$517,518. Certain City departments posted significantly lower expenses than budgeted, including City Clerk, Treasurer, Attorney, Building and Zoning, Police, Fire, Highways, DPW Administration, and some Recreation divisions. Health care insurance costs were reduced by changing the City's plan design in January 2011, which contributed to lower costs in several departments. Some departments saw reductions to staff due to retirements and terminations, which reduced actual costs by year end. Some departments exceeded budget, including: Executive, Community Development, and Giorgetti Park due to grant expenditures, which were offset by grant revenues. Increases in Libraries relate to a capital improvement project for the library building, completed in FY 2012, and increases in Government Buildings was primarily due to an increase in insurance premiums for property and casualty coverage.

The General Fund has an excess of revenue over expenditures of \$915,633. After operating transfers the net increase to fund balance was \$9,889. The City planned a deficit of \$725,744 by application of a prior year General Fund surplus of \$900,000 to stabilize the tax rate. This planned deficit was largely offset by the excess of revenue over expenditures which minimized the impact to the fund balance by year end.



*Note: The City planned a deficit in 2011 by applying \$900,000 of prior year's surplus to the budget to stabilize the tax rate*

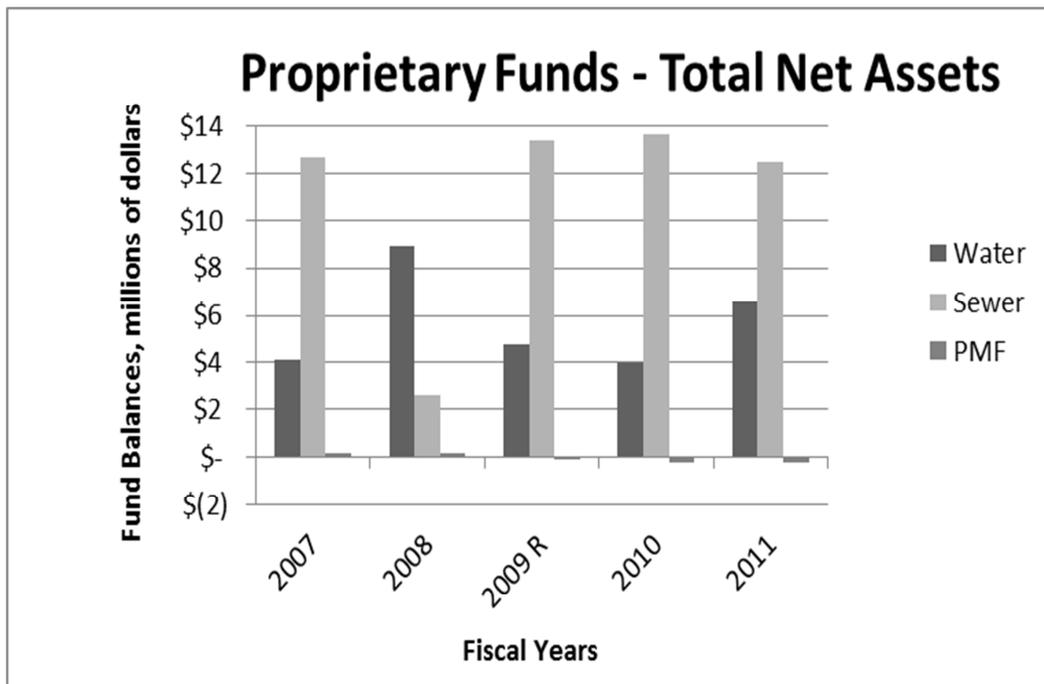
## Proprietary Funds

The City of Rutland maintains three proprietary funds: Water Fund, Sewage Disposal Fund, and the Parking Meter Fund. The proprietary funds report the same functions as the business-type activities in the government-wide financial statements.

Overall the proprietary funds experienced an increase in net assets of \$1,470,906 over the prior fiscal year, of which \$771,488 was due to an increase in cash in Water Fund and Sewage Disposal Fund. Unrestricted net assets are negative for the proprietary funds overall, at a deficit of \$490,439 at June 30, 2011, an improvement of \$3,613,122 over the prior year. Despite the improvement in unrestricted net assets, the negative number indicates net assets of the proprietary funds are represented primarily by capital assets.

The City sets water and sewer rates in conjunction with the approval of the budgets for the Water Fund and the Sewage Disposal Fund. Parking rates and fines are established by City ordinances.

The City presented a statement of cash flows for the proprietary funds for the year which demonstrates that total cash at June 30, 2011 is \$771,488 for all funds combined, whereas no proprietary fund had cash at June 30, 2010. Accounts receivable decreased by \$366,039 at year end due to slightly better collection and a write down of uncollectible accounts in the Parking Meter Fund. The City utilizes a pooled cash account for the General Fund and the proprietary funds. The City reports cash balances of the proprietary funds in the pooled cash account to governance monthly.



*Note: 2009 Net assets are restated due to recognition of capital assets previously understated. Prior period adjustments in 2011 corrected this understatement.*

## **Capital Assets**

The City considers a capital asset to be an asset whose costs exceed \$5,000 and has a useful life of greater than five years. Assets are depreciated using the straight-line method over the course of their useful lives. Additions to capital assets were made in FY 2011 totaling \$1,938,621 in Governmental activities and \$958,971 in Business-type (proprietary funds) activities. Accumulated depreciation exceeded additions in the proprietary funds. Some assets were reclassified for greater clarity as part of an ongoing process to improve reporting of capital assets since the adoption of GASB 34.

## **Long-Term Obligations**

At June 30, 2011 the City had a reduction in bonds payable of \$1,707,035 over the prior period and total long term debt was \$15,129,185 at year end. During the year several changes occurred to the City's long term debt structure:

- A 5.82% current expense note, originally taken to refund a \$5 million deficit, was refinanced to a new current expense note of \$6 million, at 3.6%, to be repaid in 10 years. The amount of the new note reflects the remaining balance of the original deficit note plus additional costs of the water plant roof repair and litigation which exceeded the SRF bond limits. The repayment obligation is split 75/25% between the Water Fund and the Sewage Disposal Fund, based on each fund's portion of the debt.
- The \$5.7 million SRF Bond, used to fund water plant roof repairs, was reduced to \$1.9 million by the application of a \$3.8 million legal settlement received by the City from litigation pertaining to the repair.
- The City issued a new bond for sewer repairs for repairs to the sewer systems on West and Crescent Streets in an amount of \$462,500.
- The City has several capital leases for the use of photocopiers. Future minimum payments on these capital leases are identified in footnote IV.H.2.

The City had no short term debt outstanding at year end.

As of January 1, 2011 the City pension was 70.47% funded. Despite market gains, and a prospective reduction to the School employees' benefit, the deficiency of assets over unfunded actuarial accrued liability remained comparable to the prior year at \$23,606,406. The Board of Education (Rutland Public Schools) liability reduced to \$12,514,970 from \$12,758,660 in FY 2010, and the City (municipal government, not schools) liability increased to \$11,091,436 from \$10,991,809 in FY 2010.

Other post-employment benefits (OPEB) unfunded actuarial accrued liability at June 30, 2011 was \$12,290,283 for City (not Rutland Public Schools) employees and retirees, a reduction of \$3,153,561 due to increases in employee healthcare contributions for all active employees and a conversion to a high deductible health care plan effective January 1, 2011.

## **Economic Factors, Tax Rates and 2011 Budget**

The soft economic climate continued to affect revenues for most municipalities in the region, state and the nation, although some indicators improved slightly during FY 2011. The

unemployment rate for the Rutland region was 7.6% in June 2010 and was 7.1% in June 2011, according to the Vermont Department of Labor. The median year-round home price in Rutland County was \$148,000 in 2010, reflecting somewhat lower household incomes in the region compared to other areas, except northeastern Vermont.

The overall delinquent tax amount (all years) as a percentage of annual tax revenue, including School and municipal taxes, at August 31:

	<b>Delinquent Taxes</b>	<b>Expected tax revenue</b>	<b>% Delinquent</b>
FY 2011	\$811,161	\$27,927,405	2.90%
FY 2010	\$641,933	\$26,620,985	2.41%
FY 2009	\$548,130	\$26,266,496	2.09%

Changes in the grand list due to state tax department homestead changes, errors and omissions, grievances, and adjustments reduced the expected tax revenue at June 30:

	<b>Grand List, BOY</b>	<b>Grand List EOY</b>	<b>Impact on tax revenue</b>
FY 2011	\$10,067,899.07	\$10,040,680.46	(\$105,657)
FY 2010	\$10,059,181.37	\$10,050,799.57	(\$ 44,652)
FY 2009	\$10,031,847.71	\$10,014,686.95	(\$ 65,198)

The grand list value at beginning of year (BOY) is value at the time the rates are applied to create the billing file; the value for the end of year is the grand list value at the fiscal year end.

Tax rates for FY 2011 increased for municipal and education appropriations over FY 2010. The homestead education tax increased from \$1.2608 to \$1.3792, a 9.39% increase, and non-residential education tax rate increased from \$1.5625 to \$1.6314. The municipal rate increased from \$1.2637 to \$1.3094 an increase of 3.61%, approved by the voters for the first time though a change to the City charter. Increases to the municipal budget related to increases in insurance costs and paving expenses. The Board of Aldermen applied a prior year surplus of \$900,000 toward the FY 2011 budget to minimize the tax rate increase at the time the tax rates were set in July 2010.

Other financial notes of interest:

- The City has established a policy to maintain the General Fund fund balance to a minimum of 10% and a maximum of 15% of annual revenues in order avoid excessive surplus or deficits in the future.
- The City exceeded its operating budget in both revenue and expenditures yielding a significant surplus. The City will apply \$500,000 toward the FY 2012 revenue budget to stabilize the municipal tax rate in accordance with the policy established.
- The City resolved the inter-fund loan due the General Fund from the Parking Meter Fund in an amount of \$297,858 subsequent to year end, which will improve the net assets of the Parking Meter Fund.
- Tropical Storm Irene, which impacted the City's water system, recreation facilities, and some roads and bridges, occurred in August 2011. Repairs occurred in FY 2012 and the City expects to receive funding to offset these costs. Final reimbursement amounts may not be known until FY 2013.

### **Comparative Analysis:**

Increased current assets and a reduction of City's OPEB liability have increased both total net assets and unrestricted net assets for the government-wide financial statements as compared to the prior year.

In general, the year ended June 30, 2011 is more comparable to the prior fiscal year than were previous years, due to the cumulative impact of necessary prior period adjustments and restatements before FY 2010 and better classification of activity that took place in both FY 2010 and FY 2011.

### **Contacting City's Financial Management**

This financial report is to provide our citizens and creditors with a general overview of the City's finances and to show accountability for the money it receives. If you have questions about this report or need to get additional information, contact the City Treasurer, Wendy Wilton, at the Treasurer's Office, 802-773-1800 x231 or on the web at [www.rutlandcity.com](http://www.rutlandcity.com)

## FINANCIAL STATEMENTS

CITY OF RUTLAND, VERMONT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Rutland Redevelopment Authority
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash & equivalents	\$ 7,575,728	\$ 771,488	\$ 8,347,216	\$ 16,173
Receivables	1,508,235	2,393,336	3,901,571	1,694
Prepaid expenses	439,200	53,807	493,007	1,141
Inventories	53,558	132,328	185,886	-
Internal balances	(89,296)	89,296	-	-
Total current assets	<u>9,487,425</u>	<u>3,440,255</u>	<u>12,927,680</u>	<u>19,008</u>
<b>Non-current Assets</b>				
Notes & mortgages receivable	1,169,957	-	1,169,957	-
Capital assets not being depreciated				
Land	3,789,016	384,904	4,173,920	-
Capital assets, net of depreciation	<u>10,290,571</u>	<u>32,734,758</u>	<u>43,025,329</u>	<u>-</u>
Total non-current assets	<u>15,249,544</u>	<u>33,119,662</u>	<u>48,369,206</u>	<u>-</u>
Total assets	<u>24,736,969</u>	<u>36,559,917</u>	<u>61,296,886</u>	<u>19,008</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable	577,834	398,638	976,472	1,071
Accrued expenses	175,280	222,756	398,036	1,626
Deferred revenue	120,618	100,191	220,809	-
Due to other fund	1,872	-	1,872	-
Current portion of long-term debt	146,063	1,233,171	1,379,234	-
Total current liabilities	<u>1,021,667</u>	<u>1,954,756</u>	<u>2,976,423</u>	<u>2,697</u>
<b>Non-current Liabilities</b>				
Long-term liabilities	11,735,341	3,209,109	14,944,450	-
Long-term debt	<u>1,272,126</u>	<u>12,477,825</u>	<u>13,749,951</u>	<u>-</u>
Total non-current liabilities	<u>13,007,467</u>	<u>15,686,934</u>	<u>28,694,401</u>	<u>-</u>
Total liabilities	<u>14,029,134</u>	<u>17,641,690</u>	<u>31,670,824</u>	<u>2,697</u>
<b>Net Assets</b>				
Invested in capital assets, net	12,661,398	19,408,666	32,070,064	-
Restricted for:				
Notes & mortgages receivable	1,169,957	-	1,169,957	-
Specific purposes	1,046,509	-	1,046,509	-
Unrestricted	<u>(4,170,029)</u>	<u>(490,439)</u>	<u>(4,660,468)</u>	<u>16,311</u>
Total net assets	<u>\$ 10,707,835</u>	<u>\$ 18,918,227</u>	<u>\$ 29,626,062</u>	<u>\$ 16,311</u>

The notes to the financial statements are an integral part of this statement

CITY OF RUTLAND, VERMONT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue & Changes in Net Assets			Component Unit RRA
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Governmental activities								
General government	\$ 3,669,047	\$ 477,780	\$ 191,161	\$ -	\$ (3,000,106)	\$ -	\$ (3,000,106)	\$ -
Public safety	7,653,274	499,640	246,397	-	(6,907,237)	-	(6,907,237)	-
Highway & streets	2,259,572	9,941	290,339	-	(1,959,292)	-	(1,959,292)	-
DPW administration	1,121,428	-	-	-	(1,121,428)	-	(1,121,428)	-
Economic development	181,317	300,000	75,946	750,000	944,629	-	944,629	-
Culture & recreation	2,395,406	654,751	500	11,114	(1,729,041)	-	(1,729,041)	-
Total governmental activities	<u>17,280,044</u>	<u>1,942,112</u>	<u>804,343</u>	<u>761,114</u>	<u>(13,772,475)</u>	<u>-</u>	<u>(13,772,475)</u>	<u>-</u>
Business-type activities								
Water, Sewer, & Parking Meter	5,257,700	7,693,663	-	67,083	-	2,503,046	2,503,046	-
Total primary governmental	<u>22,537,744</u>	<u>9,635,775</u>	<u>804,343</u>	<u>828,197</u>	<u>(13,772,475)</u>	<u>2,503,046</u>	<u>(11,269,429)</u>	<u>-</u>
Component Unit								
Rutland Redevelopment Authority	<u>\$ 339,474</u>	<u>\$ 71,081</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ (268,393)</u>
General revenues:								
					13,829,903	-	13,829,903	285,000
					447,386	-	447,386	-
					74,767	-	74,767	162
					240,124	-	240,124	-
					2,487,534	666,016	3,153,550	-
					37,922	12,804	50,726	8,262
					1,753,333	(1,731,270)	22,063	-
					<u>18,870,969</u>	<u>(1,052,450)</u>	<u>17,818,519</u>	<u>293,424</u>
					<u>5,098,494</u>	<u>1,450,596</u>	<u>6,549,090</u>	<u>25,031</u>
					<u>6,385,974</u>	<u>17,447,321</u>	<u>23,833,295</u>	<u>(8,720)</u>
					<u>(1,085,974)</u>	<u>-</u>	<u>(1,085,974)</u>	<u>-</u>
					<u>309,341</u>	<u>20,310</u>	<u>329,651</u>	<u>-</u>
					<u>5,609,341</u>	<u>17,467,631</u>	<u>23,076,972</u>	<u>(8,720)</u>
					<u>\$ 10,707,835</u>	<u>\$ 18,918,227</u>	<u>\$ 29,626,062</u>	<u>\$ 16,311</u>

The notes to the financial statements are an integral part of this statement

CITY OF RUTLAND, VERMONT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2011

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash & cash equivalents	\$ 3,232,550	\$ 4,343,178	\$ 7,575,728
Receivables	665,973	1,960	667,933
Intergovernmental receivables	-	100	100
Prepaid expenses	439,200	-	439,200
Inventory	53,558	-	53,558
Due from other funds	368,565	94,517	463,082
Total assets	<u>4,759,846</u>	<u>4,439,755</u>	<u>9,199,601</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	571,468	6,366	577,834
Accrued expenditures	169,510	-	169,510
Deferred revenue	120,618	-	120,618
Due to other funds	57,667	496,583	554,250
Total liabilities	<u>919,263</u>	<u>502,949</u>	<u>1,422,212</u>
<b>Fund Balance</b>			
Nonspendable	492,758	-	492,758
Restricted	444,049	-	444,049
Committed	71,783	3,936,806	4,008,589
Assigned	37,919	-	37,919
Unassigned	2,794,074	-	2,794,074
Total fund balances	<u>3,840,583</u>	<u>3,936,806</u>	<u>7,777,389</u>
Total liabilities and fund balances	<u>\$ 4,759,846</u>	<u>\$ 4,439,755</u>	<u>\$ 9,199,601</u>

The notes to the financial statements are an integral part of this statement

CITY OF RUTLAND, VERMONT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2011

Total Fund Balances - Governmental Funds	<u>\$ 7,777,389</u>
Capital assets in governmental activities are not financial resources and therefore are not reported in the governmental fund financial statements.	52,139,610
Accumulated depreciation has not been included in the governmental fund financial statements.	(38,060,023)
Accrued liabilities represent non-current activity and are not reported in the governmental funds, however, are included in the Statement of Net Assets.	(2,282,757)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(10,876,543)
Other long-term assets, such as notes and property taxes receivables, are not available to pay for current period expenditures and, therefore, are not included in the funds.	<u>2,010,159</u>
Net Assets of Governmental Activities	<u><u>\$ 10,707,835</u></u>

The notes to the financial statement are an integral part of this statement

CITY OF RUTLAND, VERMONT  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes - general	\$ 13,129,632	\$ -	\$ 13,129,632
Delinquent tax, penalties & interest	155,990	-	155,990
Fines & forfeitures	337,020	-	337,020
Rooms & meals tax	447,386	-	447,386
PILOT	468,113	-	468,113
Licenses & permits	128,296	-	128,296
Federal grants	1,059,694	11,114	1,070,808
State grants	500,382	-	500,382
Charges for services	925,098	420,087	1,345,185
Investment earnings	61,014	27,701	88,715
Rental income	74,834	-	74,834
Donations	10,250	230,124	240,374
Miscellaneous	52,487	100	52,587
Loan repayment	-	7,733	7,733
<b>Total revenues</b>	<b>17,350,196</b>	<b>696,859</b>	<b>18,047,055</b>
<b>Expenditures</b>			
Executive	229,732	-	229,732
Legislative	25,865	-	25,865
City Clerk	309,866	-	309,866
City Treasurer	548,832	-	548,832
City Attorney	150,764	-	150,764
City Assessor	153,000	-	153,000
Building & zoning	227,522	-	227,522
Libraries	1,069,987	-	1,069,987
Police department	4,439,641	-	4,439,641
Fire department	3,031,537	-	3,031,537
Highways	1,518,282	-	1,518,282
Winter maintenance	592,736	-	592,736
Street lighting	303,796	-	303,796
Traffic control	93,748	-	93,748

The notes to the financial statements are an integral part of this statement

CITY OF RUTLAND, VERMONT  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
Catch basins	7,930	-	7,930
Community development	897,099	-	897,099
Dana center	486,168	-	486,168
DPW Administration	594,608	-	594,608
Elections	33,070	-	33,070
Government buildings	745,295	-	745,295
Operations	15,174	175,558	190,732
General recreation maintenance	922,281	-	922,281
Giorgetti Park	301,039	-	301,039
Godnick Center	54,389	-	54,389
White Playground	79,923	-	79,923
Vehicle maintenance	479,772	-	479,772
Miscellaneous expense	376,897	-	376,897
Appropriations	159,143	-	159,143
Pension expense	555,000	-	555,000
Debt service	226,060	-	226,060
Total expenditures	<u>18,629,156</u>	<u>175,558</u>	<u>18,804,714</u>
Excess of revenues over (under) expenditures	<u>(1,278,960)</u>	<u>521,301</u>	<u>(757,659)</u>
Other financing sources (uses)			
Transfers in	<u>1,288,849</u>	<u>464,484</u>	<u>1,753,333</u>
Total other financing sources (uses)	<u>1,288,849</u>	<u>464,484</u>	<u>1,753,333</u>
Net change in fund balances	<u>9,889</u>	<u>985,785</u>	<u>995,674</u>
Fund balances, June 30, 2010	<u>3,830,694</u>	<u>2,951,021</u>	<u>6,781,715</u>
Fund balances, June 30, 2011	<u>\$ 3,840,583</u>	<u>\$ 3,936,806</u>	<u>\$ 7,777,389</u>

The notes to the financial statements are an integral part of this statement

CITY OF RUTLAND, VERMONT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011

Total Net Change in Fund Balances - Governmental Funds	<u>\$ 995,674</u>
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount is capital outlay costs incurred in the current year.</p>	
	1,524,945
<p>Depreciation is not recognized as an expense in governmental funds and does not require the use of current financial resources. The effect of the current year's depreciation is to decrease net assets.</p>	
	(979,448)
<p>Some accrued expenses, such as vacation and sick accruals, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>	
	2,570,017
<p>Long-term notes receivable do not require current financial resources and are not reported in the fund financial statements; however, loss on recognition of the net present value of these notes is included in the government wide financial statements.</p>	
	(335,974)
<p>Revenues and receivables in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements.</p>	
	98,347
<p>Principal repayment of debt to and from governmental funds is reported in the fund financial statements but is removed from the government-wide Statement of Activities.</p>	
	138,959
Change in Net Assets of Governmental Activities	<u><u>\$ 4,012,520</u></u>

The notes to the financial statements are an integral part of this statement

CITY OF RUTLAND, VERMONT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS - ENTERPRISE FUNDS  
JUNE 30, 2011

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Total Enterprise Funds
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash	\$ 760,076	\$ 11,412	\$ -	\$ 771,488
Accounts receivable, net of allowance	940,410	1,276,542	176,384	2,393,336
Prepaid expenses	20,629	29,237	3,941	53,807
Inventories	98,034	34,294	-	132,328
Due from other funds	-	431,900	-	431,900
<b>Total current assets</b>	<b>1,819,149</b>	<b>1,783,385</b>	<b>180,325</b>	<b>3,782,859</b>
<b>Non-current Assets</b>				
Property and equipment, net of accumulated depr	14,103,958	18,744,159	271,545	33,119,662
<b>Total non-current assets</b>	<b>14,103,958</b>	<b>18,744,159</b>	<b>271,545</b>	<b>33,119,662</b>
<b>Total assets</b>	<b>15,923,107</b>	<b>20,527,544</b>	<b>451,870</b>	<b>36,902,521</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Liabilities</b>				
Accounts payable	45,594	351,833	1,211	398,638
Accrued expenses	183,725	37,268	1,763	222,756
Deferred Revenue	100,191	-	-	100,191
Due to other funds	-	16,000	326,604	342,604
Current portion of long- term debt	812,581	420,590	-	1,233,171
<b>Total current liabilities</b>	<b>1,142,091</b>	<b>825,691</b>	<b>329,578</b>	<b>2,297,360</b>
<b>Non-current Liabilities</b>				
Long-term accrued expenses	1,355,690	1,529,740	323,679	3,209,109
Long-term debt	6,812,144	5,665,681	-	12,477,825
<b>Total liabilities</b>	<b>9,309,925</b>	<b>8,021,112</b>	<b>653,257</b>	<b>17,984,294</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	6,479,233	12,657,888	271,545	19,408,666
Unrestricted	133,949	(151,456)	(472,932)	(490,439)
<b>Total net assets</b>	<b>\$ 6,613,182</b>	<b>\$ 12,506,432</b>	<b>\$ (201,387)</b>	<b>\$ 18,918,227</b>

The notes to the financial statements are an integral part of this statement

CITY OF RUTLAND, VERMONT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS - ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Total Enterprise Funds
Operating revenues				
Charges for services	\$ 3,330,341	\$ 4,184,965	\$ 178,357	\$ 7,693,663
Grant revenue	18,784	48,299	-	67,083
Miscellaneous income	11,377	1,427	-	12,804
Total operating revenues	<u>3,360,502</u>	<u>4,234,691</u>	<u>178,357</u>	<u>7,773,550</u>
Operating expenses				
Operating, maintenance, & general	1,204,471	2,588,982	176,592	3,970,045
Other Post-Employment Benefits	(106,980)	(537,967)	(21,069)	(666,016)
Depreciation	348,747	593,536	18,934	961,217
Total operating expenses	<u>1,446,238</u>	<u>2,644,551</u>	<u>174,457</u>	<u>4,265,246</u>
Operating income (loss)	<u>1,914,264</u>	<u>1,590,140</u>	<u>3,900</u>	<u>3,508,304</u>
Nonoperating expenses				
Interest expense	204,347	122,091	-	326,438
Total nonoperating expenses	<u>204,347</u>	<u>122,091</u>	<u>-</u>	<u>326,438</u>
Income (loss) before transfer:	<u>1,709,917</u>	<u>1,468,049</u>	<u>3,900</u>	<u>3,181,866</u>
Operating transfers out	<u>(1,189,596)</u>	<u>(526,674)</u>	<u>(15,000)</u>	<u>(1,731,270)</u>
Change in net assets	<u>520,321</u>	<u>941,375</u>	<u>(11,100)</u>	<u>1,450,596</u>
Total net assets - June 30, 2010, as stated	<u>3,992,869</u>	<u>13,644,739</u>	<u>(190,287)</u>	<u>17,447,321</u>
Prior period adjustment	<u>2,099,992</u>	<u>(2,079,682)</u>	<u>-</u>	<u>20,310</u>
Total net assets, June 30, 2010, restated	<u>6,092,861</u>	<u>11,565,057</u>	<u>(190,287)</u>	<u>17,467,631</u>
Total net assets, June 30, 2011	<u>\$ 6,613,182</u>	<u>\$ 12,506,432</u>	<u>\$ (201,387)</u>	<u>\$ 18,918,227</u>

The notes to the financial statements are an integral part of this statement

CITY OF RUTLAND, VERMONT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Total
<b>Cash Flows From Operating Activities</b>				
Cash received from customers	\$ 3,387,457	\$ 4,154,480	\$ 178,896	\$ 7,720,833
Cash paid for supplies, services and utilities	(585,513)	(1,477,097)	(62,866)	(2,125,476)
Cash paid for payroll and related expenses	(597,381)	(1,151,453)	(105,230)	(1,854,064)
Cash paid for rent and operating leases	-	(3,750)	(2,800)	(6,550)
Cash deposits received from customers	4,700	15,520	-	20,220
Cash paid to customers - refunds and deposit returns	(2,350)	(12,610)	-	(14,960)
Cash received from employees - reimbursements	12,974	2,700	-	15,674
Net cash provided (used) by operating activities	<u>2,219,887</u>	<u>1,527,790</u>	<u>8,000</u>	<u>3,755,677</u>
<b>Cash Flows From Non-capital Financing Activities</b>				
Cash received (paid) through operating transfers	(615,596)	(958,574)	(15,000)	(1,589,170)
Cash advanced from (repaid to) pooled cash	(1,858,459)	(311,451)	42,825	(2,127,085)
Net cash provided (used) by non-capital & related financing activities	<u>(2,474,055)</u>	<u>(1,270,025)</u>	<u>27,825</u>	<u>(3,716,255)</u>
<b>Cash Flows From Capital &amp; Related Financing Activities</b>				
Cash proceeds from capital debt	3,000,000	462,500	-	3,462,500
Cash paid for the acquisition and construction of capital assets	(325,898)	(658,391)	(35,825)	(1,020,114)
Cash received (paid) for through interfund capital transfers	(574,000)	16,000	-	(558,000)
Cash paid for principal on capital debt	(4,602,836)	(420,590)	-	(5,023,426)
Cash paid for interest on capital debt	(291,723)	(117,999)	-	(409,722)
Cash received for capital grants	-	472,127	-	472,127
Cash proceeds from sale of capital assets	8,701	-	-	8,701
Cash proceeds from litigation settlement	3,800,000	-	-	3,800,000
Net cash provided (used) by capital & related financing activities	<u>1,014,244</u>	<u>(246,353)</u>	<u>(35,825)</u>	<u>732,066</u>
<b>Cash Flows From Investing Activities</b>				
Net cash provided (used) by investing activities	-	-	-	-
Net increase (decrease) in cash	760,076	11,412	-	771,488
Cash at June 30, 2010	-	-	-	-
Cash at June 30, 2011	<u>\$ 760,076</u>	<u>\$ 11,412</u>	<u>\$ -</u>	<u>\$ 771,488</u>
<b>Reconciliation of Operating Income to Net Cash Flows from Operating Activities</b>				
Operating income	\$ 1,914,264	\$ 1,590,140	\$ 3,900	\$ 3,508,304
Adjustments to reconcile operating income to cash flows from operating activities				
Depreciation expense	348,747	593,536	18,934	961,217
(Increase) decrease in accounts receivable	(43,739)	395,137	14,641	366,039
(Increase) decrease in inventories	(38,442)	9,973	-	(28,469)
(Increase) decrease in prepaids	(14,046)	(17,092)	(2,997)	(34,135)
Increase (decrease) in accounts payables	11,497	21,869	(3,381)	29,985
Increase (decrease) in accrued expenses	(58,585)	(1,065,773)	(23,097)	(1,147,455)
Increase (decrease) in deferred revenue	100,191	-	-	100,191
Net Adjustments	<u>305,623</u>	<u>(62,350)</u>	<u>4,100</u>	<u>247,373</u>
Net cash provided (used) by operating activities	<u>\$ 2,219,887</u>	<u>\$ 1,527,790</u>	<u>\$ 8,000</u>	<u>\$ 3,755,677</u>

The notes to the financial statements are an integral part of this statement

CITY OF RUTLAND, VERMONT  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Funds</u>		<u>Agency Funds</u>			
	<u>Employee Pension Fund</u>	<u>Property Escrow Fund</u>	<u>Emergency Fuel Fund</u>	<u>Hanamaki Relief Fund</u>	<u>Graphic Arts Fund</u>	<u>Mission Fund</u>	<u>Grace Stoolfire Trust Fund</u>
<b>ASSETS</b>							
Cash and cash equivalents	\$ 6,381,445	\$ 18,034	\$ 14,387	\$ 1,097	\$ 21,309	\$ -	\$ 48,051
Investments	51,566,183	-	-	-	-	-	222,914
Due from other funds	-	-	-	1,871	-	-	-
Total assets	<u>57,947,628</u>	<u>18,034</u>	<u>14,387</u>	<u>2,968</u>	<u>21,309</u>	<u>-</u>	<u>270,965</u>
<b>LIABILITIES</b>							
Held for the benefit of others	-	-	-	2,968	21,309	-	270,965
Fund liabilities	-	17,918	-	-	-	-	-
Total liabilities	<u>-</u>	<u>17,918</u>	<u>-</u>	<u>2,968</u>	<u>21,309</u>	<u>-</u>	<u>270,965</u>
<b>NET ASSETS</b>							
Assets held in trust for others	<u>\$ 57,947,628</u>	<u>\$ 116</u>	<u>\$ 14,387</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement

CITY OF RUTLAND, VERMONT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Funds</u>	
	Employee Pension Fund	Property Escrow Fund	Emergency Fuel Fund
<b>Additions</b>			
Contributions	\$ 3,608,089	\$ -	\$ -
Donations	-	-	1,050
Investment earnings			
Interest	1,277,272	116	47
Net increase (decrease) in fair value of investments	7,559,156	-	-
Gain (loss) on disposition of investments	821,249	-	-
Total investments earnings	<u>9,657,677</u>	<u>116</u>	<u>47</u>
Total additions	<u>13,265,766</u>	<u>116</u>	<u>1,097</u>
<b>Deductions</b>			
Retirement benefits	3,778,307	-	-
Disbursements	-	24,563	-
Total deductions	<u>3,778,307</u>	<u>24,563</u>	<u>-</u>
Changes in net assets	<u>9,487,459</u>	<u>(24,447)</u>	<u>1,097</u>
Net assets, beginning	<u>48,460,169</u>	<u>24,563</u>	<u>13,290</u>
Net assets, ending	<u>\$ 57,947,628</u>	<u>\$ 116</u>	<u>\$ 14,387</u>

The notes to the financial statements are an integral part of this statement

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note I. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The City of Rutland is a municipal government with an elected mayor and Board of Aldermen. The accompanying financial statements present the government and its component unit entity for which the government is considered to be financially accountable. The component unit is a discretely presented component unit reported in a separate column of the government-wide financial statements.

The accounting policies of the City of Rutland, Vermont conform to generally accepted accounting principles applicable to governmental units.

The City of Rutland, Vermont (the City), has adopted the accounting and financial reporting standards established by the Governmental Accounting Standards Board (GASB). Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 1989, unless those pronouncements conflict with or contradict GASB statements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

**B. Reporting Activities**

The City, for financial reporting purposes, includes all of the funds relevant to the operations of the City of Rutland. The financial statements presented herein do not include entities which have been formed under applicable state laws or separate and distinct units of government apart from the City of Rutland.

The financial statements of the City do not include those of separately administered entities that are not controlled by or dependent on the City. Such control or dependence (oversight responsibility) is determined on the basis of five basic characteristics: financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Based upon the foregoing criteria, the financial statements of the following entities are excluded from the accompanying financial statements:

Rutland Public School District	Rutland Free Public Library Association
Rutland Regional Planning Commission	Rutland County Solid Waste District
Rutland Regional Ambulance Service, Inc.	Marble Valley Regional Transit Authority
Rutland Area Visiting Nurses Association and Hospice	

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

**B. Reporting Activities (continued)**

These entities are not part of the City's reporting entity because the City exercises no oversight responsibility and has no accountability for fiscal matters. The significant factors for exclusion are: the directors are elected either directly by the registered voters or internally from the boards; the City cannot significantly influence the entity's operations; the entities have distinct budgetary authority; the entities control surpluses and deficits; the City is not responsible for the entity's debts; and the entities are responsible for fiscal management and fee determination.

Based on the same criteria, the following entity is considered a component unit of the City of Rutland:

Rutland Redevelopment Authority

The Rutland Redevelopment Authority is a special-purpose municipal corporation formed in 1989 to promote economic opportunity and planning within the City of Rutland, Vermont. It is governed by a Board of Commissioners appointed by the City Mayor and Board of Alderman.

The organization levies a special assessment tax which is collected and administered by the City of Rutland.

**C. Government-Wide and Fund Financial Statements**

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information of the City as a whole. Individual funds are not displayed; but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines, and forfeitures and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

**C. Government-Wide and Fund Financial Statements (continued)**

revenues are subject to externally imposed restrictions to program uses. Taxes and other revenue sources not included with program revenues are reported as general revenues.

The fiduciary funds of the City are not included in the government-wide financial statements; separate financial statements are presented and included here.

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and proprietary funds are reported in separate columns. The remaining non-major fund information is presented in supplementary schedules.

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

1. Measurement Focus: The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Proprietary and fiduciary funds also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant revenues are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers all revenues available if they are collected within sixty (60) days after yearend. Expenditures are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary operations of the fund. Operating revenues for these funds are charges to customers for services. Operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Property taxes, sewer usage fees, and water usage fees are recognized under the susceptible-to-accrual concept in accordance with Governmental Accounting Standards Board (GASB) pronouncements. Miscellaneous revenues and fees are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation  
(continued)**

2. Basis of Accounting and Presentation: The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and for individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Equity is reported in three components: invested in capital assets net of related debt, restricted, and unrestricted in the government-wide financial statements and nonspendable, restricted, committed, assigned, and unassigned in the fund financial statements.

Governmental Funds - These funds are used to account for the programs and activities of the governmental functions of the City.

General Fund: The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund, and includes the public safety, culture and recreation, and administrative operations of the City.

Special Revenue Funds: Special revenue funds are used to account for the proceeds of specific revenue sources (other than permanent funds or major capital projects) that are restricted to expenditures for specified purposes. The City has thirteen special revenue funds: the Hospital Fund is for improvements and beautification in the southeast Neighborhood; the Equipment Replacement Fund is used for replacement of police, recreation and DPW equipment; the Field Maintenance Fund is used to maintain recreational fields; the Capital Improvement Fund is used for major capital improvements to the sewer infrastructure with the source of this funding from Sewer Allocation Fees; the Fire Equipment Fund is used to purchase major equipment for the Fire Department; the Zamias Impact Fund is used to foster economic activity to offset the impact of the Diamond Run Mall; the Recreation Activities Fund is used to support specific recreational activities; the White Fund is used to fund pool facility upgrades at White Park; the Giorgetti Fund is used for development and improvement of Giorgetti Park; the Records Preservation Fund is used to sustain City public records; the CSO Sinking Fund is used to provide future sewer projects funding based on a 2004 resolution of the Board of Alderman; the Bridge Fund is used for bridge repairs sourced by the unused portion of the Department of Public Works bridge repair budget from each year to pay for major bridge work. The City established the Water System Capital Fund during fiscal year ended June 30, 2011 to fund future water system capital improvements.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation  
(continued)**

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 the benefit of the government or its citizenry. The City has two permanent funds: the Maples Fund, used to finance a low-income housing project and the Downtown Special Business District Revolving Loan Fund, used for funding building improvements or real estate acquisitions in Downtown Rutland.

Proprietary Funds - Enterprise Funds: Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis is financed or recovered primarily through user charges. The Water Fund, the Sewage Disposal Fund, and the Parking Meter Fund are the City's three enterprise funds.

Fiduciary Funds – These funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support the government's own programs. The City has three types of trust funds: pension trust, private-purpose trust, and agency funds.

Pension Trust Fund – Used to report resources that are required to be held in trust for members and beneficiaries of the City's Defined Benefit pension plan. The City's only Pension fund is the Employee Pension Fund.

Private-Purpose Trust Funds: To account for assets held by the City in trustee capacity for individuals, private organizations, and other governments. Private-purpose trust funds are accounted for in the same manner as proprietary funds. The City maintains two private-purpose fiduciary funds: the Property Escrow Fund used to account for tax-sale activity and the Emergency Fuel Fund used to provide fuel assistance to the needy at the Mayor's discretion.

Agency Funds: To account for situations where the government's role is purely custodial. All assets reported in an agency fund are offset by a liability to the party on whose behalf they are held. Agency funds do not present results of operations or have a measurement focus. Agency funds use the full accrual basis of accounting. The City maintains four agency funds. Three are held for the benefit and at the direction of the Rutland School District. The Graphic Arts Fund is used to support educational programs related to graphic arts, the Mission Fund is used for capital purposes of the Rutland Public Schools, and the Grace Stoolfire Fund is used to support music education. The last agency fund is the Hanamaki Relief Fund, held for the benefit of Rutland's sister City in Japan to support relief efforts related to the March 2011 earthquake and tsunami in Japan.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

**E. Assets, Liabilities, and Net Assets or Equity**

1. Cash and cash equivalents: Cash balances of the City's General Fund and Proprietary Funds are pooled and used by the City Treasurer for operating activities. The City considers all short-term investments of ninety (90) days or less to be cash equivalents. The City has not adopted formal deposit and investment policies.

2. Investments: The City invests in investments as allowed by State statute. Investments with readily determinable fair values are reported at their fair value on the balance sheet. Unrealized gains and losses are included in revenue.

3. Receivables: Receivables are shown net of an allowance for uncollectible amounts for the estimated losses incurred in the collection of the receivables. Estimated losses are based on the judgment of management and a review of the current status of existing receivables. Also included are unbilled revenues, consisting of various revenues earned as of June 30 2011 but not yet billed as of that date.

4. Inventories and prepaid expenditures/expenses: Inventory quantities are determined by physical count and are valued at the lower of cost or market. Inventories consist of materials and supplies and chemicals.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Interfund receivables/payables and internal activity: Transactions between funds that are representative of lending/borrowing arrangements and are outstanding at the end of the fiscal year are referred to as interfund receivables/payables. As established by City Ordinance, the City Treasurer is authorized to effect interfund transfers as necessary for operational requirements and subsequently record and report this activity to the Board of Aldermen. The City approved a policy that interfund borrowing will not bear interest.

Interfund due from/due to balances between individual funds of the City are presented in the fund financial statements but are eliminated for the government-wide Statement of Activities. The balance of activity between governmental and business-type activities is presented as internal balances in the government-wide Statement of Activities.

6. Capital assets: The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are reported in their respective fund financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with an initial cost above \$5,000.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

**E. Assets, Liabilities, and Net Assets or Equity (continued)**

The costs of normal maintenance and repairs that do not add to asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method.

The City continues to improve its capitalization processes in order to consistently apply adopted capitalization policies. The propriety funds prior period adjustments reflect this continued improvement.

When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvement	20 - 50
Reservoirs	100
Equipment	5 - 15

7. Compensated absences: The City permits employees to accumulate a limited amount of earned but unused vacation, sick and compensation time benefits. Per the City Charter, vacation pay must be used or is lost at the end of each employee's anniversary year. Sick time may be accumulated and, if unused, is paid at termination. All sick and vacation pay is accrued and reported in the government-wide and proprietary fund financial statements. Compensation time must be used, cashed out or is lost at the end of each fiscal year.

8. Long-term obligations: In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets.

9. Net Assets and Fund Equity:

In the Statement of Net Assets, net assets are classified in three categories:

Invested in Capital Assets, Net of Related Debt – All capital assets and accumulated depreciation, reduced by debt that is attributable to the acquisition, construction, or improvement of capital assets.

Restricted Net Assets – Assets for which external restrictions have been 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 – Net assets that are not restricted in any way.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

**E. Assets, Liabilities, and Net Assets or Equity (continued)**

In the governmental funds, fund balance is classified in the following categories, beginning with the most binding constraints, as follows:

Nonspendable -	Amounts unavailable for spending, such as related to inventories and prepaid expenditures.
Restricted -	Amounts constrained by external parties, constitution provision, or enabling legislation.
Committed -	Amounts constrained by a government using its highest level of decision-making authority.
Assigned -	Amounts a government intends to use for a particular purpose.
Unassigned -	Amounts in the General Fund that are not constrained at all, as well as deficit fund balances of other governmental funds. Deficits require future funding.

Committed fund balance is established by the voters of the City by adoption of the budget and/or authorization of articles at the annual meeting of the City of Rutland held in March of each year.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

**F. Other accounting policies**

1. Authorized expenditures: The City does not utilize encumbrance accounting for its governmental funds. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, would be employed as an extension of the formal budgetary integration in the General Fund. In accordance with the City Charter, all encumbrances expire at the fiscal yearend.

2. Operating transfers: Operating transfers are legally authorized transfers of resources from one fund to another in support of operations or long-term activities.

3. Capitalized interest: Interest expense incurred in connection with various construction projects has been capitalized in the enterprise funds or the capital project fund.

4. Interest rate risk: Changes in market interest rates affect the fair value of an interest-bearing investment over time. The City does not have a deposit policy regarding interest rate risk.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

**F. Other accounting policies (continued)**

5. Credit risk: The City is exposed to various risks including credit risk, custodial credit risk and concentration of credit risk. The City does not have policies regarding these risks.

6. Property taxes: The City is responsible for assessing, collecting, and distributing property taxes in accordance with State statutes. Property taxes are billed in four installments throughout the year, based on the assessed value of property.

Property taxes attach as an enforceable lien on property when they remain unpaid after the final, 4<sup>th</sup> quarter due date. Taxes are levied during July of each year and are due and payable for each installment as established by City Charter.

Property tax revenues are recognized when they are levied because they are considered to be both measurable and available. Available includes those property tax receivables expected to be collected within sixty (60) days after yearend. Delinquent taxes are considered fully collectible but are excluded from the fund financial statements unless collected within the sixty-day revenue recognition period. These tax revenues are fully included in the government-wide Statement of Net Assets and Statement of Activities.

7. Taxes collected for others: Property taxes collected by the City include taxes levied for the Rutland School District, Rutland County, and the Rutland Redevelopment Authority. The City is ultimately responsible for the collection of these taxes which are remitted to the governmental units as required by law.

8. Revenue recognition: The City defines the length of time available for purposes of revenue recognition by fund and revenue type. Property taxes, as outlined above, are recognized if collected within sixty days of yearend. Other revenues in the General Fund, such as Rooms and Meals taxes, fees, fines, rental and grant income are recognized when collected. Program revenue in the Recreation Fund is recognized when earned, as these fees are collected during the spring for services provided during summer months, subsequent to year end.

9. Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note II. Reconciliation of government-wide and fund financial statements**

**A. Explanation of differences between the governmental fund balance sheet and the government-wide financial statement of net assets.**

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental fund and net assets – governmental activities as reported in the government-wide financial statement of net assets. The total adjustment between the fund balance sheet and government-wide statement of net assets is a decrease of \$2,930,446.

**B. Explanation of differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.**

The statement of revenues, expenditures, and changes in fund balances is reconciled to changes in net assets of governmental activities as reported in the government-wide statement of activities to account for different measurement focuses. The total adjustment between the fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities is an increase of \$3,016,846.

**Note III. Stewardship, compliance, and accountability**

**A. Budgetary accounting**

General governmental financial activity is controlled by a formal integrated budgetary system in accordance with various legal requirements which govern the City's operations. The budget of the City is prepared by the Mayor, reviewed by the Board of Aldermen and, beginning with the fiscal year 2011, approved at voters' discretion. All budget appropriations lapse at yearend.

**B. Excess of expenditures over appropriations**

For the year ended June 30, 2011, General Fund expenditures exceeded revenues by \$1,278,960, before transfers in of \$1,288,849. The net increase in General Fund fund balance was \$9,889.

**C. Deficit/surplus fund equity**

The Parking Meter Fund has a deficit fund balance of \$201,387 for the year ended June 30, 2011. The City is working to resolve this deficit through operations and forgiveness of interfund receivables and payables between the Parking Meter Fund and General Fund.

The City's three proprietary funds each has surplus net assets; however, of the total \$18,918,227 net assets, \$19,408,666 is invested in capital assets, with an unrestricted deficit total for the three funds of \$490,439. The City has not developed specific plans to resolve these deficits.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**Note IV. Detailed notes on all funds**

**A. Cash, Cash Equivalents, and Investments**

At June 30, 2011, the carrying amount of the City's deposits with financial institutions was \$14,831,539, and the total balance reported by these institutions was \$15,570,766. These deposits are held in checking accounts, savings accounts, and money market accounts. Of the funds on deposit, \$250,000 was insured by the Federal Deposit Insurance Corporation (FDIC), \$7,500,000 was collateralized, and the remaining \$7,820,766 was uninsured and uncollateralized.

\$6,381,445 of uninsured and uncollateralized balance of cash was held in the City's investment account by Prudential Retirement Insurance and Annuity Company (PRIAC) and is reported in the City's Employee Pension Fund. These amounts are guaranteed for principal and accrued interest by the PRIAC.

The City has collateralization agreements with Merchant's Bank to secure deposits above the FDIC limits. The City has not adopted formal deposit and investment policies.

The Agent for the City's retirement fund is authorized to invest funds to be held in the name of the City's pension fund in savings banks or trust departments in the State of Vermont; in building and loan or cooperative banks incorporated under State of Vermont laws; in federal savings and loan associations located in the State of Vermont; in bonds, notes, or other obligations of the United States government or legal obligations of any state political subdivision; and in stocks and bonds. All trust fund investments are stated at market value.

At June 30, 2011, pension fund investments were valued at \$51,566,183. Market value of trust fund investments, determined by quoted market prices at June 30, 2011, are as follows:

U.S corporate Stock	\$26,538,956
International Stock	8,730,486
Corporate Bonds	<u>16,296,741</u>
	<u>\$51,566,183</u>

The City has investments in the Grace Stoolfire Trust Fund. Investments for this fund are to be used for the purpose of the fund. The Grace Stoolfire Trust Fund investments are held as equity securities and U. S. government obligations and are stated at fair value as of yearend and have not been rated as to credit risk.

GASB Statement No. 40 requires the City's investments to be categorized to give an indication of the level of risk assumed by the City at yearend. Category 1 includes investments that are insured or registered or securities that are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counter party's trust department or agent in the City's name. At June 30, 2011, the City's investments in the Grace Stoolfire Trust Fund were in Category 1.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note IV. Detailed notes on all funds (continued)**

**B. Endowment Fund**

The Giorgetti Fund includes an amount given to the City for the purposes of improvement and maintenance of Giorgetti Park. The City considers this an endowment and was established by the Giorgetti Trust in 2009 with the first donation.

1. Interpretation of Relevant Law: The Board of Aldermen of the City has interpreted the Vermont-adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the City classifies as permanently restricted net assets as (a) the original value of gifts donated to the endowment (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable gift instrument at the time the accumulation is added to the fund. The remainder of the endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the City in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the City considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the City and the donor-restricted endowment
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the City
- g. The investment policies of the City

2. Funds with Deficiencies: There is no expectation that the fair value of assets associated with donor-restricted endowment will fall below the level that the donor or UPMIFA requires the City to retain. There are no deficiencies of this nature as of June 30, 2011.

3. Return Objectives and Risk Parameters: The City has adopted investment and spending policies for endowment assets that will preserve the principal amounts for uses consistent with the donor's purposes, and provide availability to principal in a timely fashion for utilization. There is no requirement that the funds be held in perpetuity if the funds are spent in accordance with the restrictions. Under this policy the Board of Finance determined to protect the principal by investing in fully collateralized certificates of deposit or money market accounts reported to

CITY OF RUTLAND, VERMONT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2011

**Note IV. Detailed notes on all funds (continued)**

**B. Endowment Fund (continued)**

the Board. While the return objective will be low, based on market rates, the risk of loss will also be low. Actual return as of June 30, 2011 is based on returns provided for on-demand deposits. Actual returns will vary each year.

4. Strategies Employed for Achieving Objectives: To satisfy the City's goals of preservation of principal and availability, the City invests in fully collateralized bank instruments of short to medium duration during low return cycles and will invest in varying investment terms as rates rise or decline. The investments are structured through agreement with the bank that no early withdrawal penalty will be imposed providing the City with desired liquidity.

5. Spending Policy and How Investment Objectives Relate to Spending Policy: The City is not restricted in the amount that can be spent from the Endowment in any given year or period as long as the purposes of the amounts spent are consistent with the objectives of the donor. Therefore, the investment objectives of principal preservation and liquidity are of high importance.

**C. Individual Fund Interfund Receivable and Payable Balances**

Balances at June 30, 2011 were as follows:

	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 368,565	\$ 57,667
Recreational Activities Fund	24,460	791
Field Maintenance Fund	37,690	-
Records Preservation Fund	801	-
Giorgetti Fund	-	9,567
Capital Improvement Fund	16,000	-
CSO Sinking Fund	-	431,900
Fire Equipment Fund	15,000	-
Equipment Replacement Fund	-	54,322
Maples Revolving Loan Fund	-	3
Downtown Special Business District Fund	566	-
Sewage Disposal Fund	431,900	16,000
Parking Meter Fund	-	326,604
Hanamaki Relief Fund	<u>1,872</u>	<u>-</u>
	<u>\$ 896,854</u>	<u>\$ 896,854</u>

The City uses pooled cash to account for general operations and the City's proprietary funds. The City Treasurer manages this activity through the use of interfund receivables and payables. The Treasurer provides the detail of this activity to the Board of Aldermen on a regular basis.

CITY OF RUTLAND, VERMONT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2011

**Note IV. Detailed notes on all funds (continued)**

**D. Interfund Operating Transfers**

The following are interfund operating transfers for the year ended June 30, 2011:

	Transfers Out:						
	General Fund	CSO Sinking Fund	Property Escrow Fund	Water Fund	Zamias Impact Fund	Sewage Disposal Fund	Parking Meter Fund
<b>Transfers In:</b>							
General	\$ -	\$ -	\$ 24,563	\$ 615,596	\$ -	\$ 796,190	\$ 15,000
Hanamaki Relief	2,500	-	-	-	-	-	-
Equip Repl	120,000	-	-	-	-	-	-
Sewage Disposal	-	431,900	-	-	-	-	-
Water Sys Capital	-	-	-	574,000	-	-	-
DT SBD RLF	-	-	-	-	135,000	-	-
CSO Sinking	-	-	-	-	-	162,384	-
Fire Equipment	40,000	-	-	-	-	-	-

**E. Capital Assets Activity**

Capital asset activity of the City for the year ended June 30, 2011 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
<b>Governmental activities:</b>				
Land, non-depreciable	\$ 3,789,016	\$ -	\$ -	\$ 3,789,016
General services	2,159,366	19,525	-	2,178,891
Fire Department	3,210,035	209,977	-	3,420,012
Police Department	2,868,709	110,295	73,673	2,905,331
Department of Public Works	35,873,257	952,285	-	36,825,542
Recreation	2,131,670	202,188	-	2,333,858
Library	242,609	444,351	-	686,960
Total capital assets at cost	<u>50,274,662</u>	<u>1,938,621</u>	<u>73,673</u>	<u>52,139,610</u>
Less accumulated depreciation:				
<b>Governmental activities:</b>				
General services	707,182	41,234	-	748,416
Fire Department	2,684,981	145,841	2,030	2,832,852
Police Department	1,547,904	180,480	(183,122)	1,545,262
Department of Public Works	30,970,283	530,392	(13,701)	31,486,974
Recreation	1,161,728	77,995	(10,335)	1,229,388
Library	52,875	3,506	160,750	217,131
Total accumulated depreciation	<u>7,124,953</u>	<u>979,448</u>	<u>(44,378)</u>	<u>38,060,023</u>
Capital assets, net of depreciation	\$ <u>13,149,709</u>	\$ <u>959,173</u>	\$ <u>29,295</u>	\$ <u>14,079,587</u>

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note IV. Detailed notes on all funds (continued)**

**E. Capital Assets Activity (continued)**

Depreciation expense was charged to governmental functions as follows:

General government	\$ 44,806
Public safety	326,321
Highway & street	526,820
Culture & recreation	<u>81,501</u>
Total	<u>\$979,448</u>

<b>Business-type activities:</b>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Land	\$ 350,273	\$ 35,825	\$ -	\$ 386,098
Buildings	47,120,966	441,364	(5,966,721)	41,595,609
Easements	115	-	-	115
Machinery & Equipment	3,790,124	411,613	(118,693)	4,083,044
Meters	1,257,880	70,169	-	1,328,049
Reservoirs	<u>2,694,613</u>	<u>-</u>	<u>-</u>	<u>2,694,613</u>
Total	<u>55,213,971</u>	<u>958,971</u>	<u>(6,085,414)</u>	<u>50,087,528</u>
Less accumulated depreciation:	<u>(18,391,168)</u>	<u>(961,217)</u>	<u>2,384,519</u>	<u>(16,967,866)</u>
Capital assets, net	<u>\$ 36,822,803</u>	<u>\$ (2,246)</u>	<u>\$ (3,700,895)</u>	<u>\$ 33,119,662</u>

Total business-type depreciation expense for the year ended June 30, 2011 is \$961,217.

The City has reclassified some assets for greater clarity and continues to improve capital asset management.

**F. Allowance for Uncollectible Receivables**

Delinquent taxes reported in the government-wide financial statements represent property taxes outstanding at June 30, 2011. The City has the legal right to force sale of the property to collect these taxes; therefore, the City has not established an allowance for uncollectible taxes.

Water and sewer charges and parking ticket receivables represent balances at June 30, 2011. The City has the legal right to force sale of the property to recover the sewer and water fees and a legal right to enforce collection of parking tickets; therefore, at June 30, 2011, the City has not established an allowance for uncollectible receivables. Other accounts receivable represent amounts due for grants and notes receivable due to the City. Based on past experience and the existence of formal agreements, the City has not established an allowance for uncollectible receivables.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note IV. Detailed notes on all funds (continued)**

**G. Mortgages and Notes Receivable**

For the year ended June 30, 2011, the City adjusted the value of its notes receivable to net present value. Notes receivable are presented in two categories: 1) for notes where payments are being made and the note has not reached its maturity date, notes are stated at face value; and 2) for notes whose payments are deferred, the City has used an inflation index to calculate a net present value. The two columns below present the notes receivable face value balances and the City's expected realizable values at June 30, 2011:

<u>Description</u>	06/30/2011 <u>Face Value Balance</u>	<u>Realizable Amount</u>
0% 2001 Columbian Avenue note receivable with a 25-year Deferral with the full balance due June 2026.	\$ 280,200	\$ 193,766
0% 1998 Maples LLP note receivable for \$487,070 between the State of Vermont and the City of Rutland with payments made over a 20-year period calculated as a function of net cash flow from the activity with final balance due December 2018.	484,382	242,191
2% 2009 Deborah Dubay note receivable with quarterly payments of principal and interest of \$290 with final balloon payment due in August 2019. This loan is sourced from the City's SBD Revolving Loan Fund.	13,030	13,030
0% 2008 Elizabeth Pimpare note receivable with semi-annual payments of principal of \$1,500 with final payment due in January 2018. This loan is sourced from the City's SBD Revolving Loan Fund.	21,000	21,000
2% 2009 S & E Enterprises, Inc. (C Street Holdings) note receivable with payments deferred two years from date of note with monthly principal and interest payments to begin August 2011 of \$352 with final payment due in August 2019. This loan is sourced from the City's SBD Revolving Loan Fund.	30,000	31,171
2% 2010 Rutland County Court Diversion note receivable with monthly principal and interest payments of \$138 with final payment due in May 2020. This loan is sourced from the City's SBD Revolving Loan Fund.	13,400	13,400

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note IV. Detailed notes on all funds (continued)**

**G. Mortgages and Notes Receivable (continued)**

<u>Description</u>	06/30/2010 <u>Face Value</u> <u>Balance</u>	<u>Realizable</u> <u>Amount</u>
2% 2010 John and Jerri Sabataso note receivable with monthly principal and interest payments of \$230 with final payment due in July 2020. This loan is sourced from the City's SBD Revolving Loan Fund.	22,911	22,911
0% 2004 Tuttle Block Housing Limited Partnership note receivable with a 30-year deferral with the full balance due August 2034.	600,000	312,840
0% 1999 Rutland County Community Land Trust note receivable payable only upon sale of the building or a change in use. The note is forgiven over a term of 27 years with full forgiveness in 2026.	139,389	-
0% 2004 Housing Foundation note receivable. No payment terms were identified in the promissory note to the City. The note was forgiven by the City during fiscal year 2012.	179,000	-
0% 2011 Rutland Housing Partnership note receivable with a 30-year deferral with the full balance due October 2040.	750,000	319,648
Total long-term mortgages and notes receivable	<u>\$2,533,312</u>	<u>\$1,169,957</u>

**H. Lease Agreements**

1. Lease revenue - The City has entered into numerous lease agreements as the lessor to various organizations from which the City receives rental income.
2. Capital leases – In years prior to 2011, the City entered into lease agreements for equipment. Capital assets include purchases by capital lease. Capital assets, acquired by lease agreements, have been capitalized in the amount of \$202,550. Accumulated depreciation on this equipment totaled \$50,639. The future minimum lease payments required under the capital leases and the present value of the minimum lease payments at yearend are as follows:

2012 minimum lease payments, including interest	<u>\$ 22,715</u>
Present value of future minimum lease payments	<u>\$ 22,715</u>

CITY OF RUTLAND, VERMONT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2011

**Note IV. Detailed notes on all funds (continued)**

**H. Lease Agreements (continued)**

3. Operating leases – The City has operating leases for several real properties, in the form of land and building space. Each of these leases are at-will and may be cancelled by either party. The total of operating lease expense for 2011 was \$31,934.

**I. Short-term Debt**

The City has no short-term debt as of June 30, 2011 and no short-term debt activity occurred for the year ended June 30, 2011.

**J. Long-Term Debt**

**Governmental Activities**

General long-term debt activity for the year ended June 30, 2011 is as follows:

	07/01/10			06/30/11
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
3.14% Capital Improvement Bond – General Obligation with annual principal payments of \$6,110 plus variable interest, payments maturing December 2013.	\$ 24,299	\$ -	\$ 6,110	\$ 18,189
4.97% Capital Improvement Bond – General Obligation - with annual principal payments of \$140,000 plus variable interest, payments maturing December 2020.	1,540,000	-	140,000	1,400,000
Total governmental-activities and long-term debt obligations	<u>\$ 1,564,299</u>	<u>\$ -</u>	<u>\$146,110</u>	<u>\$1,418,189</u>

**Business-type Activities**

Long-term debt of the City's Proprietary Funds is in the form of long-term notes and bonds. The proceeds of such debt have been used for improvement of the City's water and sewer systems. Proprietary Funds notes and bonds payable consist of the following as of June 30, 2011:

	07/01/10			06/30/11
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
<u>Sewer Fund</u> 0.00% Overflow Project VMBB bond with variable annual principal payments maturing December 2012.	224,360	-	30,589	193,771
0.00% CSO VMBB construction bond with principal only annual payments of \$160,000 maturing December 2026.	2,880,000	-	160,000	2,720,000

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note IV. Detailed notes on all funds (continued)**

**J. Long-Term Debt (continued)**

	07/01/10			06/30/11
<u>Sewer Fund</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
4.005% CSO Phase 2A VMBB construction bond with principal payments of \$80,000 beginning in December 2008 with variable semi-annual interest payments maturing December 2027.	1,440,000	-	80,000	1,360,000
5.82% TD Bank Current Expense Note for sewer portion General Fund operating transfers with annual principal payments of \$250,000 plus interest matured June 2011	1,500,000	-	1,500,000	-
3.6% Merchant's Bank Current Expense Note for the sewer portion of repayment of General Fund operating transfers with annual payments of \$150,000 plus interest maturing June 2015.	-	1,500,000	150,000	1,350,000
2% VMBB Bond for CSO West and Crescent Streets improvement with annual payments of \$28,285 maturing Oct 2031.	-	462,500	-	462,500
<u>Water Fund</u>				
3.75% VMBB Capital Bond with annual principal Payments of \$95,000 plus variable interest semi-annual payments maturing December 2022.	1,235,000	-	95,000	1,140,000
3.75% VMBB Water Roof Repair Bond with annual principal and interest payments of \$115,546, maturing December 20	5,700,000	-	3,858,546	1,841,454
2.22% VMBB Capital Improvement Bond with principal and interest payments of \$199,290 through 2010 and principal and interest payments of \$197,757 thereafter maturing in December 2013.	792,561	-	199,290	593,271

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note IV. Detailed notes on all funds (continued)**

**J. Long-Term Debt (continued)**

<u>Water Fund</u>	07/01/10 <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	06/30/11 <u>Balance</u>
5.82% TD Bank Current Expense Note for repayment of General Fund operating transfers with annual principal payments of \$250,000 plus interest matured June 2011.	1,500,000	-	1,500,000	-
3.6% Merchant's Bank Current Expense Note for the water portion of repayment Of General Fund operating transfers with Annual payments of \$150,000 plus Interest maturing June 2015.	-	4,500,000	450,000	4,050,000
Total business-type activities and long-term debt obligations	<u>\$15,271,92</u>	<u>\$ 6,462,500</u>	<u>\$8,023,425</u>	<u>\$13,710,996</u>
Total long-term debt				<u>\$15,129,185</u>
Less current portion				<u>(1,379,234)</u>
Long-term portion				<u>\$13,749,951</u>

The following is a summary of annual principal and interest debt requirements to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Current portion	1,379,234	414,119	1,793,353
2013	1,522,543	397,606	1,920,149
2014	1,372,020	343,101	1,715,121
2015	4,170,809	301,920	4,472,729
2016	573,492	156,179	729,671
2017-2021	2,910,458	491,791	3,402,249
2022-2026	2,005,015	164,909	2,169,924
2027-2031	1,151,890	55,866	1,207,756
2032-2036	<u>43,724</u>	<u>8,525</u>	<u>52,249</u>
Total	<u>\$15,129,185</u>	<u>\$2,334,016</u>	<u>\$17,463,201</u>

For the year ended June 30, 2011, long-term debt interest expense was \$444,513.

The City approved a loan of \$463,000 from the USDA to fund City library renovations during the year ended June 30, 2011, however, did not draw on this loan until November 2011.

CITY OF RUTLAND, VERMONT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2011

**Note IV. Detailed notes on all funds (continued)**

**K. Fund Balances Designated for Specific Purposes**

At June 30, 2011 the City had designated General Fund fund balance for the following purposes:

<u>Designated for specific purposes:</u>	<u>General Fund</u>
Nonspendable	
Inventories	53,558
Prepaid expenses	439,200
Restricted	
2008 Whistle Repair Donations	438
Rail Car	10,000
Lister Education	2,220
Reappraisal	271,493
Drug Forfeiture	93,540
Community Police	7,703
Drug Investigation Donations	2,320
Downtown Traffic	698
Route 4 & 7	31,885
LCIF Grant	1,497
Godnick Center	22,255
Committed	
Giorgetti Capital	1,258
Railyard	5
Home Depot Activity	58,292
GIS	12,228
Assigned	
Godnick Trip	22,337
Police Impress	15,489
Downtown Homeowner	93
Total designated fund balance	<u>\$ 1,046,509</u>

**L. Taxes Collected for Others**

Property taxes collected by the City include taxes levied for the Rutland School District, Rutland County, and the Rutland Redevelopment Authority. The City is ultimately responsible for the collection of these taxes which are remitted to the governmental entities as required by law. The amount of taxes collected and remitted to the Rutland School District, Rutland County, and the Rutland Redevelopment Authority during the year ended June 30, 2011 was \$12,662,487, \$82,334 and \$285,711, respectively.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note IV. Detailed notes on all funds (continued)**

**M. Deferred Revenue**

Deferred revenue at yearend consists of the following:

1 - The City entered into an agreement with the Rutland Area Hockey Association (RAHA) during May 2008 to lease use of the Giorgetti Ice Rink to RAHA for a period of six years beginning in FY08. RAHA prepaid the City \$60,000 for this lease. The City recognizes this revenue each year as follows: \$12,000 each in FY 2008 and FY 2009, \$10,000 each in FY 2010 and FY 2011, \$8,000 in FY 2012 and a final payment of \$8,000 in FY 2013.

2 - The City collects recreational activity member fees in the spring of each year for programs that occur subsequent to the end of the fiscal year. These collections represent deferred revenue to the City until the programs' execution satisfies the City's obligation to its members to provide the summer programs.

3 - The City changed the recognition of revenue for charged sprinkler systems to users during the year ended June 30, 2011 to more accurately allocate revenue to the period in which it is earned. Sprinkler charges occur once each year in advance.

The total amount of deferred revenue at June 30, 2011 is \$220,809.

**Note V. Other information**

**A. Commitments and Contingencies**

1. Risk Management: The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains insurance coverage through the Vermont League of Cities and Towns Property and Casualty Intermunicipal Fund, Inc., covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three (3) fiscal years. The City must remain a member for a minimum of one year and may withdraw from the Fund after that time by giving sixty days notice. Fund underwriting and rates are subject to a supplemental assessment in the event of deficiencies. If the assets of the Fund were to be exhausted, members would be responsible for the Fund's liabilities. The City believes no such deficiency exists at June 30, 2011 and does not anticipate a deficiency in the future. The City maintains self-insurance for unemployment insurance purposes.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note V. Other information (continued)**

**A. Commitments and Contingencies (continued)**

2. Federal and State Grants: In the normal course of operations, the City receives grant funds from various federal and state agencies. The costs charged to grant programs are subject to audit and adjustment by agents of the granting authority. Any liability for reimbursement of grant funds received, which may arise as the result of these audits, is not believed to be material.

3. Landfill Closure: During 1990, the City closed a landfill and executed a management plan for post-closure monitoring of the site. The City supports active monitoring of the site through a budgetary line item in the General Fund. The City does not expect costs to exceed the amount budgeted for this purpose.

4. Long-Term Contracts: The City has several union contracts with the police, fire, and public works department employees, which cover periods through June 30, 2010. Of these contracts, the police department's and fire department's union contracts were renewed through June 30, 2014; the public works department union contract expired June 30, 2010. The City has entered negotiations with the union to renew contracts and the City has agreed with employees of the public works departments to operate under the provisions of each of the expired contracts until a new contract is in place. Further, the City has not granted pay increases for the public works department until a new contract is approved and the City has established a budgetary contingency in subsequent fiscal years for the possibility of pay increases retroactive to the expiration of the former contract. The City believes this contingency is adequate to fund any liability the City may incur.

**B. Defined Benefit Pension Plan**

The City participates in a cost-sharing, multi-employer, public employee retirement system. This defined benefit plan covers employee of the City of Rutland and the Rutland School District. The plan requires some employee groups to contribute 2% of annual salary and other groups contribute more as identified in union contracts. The City's contribution rate is determined by the City's actuary. The City's actual contribution is limited by City Charter and shall not exceed .06 cents on the dollar of the grand list. The Retirement Plan is administrated by Prudential Financial. The Retirement Plan does not issue separate financial reports. Assets are held separately and may be used only for the payment of benefits to the members of the Plan. Plan provisions are established or amended by the City's Pension Board. Vesting in employee contributions in the Plan is full and immediate. Vesting in employer contributions is 100% after five years of participation. Benefits are based on the number of years of service and the employee's five highest consecutive calendar years of compensation during the last ten years of employment with the City. The minimum pension is \$1,350 per annum for those employees with at least fifteen years of service. The minimum pension is \$2,025 for those employees with at least twenty one years of service.

CITY OF RUTLAND, VERMONT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2011

**Note V. Other information (continued)**

**B. Defined Benefit Pension Plan (continued)**

Participating City employees contributed \$138,164 to the Plan in the fiscal year ended June 30, 2011. Employer contributions for the City's employees for the year ended June 30, 2011 was \$555,000. Payroll for pension-plan covered employees for the year ended June 30, 2011 was \$7,455,028. The City's total payroll was \$9,091,525.

The following is the required supplementary information for the pension plan. The significant actuarial assumptions used to compute the actuarially determined contribution requirements are as follows:

Valuation Date	January 01, 2011
Actuarial cost method	Pro-rata projected unit credit
Amortization method	Level dollar, open
Remaining amortization period	30 years as of valuation date
Asset Valuation method	20% smoothing of investment returns

Actuarial assumptions

Inflation rate	N/A
Investment return	8.0%
Salary increases	5.0%
Post-employment benefit increases	N/A

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess/ Deficiency of Assets over AAL (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/ (Deficiency) as a Percentage of Covered Payroll ((b) – (a))/(c)
01/1/2007	50,695,986	59,831,977	9,135,991	84.73%	24,161,425	37.81%
01/1/2008	53,598,552	66,495,591	12,897,039	80.60%	25,641,832	50.30%
01/1/2009	49,414,401	71,277,825	21,863,424	69.33%	26,389,650	82.85%
01/1/2010	52,555,207	76,305,676	23,750,469	68.87%	26,914,829	88.24%
01/1/2011	56,345,063	79,951,469	23,606,406	70.47%	27,594,551	85.55%

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note V. Other information (continued)**

**B. Defined Benefit Pension Plan (continued)**

**Schedule of Contributions**

Plan Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Actual <u>Contribution</u>	Percentage <u>Contributed</u>
2007	2,899,920	1,690,335	58.29%
2008	3,609,894	1,877,860	52.02%
2009	4,048,303	2,039,388	50.38%
2010	5,388,980	2,249,457	41.74%
2011	5,125,675	2,498,651	48.75%

**Schedule of Annual Pension Cost**

	<u>06/30/2011</u>	<u>06/30/2010</u>	<u>06/30/2009</u>	<u>06/30/2008</u>
Annual Required Contribution (ARC)	5,125,675	5,388,980	4,048,303	3,609,894
Interest on NPO	901,701	675,414	534,375	410,947
ARC adjustment	1,316,813	986,351	780,383	600,133
Annual Pension Cost (APC)	4,710,563	5,078,043	3,802,375	3,420,708
Employer Contributions Made	2,498,651	2,249,457	2,039,388	1,877,860
NPO – Beginning of Year	11,271,260	8,442,674	6,679,687	5,136,839
NPO – End of Year	13,483,172	11,271,260	8,442,674	6,679,687
Percentage of APC Contributed	53.04%	44.30%	53.63%	54.90%

**C. Annual Other Post-Retirement Obligations (OPEB) Cost**

The City offers other post-employment benefits to qualified retirees for health, dental, vision, and life insurance expenses as agreed to in union contracts and the City has offered early retirement incentive to some employees to manage payroll expenses in the long-term.

The annual cost of OPEB is called the annual required contribution (ARC). The City has elected not to prefund OPEB liabilities. The City is required to record the annual required contribution of the employer's ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded liability over a period not to exceed thirty years. The following are the City's annual OPEB costs:

CITY OF RUTLAND, VERMONT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2011

**Note V. Other information (continued)**

**C. Annual Other Post-Retirement Obligations (OPEB) Cost (continued)**

	<u>06/30/2010</u>	<u>06/30/2011</u>
Annual Required Contribution	\$1,528,581	\$1,237,794
Contributions Made	(352,653)	( 475,481)
Adjustments to the Annual Required Contribution	<u>(59,577)</u>	<u>( 44,734)</u>
Net Change in Net OPEB Liability	1,116,351	717,579
Net OPEB liability at beginning of fiscal year	<u>1,192,946</u>	<u>2,309,297</u>
Net OPEB Obligation at end of the fiscal year	<u>\$2,309,297</u>	<u>\$3,026,876</u>

Trend Information - The City's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for the year ended June 30, 2011 were as follows:

Funded Status and Funding Progress

As of June 30, 2011, the plan was 0% funded. The actuarial accrued liability was \$12,290,283, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,290,283. For the fiscal year ended June 30, 2011, the covered payroll, annual payroll of active employees covered for OPEB purposes, was \$7,455,028 and the ratio of the UAAL to covered payroll is 164.9%. Amounts of funded status and annual required contributions of the employer are subject to revisions as actual results are compared to historical activity. The schedule of funding progress, which is required supplementary information, presents trend information to show whether actual values are increasing or decreasing over time.

Actuarial Methods and Assumptions

Actuarial cost method	Projected unit credit cost
Amortization method	Single equivalent amortized over 30 years
Actuarial Valuation Date	July 1, 2010
Annual Discount Rate	3.50%

The City transitioned to a high-deductible health-care plan combined with a flexible spending plan for all its employees during the fiscal year ended June 30, 2011.

**D. Prior Period Adjustments**

The City continues to improve its recording and monitoring of capital assets and long-term receivables. The following represents the City's recognized adjustments to prior period financial statements:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
Water Fund	Misstated historical capital asset costs	2,099,992
Sewage Disposal Fund	Misstated historical capital asset costs	(2,079,682)

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note V. Other information (continued)**

**D. Prior Period Adjustments (continued)**

Additionally, the following prior period adjustment affects the government-wide financial statements, as it represents long-term assets and liabilities properly not reported in the fund financial statements.

Long-term receivables overstated in prior periods	(1,085,974)
Capital assets incorrectly not capitalized in prior periods	<u>309,341</u>
	\$ 776,633

**E. Related Party Transactions**

The City has a conflict of interest policy and established procedures prohibiting self-dealing and related party activity.

**F. Subsequent Events**

During July 2011 the Board of Aldermen approved forgiveness of the interfund balance due from the Parking Meter Fund to the General Fund of \$297,858.

During August 2011, the City experienced unexpected watershed, water treatment system, recreation facilities, and roads and bridges damage due to Tropical Storm Irene. The amount of expenses incurred by the City as a result of these damages has been estimated to exceed \$1,000,000. The City expects to receive emergency funding from the U. S. Federal Emergency Management Agency to reimburse the City for at least 75% of these costs and an additional amount from the State of Vermont.

During November 2011 the City received \$200,000 in support of renovations of the Rutland Free Library and completed the renovation project during December 2011.

During December 2011 the City completed a Digester Cover Replacement project at a total cost of \$431,900.

During January 2012, the City received funding from the USDA loan portion of the Rutland Free Library renovation project in the amount of \$463,200.

CITY OF RUTLAND, VERMONT  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Taxes - general	\$ 13,191,084	\$ 13,129,632	\$ (61,452)
Delinquent tax, penalties, & interest	120,000	155,990	35,990
Fines & forfeitures	190,000	337,020	147,020
Rooms & meals tax	435,000	447,386	12,386
PILOT	486,638	468,113	(18,525)
Licenses & permits	125,000	128,296	3,296
Federal grants	-	1,059,694	1,059,694
State grants	321,945	500,382	178,437
Charges for services	960,000	925,098	(34,902)
Investment earnings	23,000	61,014	38,014
Rental income	64,378	74,834	10,456
Donations	-	10,250	10,250
Miscellaneous	-	52,487	52,487
Total revenues	<u>15,917,045</u>	<u>17,350,196</u>	<u>1,433,151</u>
<b>Expenditures</b>			
Executive	106,260	229,732	(123,472)
Legislative	25,304	25,865	(561)
City Clerk	334,411	309,866	24,545
City Treasurer	626,725	548,832	77,893
City Attorney	174,221	150,764	23,457
City Assessor	159,569	153,000	6,569
Building & zoning	246,043	227,522	18,521
Libraries	627,285	1,069,987	(442,702)
Police department	4,632,951	4,439,641	193,310
Fire department	3,295,581	3,031,537	264,044
Highways	1,752,316	1,518,282	234,034
Winter maintenance	605,294	592,736	12,558
Street lighting	275,000	303,796	(28,796)
Traffic control	121,500	93,748	27,752

The notes to the financial statements are an integral part of this statement

CITY OF RUTLAND, VERMONT  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011

	Budget	Actual	Variance Favorable (Unfavorable)
Catch basins	24,186	7,930	16,256
Community development	60,000	897,099	(837,099)
Dana center	532,462	486,168	46,294
DPW Administration	636,183	594,608	41,575
Elections	34,128	33,070	1,058
Government buildings	640,322	745,295	(104,973)
Operations	19,000	15,174	3,826
General recreation maintenance	1,068,946	922,281	146,665
Giorgetti Park	189,204	301,039	(111,835)
Godnick Center	27,174	54,389	(27,215)
White Playground	79,845	79,923	(78)
Vehicle maintenance	454,799	479,772	(24,973)
Miscellaneous expense	422,726	376,897	45,829
Appropriations	159,143	159,143	-
Pension expense	555,000	555,000	-
Debt service	226,060	226,060	-
Total expenditures	<u>18,111,638</u>	<u>18,629,156</u>	<u>(517,518)</u>
Excess of revenues over (under) expenditures	<u>(2,194,593)</u>	<u>(1,278,960)</u>	<u>915,633</u>
Other financing sources (uses)			
Transfers in (out)	<u>1,468,849</u>	<u>1,288,849</u>	<u>(180,000)</u>
Total other financing sources (uses)	<u>1,468,849</u>	<u>1,288,849</u>	<u>(180,000)</u>
Net change in fund balance	<u>(725,744)</u>	<u>9,889</u>	<u>735,633</u>
Fund balance, June 30, 2010	<u>\$ -</u>	<u>3,830,694</u>	<u>\$ -</u>
Fund balance, June 30, 2011		<u><u>\$ 3,840,583</u></u>	

The notes to the financial statements are an integral part of this statement

CITY OF RUTLAND, VERMONT  
 COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2011

	Special Revenue Funds												Permanent Funds		Total Non-Major Govt Funds	
	Hospital Fund	Equipment Replace Fund	Field Maint Fund	Capital Improvement Fund	Fire Equipment Fund	Zamias Impact Fund	Recreation Activities Fund	White's Pool Fund	Giorgetti Fund	Records Preserv Fund	CSO Phase 2 Fund	Bridge Fund	Water System Capital Fund	Maples Fund		Down-town Special Bus. Dist. Fund
<b>ASSETS</b>																
Cash	\$ 14,580	\$ 183,894	\$ 61,763	\$ 79,559	\$ 581,383	\$ 745,929	\$ 148,272	\$ 19,598	\$ 1,104,665	\$ 50,552	\$ 569,920	\$ 52,829	\$ 574,044	\$ 5,539	\$ 150,651	\$ 4,343,178
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intergov'l receivable	-	-	-	-	-	-	100	-	-	-	-	-	-	-	-	100
Other receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,960	1,960
Due from other funds	-	-	37,690	16,000	15,000	-	24,460	-	-	801	-	-	-	-	566	94,517
	<u>14,580</u>	<u>183,894</u>	<u>99,453</u>	<u>95,559</u>	<u>596,383</u>	<u>745,929</u>	<u>172,832</u>	<u>19,598</u>	<u>1,104,665</u>	<u>51,353</u>	<u>569,920</u>	<u>52,829</u>	<u>574,044</u>	<u>5,539</u>	<u>153,177</u>	<u>4,439,755</u>
<b>LIABILITIES AND FUND BALANCES</b>																
<b>Liabilities</b>																
Accounts payable	-	1,592	-	-	-	-	4,774	-	-	-	-	-	-	-	-	6,366
Due to other funds	-	54,322	-	-	-	-	791	-	9,567	-	431,900	-	-	3	-	496,583
Total Liabilities	-	<u>55,914</u>	-	-	-	-	<u>5,565</u>	-	<u>9,567</u>	-	<u>431,900</u>	-	-	<u>3</u>	-	<u>502,949</u>
<b>Fund balances</b>																
Committed	14,580	127,980	99,453	95,559	596,383	745,929	167,267	19,598	1,095,098	51,353	138,020	52,829	574,044	5,536	153,177	3,936,806
Total fund balances	<u>14,580</u>	<u>127,980</u>	<u>99,453</u>	<u>95,559</u>	<u>596,383</u>	<u>745,929</u>	<u>167,267</u>	<u>19,598</u>	<u>1,095,098</u>	<u>51,353</u>	<u>138,020</u>	<u>52,829</u>	<u>574,044</u>	<u>5,536</u>	<u>153,177</u>	<u>3,936,806</u>
<b>Total liabilities and fund balances</b>	<u>\$ 14,580</u>	<u>\$ 183,894</u>	<u>\$ 99,453</u>	<u>\$ 95,559</u>	<u>\$ 596,383</u>	<u>\$ 745,929</u>	<u>\$ 172,832</u>	<u>\$ 19,598</u>	<u>\$ 1,104,665</u>	<u>\$ 51,353</u>	<u>\$ 569,920</u>	<u>\$ 52,829</u>	<u>\$ 574,044</u>	<u>\$ 5,539</u>	<u>\$ 153,177</u>	<u>\$ 4,439,755</u>

The notes to the financial statements are an integral part of this statement

**CITY OF RUTLAND, VERMONT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS**

	Special Revenue Funds												Permanent Funds		Total Non-Major Govt Funds	
	Hospital Fund	Equip Repl Fund	Field Maint Fund	Capital Impr Fund	Fire Equip Fund	Zamias Impact Fund	Rec Act Fund	White's Pool Fund	Giorgetti Fund	Records Preserv Fund	CSO Phase 2 Fund	Bridge Fund	Water System Capital Fund	Maples Fund		Down-Town Special Bus. Dist. Fund
<b>Revenues</b>																
Fees and charges for services	\$ -	\$ -	\$ 3,840	\$ -	\$ 60,000	\$ 300,000	\$ 37,386	\$ -	\$ -	\$ 18,861	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 420,087
Sale of assets	-	100	-	-	-	-	-	-	-	-	-	-	-	-	-	100
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment earnings	53	395	170	272	2,153	9,216	451	62	11,325	191	1,945	260	44	17	1,147	27,701
Grants	-	-	-	-	-	-	11,114	-	-	-	-	-	-	-	-	11,114
Donations	-	-	10	-	-	-	17,220	1,300	211,594	-	-	-	-	-	-	230,124
Loan repayments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,733	7,733
Total revenues	<u>53</u>	<u>495</u>	<u>4,020</u>	<u>272</u>	<u>62,153</u>	<u>309,216</u>	<u>66,171</u>	<u>1,362</u>	<u>222,919</u>	<u>19,052</u>	<u>1,945</u>	<u>260</u>	<u>44</u>	<u>17</u>	<u>8,880</u>	<u>696,859</u>
<b>Expenditures</b>																
Loan disbursements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating expenses	-	55,914	-	840	26,385	31,243	46,198	-	-	14,975	-	-	-	3	-	175,558
Total Expenditures	<u>-</u>	<u>55,914</u>	<u>-</u>	<u>840</u>	<u>26,385</u>	<u>31,243</u>	<u>46,198</u>	<u>-</u>	<u>-</u>	<u>14,975</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>175,558</u>
Excess (deficiency) of revenues over (under) expenditures	<u>53</u>	<u>(55,419)</u>	<u>4,020</u>	<u>(568)</u>	<u>35,768</u>	<u>277,973</u>	<u>19,973</u>	<u>1,362</u>	<u>222,919</u>	<u>4,077</u>	<u>1,945</u>	<u>260</u>	<u>44</u>	<u>14</u>	<u>8,880</u>	<u>521,301</u>
Transfers in (out)	-	120,000	-	-	40,000	(135,000)	-	-	-	(269,516)	-	574,000	-	-	135,000	464,484
Total other financing sources (uses)	<u>-</u>	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>(135,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(269,516)</u>	<u>-</u>	<u>574,000</u>	<u>-</u>	<u>-</u>	<u>135,000</u>	<u>464,484</u>
Net changes in fund balances	<u>53</u>	<u>64,581</u>	<u>4,020</u>	<u>(568)</u>	<u>75,768</u>	<u>142,973</u>	<u>19,973</u>	<u>1,362</u>	<u>222,919</u>	<u>4,077</u>	<u>(267,571)</u>	<u>260</u>	<u>574,044</u>	<u>14</u>	<u>143,880</u>	<u>985,785</u>
Fund balances, June 30, 2010	14,527	63,399	95,433	96,127	520,615	602,956	147,294	18,236	872,179	47,276	405,591	52,569	-	5,522	9,297	2,951,021
Fund balances, ending	<u>\$ 14,580</u>	<u>\$ 127,980</u>	<u>\$ 99,453</u>	<u>\$ 95,559</u>	<u>\$ 596,383</u>	<u>\$ 745,929</u>	<u>\$ 167,267</u>	<u>\$ 19,598</u>	<u>\$ 1,095,098</u>	<u>\$ 51,353</u>	<u>\$ 138,020</u>	<u>\$ 52,829</u>	<u>\$ 574,044</u>	<u>\$ 5,536</u>	<u>\$ 153,177</u>	<u>\$ 3,936,806</u>

The notes to the financial statements are an integral part of this statement

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## **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**

To the Board of Aldermen  
City of Rutland  
Rutland, Vermont

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rutland, Vermont, as of and for the year ended June 30, 2011, which collectively comprise the City of Rutland, Vermont's basic financial statements and have issued our report thereon dated February 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Rutland, 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 the City of Rutland, Vermont's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Rutland's internal control over financial reporting.

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

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 City of Rutland's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying Schedule of Findings and Recommendations to be material weaknesses, 11-01 11-02, 11-03, 11-04.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying Schedule of Findings and Recommendations to be significant deficiencies: 11-05, 11-06.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rutland, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the Schedule of Findings and Questioned Costs in the Single Audit Reports.

We noted certain other matters that we reported to management of the City of Rutland, Vermont in a separate letter dated February 14, 2012.

The City of Rutland's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City of Rutland, Vermont's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Alderman, management, 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.

Corrette & Associates, P.C.

February 14, 2012

Vermont License #092-0000130

CITY OF RUTLAND  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2011

**Material Weaknesses**

11 – 01: The City has not established controls over recording and monitoring Notes Receivables

Condition: Failure to recognize and monitor all long-term notes receivable. This is a repeat finding.

Criteria: Generally accepted accounting principles require organizations to record and monitor all financial assets.

Cause: The City has not established procedures to ensure accuracy and monitoring of long-term notes receivable from external organizations.

Effect: Understated assets and related government-wide net assets on the City's financial statements.

Recommendation: The City should establish procedures to monitor the status and present value of all notes receivable.

Management Response: The City will develop a procedure with the Rutland Redevelopment Authority to develop a file location in the City Clerk's Office for Notes Receivable, both those current assets and any future notes related to community development projects.

11 – 02: The City has not established procedures for tracking historical capital assets nor for reporting current capital expenditures

Condition: Incomplete historical capital assets records and inadequate tracking of current capital asset activity. This is a repeat finding.

Criteria: Generally accepted accounting principles require organizations to track, record, and report the acquisition of all capital assets.

Cause: The City has not established procedures to accurately record and report capital asset activity.

Effect: Misreported expenditures and capital asset disbursements.

Recommendation: The City should establish procedures for the monitoring and reporting of capital assets for both general government capital assets and proprietary capital assets.

Management Response: The City has recently implemented a Fixed Assets sub-ledger to its accounting system, and is in the process of developing these procedures over the subsequent fiscal year. Significant prior year adjustments have been made to capital assets which have helped to establish the baseline for the data file in the sub-ledger.

CITY OF RUTLAND  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2011

**Material Weaknesses: (continued)**

11 – 03: Inadequate Safeguarding of City Assets

Condition: Physical assets are left unlocked and unattended.

Criteria: Prudent management dictates that the City establish reasonable controls over assets.

Cause: The City has not adequately established requirements that all Departments maintain security over assets under their control.

Effect: Assets belonging to the City are subject to unnecessary risk of theft or misuse.

Recommendation: The City should establish procedures that require all Departments to maintain controls over physical assets under their control.

Management Response: The City will establish procedures and controls that will safeguard the physical assets of the City.

11 – 04: Grants Management

Condition: The City has not established adequate procedures for monitoring, recording, and reporting grant revenue and expenditures throughout the fiscal year to include internal City grants as well as grants managed by the Rutland Redevelopment Authority on behalf of the City. This is a repeat finding.

Criteria: Government funding sources require that local governmental organizations record and report financial activity timely and accurately to allow management effective monitoring and statutory compliance.

Cause: The City has not established adequate procedures to collect, record and monitor grant activity and compliance with statutory requirements.

Effect: Noncompliance with statutory requirements of grant expenditures.

Recommendation: The City should establish procedures that centralize and standardize monitoring, recording and reporting of grant expenditures.

Management Response: The Treasurer's Office has instituted reporting requirements and forms for completion by departments in FY 2011, with full implementation in FY 2012. The City must establish policy to ensure departmental compliance with state and federal grant requirements.

CITY OF RUTLAND  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2011

**Significant Deficiencies**

11 – 05: The City does not prepare its own financial statements. The City has not conducted a complete risk assessment for all cycles of transactions and account balances.

Condition: City prepared internal financial statements require material adjustments to comply with generally accepted accounting principles.

Criteria: Generally accepted accounting principles require organizations to regularly record and report changes in financial resources to include capital assets, long-term receivables and long-term liabilities.

Cause: The City does not regularly update balance sheet accounts to reflect changes in assets and liabilities.

Effect: Inaccurate balance sheet amounts are reported misstating revenue and expenditures and affecting fund balances.

Recommendation: The City should establish procedures that require regular monitoring and updating of all balance sheet accounts.

Management Response: The City has experienced issues with under-reporting notes receivable and additions to capital assets which require substantial year-end adjustments to comply with GAAP. The management understands that adherence to established policies for 11-01, 11-02 and 11-04 will correct this problem.

11 – 06: Inventory Balances

Condition: Inventory balances are not regularly updated throughout the fiscal year.

Criteria: Generally accepted accounting principles require organizations to regularly record and report changes in financial resources to include inventory items.

Cause: The City does not regularly conduct a physical inventory of all consumable inventory items and does not update the balance sheet to reflect changes in inventory values.

Effect: Changes to balance sheet accounts are not updated timely misstating revenue and expenditures.

Recommendation: The City should establish procedures that require regular physical inventory counts and recording adjustments to the General Ledger.

Management Response: The City has established a policy that significant inventory levels be reported to the Treasurer's Office quarterly subsequent to fiscal year end.

CITY OF RUTLAND  
RUTLAND, VERMONT

AUDITORS' REPORT  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
FOR THE YEAR ENDED JUNE 30, 2011

Corrette & Associates, P. C.

CITY OF RUTLAND, VERMONT

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## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Aldermen  
City of Rutland, Vermont

### **Compliance**

We have audited the City of Rutland, Vermont's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City of Rutland, Vermont's major federal programs for the year ended June 30, 2011. The City of Rutland, Vermont's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Rutland, Vermont's management. Our responsibility is to express an opinion on the City of Rutland, Vermont's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Rutland, Vermont's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Rutland, Vermont's compliance with those requirements.

As described in items 11-07, 11-08 and 11-09 in the accompanying schedule of findings and questioned costs, the City of Rutland, Vermont did not comply with requirements regarding Subrecipient Monitoring for CFDA: 14.228, Housing and Community Development Block Grant and CFDA: 16.812, Department of Justice, Rutland United Neighborhood Grant and did not comply with the Reporting and Grant Management compliance requirements related to non-major programs. Compliance with such requirements is necessary, in our opinion, for the City of Rutland, Vermont to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Rutland, Vermont, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

### **Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and others that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-07 and 11-08 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 11-09 to be a significant deficiency.

The City of Rutland, Vermont's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Rutland, Vermont's responses and, accordingly, we express no opinion on the responses.

## **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rutland, Vermont as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 14, 2012 which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rutland, Vermont's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of the Board of Aldermen, management, 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.

Corrette & Associates, P.C.

February 14, 2012

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**CITY OF RUTLAND, VERMONT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Agency/Program Title</u>	<u>State Grant Contract #</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture – passed through VT Agency of Natural Resources:			
Cooperative Forest Assistance	08-DG-11420004	10.664	16,091
ARRA – Rutland Library Renovations	VT-97-02	10.780	444,350
Wildlife Habitat Incentive	WHIP-7216446A	10.914	<u>3,201</u>
<b>Total U.S. Department of Agriculture</b>			<b>463,642</b>
U.S. Department of HUD - passed through VT Agency of Commerce and Community Development:			
Block Grant – Forest Park Rehabilitation	7110-IG-I-2009	14.228	682,500
Block Grant – Downtown Traffic Study	MP-2010	14.228	5,302
Block Grant – Food Hub/Innovative Kitchens	07110/PG-11-2007	14.228	<u>18,600</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<b>706,402</b>
U.S. Department of Justice – passed through the State of Vermont:			
Byrne JAG/Drug Task Force	02140-11939-1001	16.580	53,164
Bulletproof Vest Partnership	OJP-BJA-BVP	16.607	8,985
Byrne Justice Assistance Grant	2010-DJ-BX-0236	16.738	23,647
Rutland United Neighborhood Grant	2010-CZ-BX-0028	16.812	25,000
U.S. Department of Justice - Direct program			
Drug Forfeiture	-	16.999	<u>3,223</u>
<b>Total U.S. Department of Justice</b>			<b>114,019</b>
U.S. Department of Transportation - passed through the State of Vermont:			
Highway Planning and Construction	08126-CA017	20.205	59,857
Recreational Trails Program	NRTF-10-08	20.219	<u>6,862</u>
Highway Planning and Construction			66,719
Highway Safety Program	02140-1010-0011	20.600	586
Minimum Penalties for Repeat Offenders	02140-1111-2125	20.600	32,201
2011 Equipment Incentives	02140-0911-3541	20.609	<u>4,370</u>
Highway Safety			37,157
<b>Total U.S. Department of Transportation</b>			<b>103,876</b>

See accompanying notes to schedule of expenditures of federal awards

**CITY OF RUTLAND, VERMONT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Agency/Program Title</u>	<u>State Grant Contract #</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Expenditures</u>
U.S. Environment Protection Agency passed through the State of Vermont:			
ARRA - Clean Water Revolving Loan Fund	-	66.458	348,722
Drinking Water Revolving Loan Fund	FS-991218-07	66.468	9,909
Brownfield Assessment and Cleanup	BF-97156901-0	66.818	<u>52,916</u>
<b>Total U.S. Environmental Protection Agency</b>			<b>411,547</b>
U.S. Department of Homeland Security - passed through VT Department of Public Safety:			
Emergency Generator	2007-GE-T7-0049	97.067	51,637
Emergency Generator	2008-GE-T8-0045	97.067	82,238
Technical Rescue – Small Tools/Equipment	2008-GE-T8-0045	97.067	2,626
Structural Shoring Training	2008-GE-T8-0045	97.067	9,178
Trench Rescue Training	2008-GE-T8-0045	97.067	4,970
USAR CATEX Training	2008-GE-T8-0045	97.067	4,320
SHSP LETPP-MOTS	2008-GE-T8-0045	97.067	11,015
SHSP LETPP-MOTS	2008-GE-T8-0045	97.067	<u>27,539</u>
			193,523
Assistance to Firefighters Grant	EMW-2009-FO	97.044	68,180
Homeland Security - ICE	-	97.999	<u>518</u>
<b>Total U.S. Department of Homeland Security</b>			<b>262,221</b>
<b>Total expenditures of federal awards</b>			<b>\$ <u>2,061,707</u></b>

See accompanying notes to schedule of expenditures of federal awards

**CITY OF RUTLAND, VERMONT  
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR YEAR ENDED JUNE 30, 2011**

**NOTE 1. Single Audit Reporting Entity**

The financial reporting entity, as defined by GASB codification, consists of the primary government, the City of Rutland, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Mayor and Board of Aldermen are able to impose their will on the following organizations, establishing financial accountability:

The Rutland Redevelopment Authority

**NOTE 2. Summary of Significant Accounting Policies**

**A. Basis of presentation** – The information in the accompanying schedule is presented in accordance with the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

1. Federal Award - Pursuant to the Single Audit Act and OMB Circular A-133, federal award means federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities. The City receives direct federal awards and awards passed through the State of Vermont.

2. Federal financial assistance – In the Single Audit Act and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Federal financial assistance does not include federal cash payments to individuals.

3. Major and nonmajor programs – OMB Circular A-133 establishes criteria for determining major programs and selecting these federal programs to be tested for compliance with program requirements. The major programs selected and tested for the year ended June 30, 2011 were:

Federal Agency/ <u>Department</u>	<u>Program</u>	<u>CFDA</u>
U. S. Dept of Agriculture	Comm Facilities/Rutland Free Library Renovations	10.780
U. S. Dept of Hsg/Comm Dev	Community Development Block Grant	14.228
U. S. EPA	Clean Water Revolving Loan Fund	66.458

**CITY OF RUTLAND, VERMONT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR YEAR ENDED JUNE 30, 2011**

**NOTE 2. Summary of Significant Accounting Policies (continued)**

**B. Basis of accounting** – The City receives federal funds under various grant programs and records this activity in the proprietary and governmental funds using the basis of accounting of the reporting fund. The City utilizes the full accrual basis of accounting for its proprietary funds and the modified accrual basis of accounting for all governmental funds. The accompanying schedule of expenditures of federal awards reflects the basis of accounting of the funds used by the City. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in the financial statements.

**C. Subrecipients**

The City of Rutland, Vermont provided \$682,500 in federal awards from the U. S. Department of Housing and Community Development to Rutland Community Housing, as a subrecipient for the year ended June 30, 2011, in order to partially fund a low-income housing project.

The City of Rutland, Vermont provided \$25,000 in federal awards from the U. S. Department of Justice to the Rutland United Neighborhood, as a subrecipient for the year ended June 30, 2011, to assist neighborhood efforts at reducing drug use and building stronger communities.

**CITY OF RUTLAND, VERMONT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**A. Summary of Audit Results**

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Rutland, Vermont.
2. Six significant deficiencies were disclosed during the audit of the financial statements and are reported in the *Report on Internal Control over Financial Reporting and On Compliance with Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards*. Four of these are reported as material weaknesses.
3. We identified three instances of noncompliance material to the financial statements of the City of Rutland, Vermont, which would be required to be reported in accordance with *Government Auditing Standards*, disclosed during the audit.
4. Three significant deficiencies in internal control of major federal programs disclosed during the audit are reported in the *Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133*. Two of these significant deficiencies are material weaknesses.
5. The auditor's report on compliance for the major federal programs of the City of Rutland, Vermont expresses a qualified opinion on major federal programs.
6. Audit findings that are required to be reported in accordance with OMB Circular A-133 are reported in the accompanying schedule.
7. The programs tested as major programs are the ARRA - Community Facilities Loans and Grants, CFDA 10.780; Community Development Block Grant, CFDA 14.228; and ARRA - Clean Water Revolving Loan Fund, CFDA 66.458.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of Rutland, Vermont did not qualify as a low-risk auditee.

**CITY OF RUTLAND, VERMONT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**B. Findings – Financial Statement Audit**

**Material Weaknesses**

11 – 01: The City has not established controls over recording and monitoring Notes Receivables

Condition: Failure to recognize and monitor all long-term notes receivable. This is a repeat finding.

Criteria: Generally accepted accounting principles require organizations to record and monitor all financial assets.

Cause: The City has not established procedures to ensure accuracy and monitoring of long-term notes receivable from external organizations.

Effect: Understated assets and related government-wide net assets on the City's financial statements.

Recommendation: The City should establish procedures to monitor the status and present value of all notes receivable.

Management Response: The City will develop a procedure with the Rutland Redevelopment Authority to develop a file location in the City Clerk's Office for Notes Receivable, both those current assets and any future notes related to community development projects.

11 – 02: The City has not established procedures for tracking historical capital assets nor for reporting current capital expenditures

Condition: Incomplete historical capital assets records and inadequate tracking of current capital asset activity. This is a repeat finding.

Criteria: Generally accepted accounting principles require organizations to track, record, and report the acquisition of all capital assets.

Cause: The City has not established procedures to accurately record and report capital asset activity.

Effect: Misreported expenditures and capital asset disbursements.

Recommendation: The City should establish procedures for the monitoring and reporting of capital assets for both general government capital assets and proprietary capital assets.

Management Response: The City has recently implemented a Fixed Assets sub-ledger to its accounting system, and is in the process of developing these procedures over the subsequent fiscal year. Significant prior year adjustments have been made to capital assets which have helped to establish the baseline for the data file in the sub-ledger

**CITY OF RUTLAND, VERMONT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**B. Findings – Financial Statement Audit (continued)**

**Material Weaknesses: (continued)**

11 – 03: Inadequate Safeguarding of City Assets

Condition: Physical assets are left unlocked and unattended.

Criteria: Prudent management dictates that the City establish reasonable controls over assets.

Cause: The City has not adequately established requirements that all Departments maintain security over assets under their control.

Effect: Assets belonging to the City are subject to unnecessary risk of theft or misuse.

Recommendation: The City should establish procedures that require all Departments to maintain controls over physical assets under their control.

Management Response: The City will establish procedures and controls that will safeguard the physical assets of the City.

11 – 04: Grants Management

Condition: The City has not established adequate procedures for monitoring, recording, and reporting grant revenue and expenditures throughout the fiscal year to include internal City grants as well as grants managed by the Rutland Redevelopment Authority on behalf of the City. This is a repeat finding.

Criteria: Government funding sources require that local governmental organizations record and report financial activity timely and accurately to allow management effective monitoring and statutory compliance.

Cause: The City has not established adequate procedures to collect, record and monitor grant activity and compliance with statutory requirements.

Effect: Noncompliance with statutory requirements of grant expenditures.

Recommendation: The City should establish procedures that centralize and standardize monitoring, recording and reporting of grant expenditures.

Management Response: The Treasurer's Office has instituted reporting requirements and forms for completion by departments in FY 2011, with full implementation in FY 2012. The City must establish policy to ensure departmental compliance with state and federal grant requirements.

**CITY OF RUTLAND, VERMONT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**B. Findings – Financial Statement Audit**

**Significant Deficiencies**

11 – 05: The City does not prepare its own financial statements. The City has not conducted a complete risk assessment for all cycles of transactions and account balances.

Condition: City prepared internal financial statements require material adjustments to comply with generally accepted accounting principles.

Criteria: Generally accepted accounting principles require organizations to regularly record and report changes in financial resources to include capital assets, long-term receivables and long-term liabilities.

Cause: The City does not regularly update balance sheet accounts to reflect changes in assets and liabilities.

Effect: Inaccurate balance sheet amounts are reported misstating revenue and expenditures and affecting fund balances.

Recommendation: The City should establish procedures that require regular monitoring and updating of all balance sheet accounts.

Management Response: The City has experienced issues with under-reporting notes receivable and additions to capital assets which require substantial year-end adjustments to comply with GAAP. The management understands that adherence to established policies for 11-01, 11-02 and 11-04 will correct this problem.

11 – 06: Inventory Balances

Condition: Inventory balances are not regularly updated throughout the fiscal year.

Criteria: Generally accepted accounting principles require organizations to regularly record and report changes in financial resources to include inventory items.

Cause: The City does not regularly conduct a physical inventory of all consumable inventory items and does not update the balance sheet to reflect changes in inventory values.

Effect: Changes to balance sheet accounts are not updated timely misstating revenue and expenditures.

Recommendation: The City should establish procedures that require regular physical inventory counts and recording adjustments to the General Ledger.

Management Response: The City has established a policy that significant inventory levels be reported to the Treasurer's Office quarterly subsequent to fiscal year end.

**CITY OF RUTLAND, VERMONT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**C. Findings – Major Federal Award Program Audit**

**Material Weaknesses**

11 – 07: Subrecipient Monitoring

Condition: The City has not established adequate procedures to conduct subrecipient monitoring for grants that are passed through the City to other recipients. (CFDA # 14.228, Community Development Block Grant, Federal award number N/A, U. S. HUD, pass-through the State of Vermont; and CFDA # 16.812, Rutland United Neighborhood, Federal award number 2010-CZ-BX-0028, U. S. Dept of Justice, pass-through the State of Vermont).

Criteria: Governments receiving federal funding that pass this funding through to grant recipients are required to establish monitoring of these subrecipients to ensure that compliance requirements are understood and complied with.

Cause: The City has not established adequate procedures to conduct subrecipient monitoring in a timely manner.

Questioned Costs: The City did not perform subrecipient monitoring activities for grants to Rutland United Neighborhood in the amount of \$25,000 and to Rutland Community Housing in the amount of \$682,500.

Effect: Noncompliance with statutory requirements of grant activity monitoring.

Recommendation: The City should establish procedures that centralize and standardize monitoring, recording, and reporting of grant expenditures of subrecipients.

Management Response: The City will request financial statements from all entities receiving pass-through funding, and/or require the RRA complete subrecipient monitoring requirements as part of the City contract.

11 – 08: Grant Management

Condition: The City has not established adequate procedures for recording, and reporting grant revenue and expenditures for the fiscal year. This is a repeat finding.

Criteria: Government funding sources require that local governmental organizations record and report financial activity timely and accurately to allow management effective monitoring and statutory compliance.

Cause: The City has not established adequate procedures to collect, record and monitor grant activity and compliance with statutory requirements.

**CITY OF RUTLAND, VERMONT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**C. Findings – Major Federal Award Program Audit (continued)**

**Material Weaknesses (continued)**

Questioned Costs: The monetary effect of this finding is not readily determinable.

Effect: Noncompliance with statutory requirements of grant expenditures.

Recommendation: The City should establish procedures that centralize and standardize monitoring, recording and reporting of grant expenditures.

Management Response: The Treasurer's Office has instituted reporting requirements and forms for completion by departments in FY 2011, with full implementation in FY 2012. The City must establish policy to ensure departmental compliance with state and federal grant requirements.

**Significant Deficiency**

11 – 09: Reporting

Condition: The City has not established adequate controls over federal expenditure reporting to ensure all activity complies with federal requirements.

Criteria: Governments are required to clearly document federal expenditures when they occur.

Cause: The City allows Department Heads to independently manage federal grant activity but has not established adequate procedures to provide training, supervision, or monitoring of this activity.

Questioned Costs: The City does not consistently maintain required documentation of federal expenditures related to Homeland Security Grants.

Effect: Noncompliance with statutory requirements of grant expenditures.

Recommendation: The City should establish procedures that centralize and standardize monitoring, recording, and reporting of grant expenditures.

Management Response: This responsibility currently lies with the Departments of the City and the Rutland Redevelopment Authority for community development grants. The City should develop policy to define that responsibility and develop controls to ensure those individuals are reporting expenditures that comply with federal requirements.

**CITY OF RUTLAND, VERMONT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Findings – Major Federal Award Program Audit**

10 – 06: Inadequate Controls over Capital Assets

Condition: Incomplete historical capital assets records and inadequate tracking of current capital asset activity. Federally-funded capital assets are not tagged/identified as acquired with federal grant awards.

Criteria: Generally accepted accounting principles require organizations to track, record, and report the acquisition and disposal of all capital assets. Federal grant agencies require local government to identify all federally-funded capital assets, with clear identification noting the source of funding.

Cause: The City has not established procedures to accurately record and report capital asset activity. Also, the City has not established procedures to identify all assets that have been acquired through federal awards.

Effect: Misreported expenditures and capital asset acquisitions.

Recommendation: The City should establish procedures for the monitoring and reporting of capital asset acquisition and disposal of both general government capital assets and proprietary capital assets.

Management Response: The City has completed an updated list of capital assets as of June 30, 2010 which will be converted to a sub-ledger of the accounting system in FY2011. New procedures recommended to management for timely grant reporting may also help the City recognize assets purchased with grant funds.

Status: This is a repeat finding.

**CITY OF RUTLAND, VERMONT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

10 – 12: Grant Management

Condition: The City has not established adequate procedures for monitoring, recording, and reporting grant revenue and expenditures throughout the fiscal year to include internal City grants as well as grants managed by the Rutland Redevelopment Authority on behalf of the City. This is a repeat finding.

Criteria: Government funding sources require that local governmental organizations record and report financial activity timely and accurately to allow management effective monitoring and statutory compliance.

Cause: The City has not established adequate procedures to collect, record and monitor grant activity and compliance with statutory requirements.

Questioned Costs: The monetary effect of this finding is not readily determinable.

Effect: Noncompliance with statutory requirements of grant expenditures.

Recommendation: The City should establish procedures that centralize and standardize monitoring, recording and reporting of grant expenditures.

Management Response: The Treasurer's Office has requested policy development regarding grant reporting requirements for City departments. Departments must report grant activity upon approval, revenue or expense activity, or closure with original supporting documentation on a timely basis to the Treasurer's Office for the City to prepare accurate reports for the Single Audit and for general financial reporting.

Status: This is a repeat finding.

10 – 13: Cash Management

Condition: The City has not established adequate controls over cash management drawdowns from federal sources. (CFDA # 16.710, Community Oriented Policing Services, Federal award number 2009-CK-WX-0142, U. S. Department of Justice, pass-through the State of Vermont.)

Criteria: Governments are required to incur costs prior to requesting a drawdown of federal funds from cost-reimbursement grants.

Cause: The City allows Department Heads to independently manage grant activity but has not established adequate procedures to provide training, supervision, or monitoring of this activity.

**CITY OF RUTLAND, VERMONT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

Questioned Costs: The City made a drawdown of federal expenditures of \$100,794, approximately seven weeks prior to payment to the vendor, based on the vendor invoice amount.

Effect: Noncompliance with statutory requirements of grant expenditures.

Recommendation: The City should establish procedures that centralize and standardize monitoring, recording, and reporting of grant expenditures.

Management Response: Treasurer will review single audit grant compliance criteria with City departments.

Status: This finding has been resolved.

10 – 14: Subrecipient Monitoring

Condition: The City has not established adequate procedures for conducting subrecipient monitoring of federal grants that are passed through the City to other grant recipients. (CFDA # 14.228, Community Development Block Grant, Federal award number N/A, U. S. Department of Housing & Urban Development, pass-through the State of Vermont.)

Criteria: Governments receiving federal funding that pass this funding through to grant recipients are required to establish monitoring of these subrecipients to ensure that compliance requirements are understood and followed.

Cause: The City has not established adequate procedures to conduct subrecipient monitoring.

Questioned Costs: The City did not perform subrecipient monitoring activities for the entire grant passed to PACE in the amount of \$30,000.

Effect: Noncompliance with statutory requirements of grant activity monitoring.

Recommendation: The City should establish procedures that centralize and standardize monitoring, recording, and reporting of grant expenditures of subrecipients.

Management Response: The City will request financial statements from all entities receiving pass-through funding, and/or require the RRA complete subrecipient monitoring requirements as part of the City contract.

Status: This finding has not been resolved.