

CITY OF RUTLAND, VERMONT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Corrette & Associates, P.C.

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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, each major fund, and the aggregate remaining fund information of the City of Rutland, Rutland, Vermont as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Rutland, Vermont's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditors' Responsibility

Our responsibility is to express an opinion 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 performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express any such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary information on pages 4 through 13 and page 59 through 60 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rutland, Vermont's basic financial statements. The introductory section, combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements on pages 61 through 64 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements are fairly stated, in all material respects, in relation to the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 17, 2015 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.

Corrette & Associates, P.C.
Saint Johnsbury, Vermont
February 17, 2015
Vermont License # 92-0130

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

Presented here is the Management Discussion & Analysis Report for the City of Rutland, Vermont for the fiscal year ended June 30, 2014. 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 assurances that these objectives are attained.

Financial Highlights

- The assets of the City of Rutland exceed liabilities at June 30, 2014 by \$27,123,813 comprised of investment in capital assets, net of related debt, and restricted and unrestricted funds, noted as Net position-end of year.
- The City's total net position decreased by \$11,474,091 primarily due to recognition of the City's unfunded pension liability on the statement of net position by the implementation of GASB statement 67. The City's unfunded pension liability is \$14,418,864.
- The decrease in total net position caused by the pension liability was partially offset by increases in assets and reduction in long term liabilities (including OPEB) of \$2,944,773 in both governmental and proprietary funds.
- The General Fund fund balance at year end is \$2,804,872 or 16% of actual General Fund revenues; the unassigned fund balance in the General Fund is \$1,342,650 or 7.7% of actual General Fund revenues.
- The City's General Fund fund balance decreased by \$508,253 due primarily to the use of excess surplus to reduce the tax rate. A budgeted decrease of \$831,163 was expected due to the application of prior year's surplus toward the tax rate.
- Total unrestricted net position for the City's proprietary funds is a deficit of \$856,947 at June 30, 2014, a reduction of unrestricted net position of \$593,258 from the prior year unrestricted amount, due primarily to construction for a sewer project.
- The Water Fund, Parking Meter Fund, and Transit Center Fund have cash at June 30, 2014; the Sewage Disposal Fund does not.

- As of January 1, 2014 the unfunded liability in the city pension increased slightly for both school and municipal employees to \$26,848,403. The pension is 71.69% funded, a slight improvement over the 2013 restatement of 70.33% funded.

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 position presents information on all of the City's assets and deferred inflows of resources versus liabilities and deferred outflows of resources with the differences reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The implementation of GASB Statement 63 includes the replacement of a statement of net assets with a statement of net position which includes deferred inflows or outflows of assets.

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.

The implementation of GASB 67 requires recognition of the City's unfunded pension liability in the government-wide financial statements including the statement of net position and the statement of activities.

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 position and statement of activities.

The City maintains eighteen 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 the adopted budget to demonstrate compliance with the budget.

The City has six 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. Recreation Activities Fund, previously a governmental fund, was re-classified as a fiduciary fund in FY 2014.

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

Government-wide net position decreased \$11,474,091 for the year ended June 30, 2014. At year end the City of Rutland is able to report positive balances in all categories of net position, for the government as a whole, as well as its governmental and business-type activities.

The net position of the City of Rutland reflects 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 these 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 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.

The government-wide statement of Net Position and Statement of Activity show a comparison between 2014 and the prior year:

<i>Net Position as of June 30 is as follows:</i>			
		2014 Total Primary Government	2013 Total Primary Government
Current and Other Assets:			
	Current Assets	12,157,805	12,989,920
	Capital Assets	52,235,762	50,587,598
	Other Assets	1,378,086	1,238,165
	Total Assets	\$ 65,771,653	\$ 64,815,683
Current and Other Liabilities:			
	Long-term bonds and capital leases payable	11,190,240	13,691,443
	Compensated absences payable	2,757,448	2,601,754
	Other post employment benefits payable (OPEB)	7,630,151	8,690,433
	Unfunded actuarial pension	14,418,864	-
	Other liabilities	2,651,137	1,234,149
	Total Liabilities	\$ 38,647,840	\$ 26,217,779
Net Position:			
	Invested in capital assets, net of related debt	39,805,221	36,896,155
	Restricted for:		
	Notes & mortgages receivable	1,378,086	1,238,166
	Restricted for specific purposes	6,103,507	1,162,842
	Unrestricted	(20,163,001)	(699,258)
	Total net position	\$ 27,123,813	\$ 38,597,905

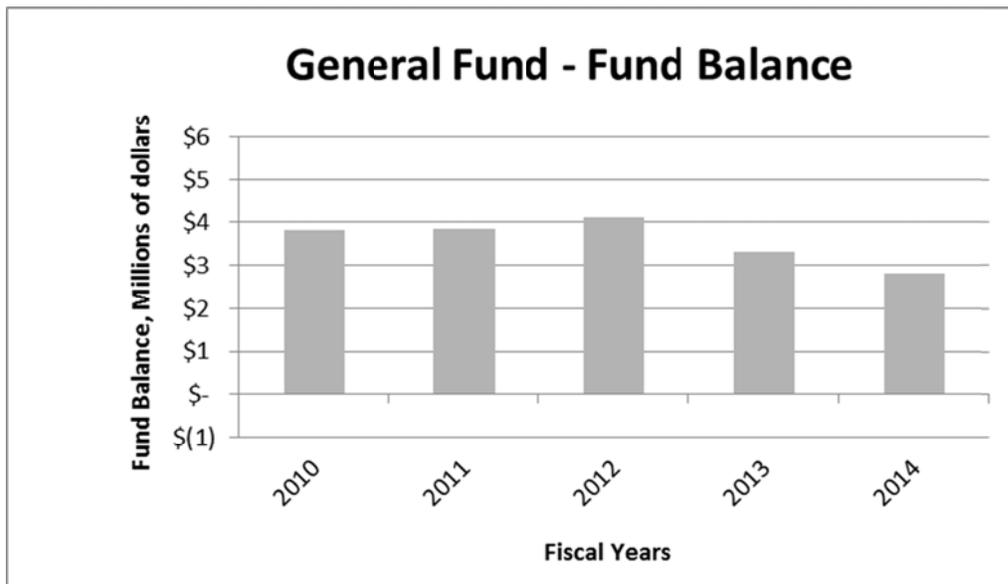
Statement of Activities			
The Statement of Activities reports total operating expenses and change in net position for the year ending:		2014 Total Primary Government	2012 Total Primary Government
Program Revenues:			
	Charges for services	10,443,394	9,480,709
	Operating grants	214,330	494,944
	Capital grants & contributions	1,040,375	1,205,068
	Total Program Revenues	\$ 11,698,099	\$ 11,180,721
General Revenues:			
	Property Tax assessments (Includes PILOT)	14,113,009	13,832,545
	Rooms, Meals & Entertainment Tax	452,185	453,094
	Judgments & fines	-	-
	Interest and investment earnings	220,183	203,688
	Donations	-	-
	Change in Other Post Employment Benefits	1,461,479	894,414
	Sale of fixed assets, stock	-	-
	Transfers	(142,808)	122
	Miscellaneous	249,168	135,231
	Total general revenues	\$ 16,353,216	\$ 15,519,094
	Total revenues	\$ 28,051,315	\$ 26,699,815
General Expenses:			
	General government	18,386,629	3,872,344
	Public safety	8,335,861	7,815,349
	Highways & Streets	2,585,859	2,696,938
	DPW Administration	1,404,338	894,982
	Economic Development	361,702	1,121,211
	General services	-	-
	Culture & recreation	2,434,569	887,583
	Total governmental activities:	\$ 33,508,958	\$ 17,288,407
	Business-type activities	6,016,438	5,470,618
	Total Primary Governmental activities	\$ 39,525,396	\$ 22,759,025
Change in net position:			
	Net position-beginning of year	38,597,904	29,482,180
	Net position-end of year	27,123,813	34,657,114
	Change in net position:	\$ (11,474,091)	\$ 5,174,934

Governmental Funds

At June 30, 2014 the City of Rutland's governmental funds report combined fund balances of \$7,561,592 a reduction of \$959,228 over the prior period, primarily due to the use of General Fund fund balance to reduce the tax rate. The governmental funds are comprised of the General Fund and non-major government funds, such as the Equipment Replacement Fund, Fire Equipment Fund, Zambias Fund and others used for special purposes. The City of Rutland maintains eighteen 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 \$2,804,872 as of June 30, 2014, the fund balance as of June 30, 2013 was \$3,313,125. Therefore, the General Fund fund balance decreased \$508,253. This decrease was expected due to the use of surplus to support the General Fund tax rate. The fund balance has been positive since 2006. At June 30, 2014 the City designated \$1,462,222 of the General Fund fund balance for specific purposes, a decrease of \$122,035 over the prior year due to a reduction in nonspendable fund balance.



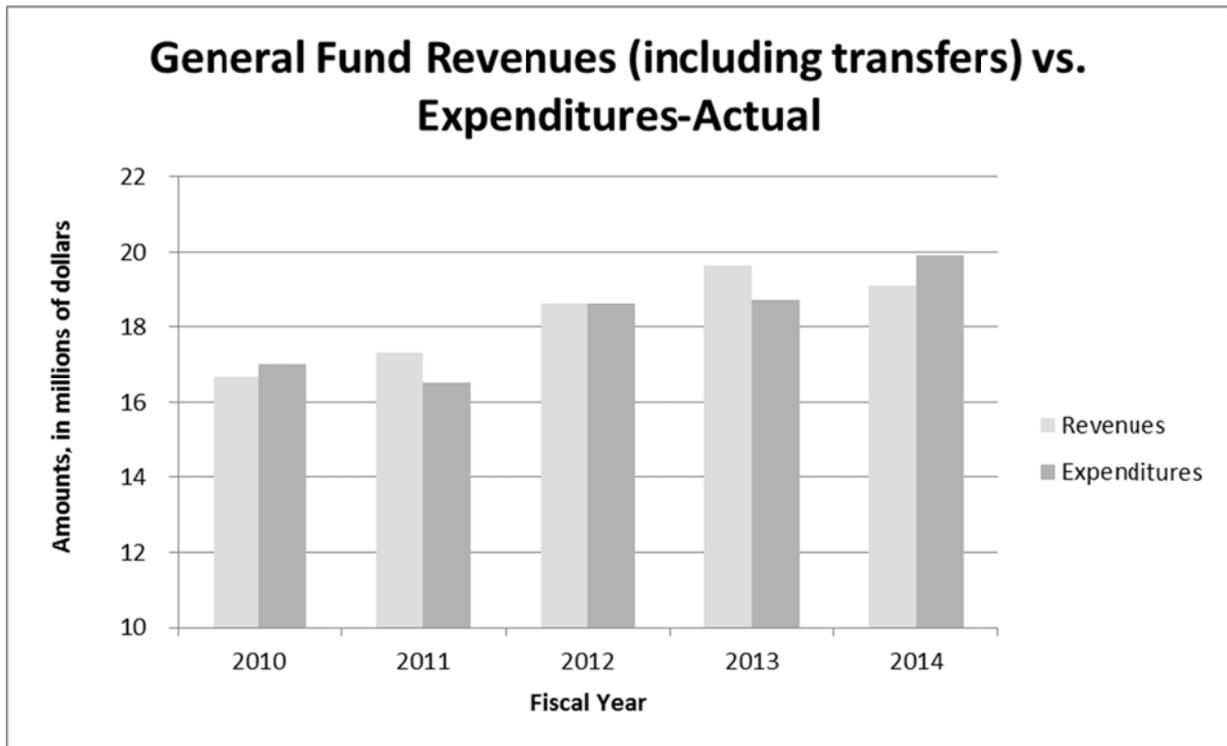
General Fund Budget vs. Actual

Final actual revenues exceeded budgeted revenues by \$957,874 before transfers. All sources of revenue are higher than expected, except for taxes, licenses and permits and charges for services. General tax revenues are 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 related to grant programs. As a result of delinquencies penalties and interest revenue exceeded budget as did tax sale revenue.

Final actual expenditures are higher than budgeted amounts by \$637,092. Several City departments posted higher expenses than budgeted, including Executive (transition to full time HR administrator), Legislative (tax abatements), Police (grant expenses), Highways,

Winter Maintenance, Streetlights (LED conversion not completed), Catch Basins, Community Development, DPW Administration (staffing transition), Government Buildings, and some Recreation divisions. Community Development increase is due to grant expenditures, which were offset by grant revenues. Government Buildings increase was primarily due to the cost of insurance premiums for property and casualty coverage, building repairs and fuel costs. Highways increase was due to bridge and street repairs which also increased General Fund assets.

The General Fund actuals show revenues exceed expenditures by \$320,782 compared to budget. After application of transfers-in the net change to fund balance was (\$508,253). The City planned a deficit of \$800,000 by application of General Fund unassigned fund balance to stabilize the tax rate. This planned deficit was offset by the surplus.



Note: The City planned a deficit in 2014 by applying \$800,000 of prior year's surplus to the budget to stabilize the tax rate.

Proprietary Funds

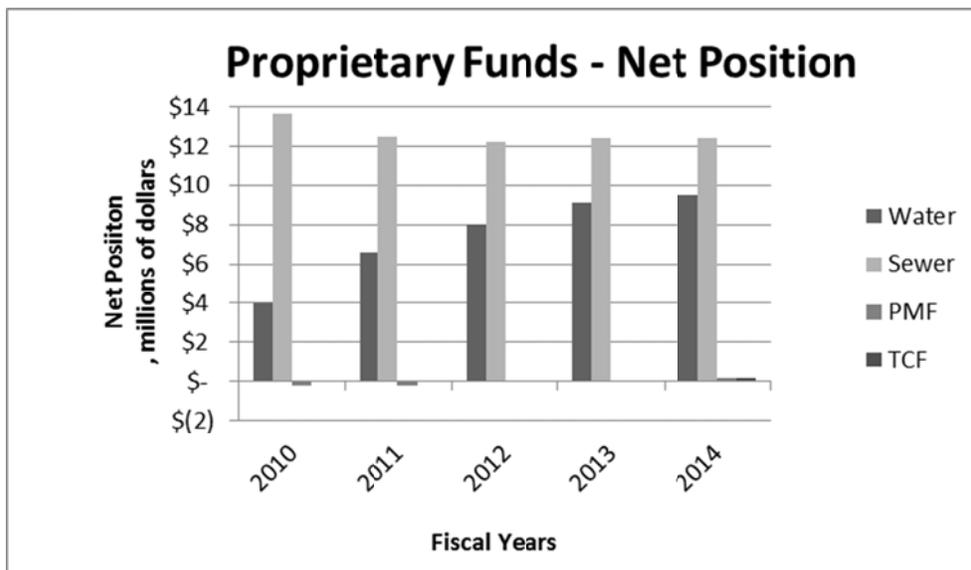
The City of Rutland maintains four proprietary funds: Water Fund, Sewage Disposal Fund, Parking Meter Fund, and the Transit Center Fund. The proprietary funds report the same functions as the business-type activities in the government-wide financial statements.

Overall the proprietary funds experienced an increase in net position of \$632,041 over the prior fiscal year, mainly due to repayment of debt. Unrestricted net position is negative for the proprietary funds overall, at (\$856,947) as of June 30, 2014, a reduction of \$593,258

over the prior year. Net positions of the proprietary funds are represented primarily by capital assets. Unrestricted net position did improve for the Parking Meter Fund, and was reduced for the Water Fund and the Sewage Disposal Fund primarily due to capital projects and delayed reimbursements from funding sources. The Transit Center Fund is a new proprietary fund in FY 2014.

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. Revenues associated with the Transit Center Fund are determined by contracts with the State of Vermont and a parking management contractor.

The City presented a statement of cash flows for the proprietary funds at year end showing total cash at June 30, 2014 is \$408,500 for all funds combined. This is a decrease of \$135,983 over June 30, 2013. 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 and management monthly.



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 life. Additions to capital assets were made in FY 2014, totaling \$2,646,896 in Governmental activities and \$1,648,063 in Business-type (proprietary funds) activities. Additions exceed accumulated depreciation and decreases in both governmental and proprietary funds.

Long-Term Obligations

At June 30, 2014 the City shows a reduction in bonds payable of \$1,260,900 over the prior period and total long term debt was \$12,430,541 at year end. During the year the following change occurred to the City's long term debt structure:

- The City entered into a capital lease in FY 2014 for the purchase of Police vehicles.

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

As of January 1, 2014 the City pension was 71.69% funded, a slight increase in funding status over January 1, 2013 (restated). Despite market gains the deficiency of assets over unfunded actuarial accrued liability increased to \$26,848,403. The Board of Education (Rutland Public Schools) liability is \$12,429,539 compared to \$12,985,985 in the prior year. City (municipal government, not schools) liability is \$14,418,864 compared to \$13,700,704 in the prior year. Changes were made to the DPW City employee group during the year requiring new employees to join the Vermont Municipal Employee Retirement System (VMERS) unless previously vested in the City's pension plan, and increases to employee and employer contributions.

Other post-employment benefits (OPEB) unfunded actuarial accrued liability at June 30, 2014 is \$7,630,151 for City (not Rutland Public Schools) employees and retirees, a reduction of \$1,060,282 from the prior year due to increases in employee healthcare contributions, changes to post-employment benefits and continuance of a high deductible health care plan.

Economic Factors, Tax Rates and 2013 Budget

A soft, but improving economic climate continued to affect revenues for most municipalities in the region, state and the nation. The unemployment rate for the Rutland region was 4.6% in June 2014 an improvement over 5.3% in June 2013 according to the Vermont Department of Labor. The unemployment rate for the state of Vermont as a whole was 3.4% and the national rate was 6.1% as of June 2014. The median year-round home price in Rutland County was \$140,000 in 2013, same as the prior year indicating possible stabilization in the home market.

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

	Delinquent Taxes	Expected tax revenue	% Delinquent
FY 2014	\$951,967	\$29,094,822	3.27%
FY 2013	\$900,298	\$28,077,160	3.21%
FY 2012	\$847,825	\$27,796,059	3.05%
FY 2011	\$811,161	\$27,927,405	2.90%
FY 2010	\$641,933	\$26,620,985	2.41%

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:

	Grand List, BOY	Grand List EOY	Impact on tax revenue
FY 2014	10,141,084.62	10,134,000.92	(\$33,239)

FY 2013	10,120,875.00	10,095,113.64	(\$87,415)
FY 2012	10,053,741.50	10,049,189.62	(\$15,207)
FY 2011	10,067,899.07	10,040,680.46	(\$105,657)
FY 2010	10,059,181.37	10,050,799.57	(\$44,652)

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 (EOY) is the grand list value at fiscal yearend. Modest gains on the grand list were made due to investments in commercial properties each year. Reductions are due to grievances and lister adjustments.

Tax rates for FY 2014 increased over FY 2013 for both the municipal appropriation and education. The homestead education tax for FY 2014 was \$1.4565 a 3.90% increase, and non-residential education tax rate remained stable at \$1.5817. The municipal rate increased from \$1.3303 to \$1.3911, an increase of 4.57%. Both school and municipal budgets were approved by the voters. The Board of Aldermen applied a prior year surplus of \$800,000 toward the FY 2014 appropriation to minimize the tax rate increase at the time the tax rates were set in July 2013.

Comparative Analysis:

Increased assets and reduction of long term liabilities, including a reduction in OPEB liability, increased net position as reported for the primary government for the year ended June 30, 2014, but was offset by a significant reduction to the net position due to the recognition of the City's pension liability with the implementation of GASB 67.

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, by email at wendyw@rutlandcity.org or on the web at www.rutlandcity.org

FINANCIAL STATEMENTS

CITY OF RUTLAND, VERMONT
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Rutland Redevelopment Authority
ASSETS				
Current Assets				
Cash and equivalents	\$ 6,441,914	\$ 408,501	\$ 6,850,415	\$ 105,893
Receivables	1,640,597	2,435,196	4,075,793	16,811
Investments	715,152	-	715,152	-
Prepaid expenses	284,046	49,526	333,572	-
Inventories	39,746	123,665	163,411	-
Inter-fund receivables	473,678	(454,216)	19,462	-
Total current assets	<u>9,595,133</u>	<u>2,562,672</u>	<u>12,157,805</u>	<u>122,704</u>
Non-current Assets				
Notes and mortgages receivable	1,378,086	-	1,378,086	-
Capital assets not being depreciated				
Land	3,900,616	49,361	3,949,977	-
Capital assets, net of depreciation	<u>15,178,119</u>	<u>33,107,666</u>	<u>48,285,785</u>	<u>-</u>
Total non-current assets	<u>20,456,821</u>	<u>33,157,027</u>	<u>53,613,848</u>	<u>-</u>
Total assets	<u>30,051,954</u>	<u>35,719,699</u>	<u>65,771,653</u>	<u>122,704</u>
LIABILITIES				
Current Liabilities				
Accounts payable	331,616	407,570	739,186	1,595
Accrued expenses	349,582	209,763	559,345	5,691
Deferred revenue	112,305	-	112,305	-
Current portion of long-term debt	219,653	1,020,648	1,240,301	-
Total current liabilities	<u>1,013,156</u>	<u>1,637,981</u>	<u>2,651,137</u>	<u>7,286</u>
Non-current Liabilities				
Long-term liabilities				
Unfunded actuarial pension	14,418,864	-	14,418,864	-
Sick and vacation liability	2,367,321	390,127	2,757,448	-
Other post employment liabilities	5,240,492	2,389,659	7,630,151	-
Long-term debt	2,097,566	9,092,674	11,190,240	-
Total non-current liabilities	<u>24,124,243</u>	<u>11,872,460</u>	<u>35,996,703</u>	<u>-</u>
Total liabilities	<u>25,137,399</u>	<u>13,510,441</u>	<u>38,647,840</u>	<u>7,286</u>
NET POSITION				
Invested in capital assets, net	16,761,516	23,043,705	39,805,221	-
Restricted for:				
Notes and mortgages receivable	1,378,086	-	1,378,086	-
Specific purposes	6,081,007	22,500	6,103,507	-
Unrestricted	<u>(19,306,054)</u>	<u>(856,947)</u>	<u>(20,163,001)</u>	<u>115,418</u>
Total net position	<u>\$ 4,914,555</u>	<u>\$ 22,209,258</u>	<u>\$ 27,123,813</u>	<u>\$ 115,418</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, 2014

Functions and Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit RRA
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Governmental activities								
General government	\$ 18,386,629	\$ 507,000	\$ 5,000	\$ -	\$ (17,874,629)	\$ -	\$ (17,874,629)	\$ -
Public safety	8,335,861	453,730	188,440	180,206	(7,513,485)	-	(7,513,485)	-
Highway and streets	2,585,859	-	-	314,067	(2,271,792)	-	(2,271,792)	-
DPW administration	1,404,338	13,773	-	-	(1,390,565)	-	(1,390,565)	-
Economic development	361,702	300,000	20,890	-	(40,812)	-	(40,812)	-
Culture and recreation	2,434,569	454,814	-	546,102	(1,433,653)	-	(1,433,653)	-
Total governmental activities	<u>33,508,958</u>	<u>1,729,317</u>	<u>214,330</u>	<u>1,040,375</u>	<u>(30,524,936)</u>	<u>-</u>	<u>(30,524,936)</u>	<u>-</u>
Business-type activities								
Water/Sewage Disposal/Parking/Transit Ctr	6,016,438	8,714,067	-	-	-	2,697,629	2,697,629	-
Total primary governmental	<u>\$ 39,525,396</u>	<u>\$ 10,443,384</u>	<u>\$ 214,330</u>	<u>\$ 1,040,375</u>	<u>\$ (30,524,936)</u>	<u>\$ 2,697,629</u>	<u>\$ (27,827,307)</u>	<u>\$ -</u>
Component Unit								
Rutland Redevelopment Authority	\$ 431,619	\$ -	\$ -	\$ -				\$ (431,619)
General revenues:								
					14,113,009	-	14,113,009	265,029
					452,185	-	452,185	-
					220,183	-	220,183	36
					1,461,479	-	1,461,479	-
					202,552	46,616	249,168	188,909
					1,969,396	(2,112,204)	(142,808)	-
					<u>18,418,804</u>	<u>(2,065,588)</u>	<u>16,353,216</u>	<u>453,974</u>
					<u>(12,106,132)</u>	<u>632,041</u>	<u>(11,474,091)</u>	<u>22,355</u>
					<u>17,020,687</u>	<u>21,577,217</u>	<u>38,597,904</u>	<u>93,063</u>
					<u>\$ 4,914,555</u>	<u>\$ 22,209,258</u>	<u>\$ 27,123,813</u>	<u>\$ 115,418</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 POSITION
JUNE 30, 2014

Total Fund Balances - Governmental Funds	<u>\$ 7,561,592</u>
Capital assets in governmental activities are not financial resources and therefore are not reported in the governmental fund financial statements.	59,804,078
Accumulated depreciation has not been included in the governmental fund financial statements.	(40,725,342)
Accrued liabilities represent non-current activity and are not reported in the governmental funds, however, are included in the Statement of Net Position.	(22,026,677)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(2,317,219)
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>2,618,123</u>
Net Position of Governmental Activities	<u><u>\$ 4,914,555</u></u>

The notes to the financial statement 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, 2014

Total Net Changes in Fund Balances - Governmental Funds	<u>\$ (959,228)</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>	
	2,635,154
<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>	
	(1,154,210)
<p>Changes to Other Post Employment Benefits accrued expenses, do not affect current financial resources and, therefore, are not reported as financial activity in the governmental funds.</p>	
	1,325,370
<p>Unfunded actuarial pension liability is not recognized as an expense in the governmental funds and does not require the use of current financial resources; however, the total unfunded pension liability is included in the government wide financial statements.</p>	
	(14,418,864)
<p>Long-term notes receivable do not require current financial resources and are not reported in the fund financial statements; however, gain (loss) on recognition of the net present value of these notes is included in the government wide financial statements.</p>	
	101,112
<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>	
	100,000
<p>Repayment of debt is reported in the fund financial statements but is removed from the government-wide Statement of Activities</p>	
	225,726
<p>Principal disbursement and repayment of debt in governmental funds is reported in the fund financial statements but is removed from the government-wide Statement of Activities.</p>	
	<u>38,808</u>
Change in Net Position of Governmental Activities	<u><u>\$ (12,106,132)</u></u>

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

CITY OF RUTLAND, VERMONT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,382,649	\$ 4,059,263	\$ 6,441,912
Receivables	398,201	2,360	400,561
Investments	-	715,152	715,152
Prepaid expenses	283,241	805	284,046
Inventory	39,746	-	39,746
Due from other funds	484,759	4,420	489,179
Total assets	<u>3,588,596</u>	<u>4,782,000</u>	<u>8,370,596</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	321,591	10,025	331,616
Accrued expenditures	349,581	-	349,581
Deferred revenue	112,306	-	112,306
Due to other funds	246	15,255	15,501
Total liabilities	<u>783,724</u>	<u>25,280</u>	<u>809,004</u>
 Fund balances			
Nonspendable	322,987	-	322,987
Restricted	662,063	-	662,063
Committed	339,237	4,756,720	5,095,957
Assigned	137,935	-	137,935
Unassigned	1,342,650	-	1,342,650
Total fund balances	<u>2,804,872</u>	<u>4,756,720</u>	<u>7,561,592</u>
Total liabilities and fund balances	<u>\$ 3,588,596</u>	<u>\$ 4,782,000</u>	<u>\$ 8,370,596</u>

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, 2014

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes - general	\$ 13,628,121	\$ -	\$ 13,628,121
Delinquent tax, penalties and interest	156,440	-	156,440
Fines and forfeitures	176,541	-	176,541
Rooms and meals tax	452,185	-	452,185
PILOT	484,888	-	484,888
Licenses and permits	203,179	-	203,179
Federal grants	1,082,413	-	1,082,413
State grants	403,422	-	403,422
Charges for services	695,848	146,057	841,905
Investment earnings	52,708	14,517	67,225
Rental income	16,373	-	16,373
Donations	37,435	10	37,445
Proceeds from borrowing and epayments	-	21,193	21,193
Tax sale	46,094	-	46,094
Miscellaneous	86,995	34,400	121,395
Total revenues	17,522,642	216,177	17,738,819
Expenditures			
Executive	165,711	-	165,711
Legislative	32,168	-	32,168
City Clerk	318,707	-	318,707
City Treasurer	593,516	-	593,516
City Attorney	121,982	-	121,982
City Assessor	168,528	-	168,528
Building and zoning	322,029	-	322,029
Libraries	668,530	-	668,530
Police department	4,991,953	-	4,991,953
Fire department	2,983,517	-	2,983,517
Highways	2,075,057	-	2,075,057
Winter maintenance	635,610	-	635,610
Street lighting	440,965	-	440,965

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, 2014

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Catch basins	40,933	-	40,933
Community development	627,818	-	627,818
Recreation administration	456,423	-	456,423
DPW administration	874,032	-	874,032
Elections	12,254	-	12,254
Government buildings	852,223	-	852,223
Loan disbursements	-	60,000	60,000
Operations	19,389	835,861	855,250
General recreation maintenance	1,047,234	-	1,047,234
Giorgetti Park	147,661	-	147,661
Godnick Center	16,416	-	16,416
White Playground	131,279	-	131,279
Vehicle maintenance	582,121	-	582,121
Miscellaneous expense	243,197	-	243,197
Appropriations	268,870	-	268,870
Pension expense	600,000	-	600,000
Debt service	333,459	-	333,459
Total expenditures	<u>19,771,582</u>	<u>895,861</u>	<u>20,667,443</u>
Excess of revenues over (under) expenditures	<u>(2,248,940)</u>	<u>(679,684)</u>	<u>(2,928,624)</u>
Other financing sources (uses)			-
Transfers in	<u>1,740,687</u>	<u>228,709</u>	<u>1,969,396</u>
Total other financing sources (uses)	<u>1,740,687</u>	<u>228,709</u>	<u>1,969,396</u>
Net change in fund balances	<u>(508,253)</u>	<u>(450,975)</u>	<u>(959,228)</u>
Fund balances, June 30, 2013	<u>\$3,313,125</u>	<u>\$5,207,695</u>	<u>8,520,820</u>
Fund balances, June 30, 2014	<u><u>\$ 2,804,872</u></u>	<u><u>\$ 4,756,720</u></u>	<u><u>\$ 7,561,592</u></u>

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

CITY OF RUTLAND, VERMONT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS - ENTERPRISE FUNDS
JUNE 30, 2014

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Transit Center Mgmt Fund	Total Enterprise Funds
ASSETS					
Current Assets					
Cash	\$ 166,135	\$ -	\$ 157,994	\$ 84,372	\$ 408,501
Accounts receivable, net of allowance	1,038,288	1,352,936	43,972	-	2,435,196
Prepaid expenses	7,002	12,773	1,751	28,000	49,526
Inventories	103,505	20,160	-	-	123,665
Total current assets	<u>1,314,930</u>	<u>1,385,869</u>	<u>203,717</u>	<u>112,372</u>	<u>3,016,888</u>
Non-current Assets					
Property and equipment, net of accumulated depr	14,790,979	17,941,777	226,302	197,969	33,157,027
Total non-current assets	<u>14,790,979</u>	<u>17,941,777</u>	<u>226,302</u>	<u>197,969</u>	<u>33,157,027</u>
Total assets	<u>16,105,909</u>	<u>19,327,646</u>	<u>430,019</u>	<u>310,341</u>	<u>36,173,915</u>
LIABILITIES AND NET POSITION					
Current Liabilities					
Accounts payable	50,332	185,761	65	171,412	407,570
Accrued expenses	303,197	279,922	16,771	-	599,890
Due to other funds	-	454,216	-	-	454,216
Current portion of long-term debt	610,895	409,753	-	-	1,020,648
Total current liabilities	<u>964,424</u>	<u>1,329,652</u>	<u>16,836</u>	<u>171,412</u>	<u>2,482,324</u>

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

CITY OF RUTLAND, VERMONT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS - ENTERPRISE FUNDS
JUNE 30, 2014

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Transit Center Mgmt Fund	Total Enterprise Funds
Non-current Liabilities					
Other post employment benefits	1,064,311	1,095,882	229,466	-	2,389,659
Long-term debt	4,599,169	4,493,505	-	-	9,092,674
Total non-current liabilities	<u>5,663,480</u>	<u>5,589,387</u>	<u>229,466</u>	<u>-</u>	<u>11,482,333</u>
Total liabilities	<u>6,627,904</u>	<u>6,919,039</u>	<u>246,302</u>	<u>171,412</u>	<u>13,964,657</u>
Net Position					
Invested in capital assets, net of related debt	9,580,915	13,038,519	226,302	197,969	23,043,705
Assigned	22,500	-	-	-	22,500
Unrestricted	(125,410)	(629,912)	(42,585)	(59,040)	(856,947)
Total net position	<u>\$ 9,478,005</u>	<u>\$ 12,408,607</u>	<u>\$ 183,717</u>	<u>\$ 138,929</u>	<u>\$ 22,209,258</u>

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 POSITION
PROPRIETARY FUNDS - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Transit Center Mgmt Fund	Total Enterprise Funds
Operating revenues					
Charges for services	\$ 3,473,024	\$ 4,824,190	\$ 226,688	\$ 190,165	\$ 8,714,067
Miscellaneous income	40,144	6,472	-	-	46,616
Total operating revenues	<u>3,513,168</u>	<u>4,830,662</u>	<u>226,688</u>	<u>190,165</u>	<u>8,760,683</u>
Operating expenses					
Operating, maintenance, and general	1,269,288	2,776,519	103,414	136,236	4,285,457
Depreciation	405,485	602,426	12,665	-	1,020,576
Total operating expenses	<u>1,674,773</u>	<u>3,378,945</u>	<u>116,079</u>	<u>136,236</u>	<u>5,306,033</u>
Operating income (loss)	<u>1,838,395</u>	<u>1,451,717</u>	<u>110,609</u>	<u>53,929</u>	<u>3,454,650</u>
Nonoperating income/(expense)					
Interest expense	(211,363)	(98,270)	-	-	(309,633)
Change in OPEB liability	<u>(264,685)</u>	<u>(188,818)</u>	<u>52,731</u>	<u>-</u>	<u>(400,772)</u>
Total nonoperating income/(expenses)	<u>(476,048)</u>	<u>(287,088)</u>	<u>52,731</u>	<u>-</u>	<u>(710,405)</u>
Income (loss) before transfers	<u>1,362,347</u>	<u>1,164,629</u>	<u>163,340</u>	<u>53,929</u>	<u>2,744,245</u>

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 POSITION
PROPRIETARY FUNDS - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Transit Center Mgmt Fund	Total Enterprise Funds
Operating transfers in (out)	<u>(1,009,908)</u>	<u>(1,172,296)</u>	<u>(15,000)</u>	<u>85,000</u>	<u>(2,112,204)</u>
Change in net position	<u>352,439</u>	<u>(7,667)</u>	<u>148,340</u>	<u>138,929</u>	<u>632,041</u>
Total net position - June 30, 2013	<u>9,125,566</u>	<u>12,416,274</u>	<u>35,377</u>	<u>-</u>	<u>21,577,217</u>
Total net position, June 30, 2014	<u><u>\$ 9,478,005</u></u>	<u><u>\$ 12,408,607</u></u>	<u><u>\$ 183,717</u></u>	<u><u>\$ 138,929</u></u>	<u><u>\$ 22,209,258</u></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, 2014

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Transit Center Mgmt Fund	Total
Cash Flows From Operating Activities					
Cash received from customers	\$ 3,522,335	\$ 4,822,839	\$ 212,849	\$ 225,341	\$ 8,783,364
Cash paid for supplies, services and utilities	(695,997)	(1,455,558)	(22,773)	-	(2,174,328)
Cash paid for payroll and related expenses	(607,239)	(1,165,223)	(78,281)	-	(1,850,743)
Cash paid for rent and operating leases	-	(5,250)	(4,221)	(28,000)	(37,471)
Cash received from renting property	1,200	-	7,801	-	9,001
Cash deposits received from customers	3,760	8,760	-	-	12,520
Cash received from operating grants	-	5,000	-	-	5,000
Cash paid to customers - refunds and deposit returns	(4,767)	(11,670)	-	-	(16,437)
Cash received from employees - reimbursements	2,514	2,909	-	-	5,423
Net cash provided (used) by operating activities	<u>2,221,806</u>	<u>2,201,807</u>	<u>115,375</u>	<u>197,341</u>	<u>4,736,329</u>
Cash Flows From Non-capital Financing Activities					
Cash received (paid) through operating transfers	(1,009,908)	(1,172,296)	(15,000)	85,000	(2,112,204)
Cash advanced from (repaid to) pooled cash	(3,415)	(223,683)	-	-	(227,098)
Net cash provided (used) by noncapital and related financing activities	<u>(1,013,323)</u>	<u>(1,395,979)</u>	<u>(15,000)</u>	<u>85,000</u>	<u>(2,339,302)</u>
Cash Flows From Capital and Related Financing Activities					
Cash proceeds from capital debt	-	180,922	-	-	180,922
Cash paid for acquisition/construction of capital assets	(505,929)	(479,115)	(5,189)	(197,969)	(1,188,202)
Cash received (paid) for interfund capital transfers	-	-	-	-	-
Cash paid for principal on capital debt	(806,732)	(409,365)	-	-	(1,216,097)

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, 2014

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Transit Center Mgmt Fund	Total
Cash Flows From Capital & Related Financing Activities (continued)					
Cash paid for interest on capital debt	(211,362)	(98,270)	-	-	(309,632)
Cash proceeds from sale of capital assets	-	-	-	-	-
Net cash provided (used) by capital & related financing activities	<u>(1,524,023)</u>	<u>(805,828)</u>	<u>(5,189)</u>	<u>(197,969)</u>	<u>(2,533,009)</u>
Cash Flows From Investing Activities					
	-	-	-	-	-
Net increase (decrease) in cash	<u>(315,540)</u>	-	95,186	84,372	<u>(135,982)</u>
Cash at June 30, 2013	481,675	-	62,808	-	544,483
Cash at June 30, 2014	<u>\$ 166,135</u>	<u>\$ -</u>	<u>\$ 157,994</u>	<u>\$ 84,372</u>	<u>\$ 408,501</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities					
Operating income	\$ 1,838,396	\$ 1,451,717	\$ 110,609	\$ 53,929	\$ 3,454,651
Adjustments to reconcile operating income to cash flows from operating activities					
Depreciation expense	405,485	602,426	12,665	-	1,020,576
(Increase) decrease in accounts receivable	10,356	(2,929)	(6,075)	(28,000)	(26,648)
(Increase) decrease in inventories	(6,333)	18,276	-	-	11,943
(Increase) decrease in prepaids	16,947	17,030	1,524	-	35,501
Increase (decrease) in accounts payables	(3,890)	88,937	65	-	85,112
Increase (decrease) in accrued expenses	(39,155)	26,350	(3,413)	171,412	155,194
Increase (decrease) in deferred revenue	-	-	-	-	-
Net Adjustments	<u>383,410</u>	<u>750,090</u>	<u>4,766</u>	<u>143,412</u>	<u>1,281,678</u>
Net cash provided (used) by operating activities	<u>\$ 2,221,806</u>	<u>\$ 2,201,807</u>	<u>\$ 115,375</u>	<u>\$ 197,341</u>	<u>\$ 4,736,329</u>

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

CITY OF RUTLAND, VERMONT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Pension	Private-Purpose			Agency Funds	
	Trust Fund	Trust Funds				
	Employee	Property	Mayor's	Rec.	M. Garofano	Grace
	Pension	Escrow	Emergency	Activities	Memorial	Stoolfire
	Fund	Fund	Fuel	Fund	Fund	Trust
	Fund	Fund	Fund	Fund	Fund	Fund
ASSETS						
Cash and cash equivalents	\$ 7,363,071	\$ 129,403	\$ 14,485	\$ 168,807	\$ 18,466	\$ 40,434
Investments	66,923,195	-	-	-	-	302,615
Total assets	<u>74,286,266</u>	<u>129,403</u>	<u>14,485</u>	<u>168,807</u>	<u>18,466</u>	<u>343,049</u>
LIABILITIES						
Due to the City	-	10,139	-	9,323	-	-
Accounts payable	-	-	-	3,325	-	-
Escrowed property	-	119,264	-	-	-	-
Held for the benefit of others	-	-	-	-	18,466	343,049
Total liabilities	<u>-</u>	<u>129,403</u>	<u>-</u>	<u>12,648</u>	<u>18,466</u>	<u>343,049</u>
NET POSITION						
Benefits to be provided	74,286,266	-	-	-	-	-
Assets held in trust for others	-	-	14,485	156,159	-	-
Total net position	<u>\$ 74,286,266</u>	<u>\$ -</u>	<u>\$ 14,485</u>	<u>\$ 156,159</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 POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Pension Trust Fund	Private- Purpose Trust Funds		
	Employee Pension Fund	Property Escrow Fund	Emergency Fuel Fund	Rec. Activities Fund
Additions				
Member contributions	\$ 3,260,618	\$ -	\$ -	\$ -
City contributions	600,000	-	-	-
Contributions	-	1,963	-	23,631
Donations	-	-	750	31,148
Investment earnings				
Interest and dividends	1,517,273	26	8	82
Net increase (decrease) in investment fair value	8,395,012	-	-	-
Total investments earnings	<u>9,912,285</u>	<u>26</u>	<u>8</u>	<u>82</u>
Total additions	<u>13,772,903</u>	<u>1,989</u>	<u>758</u>	<u>54,861</u>
Deductions				
Retirement benefits	4,872,739	-	-	-
Disbursements	-	1,989	1,429	41,510
Total deductions	<u>4,872,739</u>	<u>1,989</u>	<u>1,429</u>	<u>41,510</u>
Changes in net position	<u>8,900,164</u>	<u>-</u>	<u>(671)</u>	<u>13,351</u>
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,688</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,688</u>
Net changes in net assets	<u>8,900,164</u>	<u>-</u>	<u>(671)</u>	<u>24,039</u>
Net position, beginning	<u>65,386,102</u>	<u>-</u>	<u>15,156</u>	<u>132,120</u>
Net position, ending	<u>\$ 74,286,266</u>	<u>\$ -</u>	<u>\$ 14,485</u>	<u>\$ 156,159</u>

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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note I. Summary of Significant Accounting Policies

A. Adoption of Accounting Principles

Effective June 30, 2014 the City implemented the following financial accounting and reporting standards issued by GASB:

Statement No. 67 Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25. This statement establishes accounting and financial reporting requirements related to pensions and unfunded actuarial liabilities related to government's future obligation for funding pension benefits. The adoption of GASB Statement 67 materially effects the government-wide financial statements in the current year and had no effect on previously issued financial statements. The total increase in recorded liabilities in the current year on the government-wide financial statements is an increase of \$14,418,864.

B. Reporting Entity

The City of Rutland, Vermont 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.

C. Reporting Activities

The City, for financial reporting purposes, includes all of the funds relevant to the operations of the City of Rutland, Vermont. 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, Vermont.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

C. Reporting Activities (continued)

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	

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 entities operations; the entities have distinct budgetary authority; the entities control surpluses and deficits; the City is not responsible for the entities 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 an assessment tax which is collected by the City of Rutland.

D. Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position 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.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

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

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 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.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

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

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.

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 that are restricted to expenditures for specified purposes. The City has fourteen special revenue funds: the Hospital Fund is for improvements and beautification in the southeast Neighborhood; the Equipment Replacement Fund is for replacement of police, recreation and DPW equipment; the Field Maintenance Fund is to maintain recreational fields; the Capital Improvement Fund is for major capital improvements to sewer infrastructure with the source of this funding from Sewer Allocation Fees; the Fire Equipment Fund is to purchase

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

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

major equipment for the Fire Department; the Zamias Impact Fund is to foster economic activity to offset the economic impact of the Diamond Run Mall; the Water & Sewer Vehicle Fund is to purchase vehicles for the proprietary funds; the White's Pool Fund is to fund pool facility upgrades at White Park; the Giorgetti Fund is for development and improvement of Giorgetti Park; the Records Preservation Fund is to sustain City public records; the CSO Sinking Fund is to provide future sewer projects funding based on a 2004 resolution of the Board of Alderman; the Bridge Fund is 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 and designated proceeds from borrowing as necessary; the Sidewalk Fund is for building and repairing City sidewalks; the Recreation Activities Fund was redesignated as a fiduciary fund during the year ended June 30, 2014 in order to more accurately reflect the custodial nature of the financial activities; the Water System Capital Fund was established to fund future water system capital improvements.

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 VCDP Notes Receivable Fund, formerly 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, real estate *acquisitions in Downtown Rutland, or business startup loans.

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, the Parking Meter Fund and the Transit Center Management Fund are the City's four 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.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

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

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 three private-purpose fiduciary funds: the Property Escrow Fund used to account for tax-sale activity, the Mayor's Emergency Fuel Fund used to provide fuel assistance to the needy at the Mayor's discretion, and the Recreation Activities Fund used to maintain support for specific recreational activities and related recreational group assets.

Agency Funds: To account for situations where the government's role is purely custodial. All assets reported in agency funds are offset by liabilities to party's 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 two agency funds. The Grace Stoolfire Trust Fund is used to support music education; and the M. Garafano Memorial Fund to collect donations to commemorate the memory of a City employee who died in the line of service to the City.

E. Assets, Liabilities, and Net Position 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: City investments are made 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 noncollection. 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, 2014 but not yet billed as of that date.

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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

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

5. Interfund receivables/payables and internal activity: Transactions between funds 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. Further, the City budgets transfers between departments within the General Fund. These transfers represent a cost shift between departments and are eliminated in these financial statements.

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, equipment, land and infrastructure with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements. Proprietary capital assets are reported in the fund financial statements. Donated assets are stated at fair value as of the date donated. The City generally capitalizes assets with an initial cost above \$5,000.

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.

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 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 date. 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.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

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

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 Position

9. Net Position and Fund Equity:

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

Invested in Capital Assets, Net of Related Debt – All capital assets less 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.

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.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

F. Other accounting policies

1. Authorized expenditures: The City does not utilize encumbrance accounting for its governmental funds. Encumbrances represent commitments related to incomplete contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments 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 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.

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 annually and payable 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, 4th quarter due date. Taxes are levied during July of each year and are due and payable for each quarterly 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 Position 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 responsible for collection of these taxes which are remitted to these other governments.

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

F. Other accounting policies (continued)

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. Actual results could differ from those estimates.

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 position.

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 position. The total adjustment between the fund balance sheet and government-wide statement of net assets is a decrease of \$2,647,037.

Total Fund balances – governmental Funds	\$ <u>7,561,592</u>
Capital assets	59,804,078
Accumulated depreciation	(40,725,342)
Accrued liabilities	(22,026,677)
Long-term bonds payable	(2,317,219)
Other long-term assets	<u>2,618,123</u>
Net decrease	\$ <u>(2,647,037)</u>
Total Net Position of Governmental Activities	\$ <u>4,914,555</u>

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

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 net position to account for different measurement focuses. The total adjustment between the fund

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

Note II. Reconciliation of government-wide and fund financial statements (continued)

B. Explanation of differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of net position. (continued)

statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities is a decrease of \$11,146,904.

Total Net Changes in Fund Balances – Governmental Funds	\$ (959,228)
Capital outlays	\$ 2,635,154
Depreciation expense	(1,154,210)
Change to OPEB liability	1,323,370
Unfunded actuarial pension liability	(14,418,864)
Changes in Long-term notes receivable	101,112
Noncurrent revenues	100,000
Proceeds from borrowing	225,726
Loan disbursements	<u>38,808</u>
Net decrease	\$ <u>(11,248,904)</u>
Total Change in Net Position	\$ <u>(12,106,132)</u>

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 approved at voters' discretion. All budget appropriations lapse at yearend.

B. Excess of expenditures over appropriations

For the year ended June 30, 2014, General Fund expenditures exceeded revenues by \$2,248,940, before transfers in of \$1,740,687. The net decrease in General Fund balance was \$508,253.

C. Deficit/surplus fund equity

The City's four proprietary funds each have surplus net assets; however, of the total \$22,209,258 in net position, \$23,043,705 is invested in capital assets, \$22,500 is assigned for a future purpose, with an unrestricted deficit total for the four funds of \$856,947. The City has not developed specific plans to resolve these deficits.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note IV. Detailed notes on all funds

A. Cash, Cash Equivalents, and Investments

At June 30, 2014, the carrying amount of the City's deposits with financial institutions was \$14,585,081, and the total balance reported by these institutions was \$15,218,397. These deposits are held in checking accounts, savings accounts, and money market accounts. Of the funds on deposit, \$4,033,674 was insured by the Federal Deposit Insurance Corporation (FDIC), and \$3,188,336 was collateralized.

The remaining \$7,363,071 was held in the City's investment account managed by Prudential Retirement Insurance and Annuity Co. (PRIAC). These amounts are guaranteed for principal and accrued interest by the PRIAC through the Securities Investor Protection Corporation (SIPC). A federally mandated, non-profit, member-funded, corporation created under the Securities Investor Protection Act of 1970. It is a Self-regulatory organization (SRO) which mandates membership by most US-registered broker-dealers.

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 held in the name of the City's pension fund in savings 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 U. S. 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, 2014, pension fund investments were valued at \$66,923,195. Market value of trust fund investments, determined by quoted market prices at June 30, 2014, are as follows:

U.S corporate Stock	\$ 35,509,400
International Stock	11,062,886
Corporate Bonds	<u>20,350,909</u>
	<u>\$ 66,923,195</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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note IV. Detailed notes on all funds (continued)

A. Cash, Cash Equivalents, and Investments (continued)

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, 2014, the City's investments in the Grace Stoolfire Trust Fund were all Category 1.

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, 2014.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note IV. Detailed notes on all funds (continued)

B. Endowment Fund (continued)

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 the Board. While the return objective will be low, based on market rates, the risk of loss will also be low. Actual returns as of June 30, 2014 are 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 objectives of principal preservation and liquidity are of high importance.

C. Individual Fund Interfund Receivable and Payable Balances

Balances at June 30, 2014 were as follows:

	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 484,759	\$ 246
Field Maintenance Fund	-	1,290
Records Preservation Fund	420	-
Giorgetti Fund	-	510
Zamias Impact Fund	-	13,435
Capital Improvement Fund	4,000	-
Equipment Replacement Fund	-	20
Rec Activities Fund	-	9,323
Property Escrow Fund	-	10,139
Sewage Disposal Fund	-	454,216
	\$ <u>489,179</u>	\$ <u>489,179</u>

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

Note IV. Detailed notes on all funds (continued)

C. Individual Fund Interfund Receivable and Payable Balances (continued)

The City uses pooled cash to account for General Fund 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.

D. Capital Assets Activity

Capital asset activity of the City for the year ended June 30, 2014 is as follows:

Governmental activities:	<u>Beginning</u> <u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u> <u>Balance</u>
Land, non-depreciable	3,900,616	\$ -	\$ -	\$ 3,900,616
General services	2,394,459	-	-	2,394,459
Fire Department	3,629,285	606,258	274,185	3,961,358
Police Department	3,349,954	227,766	24,290	3,553,430
Department of Public Works	39,153,211	1,227,386	92,865	40,287,732
Recreation	4,231,476	585,486	24,695	4,792,267
Library	<u>914,215</u>	<u>-</u>	<u>-</u>	<u>914,215</u>
Total capital assets at cost	<u>57,573,216</u>	<u>\$ 2,646,896</u>	<u>\$ 416,035</u>	<u>\$ 59,804,077</u>

Less accumulated depreciation:

Governmental activities:				
General services	\$ 834,827	\$ 44,088	\$ -	\$ 878,915
Fire Department	3,083,353	146,887	274,185	2,956,055
Police Department	1,875,235	238,255	12,145	2,101,345
Department of Public Works	32,476,143	530,306	92,865	32,913,584
Recreation	1,461,173	177,736	24,695	1,614,214
Library	<u>244,291</u>	<u>16,938</u>	<u>-</u>	<u>261,229</u>
Total accumulated depreciation	<u>39,975,022</u>	<u>1,154,210</u>	<u>403,890</u>	<u>40,725,342</u>
Capital assets, net of depreciation	<u>\$ 17,598,194</u>	<u>\$ 1,492,686</u>	<u>\$ 12,145</u>	<u>\$ 19,078,735</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 44,088
Public safety	385,142
Highway and street	530,306
Culture and recreation	<u>194,674</u>
Total	<u>\$1,154,210</u>

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note IV. Detailed notes on all funds (continued)

D. Capital Assets Activity (continued)

Business-type activities:	Beginning Balance	Increase	Decrease	Ending Balance
Land, non-depreciable	\$ 385,141	\$ -	\$ -	\$ 385,141
Buildings	42,047,996	18,401	2,390	42,064,007
Infrastructure	958,249	561,718	-	1,519,967
Easements	115	-	-	115
Machinery & Equipment	4,104,693	351,338	475,830	3,980,201
Meters	1,483,881	68,703	96,227	1,456,357
Reservoirs	2,694,613	-	-	2,694,613
Current construction in progress	<u>155,998</u>	<u>647,903</u>	<u>442,884</u>	<u>361,017</u>
Total capital assets at cost	<u>51,830,686</u>	<u>1,648,063</u>	<u>1,017,331</u>	<u>52,461,418</u>
Less accumulated depreciation:	<u>18,841,282</u>	<u>1,020,576</u>	<u>557,467</u>	<u>19,304,391</u>
Capital assets, net	\$ <u>32,989,404</u>	\$ <u>627,487</u>	\$ <u>459,864</u>	\$ <u>33,157,027</u>

Proprietary depreciation expense for the year was \$1,020,576. During the year the City reviewed its capital asset file and removed some assets which had an original cost below the current capitalization threshold, were purchased in bulk and subsequently partially disposed of, or had no residual commercial value. The total value of the adjustment was \$543,000.

E. Interfund Operating Transfers

The following are interfund operating transfers for the year ended June 30, 2014:

	Transfers Out:							Total Transfers In
	General Fund	Bridge Fund	Zamais Impact Fund	Sewage Disposal Fund	Water Fund	Parking Meter Fund		
<u>Transfers In:</u>								
General	-	305,338	54,206	892,255	711,661	15,000		1,978,460
Bridge Fund	51,329	-	-	-	-	-		51,329
CSO Sinking	-	-	-	195,041	-	-		195,041
Water/Sewer Vehi.	-	-	-	10,000	10,000	-		20,000
Rec Activities	10,688	-	-	-	-	-		10,688
Equip Replace	120,000	-	-	-	-	-		120,000
Fire Equipment	40,000	-	-	-	-	-		40,000
Sidewalk Fund	5,756	-	-	-	-	-		5,756
Capital Improv	-	-	-	65,000	-	-		65,000
Water System Cap.	-	-	-	-	298,247	-		298,247
Transit Center	-	-	85,000	-	-	-		85,000
Total Transfers	<u>\$247,773</u>	<u>\$305,338</u>	<u>\$129,206</u>	<u>\$1,162,296</u>	<u>\$1,009,908</u>	<u>\$15,000</u>		<u>\$2,869,521</u>

The following are interfund operating transfers for the year ended June 30, 2014:

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

Note IV. Detailed notes on all funds (continued)

F. Allowance for Uncollectible Receivables

Delinquent taxes reported in the government-wide financial statements represent property taxes outstanding at June 30, 2014. 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 receivables represent balances at June 30, 2014. The City has the legal right to force sale of the property to recover the sewer and water fees and; therefore, at June 30, 2014, 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.

Parking ticket receivables represent the balance at June 30, 2014 for those tickets issued for less than one year. The City has established an allowance for uncollectible parking ticket receivables for all tickets older than one year as of June 30, 2014.

G. Mortgages and Notes Receivable

The City annually revalues its notes receivable to net present value. Notes receivable are presented in two categories: 1) notes for which payments are being made and the note has not reached maturity are presented at face value; and 2) notes for which payments are deferred and the City uses 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, 2014:

<u>Description</u>	06/30/2014 <u>Face Value</u> <u>Balance</u>	06/30/2014 <u>Realizable</u> <u>Amount</u>
0% 2001 Columbian Avenue note receivable with a 25-year deferral with the full balance due June 2026.	\$ 280,200	\$ 211,576
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.	479,673	202,943
2% 2009 Deborah Dubay note receivable with quarterly payments of principal and interest of \$290 and a final balloon payment due in August 2019. This loan is sourced from the City's SBD Revolving Loan Fund.	10,734	10,734

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note IV. Detailed notes on all funds (continued)

G. Mortgages and Notes Receivable (continued)

<u>Description</u>	06/30/2014 <u>Face Value</u> <u>Balance</u>	06/30/2014 <u>Realizable</u> <u>Amount</u>
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.	12,000	12,000
2% 2009 S & E Enterprises, Inc. (C Street Holdings) note receivable monthly principal and interest payments of \$352 with final payment due in August 2019. This loan is sourced from the City's SBD Revolving Loan Fund.	20,730	20,730
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.	9,112	9,112
2% 2010 John and Jerri Sabatase 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 Fund.	15,980	15,980
0% 2004 Tuttle Block Housing Limited Partnership note receivable with a 30-year deferral with the full balance due August 2034.	600,000	373,222
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.	130,096	-
0% 2011 Rutland Housing Partnership note receivable with a 30-year deferral with the full balance due October 2040.	750,000	372,403
2% 2012 MKF Properties, LLC \$30,000 note receivable payable in monthly principal and interest payments of \$443 with final payment due in February 2018.	18,770	18,770

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note IV. Detailed notes on all funds (continued)

G. Mortgages and Notes Receivable (continued)

<u>Description</u>	06/30/2014 <u>Face Value</u> <u>Balance</u>	06/30/2014 <u>Realizable</u> <u>Amount</u>
2% 2012 Romeo Family LLC \$13,000 note receivable payable in monthly principal and interest payments of \$228 with final payment due in December 2017.	9,235	9,235
0% Hickory Street \$147,000 note receivable with a 30 year deferral period. Balance due November 2043.	147,000	64,105
2% 2014 Shawn and Jamie Pemrick \$30,000 note receivable payable in monthly payments of \$276.04 for 120 months ending in December 2023.	28,410	28,410
2% 2014 Charles Wagenhiem \$30,000 note receivable payable in monthly installments of 276.04 for 120 months ending in March 2024.	<u>28,866</u>	<u>28,866</u>
Total long-term mortgages and notes receivable	\$ <u>2,540,806</u>	\$ <u>1,378,086</u>

H. Lease Agreements

1. Capital leases – The City has 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 \$471,308. Annual depreciation for this year for the City’s capital lease assets is \$19,110 and accumulated depreciation on this equipment totaled \$192,469.

The City has the following future minimum lease payments for its capital leases:

<u>Year</u>	<u>Lease</u> <u>Payments</u>
2015	88,897
2016	88,897
2017	<u>59,988</u>
Total	\$ <u>237,782</u>

2. Operating leases – The City has operating leases for real property in the form of land and building space. Each lease is at-will and may be cancelled by either party. There are no future minimum lease payments for these leases.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note IV. Detailed notes on all funds (continued)

H. Lease Agreement (continued)

The City also has several operating leases for office copiers. The total of operating lease expense for 2014 was \$59,829. The City has the following future minimum lease payments for its operating leases:

<u>Year</u>	<u>Lease Payments</u>
2015	39,887
2016	19,943
Total	\$ <u>59,830</u>

I. Short-term Debt

There is no short-term debt as of June 30, 2014 and no short-term debt activity during the year.

J. Long-Term Debt

Governmental Activities

General long-term debt activity for the year ended June 30, 2014 is as follows:

	<u>07/01/13 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/14 Balance</u>
3.70% Capital Improvement Bond – General Obligation with annual principal payments of \$6,063 plus variable interest, payments maturing December 2013.	\$ 6,064	\$ -	\$ 6,064	\$ -
5.054% Capital Improvement Bond – General Obligation - with annual principal payments of \$140,000 plus variable interest payments maturing December 2020.	1,120,000	-	140,000	980,000
3.75% Library roof repair with annual principal payments of \$46,320 plus semi- annual interest payments maturing 2022.	416,881	-	46,321	370,560

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

Note IV. Detailed notes on all funds (continued)

J. Long-Term Debt (continued)

	07/01/13			06/30/14
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
1.098% Bridge bond with VMBB for City bridge work with annual principal payments of \$33,333 and semi-annual interest payments at a variable interest rate through December 2042.	1,000,000	-	33,341	966,659
Total governmental long-term debt:	\$ <u>2,542,945</u>	\$ -	\$ <u>225,726</u>	\$ <u>2,317,219</u>

Business-type Activities

Proprietary Funds notes and bonds payable consist of the following as of June 30, 2014:

	07/01/13			06/30/14
<u>Sewer Fund</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
0.00% CSO VMBB construction bond with principal only annual payments of \$160,000 maturing December 2026.	\$ 2,400,000	\$ -	\$ 160,000	\$2,240,000
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.	1,050,000	-	150,000	900,000
4.185% CSO Phase 2A VMBB construction bond with principal payments of \$80,000 and with variable semi-annual interest payments maturing December 2027.	1,200,000	-	80,000	1,120,000
2% VMBB Bond for CSO West and Crescent Streets improvement with annual payments of \$28,285 maturing Oct 2031.	442,327	-	19,366	422,961
0% VMBB Bond for an engineering study for stormwater separation with principal payments of \$10,500 beginning in March 2018 through March 2028	39,375	180,922	-	220,297

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note IV. Detailed notes on all funds (continued)

J. Long-Term Debt (continued)

<u>Water Fund</u>	07/01/13		06/30/14
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>
			<u>Balance</u>
3.6% Merchant's Bank Current Expense Note for the water portion of repayment of General Fund operating transfers with annual payments of \$450,000 plus interest maturing June 2015.	3,150,000	-	450,000
4.07% VMBB Capital Bond with annual principal Payments of \$95,000 plus variable interest semi-annual payments maturing December 2022.	950,000	-	95,000
3.0% VMBB Water Roof Repair Bond with annual principal and interest payments of \$115,546, maturing December 2032.	1,719,039	-	63,975
2.22% VMBB Capital Improvement Bond with principal and interest payments of \$197,757 through December 2013.	<u>197,757</u>	<u>-</u>	<u>197,757</u>
Total business-type long-term debt	\$ <u>11,148,498</u>	\$ <u>180,922</u>	\$ <u>1,216,098</u>
Total long-term debt			\$ 12,430,541
Less current portion			<u>1,240,301</u>
Long-term portion			\$ <u>11,190,240</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	\$ 1,240,301	\$ 315,739	\$ 1,556,040
2016	1,242,672	306,760	1,549,432
2017	1,245,111	231,416	1,476,527
2018	1,247,620	193,739	1,441,359
2019	1,250,199	164,355	1,414,544
2020-2024	3,401,433	494,571	3,896,004
2025-2029	1,825,660	275,419	2,101,079
2030-2034	677,546	126,717	804,263
2035-2039	166,665	52,844	219,509
2040-2044	<u>133,334</u>	<u>14,634</u>	<u>147,996</u>
Total	\$ <u>12,430,541</u>	\$ <u>2,176,194</u>	\$ <u>14,606,735</u>

During 2014 long-term debt interest expense was \$417,706.

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

Note IV. Detailed notes on all funds (continued)

K. Fund Balances Designated for Specific Purposes

At June 30, 2014 the City had designated General Fund surplus balance for the following purposes:

<u>Designated for specific purposes:</u>	<u>General Fund</u>
Nonspendable	
Inventories	\$ 39,746
Prepaid expenses	283,241
Restricted	
2008 Whistle Repair Donations	438
Rail Car	2,438
Lister Education	3,437
Reappraisal	446,488
Drug Forfeiture	120,389
Community Police	3,301
Route 4 & 7	49,465
Housing Needs	47
Creek Path	10,331
Giorgetti Arena	11,000
DT Gateway	5,745
Streetlights	5,550
Rutland Blooms	1,295
SIU Grant	2,139
Committed	
Giorgetti Capital	1,260
Godnick Kitchen	12,206
LED Streetlights	325,771
Assigned	
Home Depot	58,468
Police Impress	15,508
Downtown Homeowner	93
Bridge Fund	53,079
Sidewalk Fund	<u>10,787</u>
Total designated fund balance	\$ <u>1,462,222</u>

At June 30, 2014 the City had assigned \$22,500 of the Water Fund balance as a set aside for the future purchase of pierpoint property from the State of Vermont.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note IV. Detailed notes on all funds (continued)

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, 2014 was \$12,756,081, \$69,971 and \$265,029, respectively.

M. Deferred Revenue

Deferred revenue at yearend consists of the following:

- 1 - 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.
2. The City also occasionally receives property tax revenues overpayments or advance payments from taxpayers. As these revenues have not yet been earned they represent deferred revenues. The total amount of deferred revenue at June 30, 2014 is \$112,305.

Note V. Other information

A. Commitments and Contingencies

1. Risk Management: The City is exposed to various risks 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 covering each of those risks. Management believes such coverage is sufficient to protect the City against loss. Settled claims have not exceeded this coverage in any of the past three fiscal years. The City may withdraw from this Fund by giving sixty-days notice. Fund underwriting and rates are subject to an assessment in the event of deficiencies. If the assets of the Fund are exhausted, members are responsible for the Fund's liabilities. The City believes no such deficiency exists at June 30, 2014 and does not expect a future deficiency. The City maintains self-insurance for unemployment insurance purposes.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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: The City closed a landfill and executed a management plan for post-closure monitoring of the site in 1990. The City supports monitoring the landfill through the budget of the General Fund. The City does not expect costs to exceed amounts budgeted for this purpose.

4. Long-Term Contracts: The City has union contracts with the police, fire, and public works department employees. Of these contracts, the police department's union contract was in force through June 30, 2014; the fire fighters union contract was renewed through June 30, 2017, and the public works department union contract was renewed through June 30, 2016. Until a new agreement is reached the previous contract, which expired June 30, 2013 remains in effect.

The City also has a contract with the Rutland Redevelopment Authority to provide the City with grant administration services, policy and operational support for blighted property remediation, urban planning and redevelopment, economic development and job creation through FY 2014.

B. Defined Benefit Pension Plan

The City participates in a cost-sharing, multi-employer, public employee retirement system. This defined benefit plan covers employees of the City 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 required contribution is determined by the City's actuary and the City's actual contributions are limited by City Charter not to exceed .06 cents per 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. Plan provisions are established or amended by the City's Pension Board. The Pension Board is composed of the City of Rutland Treasurer as the Pension Board Commissioner; five members of the City's Board of Aldermen and five members of the Rutland Board of School Commissioners.

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, 2014

Note V. Other information (continued)

B. Defined Benefit Pension Plan (continued)

Participating City employees contributed \$332,150 to the Plan in the fiscal year ended June 30, 2014. Employer contributions for the City's employees for the year ended June 30, 2014 was \$612,134. Payroll for pension-plan covered employees for the year ended June 30, 2014 was \$6,954,143. The City's total payroll was \$9,828,164.

According to the employee union contract with the Department of Public Works employee contributions as a percentage of payroll are:

	Employee	Employer
FY 2015	4.2%	8.9%
FY 2016	5.3%	9.6%

According to the employee contract with the Fire Department's contract employee contribution as of percentage of payroll are:

	Employee	Employer
FY 2015	10.145%	7.605%
FY 2016	10.52%	7.98%
FY 2017	10.895%	8.355%

According to the Police union contract, police employees contributed 6.23% of payroll during the year ended June 30, 2014.

Union contracts are not binding on the Pension Board and if the Pension Board does not approve the City contributions, the employer's portion will revert to prior levels.

Significant actuarial assumptions used to compute the contribution requirements are as follows:

Valuation Date	January 01, 2013
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar
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	7.5%
Projected Salary increases	4.0%
Post-employment benefit increases	N/A

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note V. Other information (continued)

B. Defined Benefit Pension Plan (continued)

Actuarial Valuation Date	Actuarial Value of Assets (a)	<u>Schedule of Funding Progress</u>			Covered Payroll (c)	(Excess)/ (Deficiency) as a Percentage of Covered Payroll (b) – (a)/(c)
		Actuarial Accrued Liability (AAL) (b)	(Excess)/ Deficiency of Assets over AAL (b) – (a)	Funded Ratio (a)/(b)		
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%
01/1/2012	59,550,537	82,683,836	23,133,299	72.02%	27,838,575	83.10%
01/1/2013	63,249,120	89,935,809	26,686,689	70.33%	28,416,600	93.91%
01/1/2014	67,988,181	94,836,584	26,848,403	71.69%	28,733,550	93.44%

Schedule of Contributions

Plan Year Ended June 30	Annual Recommended Contribution	Actual Contribution	Percentage Contributed
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%
2012	3,842,585	2,559,636	66.61%
2013	3,775,872	2,622,349	69.45%
2014	3,799,091	2,649,918	69.75%

Schedule of Annual Pension Cost

	06/30/2011	06/30/2012	06/30/2013	06/30/2014
Annual Required Contribution (ARC)	5,125,675	3,842,585	3,775,872	3,799,091
Interest on NPO	901,701	1,078,654	1,171,768	1,175,350
ARC adjustment	1,316,813	1,197,674	1,301,062	1,392,042
Annual Pension Cost (APC)	4,710,563	3,723,565	3,646,578	3,582,399
Actual Contributions Made	2,498,651	2,559,636	2,622,349	2,649,918
NPO – Beginning of Year	11,271,260	13,483,172	14,647,101	15,671,330
NPO – End of Year	13,483,172	14,647,101	15,671,330	16,603,811
Percentage of APC Contributed	53.04%	68.74%	71.91%	73.97%

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note V. Other information (continued)

C. Vermont Municipal Employee Retirement System

During the year ended June 30, 2013, the City began enrolling some new employees in the Vermont Municipal Employees Retirement System (VMERS), rather than the City's pension plan.

The Vermont Municipal Employees' Retirement System is a cost sharing multiple-employer public employees' retirement system. Vermont State statutes provide the authority under which benefit provisions and obligations to contribute are established.

During the year the City management, with the agreement of the Pension Board, decided that non-union employees hired after April 1, 2013 and not previously enrolled in the City's pension plan will participate in VMERS. The Fire employee contract, executed before year end, stipulates Fire employees hired after the signing date of the contract, February 5, 2013, will also participate in VMERS.

Prior to yearend, June 30, 2014, the Department of Public Works union agreed that new hires will also begin participation in VMERS.

VMERS is an actuarial service, joint-contributory program. Both the City and employees make contributions to the fund. During the year the City's Pension Board decided that all non-union employees hired after April 1, 2013 will participate in the State of Vermont's Municipal Employee Retirement System. Also, as union contracts are updated, the City is transitioning union employees to VMERS.

The City had several employees participate in VMERS for the year ended June 30, 2014. Total payroll for VMERS participating employees for the year was \$286,679; total employee withholding contributions were \$16,377 and total City contributions were \$15,376.

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

D. Annual Other Post-Retirement Obligations (OPEB)

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.

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

Note V. Other information (continued)

D. Annual Other Post-Retirement Obligations (OPEB)

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 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:

	<u>06/30/2013</u>	<u>06/30/2014</u>
Annual Required Contribution	\$ 880,574	\$ 749,953
Contributions Made	(452,916)	(473,514)
Adjustments to the Annual Required Contribution	<u>(66,828)</u>	<u>(73,818)</u>
Net Change in Net OPEB Liability	360,830	202,621
Net OPEB liability at beginning of fiscal year	<u>3,449,873</u>	<u>3,810,703</u>
Net OPEB Obligation at end of the fiscal year	\$ <u>3,810,703</u>	\$ <u>4,013,324</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, 2014 were as follows:

Funded Status and Funding Progress

As of June 30, 2014, the plan was 0% funded. The actuarial accrued liability was \$7,630,151 and the actuarial value of assets was \$ -0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,630,151. For FY 2014, covered payroll, annual payroll of employees covered for OPEB purposes, was \$7,982,799, and the ratio of the UAAL to covered payroll is 105%. Amounts of funded status and required contributions are subject to revisions as actual results are compared to actual 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, 2014
Annual Discount Rate	3.50%

The City offered to a high-deductible health-care plan combined with a flexible spending plan for all its employees during the fiscal year ended June 30, 2014.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note V. Other information (continued)

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

On September 30, 2014 the City entered into a contract with Ford Motor Credit Company, LLC. To lease vehicles for the City's police department. The lease is for a price of \$80,999, which consists of 3 annual payments of \$28,476.

During October 2014, the City refinanced its Current Expense Note with Merchants Bank to extend the term through June 2020 at 2.75% in the amount of \$3,600,000 reported between the Water and Sewer Funds

During October 2014, the City received approval of a \$5,138,000 bond through Vermont Municipal Bond Bank to fund continuing CSO projects.

During November 2014 the City obtained a bond anticipation note from Merchants Bank in the amount of \$2,600,000 at 1.05% due November 18, 2015.

During October 2014 The City entered renewed the police union contract through June 30, 2016. The contract was made retroactively effective to July 01, 2014.

Events occurring after June 30, 2014, the date of the most recent Statement of Net Position, have been evaluated for possible adjustment to the financial statements or disclosures through February 17, 2015 the date the financial statements were available to be issued.

CITY OF RUTLAND, VERMONT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes - general	\$ 14,108,125	\$ 13,628,121	\$ (480,004)
Delinquent tax, penalties, and interest	158,000	156,440	(1,560)
Fines and forfeitures	161,200	176,541	15,341
Rooms and meals tax	447,000	452,185	5,185
PILOT	464,462	484,888	20,426
Licenses and permits	214,800	203,179	(11,621)
Federal grants	-	1,082,413	1,082,413
State grants	201,700	403,422	201,722
Charges for services	746,981	695,848	(51,133)
Investment earnings	20,000	52,708	32,708
Rental income	13,500	16,373	2,873
Donations	-	37,435	37,435
Tax Sale	25,000	46,094	21,094
Miscellaneous	4,000	86,995	82,995
Total revenues	16,564,768	17,522,642	957,874
Expenditures			
Executive	109,456	165,711	(56,255)
Legislative	26,901	32,168	(5,267)
City Clerk	358,274	318,707	39,567
City Treasurer	637,187	593,516	43,671
City Attorney	141,173	121,982	19,191
City Assessor	168,838	168,528	310
Building and zoning	355,266	322,029	33,237
Libraries	668,530	668,530	-
Police department	4,943,915	4,991,953	(48,038)
Fire department	3,157,418	2,983,517	173,901
Highways	2,009,537	2,075,057	(65,520)
Winter maintenance	553,278	635,610	(82,332)
Street lighting	296,476	440,965	(144,489)

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, 2014

	Budget	Actual	Variance Favorable (Unfavorable)
Catch basins	25,102	40,933	(15,831)
Community development	180,000	627,818	(447,818)
Recreation administration	506,999	456,423	50,576
DPW administration	839,204	874,032	(34,828)
Elections	14,109	12,254	1,855
Government buildings	643,523	852,223	(208,700)
Operations	19,000	19,389	(389)
General recreation	1,031,791	1,047,234	(15,443)
Giorgetti Park	182,680	147,661	35,019
Godnick Center	18,240	16,416	1,824
White Playground	92,995	131,279	(38,284)
Vehicle maintenance	571,628	582,121	(10,493)
Miscellaneous expense	380,612	243,197	137,415
Appropriations	268,870	268,870	-
Pension expense	600,000	600,000	-
Debt service	333,488	333,459	29
Total expenditures	<u>19,134,490</u>	<u>19,771,582</u>	<u>(637,092)</u>
Excess of revenues over (under) expenditures	<u>(2,569,722)</u>	<u>(2,248,940)</u>	<u>320,782</u>
Other financing sources (uses)			
Transfers in (out)	<u>1,738,559</u>	<u>1,740,687</u>	<u>2,128</u>
Total other financing sources (uses)	<u>1,738,559</u>	<u>1,740,687</u>	<u>2,128</u>
Net change in fund balance	<u>(831,163)</u>	<u>(508,253)</u>	<u>322,910</u>
Fund balance, June 30, 2013, as stated		<u>3,313,125</u>	
Fund balance, June 30, 2014		<u>\$ 2,804,872</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, 2014

Special Revenue Funds

	Hospital Fund	Equipment Replacement Fund	Field Maintenance Fund	Capital Improvement Fund	Fire Equipment Fund	Zamias Impact Fund	Water/Sewer Vehicle Fund	White's Pool Fund	Giorgetti Fund
ASSETS									
Cash	\$ 14,624	\$ 146,235	\$ 125,003	\$ 204,036	\$ 326,903	\$ 657,952	\$ 20,003	\$ 17,254	\$ 397,977
Other receivables	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	715,152
Prepaid expenses	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	4,000	-	-	-	-	-
	<u>14,624</u>	<u>146,235</u>	<u>125,003</u>	<u>208,036</u>	<u>326,903</u>	<u>657,952</u>	<u>20,003</u>	<u>17,254</u>	<u>1,113,129</u>
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable	-	4,889	-	5,136	-	-	-	-	-
Due to other funds	-	20	1,290	-	-	13,435	-	-	510
Total Liabilities	<u>-</u>	<u>4,909</u>	<u>1,290</u>	<u>5,136</u>	<u>-</u>	<u>13,435</u>	<u>-</u>	<u>-</u>	<u>510</u>
Fund balances									
Committed	<u>14,624</u>	<u>141,326</u>	<u>123,713</u>	<u>202,900</u>	<u>326,903</u>	<u>644,517</u>	<u>20,003</u>	<u>17,254</u>	<u>1,112,619</u>
Total fund balances	<u>14,624</u>	<u>141,326</u>	<u>123,713</u>	<u>202,900</u>	<u>326,903</u>	<u>644,517</u>	<u>20,003</u>	<u>17,254</u>	<u>1,112,619</u>
Total liabilities and fund balances	<u>\$ 14,624</u>	<u>\$ 146,235</u>	<u>\$ 125,003</u>	<u>\$ 208,036</u>	<u>\$ 326,903</u>	<u>\$ 657,952</u>	<u>\$ 20,003</u>	<u>\$ 17,254</u>	<u>\$ 1,113,129</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, 2014

	Special Revenue Funds					Permanent Funds			Non-Major Govt Funds
	Records Preservation Fund	CSO Sinking Fund	Bridge Fund	Sidewalk Fund	Rec Activities Fund	Water System Capital Fund	VCDP Notes Receivable Fund	Downtown Special Bus. Dist. Revolving Loan Fund	
ASSETS									
Cash	\$ 78,297	\$ 702,931	\$ 390,484	\$ 5,758	\$ -	\$ 859,736	\$ 7,011	\$ 105,059	\$ 4,059,263
Other receivables	100	-	-	-	-	-	-	2,260	2,360
Investments	-	-	-	-	-	-	-	-	715,152
Prepaid expenses	805	-	-	-	-	-	-	-	805
Due from other funds	420	-	-	-	-	-	-	-	4,420
	<u>79,622</u>	<u>702,931</u>	<u>390,484</u>	<u>5,758</u>	<u>-</u>	<u>859,736</u>	<u>7,011</u>	<u>107,319</u>	<u>4,782,000</u>
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable	-	-	-	-	-	-	-	-	10,025
Due to other funds	-	-	-	-	-	-	-	-	15,255
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,280</u>
Fund balances									
Committed	<u>79,622</u>	<u>702,931</u>	<u>390,484</u>	<u>5,758</u>	<u>-</u>	<u>859,736</u>	<u>7,011</u>	<u>107,319</u>	<u>4,756,720</u>
Total fund balances	<u>79,622</u>	<u>702,931</u>	<u>390,484</u>	<u>5,758</u>	<u>-</u>	<u>859,736</u>	<u>7,011</u>	<u>107,319</u>	<u>4,756,720</u>
Total liabilities and fund balances	<u>\$ 79,622</u>	<u>\$ 702,931</u>	<u>\$ 390,484</u>	<u>\$ 5,758</u>	<u>\$ -</u>	<u>\$ 859,736</u>	<u>\$ 7,011</u>	<u>\$ 107,319</u>	<u>\$ 4,782,000</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
 JUNE 30, 2014

	Special Revenue Funds								
	Hospital Fund	Equipment Replacement Fund	Field Maintenance Fund	Capital Improvement Fund	Fire Equipment Fund	Zamias Impact Fund	Water/Sewer Vehicle Fund	White's Pool Fund	Giorgetti Fund
Revenues									
Fees and charges for services	\$ -	\$ 28,605	6,656	\$ 13,448	\$ 77,000	\$ -	\$ -	\$ -	\$ -
Sale of assets	-	16,400	-	-	18,000	-	-	-	-
Investment earnings	7	64	63	73	168	744	3	503	8,995
Proceeds from borrowing	-	-	-	-	-	-	-	-	-
Loan repayments	-	-	-	-	-	-	-	-	-
Donations	-	-	-	-	-	-	-	10	-
Total revenues	7	45,069	6,719	13,521	95,168	744	3	513	8,995
Expenditures									
Loan disbursements	-	-	-	-	-	-	-	-	-
Operating expenses	-	150,916	7,750	-	606,258	52,782	-	4,954	510
Total Expenditures	-	150,916	7,750	-	606,258	52,782	-	4,954	510
Excess (deficiency of revenues over (under) expenditures	7	(105,847)	(1,031)	13,521	(511,090)	(52,038)	3	(4,441)	8,485
Transfers in (out)	-	120,000	-	65,000	40,000	(129,206)	20,000	-	-
Total other financing sources (uses)	-	120,000	-	65,000	40,000	(129,206)	20,000	-	-
Net changes in fund balances	7	14,153	(1,031)	78,521	(471,090)	(181,244)	20,003	(4,441)	8,485
Fund balances, beginning, as stated	14,617	127,173	124,744	124,379	797,993	825,761	-	21,695	1,104,134
Fund balances, ending	\$ 14,624	\$ 141,326	\$ 123,713	\$ 202,900	\$ 326,903	\$ 644,517	\$ 20,003	\$ 17,254	\$ 1,112,619

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
 JUNE 30, 2014

	Special Revenue Funds						Permanent Funds		Total Non-Major Govt Funds
	Records Preservation Fund	CSO Sinking Fund	Bridge Fund	Sidewalk Fund	Rec Activities Fund	Water System Capital Fund	VCDP Notes Receivable Fund	Downtown Special Bus. Dist. Revolving Loan Fund	
	Revenues								
Fees and charges for services	\$ 20,348	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 146,057
Sale of assets	-	-	-	-	-	-	-	-	34,400
Investment earnings	37	596	76	2	-	690	4	2,492	14,517
Proceeds from borrowing	-	-	-	-	-	-	-	-	-
Loan repayments	-	-	-	-	-	-	-	21,193	21,193
Donations	-	-	-	-	-	-	-	-	10
Total revenues	20,385	596	76	2	-	690	4	23,685	216,177
Expenditures									-
Loan disbursements	-	-	-	-	-	-	-	60,000	60,000
Operating expenses	9,420	-	-	-	-	-	3,271	-	835,861
Total Expenditures	9,420	-	-	-	-	-	3,271	60,000	895,861
Excess (deficiency of revenues over (under) expenditures	10,965	596	76	2	-	690	(3,267)	(36,315)	(679,684)
Transfers in (out)	-	195,041	(254,009)	5,756	(132,120)	298,247	-	-	228,709
Total other financing sources (uses)	-	195,041	(254,009)	5,756	(132,120)	298,247	-	-	228,709
Net changes in fund balances	10,965	195,637	(253,933)	5,758	(132,120)	298,937	(3,267)	(36,315)	(450,975)
Fund balances, June 30, 2013	68,657	507,294	644,417	-	132,120	560,799	10,278	143,634	5,207,695
Fund balances, June 30, 2014	\$ 79,622	\$ 702,931	\$ 390,484	\$ 5,758	\$ -	\$ 859,736	\$ 7,011	\$ 107,319	\$ 4,756,720

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

CITY OF RUTLAND, VERMONT
INTERNAL CONTROL REPORT
JUNE 30, 2014

Corrette & Associates, P.C.

CORRETTE & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information for the City of Rutland, Vermont, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Rutland, Vermont's basic financial statements, and have issued our report thereon dated February 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Rutland, Vermont's internal control over financial reporting to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rutland, Vermont's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Rutland, Vermont's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Rutland's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain other matters that we reported to management of the City of Rutland, Vermont in a separate letter dated February 17, 2015.

Purpose of this Report

This report is intended solely to describe the scope of our testing on internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Corrette & Associates, P.C.
St. Johnsbury, Vermont
February 17, 2015
Vermont License # 92-130

CITY OF RUTLAND
RUTLAND, VERMONT

AUDITORS' REPORT
IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2014

Corrette & Associates, P. C.

CITY OF RUTLAND, VERMONT

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INDEPENDENT AUDITORS' SINGLE AUDIT REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Aldermen
City of Rutland, Vermont

Report on Compliance for Each Major Program

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's major federal programs for the year ended June 30, 2014. The City of Rutland, Vermont's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Rutland, Vermont's major federal programs based on an audit of the types of compliance requirements referred to above. 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 on compliance for each major program. However, our audit does not provide a legal determination of the City of Rutland, Vermont's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Rutland, Vermont complied, in all material respects, with the types of 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, 2014.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which would be required to be reported in accordance with OMB Circular A-133.

Report on Internal Control Over Compliance

Management of the City of Rutland, Vermont is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Rutland, Vermont's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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.

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. 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the government activities, the business-type activities, the aggregate discreetly 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, 2014, and the related notes to the financial statements, which collectively comprise the City of Rutland Vermont's basic financial statements. We issued our report thereon dated February 17, 2015, which contained unmodified opinions on the financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Corrette & Associates, P.C.
St. Johnsbury, Vermont
February 17, 2015
Vermont License # 92-130

**CITY OF RUTLAND, VERMONT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Federal Agency/Program Title</u>	<u>State Grant Contract #</u>	Catalog of Federal Domestic Assistance <u>Number</u>	<u>Expenditures</u>
U.S. Dept of Housing & Community Development passed through VT Dept of Economic, Housing and Community Development:			
Block Grant Cluster	IG-2012	14.228	<u>177,117</u>
Total U.S. Department of Housing and Urban Development			<u>177,117</u>
U.S. Dept of Justice – Direct Grants			
Bulletproof Vest Partnership	-	16.607	1,390
Domestic Violence Homicide Reduction		16.526	91,376
Byrne – Assistance Grants Pgm Cluster	-	16.738	72,490
Evidence and Drug Forfeiture Cluster		16.999	<u>24,315</u>
Total U.S. Department of Justice			<u>189,571</u>
U.S. Department of Transportation - passed through the Vermont Agency of Transportation:			
Highway Planning and Construction	-	20.205	253,918
U.S. Department of Transportation - passed through the State of Vermont Dept of Public Safety:			
State & Community Safety Program	02140-1213-1214	20.600	39,603
2013/2014 Equipment Incentives	02140-1213-1314	20.600	<u>9,800</u>
Highway Safety Cluster			49,403
Offenders for DUI	-	20.608	7,331
Total U.S. Department of Transportation			<u>310,652</u>
U. S. Environmental Protection Agency – passed through the State of Vermont			
CWSRF/Drinking Water State Revolving Funds	06140-RUT	66.458	<u>266,492</u>
Total U. S. Environment Protection Agency			<u>266,492</u>

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, 2014**

<u>Federal Agency/Program Title</u>	<u>State Grant Contract #</u>	Catalog of Federal Domestic Assistance <u>Number</u>	<u>Expenditures</u>
U.S. Department of Homeland Security - passed through State of Vermont:			
Voter Access (VOTE)	G-1003	93.617	5,000
Preventive Health Care Block Grant	03420	93.991	<u>889</u>
Total for Indirect Public Safety			<u>5,889</u>
U.S. Department of Homeland Security - passed through VT Dept of Public Safety	-	97.067	<u>66,242</u>
Total U.S. Department of Homeland Security			<u>66,242</u>
Total expenditures of federal awards			\$ <u>1,015,963</u>

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, 2014**

NOTE 1. Single Audit Reporting Entity

The financial reporting entity, as defined by GASB codification, consists of the primary government, the City of Rutland, Vermont, 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 accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Rutland, Vermont under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operation of the City of Rutland, Vermont, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Rutland, Vermont.

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, 2014 were:

<u>Federal Agency/Department</u>	<u>Program</u>	<u>CFDA</u>
U. S. Housing & Urban Development	Neighborhood Revitalization Cluster	14.228
U. S. Dept of Transportation	Hwy Planning & Construction Cluster	20.205
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, 2014

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 of Rutland, Vermont 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 of Rutland, Vermont. 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 did not provide federal awards to any subrecipient organization during the year ended June 30, 2014.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

A. Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Rutland, Vermont.
2. No significant deficiencies in internal controls were identified during the audit of the financial statements and none 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*.
3. We identified no 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. We identified no deficiencies in internal control over 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*.
5. The auditors' report on compliance for the major federal programs of the City of Rutland, Vermont expresses an unqualified 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:

U. S. Housing & Urban Development	Neighborhood Revitalization Cluster	14.228
U. S. Dept of Transportation	Hwy Planning & Construction Cluster	20.205
U. S. EPA	Clean Water Revolving Loan Fund	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, 2014**

B. Findings – Financial Statement Audit

Material Weaknesses

None

Significant Deficiencies

None

C. Findings – Major Federal Award Program Audit

Material Weaknesses

None

D. Findings – Major Federal Award Program Audit

Significant deficiencies

None

**CITY OF RUTLAND, VERMONT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Material Weaknesses

13 – 01: Recreation Department revenues are not properly reported or recorded.

Condition: The City has not established procedures adequate to ensure that the Recreation Department Head follows the City's requirements for receiving and recording revenues properly belonging to the City's General Fund.

Criteria: City Charter and generally accepted accounting principles require organizations establish and maintain adequate internal controls such that errors and malfeasance can be prevented or detected and corrected in a timely manner.

Cause: The City has either not fully communicated requirements or not adequately supervised Department Head to ensure compliance with City requirements.

Effect: Revenues properly General Fund activity, had been collected in the Recreation Activities Fund and not considered available for City use.

Recommendation: The City should establish training for Department Heads responsibilities.

Status: Resolved.

13 – 02: Restricted Donations are not reflected on general ledger

Condition: The City has not established procedures adequate to ensure that restricted donations received by City employees are properly recognized and recorded in the General Ledger.

Criteria: Generally accepted accounting principles require that organizations in receipt of restricted donations establish procedures to ensure the proper recording and monitoring of these assets to ensure compliance with restrictions.

Cause: The City has not fully communicated requirements or not adequately supervised Department Heads to ensure compliance.

Effect: Restrictions exist without Board oversight and without compliance with the City's requirements.

Recommendation: The City should establish a regular training program for Department Heads responsibilities.

Status: Resolved.

**CITY OF RUTLAND, VERMONT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Material Weaknesses (continued)

13 – 03: Recreation Department receives and holds cash and checks without recording or reporting

Condition: The City's recreation department accepts both cash and checks from users of the recreational programs of the City and retains both in the Recreation Department office for extended periods of time without either recording or reporting these assets to the City Treasurer.

Criteria: Generally accepted accounting principles require that organizations record and deposit all revenue sources within a reasonable period of time.

Cause: The City's Recreation Department established retention procedures in an attempt to streamline the movement of cash between the Department and users of the City's programs.

Effect: Assets remain highly susceptible to malfeasance.

Recommendation: The City should require that all Departments record and deposit all receipts in a timely manner and that if deposits represent security deposits, the City Treasurer is notified to establish a liability for these deposits on the City's general ledger.

Status: Resolved.

13 – 04: Material unresolved interfund balances

Condition: The City has material interfund loans balances between the General Fund and the Sewage Fund without developing specific plans to resolve.

Criteria: Generally accepted accounting principles require municipalities that execute interfund loans develop plans to resolve those balances on a regular basis.

Cause: The City operates a pooled-cash account for the General Fund and its proprietary fund and the City's Sewage Disposal Fund operations have resulted in material losses funded by cash belonging to the General Fund.

Effect: Material interfund loans affect the total assets and liabilities of the City.

Recommendation: The City should establish specific plans to resolve or forgive material interfund loans.

Status: Being resolved

**CITY OF RUTLAND, VERMONT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Material Weaknesses (continued)

13 – 05: Balance Sheet inaccuracies

Condition: The City has not developed adequate procedures to ensure that all principal loan proceeds and related debt is recorded on its General Ledger.

Criteria: Generally accepted accounting principles require that municipalities in receipt of loan proceeds report these proceeds as revenue under the required modified accrual basis of accounting.

Cause: The City received two separate loans during the year but did not have adequate procedures in place to ensure the proper recording of these proceeds.

Effect: Revenues are materially understated and loan balance cannot be monitored.

Recommendation: The City should establish procedures to ensure that all loan proceeds are properly recorded in the general ledger.

Status: Resolved.

Significant Deficiencies

13 – 06: Notes Receivable

Condition: The City has not establish adequate procedures for the complete valuing of notes receivable on a consistent basis of accounting.

Criteria: Generally accepted accounting principles require municipalities to establish procedures for the valuing and recording of all assets on a consistent basis of accounting.

Cause: The City has not established a consistent basis of accounting for all cycles of transactions.

Effect: Assets of the City may be misstated in value.

Recommendation: The City should establish a consistent basis of accounting for each cycle of transactions.

Status: Resolved.

**CITY OF RUTLAND, VERMONT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Significant Deficiencies (continued)

13 – 07: Fund restriction monitoring

Condition: Fund balance restrictions are not properly monitored or recorded.

Criteria: Generally accepted accounting principles require that fund balance restrictions and designations be recorded on the general ledger.

Cause: The City has not established adequate linkage between changes in fund balance and recording of activity on the City's general ledger.

Effect: Changes to committed fund balance are not recorded, and funds loaned to an employee union are incorrectly reported as restricted fund balance rather than as a receivable.

Recommendation: The City should establish procedures that require clear and accurate monitoring of all fund balance changes.

Status: Resolved.

13 – 08: Recreation Department improperly records user deposits as revenue

Condition: The Recreation Department requires that users of some programs provide a security deposit for use of uniforms or fields. These deposits are improperly recorded as revenue.

Criteria: Generally accepted accounting principles require that organizations in receipt of funds with an expectation that these funds will be returned must record the receipt of those funds as deferred revenue.

Cause: A lack of understanding of generally accepted accounting principles.

Effect: Overstated revenues and expenditures.

Recommendation: The City should establish procedures to ensure that all security deposits are properly recorded in the general ledger.

Status: Resolved.

B. Findings – Major Federal Award Program Audit

Material Weaknesses

None