

CITY OF RUTLAND, VERMONT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

Corrette & Associates, P.C.

TABLE OF CONTENTS

Independent Auditors' Report	1 – 3
Management's Discussion and Analysis	4 – 13
Statement of Net Position	14
Statement of Activities	15
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	17
Balance Sheet – Governmental Funds	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	19 – 20
Statement of Net Position – Proprietary Funds - Enterprise Funds	21
Statement of Revenues, Expenses, and Changes in Net Position –Proprietary Funds – Enterprise Funds	22
Statement of Cash Flows – Proprietary Funds	23 – 24
Statement of Net Position– Fiduciary Funds	25
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	26
Notes to Financial Statements	27 – 55
Supplementary Information	
General Fund - Schedule of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual	56 – 57
Combining Balance Sheet – Non-Major Governmental Funds	58 – 59
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds	60 – 61

CORRETTE & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

P. O. Box 4039 • St. Johnsbury, VT 05819 • (802) 748 - 4858

Toll Free (888) 748 - 4867

FAX (802) 748 - 2497

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, 2013, 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 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 56 through 57 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 58 through 61 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 March 10, 2014 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.

March 10, 2014

Vermont License # 92-0130

**CITY OF RUTLAND, VERMONT
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

Presented here is the Management Discussion & Analysis Report for the City of Rutland, Vermont for the fiscal year ended June 30, 2013. 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, 2012 by \$38,597,904 comprised of investment in capital assets, net of related debt, and restricted and unrestricted funds.
- The City's total net position increased by \$3,940,790 due to increases in assets and reduction in long term liabilities (including OPEB and long term bonds payable) in both governmental and the proprietary funds.
- The General Fund fund balance at year end is \$3,313,125 or 19.12% of General Fund revenues; the unassigned fund balance in the General Fund is \$1,728,868 or 10.0% of General Fund revenues.
- The City's General Fund fund balance decreased by \$829,948 due primarily to the use of excess surplus to reduce the tax rate. A budgeted decrease of \$941,114 was expected due to the application of prior year's surplus toward the tax rate.
- Total unrestricted net position in the proprietary funds is (\$263,689) as of June 30, 2013, a reduction of \$130,952 over the prior year.
- The Water Fund and Parking Meter Fund have cash at June 30, 2013; the Sewage Disposal Fund does not.

- As of January 1, 2013 the unfunded liability in the city pension increased for both school and municipal employees to \$25,542,088 despite market gains, and the pension is 71.23% 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.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources 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 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 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 sixteen individual governmental funds. Information is presented in the governmental fund balance sheet and the statement of revenues, expenditures and changes in fund balances for the General Fund, which is considered a major fund. The remaining non-major government funds are included in supplemental schedules.

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

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

Notes to the Basic Financial Statements

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

Government-Wide Financial Analysis

Government-wide net position increased \$3,940,790 for the year ended June 30, 2013. 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.

Statement of Net Position as of June 30, 2013 is as follows:

	2013 Total Primary <u>Government</u>	2012 Total Primary <u>Government</u>
Current and Other Assets		
Current Assets	\$ 12,989,919	13,095,569
Capital Assets	50,587,598	47,491,221
Other Assets	<u>1,238,166</u>	<u>1,202,169</u>
Total Assets	64,815,683	61,788,959

Statement of Net Position as of June 30, 2013 is as follows: (continued)

	2013 Total Primary Government	2012 Total Primary Government
Current and Other Liabilities		
Long-term bonds and capital		
Leases payable	13,691,443	14,061,486
Compensated absences payable	2,601,754	2,347,403
Other Post-employment		
Benefits payable (OPEB)	8,690,433	9,585,271
Other liabilities	<u>1,234,149</u>	<u>1,137,684</u>
Total Liabilities	26,217,779	27,131,844
Net Position		
Invested in Capital Assets		
Net of related debt	36,896,155	33,429,735
Restricted for specific purposes	2,401,008	2,223,979
Unrestricted	<u>(699,259)</u>	<u>1,202,169</u>
Total Net Position	\$ <u>38,597,904</u>	\$ <u>34,657,115</u>

Statement of Activities

The Statement of Activities reports total operating expenses and changes in net position for the year ending.

	2013 Total Primary Government	2012 Total Primary Government
Program revenues		
Charges for services	\$ 9,480,709	8,997,583
Operating grants	494,944	1,604,678
Capital grants & contributions	<u>1,205,068</u>	-
Total program revenues	11,180,721	10,602,261
General Revenues:		
Property tax assessments		
(includes PILOTs)	13,832,545	13,584,353
Rooms, Meals & Entertainment	453,094	465,965
Interest and investments earnings	203,688	232,003
Change in Other Post-employment		
benefits	894,414	2,705,022
Transfers	122	-
Miscellaneous	<u>135,231</u>	<u>974,581</u>
Total general revenues	<u>15,519,094</u>	<u>17,961,924</u>
Total revenues	<u>26,699,815</u>	<u>28,564,185</u>
General Expenses:		
General government	3,872,344	2,863,391
Public safety	7,815,349	8,029,838
Highways & Streets	2,696,938	2,790,680

Statement of Activities (continued)

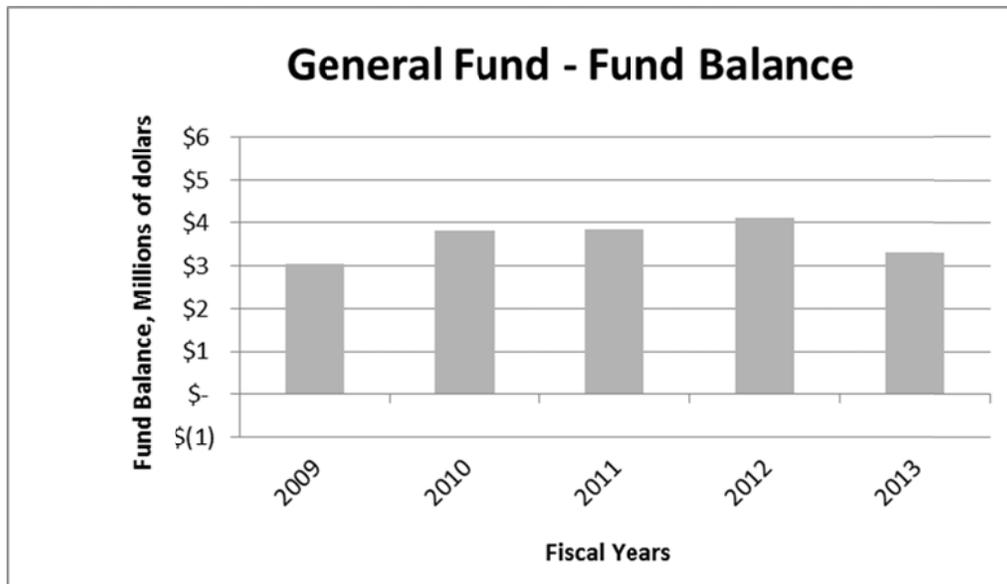
	2013 Total Primary <u>Government</u>	2012 Total Primary <u>Government</u>
DPW Administration	894,982	1,163,185
Economic development	1,121,211	354,154
Culture & recreation	<u>887,583</u>	<u>2,776,405</u>
Total governmental activities	17,288,407	17,977,653
Business-type activities	<u>5,470,618</u>	<u>5,411,598</u>
Total primary governmental activities	<u>22,759,025</u>	<u>23,389,251</u>
Change in net position:		
Net position – beginning of year	<u>34,657,114</u>	<u>29,482,180</u>
Net position – end of year	<u>38,597,904</u>	<u>34,657,114</u>
Total change in net position	\$ <u>3,940,790</u>	\$ <u>5,174,934</u>

Governmental Funds

At June 30, 2013 the City of Rutland's governmental funds report fund balances of \$8,520,820 an improvement of \$31,326 over the prior period. The governmental funds are comprised of the General Fund and non-major government funds, such as the Equipment Replacement Fund, Fire Equipment Fund, Zambias Fund and others used for special purposes. The City of Rutland maintains sixteen governmental funds. Of these only the General Fund is considered to be a major governmental fund.

General Fund-Fund Balance

The General Fund shows a fund balance of \$3,313,125 as of June 30, 2013. The fund balance as of June 30, 2012 was \$4,111,125. Therefore, the General Fund fund balance decreased \$798,000 after a prior period adjustment is taken into account. 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, 2013 the City designated \$1,584,257 of the General Fund fund balance for specific purposes, an increase of \$384,353 over the prior year due to the City's commitment for an energy efficiency street lighting project.

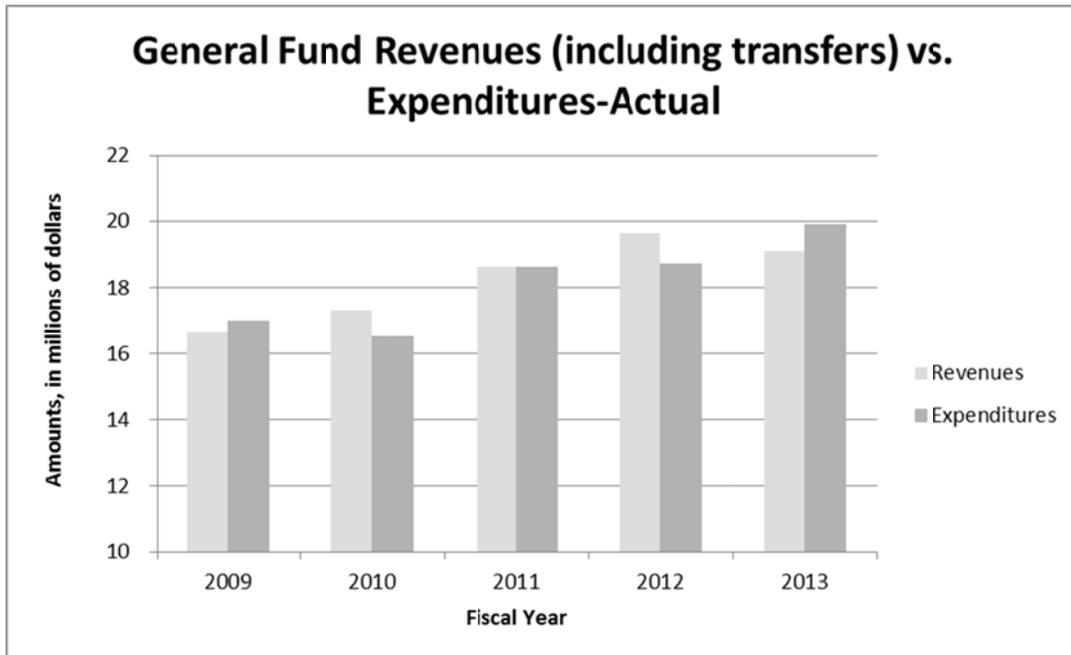


General Fund Budget vs. Actual

Actual revenues exceeded budgeted revenues by \$1,356,303, before transfers. All sources of revenue, including grant revenues, are higher than expected, except for taxes, fines & forfeitures, charges for services, and investment earnings. General tax revenues are lower than expected due to delinquencies at year end, errors and omissions and adjustments affecting the grand list. Increases in grant revenue were consumed by increased expenditures related to grant programs. As a result of delinquent payments collected, penalties and interest revenue exceeded budget as did tax sale revenue.

Actual expenditures are higher than budgeted amounts by \$1,490,962. Several City departments posted significantly higher expenses than budgeted, including Legislative (tax abatements), Treasurer (staffing transition), Police, Highways, Winter Maintenance, Streetlights, Community Development, DPW Admin (staffing transition), Government Buildings, some Recreation divisions, and Debt Service. Community Development increase is due to grant expenditures which were offset by grant revenues. Government Buildings increase was due to insurance premiums for property and casualty, building repairs and fuel costs. Debt Service included an unexpected expense of retirement payouts. Highways increase was due to bridge construction which also increased General Fund assets. Fuel and building maintenance costs increased for some departments such as Police and some recreation divisions.

The General Fund actuals show expenditures exceed revenues by \$134,659 compared to budget. After application of transfers in, the net decrease to fund balance was \$829,948. The City planned a deficit by application of General Fund unassigned fund balance to stabilize the tax rate. This planned deficit was offset by the surplus and a prior year adjustment of \$31,948.



Note: The City planned a deficit in 2013 by applying \$900,000 of prior year's surplus to the budget to stabilize the tax rate.

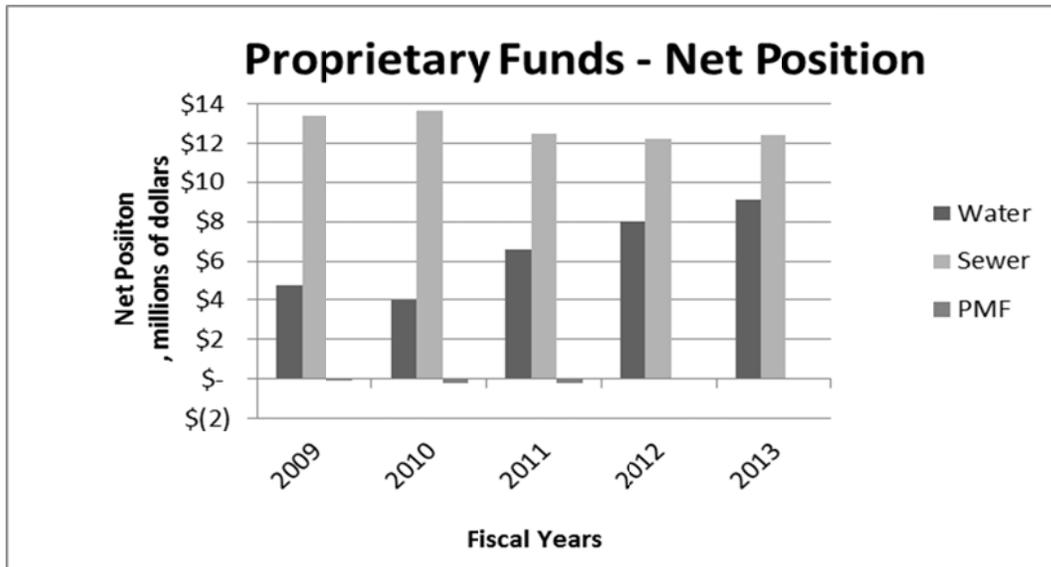
Proprietary Funds

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

Proprietary funds experienced an increase in net position of \$1,340,610 over the prior fiscal year, due to repayment of debt. Unrestricted net position is negative for the proprietary funds overall, at (\$263,689) as of June 30, 2013, a reduction of \$130,952 over the prior year. Net position of the proprietary funds are represented by capital assets, with the exception of the Water Fund which has a \$451,825 in unrestricted net position and \$481,675 in cash at June 30. Unrestricted net position did improve slightly for both Sewage Disposal Fund and the Parking Meter Fund.

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

The City presented a statement of cash flows for the proprietary funds at year end showing total cash at June 30, 2013 is \$544,483 for all funds combined. This is a decrease of \$271,756 over June 30, 2012. 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 2013, totaling \$3,977,259 in Governmental activities and \$1,328,402 in Business-type (proprietary funds) activities. Additions exceed accumulated depreciation and decreases in both governmental and proprietary funds.

Long-Term Obligations

At June 30, 2013 the City shows a reduction in bonds payable of \$370,043 over the prior period and total long term debt was \$13,691,441 at year end. During the year the following change occurred to the City's long term debt structure:

- A \$1,000,000 bond was issued for bridge repairs through Vermont Municipal Bond Bank
- The City entered into a capital lease in FY 2013 for the purchase of a wheeled excavator.
- The City and Fire Department employees agreed to increase pension contributions to improve pension funding for that employee group.

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

As of January 1, 2013 the City pension was 71.23% funded, a slight reduction in funding status over January 1, 2012. Despite market gains the deficiency of assets over unfunded actuarial accrued liability increased to \$25,542,088. The Board of Education (Rutland Public Schools) liability is \$12,156,958 compared to \$11,726,640 in the prior year. City liability,

not school's is \$13,385,130 compared to \$11,091,436 in the prior year. Changes were made to the City's Fire Department and non-union groups, requiring new employees to join the Vermont Municipal Employee Retirement System (VMERS) unless previously vested in the City's pension plan.

Other post-employment benefits (OPEB) unfunded actuarial accrued liability at June 30, 2013 is \$8,690,433 for City (not Rutland Public Schools) employees and retirees, a reduction of \$894,838 from the prior year due to increases in employee healthcare contributions 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 5.3% in June 2013 an improvement from 6.4% in June 2012 according to the Vermont Department of Labor. The unemployment rate for the state of Vermont as a whole was 4.4% and the national rate was 7.5% as of June 2013. The median year-round home price in Rutland County was \$140,000 in 2012, down from \$142,000 in 2011, reflecting somewhat lower household incomes in the region compared to other areas, except northeastern Vermont.

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

	Delinquent Taxes	Expected tax revenue	% Delinquent
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%
FY 2009	\$548,130	\$26,266,496	2.09%

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

	Grand List, BOY	Grand List EOY	Impact on tax revenue
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)
FY 2009	10,031,847.71	10,014,686.95	(\$ 65,198)

The grand list value at beginning of year (BOY) is 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 yearend. Modest gains on the grand list were made due to investments in commercial properties.

Tax rates for FY 2013 increased modestly over FY 2012 for both the municipal appropriation and education. The homestead education tax for FY 2013 was \$1.4018 a 1.64% increase, and non-residential education tax rate decreased \$1.6171 to \$1.5817. The municipal rate

increased from \$1.3117 to \$1.3303 an increase of 1.42%. Both school and municipal budgets were approved by the voters. The Board of Aldermen applied a prior year surplus of \$900,000 toward the FY 2013 budget to minimize the tax rate increase at the time the tax rates were set in July 2012.

Comparative Analysis

Increased assets and reduction of long term liabilities, including a reduction in OPEB liability, increased total net position as reported for the primary government for the year ended June 30, 2013.

Contacting City's Financial Management

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

FINANCIAL STATEMENTS

CITY OF RUTLAND, VERMONT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Rutland Redevelopment Authority
ASSETS				
Current Assets				
Cash and equivalents	\$ 6,904,892	\$ 544,483	\$ 7,449,375	\$ 70,491
Receivables	1,688,854	2,436,547	4,125,401	28,115
Investments	706,567	-	706,567	-
Prepaid expenses	441,980	57,026	499,006	-
Inventories	66,781	135,609	202,390	-
Inter-fund Transfers	688,493	(681,313)	7,180	-
Total current assets	<u>10,497,567</u>	<u>2,492,352</u>	<u>12,989,919</u>	<u>98,606</u>
Non-current Assets				
Notes and mortgages receivable	1,238,166	-	1,238,166	-
Capital assets not being depreciated				
Land	3,900,616	385,141	4,285,757	-
Capital assets, net of depreciation	13,697,578	32,604,263	46,301,841	-
Total non-current assets	<u>18,836,360</u>	<u>32,989,404</u>	<u>51,825,764</u>	<u>-</u>
Total assets	<u>29,333,927</u>	<u>35,481,756</u>	<u>64,815,683</u>	<u>98,606</u>
LIABILITIES				
Current Liabilities				
Accounts payable	476,219	151,046	627,265	177
Accrued expenses	2,491,774	2,460,505	4,952,279	5,366
Deferred revenue	100,331	-	100,331	-
Current portion of long-term debt	192,383	4,200,000	4,392,383	-
Total current liabilities	<u>3,260,707</u>	<u>6,811,551</u>	<u>10,072,258</u>	<u>5,543</u>
Non-current Liabilities				
Long-term liabilities	6,701,971	144,490	6,846,461	-
Long-term debt	2,350,562	6,948,498	9,299,060	-
Total non-current liabilities	<u>9,052,533</u>	<u>7,092,988</u>	<u>16,145,521</u>	<u>-</u>
Total liabilities	<u>12,313,240</u>	<u>13,904,539</u>	<u>26,217,779</u>	<u>5,543</u>
NET POSITION				
Invested in capital assets, net	15,055,249	21,840,906	36,896,155	-
Restricted for:				
Notes and mortgages receivable	1,238,166	-	1,238,166	-
Specific purposes	1,162,842	-	1,162,842	35,000
Unrestricted	(435,570)	(263,689)	(699,259)	58,063
Total net position	<u>\$ 17,020,687</u>	<u>\$ 21,577,217</u>	<u>\$ 38,597,904</u>	<u>\$ 93,063</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, 2013

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		Total	
					Governmental Activities	Business-type Activities		
Governmental activities								
General government	\$ 3,872,344	\$ 492,833	\$ 11,106	\$ -	\$ (3,368,405)	\$ -	\$ (3,368,405)	\$ -
Public safety	7,815,349	297,834	456,813	165,000	(6,895,702)	-	(6,895,702)	-
Highway and streets	2,696,938	51,221	-	628,763	(2,016,954)	-	(2,016,954)	-
DPW administration	894,982	15,476	-	-	(879,506)	-	(879,506)	-
Economic development	1,121,211	100,000	25,000	-	(996,211)	-	(996,211)	-
Culture and recreation	887,583	605,415	2,025	411,305	131,162	-	131,162	-
Total governmental activities	<u>17,288,407</u>	<u>1,562,779</u>	<u>494,944</u>	<u>1,205,068</u>	<u>(14,025,616)</u>	<u>-</u>	<u>(14,025,616)</u>	<u>-</u>
Business-type activities								
Water, Sewer, and Parking Meter	5,470,618	7,917,930	-	-	-	2,447,312	2,447,312	-
Total primary governmental	<u>\$ 22,759,025</u>	<u>\$ 9,480,709</u>	<u>\$ 494,944</u>	<u>\$ 1,205,068</u>	<u>\$ (14,025,616)</u>	<u>\$ 2,447,312</u>	<u>\$ (11,578,304)</u>	<u>\$ -</u>
Component Unit								
Rutland Redevelopment Authority	\$ 421,739	\$ -	\$ -	\$ -				\$ (421,739)
General revenues:								
Property taxes					13,832,545	-	13,832,545	265,025
Rooms and meals tax					453,094	-	453,094	-
Investment earnings					203,688	-	203,688	25
Change in other post employment benefits					444,800	449,614	894,414	-
Other revenue					73,192	62,039	135,231	183,894
Transfers in (out)					1,618,477	(1,618,355)	122	-
Total general revenues and transfers					<u>16,625,796</u>	<u>(1,106,702)</u>	<u>15,519,094</u>	<u>448,944</u>
Change in net position					<u>2,600,180</u>	<u>1,340,610</u>	<u>3,940,790</u>	<u>27,205</u>
Net Position - June 30, 2012					<u>14,420,507</u>	<u>20,236,607</u>	<u>34,657,114</u>	<u>65,858</u>
Net Position - June 30, 2013					<u>\$ 17,020,687</u>	<u>\$ 21,577,217</u>	<u>\$ 38,597,904</u>	<u>\$ 93,063</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, 2013

Total Fund Balances - Governmental Funds	<u>\$ 8,520,820</u>
Capital assets in governmental activities are not financial resources and therefore are not reported in the governmental fund financial statements.	57,573,216
Accumulated depreciation has not been included in the governmental fund financial statements.	(39,975,022)
Accrued liabilities represent non-current activity and are not reported in the governmental funds, however, are included in the Statement of Net Position.	(8,933,183)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(2,542,945)
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>2,377,801</u>
Net Position of Governmental Activities	<u><u>\$ 17,020,687</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, 2013

Total Net Changes in Fund Balances - Governmental Funds	<u>\$ 31,326</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>	
	3,977,259
<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>	
	(1,174,784)
<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>	
	444,800
<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>	
	(1,246)
<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>	
	134,633
<p>Proceeds from borrowing of debt is reported in the fund financial statements but is removed from the government-wide Statement of Activities</p>	
	(1,000,000)
<p>Principal repayment of debt to and from governmental funds is reported in the fund financial statements but is removed from the government-wide Statement of Activities.</p>	
	<u>188,192</u>
Change in Net Position of Governmental Activities	<u><u>\$ 2,600,180</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, 2013

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,376,486	\$ 4,528,405	\$ 6,904,891
Receivables	496,490	52,729	549,219
Investments	-	707,369	707,369
Prepaid expenses	441,980	-	441,980
Inventory	66,782	-	66,782
Due from other funds	767,460	24,200	791,660
Total assets	<u>4,149,198</u>	<u>5,312,703</u>	<u>9,461,901</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	475,180	1,039	476,219
Accrued expenditures	260,562	-	260,562
Deferred revenue	100,331	-	100,331
Due to other funds	-	103,969	103,969
Total liabilities	<u>836,073</u>	<u>105,008</u>	<u>941,081</u>
 Fund balances			
Nonspendable	508,762	-	508,762
Restricted	654,080	-	654,080
Committed	341,408	5,207,695	5,549,103
Assigned	80,007	-	80,007
Unassigned	1,728,868	-	1,728,868
Total fund balances	<u>3,313,125</u>	<u>5,207,695</u>	<u>8,520,820</u>
Total liabilities and fund balances	<u>\$ 4,149,198</u>	<u>\$ 5,312,703</u>	<u>\$ 9,461,901</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, 2013

	General Fund	Non-Major Govt Funds	Total Govt Funds
Revenues			
Taxes - general	\$ 13,262,665	\$ -	\$ 13,262,665
Delinquent tax, penalties and interest	170,108	-	170,108
Fines and forfeitures	187,046	-	187,046
Rooms and meals tax	453,094	-	453,094
PILOT	472,302	-	472,302
Licenses and permits	221,121	-	221,121
Federal grants	1,072,766	-	1,072,766
State grants	621,218	-	621,218
Charges for services	736,702	260,821	997,523
Investment earnings	29,292	10,460	39,752
Rental income	28,717	-	28,717
Donations	5,090	20,842	25,932
Proceeds from borrowing and epayments	-	1,021,900	1,021,900
Tax sale	40,828	-	40,828
Miscellaneous	27,776	650	28,426
Total revenues	17,328,725	1,314,673	18,643,398
Expenditures			
Executive	110,778	-	110,778
Legislative	33,848	-	33,848
City Clerk	341,314	-	341,314
City Treasurer	634,841	-	634,841
City Attorney	122,257	-	122,257
City Assessor	166,883	-	166,883
Building and zoning	258,733	-	258,733
Libraries	636,522	-	636,522
Police department	4,806,021	-	4,806,021
Fire department	2,976,055	-	2,976,055
Highways	2,284,337	-	2,284,337
Winter maintenance	585,770	-	585,770
Street lighting	311,630	-	311,630
Traffic control	83,209	-	83,209

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, 2013

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Catch basins	22,839	-	22,839
Community development	1,095,887	-	1,095,887
Recreation administration	476,611	-	476,611
DPW administration	785,856	-	785,856
Elections	24,934	-	24,934
Government buildings	912,567	-	912,567
Loan disbursements	-	13,000	13,000
Operations	15,304	310,927	326,231
General recreation maintenance	892,437	-	892,437
Giorgetti Park	157,491	-	157,491
Godnick Center	44,608	-	44,608
White Playground	93,418	-	93,418
Vehicle maintenance	558,672	-	558,672
Miscellaneous expense	262,451	-	262,451
Appropriations	268,870	-	268,870
Pension expense	600,000	-	600,000
Debt service	342,478	-	342,478
Total expenditures	<u>19,906,621</u>	<u>323,927</u>	<u>20,230,548</u>
Excess of revenues over (under) expenditures	<u>(2,577,896)</u>	<u>990,746</u>	<u>(1,587,150)</u>
Other financing sources (uses)			-
Transfers in	<u>1,747,948</u>	<u>(129,472)</u>	<u>1,618,476</u>
Total other financing sources (uses)	<u>1,747,948</u>	<u>(129,472)</u>	<u>1,618,476</u>
Net change in fund balances	<u>(829,948)</u>	<u>861,274</u>	<u>31,326</u>
Fund balances, June 30, 2012, as stated	<u>4,111,125</u>	<u>4,378,369</u>	<u>8,489,494</u>
Prior period adjustment	<u>31,948</u>	<u>(31,948)</u>	<u>-</u>
Fund balances, June 30, 2012, restated	<u>4,143,073</u>	<u>4,346,421</u>	<u>8,489,494</u>
Fund balances, June 30, 2013	<u>\$ 3,313,125</u>	<u>\$ 5,207,695</u>	<u>\$ 8,520,820</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, 2013

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Total Enterprise Funds
ASSETS				
Current Assets				
Cash	\$ 481,675	\$ -	\$ 62,808	\$ 544,483
Accounts receivable, net of allowance	1,048,644	1,350,006	37,897	2,436,547
Prepaid expenses	23,948	29,803	3,275	57,026
Inventories	97,173	38,436	-	135,609
Total current assets	<u>1,651,440</u>	<u>1,418,245</u>	<u>103,980</u>	<u>3,173,665</u>
Non-current Assets				
Property and equipment, net of accumulated depr	14,690,537	18,065,089	233,778	32,989,404
Total non-current assets	<u>14,690,537</u>	<u>18,065,089</u>	<u>233,778</u>	<u>32,989,404</u>
Total assets	<u>16,341,977</u>	<u>19,483,334</u>	<u>337,758</u>	<u>36,163,069</u>
LIABILITIES AND NET POSITION				
Current Liabilities				
Accounts payable	54,222	96,824	-	151,046
Accrued expenses	225,100	253,572	20,184	498,856
Due to other funds	3,415	677,898	-	681,313
Current portion of long- term debt	806,732	409,366	-	1,216,098
Total current liabilities	<u>1,089,469</u>	<u>1,437,660</u>	<u>20,184</u>	<u>2,547,313</u>
Non-current Liabilities				
Long-term accrued expenses	916,878	907,064	282,197	2,106,139
Long-term debt	5,210,064	4,722,336	-	9,932,400
Total liabilities	<u>7,216,411</u>	<u>7,067,060</u>	<u>302,381</u>	<u>14,585,852</u>
Net Position				
Invested in capital assets, net of related debt	8,673,741	12,933,387	233,778	21,840,906
Unrestricted	451,825	(517,113)	(198,401)	(263,689)
Total net position	<u>\$ 9,125,566</u>	<u>\$ 12,416,274</u>	<u>\$ 35,377</u>	<u>\$ 21,577,217</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, 2013

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Total Enterprise Funds
Operating revenues				
Charges for services	\$ 3,422,192	\$ 4,292,425	\$ 203,313	\$ 7,917,930
Miscellaneous income	49,951	1,140		51,091
Total operating revenues	<u>3,472,143</u>	<u>4,293,565</u>	<u>203,313</u>	<u>7,969,021</u>
Operating expenses				
Operating, maintenance, and general	1,185,418	2,791,623	151,594	4,128,635
Depreciation	381,969	610,069	18,738	1,010,776
Total operating expenses	<u>1,567,387</u>	<u>3,401,692</u>	<u>170,332</u>	<u>5,139,411</u>
Operating income (loss)	<u>1,904,756</u>	<u>891,873</u>	<u>32,981</u>	<u>2,829,610</u>
Nonoperating income/(expense)				
Interest expense	(237,548)	(93,659)	-	(331,207)
Gain on sale of asset	-	10,948	-	10,948
Change in OPEB liability	67,199	377,396	5,019	449,614
Total nonoperating income/(expenses)	<u>(170,349)</u>	<u>294,685</u>	<u>5,019</u>	<u>129,355</u>
Income (loss) before transfers	<u>1,734,407</u>	<u>1,186,558</u>	<u>38,000</u>	<u>2,958,965</u>
Operating transfers in (out)	<u>(612,861)</u>	<u>(990,494)</u>	<u>(15,000)</u>	<u>(1,618,355)</u>
Change in net position	<u>1,121,546</u>	<u>196,064</u>	<u>23,000</u>	<u>1,340,610</u>
Total net position - June 30, 2012	<u>8,004,020</u>	<u>12,220,210</u>	<u>12,377</u>	<u>20,236,607</u>
Total net position, June 30, 2013	<u><u>\$ 9,125,566</u></u>	<u><u>\$ 12,416,274</u></u>	<u><u>\$ 35,377</u></u>	<u><u>\$ 21,577,217</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, 2013

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Total
Cash Flows From Operating Activities				
Cash received from customers	\$ 3,413,477	\$ 4,140,099	\$ 188,208	\$ 7,741,784
Cash paid for supplies, services and utilities	(419,800)	(1,461,214)	(42,036)	(1,923,050)
Cash paid for payroll and related expenses	(631,560)	(1,107,782)	(111,445)	(1,850,787)
Cash paid for rent and operating leases	-	(4,500)	(5,920)	(10,420)
Cash received from renting property	-	-	7,752	7,752
Cash deposits received from customers	4,820	4,850	-	9,670
Cash received from operating grants	32,210	27,710	-	59,920
Cash paid to customers - refunds and deposit returns	(2,920)	(6,790)	-	(9,710)
Cash received from employees - reimbursements	3,093	3,692	-	6,785
Net cash provided (used) by operating activities	<u>2,399,320</u>	<u>1,596,065</u>	<u>36,559</u>	<u>4,031,944</u>
Cash Flows From Non-capital Financing Activities				
Cash received (paid) through operating transfers	(612,861)	(990,494)	(15,000)	(1,618,355)
Cash advanced from (repaid to) pooled cash	3,415	96,783	-	100,198
Net cash provided (used) by non-capital and related financing activities	<u>(609,446)</u>	<u>(893,711)</u>	<u>(15,000)</u>	<u>(1,518,157)</u>
Cash Flows From Capital and Related Financing Activities				
Cash proceeds from capital debt	-	39,375	-	39,375
Cash paid for acquisition/construction of capital assets	(1,081,942)	(231,904)	-	(1,313,846)
Cash received (paid) for interfund capital transfers	-	(4,000)	-	(4,000)
Cash paid for principal on capital debt	(804,869)	(412,166)	-	(1,217,035)

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, 2013

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Total
Cash Flows From Capital & Related Financing Activities (continued)				
Cash paid for interest on capital debt	(239,114)	(93,659)	-	(332,773)
Cash proceeds from sale of capital assets	42,735	-	-	42,735
Net cash provided (used) by capital & related financing activities	<u>(2,083,190)</u>	<u>(702,354)</u>	<u>-</u>	<u>(2,785,544)</u>
Cash Flows From Investing Activities	-	-	-	-
Net increase (decrease) in cash	<u>(293,316)</u>	<u>-</u>	<u>21,559</u>	<u>(271,757)</u>
Cash at June 30, 2012	<u>774,991</u>	<u>-</u>	<u>41,249</u>	<u>816,240</u>
Cash at June 30, 2013	<u>\$ 481,675</u>	<u>\$ -</u>	<u>\$ 62,808</u>	<u>\$ 544,483</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities				
Operating income	\$ 1,904,756	\$ 891,873	\$ 32,981	\$ 2,829,610
Adjustments to reconcile operating income to cash flows from operating activities				
Depreciation expense	381,969	610,069	18,738	1,010,776
(Increase) decrease in accounts receivable	36,723	(27,428)	(7,088)	2,207
(Increase) decrease in inventories	(1,703)	(7,269)	-	(8,972)
(Increase) decrease in prepaids	(3,315)	1,166	(355)	(2,504)
Increase (decrease) in accounts payables	38,070	25,371	(2,973)	60,468
Increase (decrease) in accrued expenses	39,405	9,501	(4,744)	44,162
Increase (decrease) in deferred revenue	3,415	92,782	-	96,197
Net Adjustments	<u>494,564</u>	<u>704,192</u>	<u>3,578</u>	<u>1,202,334</u>
Net cash provided (used) by operating activities	<u>\$ 2,399,320</u>	<u>\$ 1,596,065</u>	<u>\$ 36,559</u>	<u>\$ 4,031,944</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, 2013

	Pension	Private-Purpose		Agency Funds	
	Trust Fund	Trust Funds			
	Employee	Property	Mayor's	M. Garofano	Grace
	Pension	Escrow	Emergency	Memorial	Stoolfire
	Fund	Fund	Fuel	Fund	Trust
	Fund	Fund	Fund	Fund	Fund
ASSETS					
Cash and cash equivalents	\$ 6,396,229	\$ -	\$ 15,156	\$ 24,454	\$ 42,773
Foreclosed Property	-	7,474	-	-	-
Investments	58,989,873	-	-	-	268,735
Total assets	<u>65,386,102</u>	<u>7,474</u>	<u>15,156</u>	<u>24,454</u>	<u>311,508</u>
LIABILITIES					
Due to the City	-	7,180	-	-	-
Accounts payable	-	294	-	-	-
Held for the benefit of others	-	-	-	24,454	311,508
Total liabilities	<u>-</u>	<u>7,474</u>	<u>-</u>	<u>24,454</u>	<u>311,508</u>
NET POSITION					
Assets held in trust for others	<u>\$ 65,386,102</u>	<u>\$ -</u>	<u>\$ 15,156</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, 2013

	Pension Trust Fund	Private- Purpose Trust Funds	
	Employee Pension Fund	Property Escrow Fund	Emergency Fuel Fund
Additions			
Contributions	\$ 3,774,369	\$ -	\$ -
Donations	-	-	1,000
Investment earnings			
Interest	1,423,216	-	8
Net increase (decrease) in investment fair value	5,950,969	-	-
Total investments earnings	7,374,185	-	8
Total additions	<u>11,148,554</u>	<u>-</u>	<u>1,008</u>
Deductions			
Retirement benefits	4,546,672	-	-
Disbursements	-	-	335
Total deductions	<u>4,546,672</u>	<u>-</u>	<u>335</u>
Changes in net position	<u>6,601,882</u>	<u>-</u>	<u>673</u>
Transfers in (out)	-	122	-
Total other financing sources (uses)	-	122	-
Net changes in net assets	<u>6,601,882</u>	<u>(122)</u>	<u>-</u>
Net position, beginning	<u>58,784,220</u>	<u>122</u>	<u>14,483</u>
Net position, ending	<u>\$ 65,386,102</u>	<u>\$ -</u>	<u>\$ 15,156</u>

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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note I. Summary of Significant Accounting Policies

A. 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.

B. 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.

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

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

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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

B. Reporting Activities (continued)

These entities are not part of the City's reporting entity because the City exercises no oversight responsibility and has no accountability for fiscal matters. The significant factors for exclusion are: the directors are elected either directly by the registered voters or internally from the boards; the City cannot significantly influence the 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 a special assessment tax which is collected and administered by the City of Rutland.

C. Government-Wide and Fund Financial Statements

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

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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

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

Permanent Funds: Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the government or its citizenry. The City has two permanent funds: the Maples Fund, used to finance a low-income housing project and the Downtown Special Business District Revolving Loan Fund, used for funding building improvements or real estate acquisitions in Downtown Rutland.

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

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

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

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

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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

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, 2013 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.

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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

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

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

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.

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.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

F. Other accounting policies

1. Authorized expenditures: The City does not utilize encumbrance accounting for its governmental funds. Encumbrances represent commitments related to 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.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

F. Other accounting policies (continued)

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 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 installment as established by City Charter.

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

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

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

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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

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

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental fund and net assets – governmental activities as reported in the government-wide financial statement of net assets. The total adjustment between the fund balance sheet and government-wide statement of net assets is a decrease of \$8,499,867.

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

The statement of revenues, expenditures, and changes in fund balances is reconciled to changes in net assets of governmental activities as reported in the government-wide statement of activities to account for different measurement focuses. The total adjustment between the fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities is an increase of \$2,568,854.

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, 2013, General Fund expenditures exceeded revenues by \$2,577,896, before transfers in of \$1,747,948. The net decrease in General Fund fund balance was \$829,948.

C. Deficit/surplus fund equity

The City's three proprietary funds each has surplus net assets; however, of the total \$21,577,217 in net position, \$21,840,906 is invested in capital assets, with an unrestricted deficit total for the three funds of \$263,689. The City has not developed specific plans to resolve these deficits.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note IV. Detailed notes on all funds

A. Cash, Cash Equivalents, and Investments

At June 30, 2013, the carrying amount of the City's deposits with financial institutions was \$13,927,987, and the total balance reported by these institutions was \$14,632,477. These deposits are held in checking accounts, savings accounts, and money market accounts. Of the funds on deposit, \$542,773 was insured by the Federal Deposit Insurance Corporation (FDIC), \$7,693,475 was collateralized.

The remaining \$6,396,229 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, 2013, pension fund investments were valued at \$58,989,873 Market value of trust fund investments, determined by quoted market prices at June 30, 2013, are as follows:

U.S corporate Stock	\$ 30,386,302
International Stock	9,495,515
Corporate Bonds	<u>19,108,056</u>
	<u>\$ 58,989,873</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, 2013

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, 2013, the City's investments in the Grace Stoolfire Trust Fund were in 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, 2013.

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

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 return as of June 30, 2013 is based on returns provided for on-demand deposits. Actual returns will vary each year.

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

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

C. Individual Fund Interfund Receivable and Payable Balances

Balances at June 30, 2013 were as follows:

	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 783,457	\$ 15,997
Recreational Activities Fund	-	36,738
Field Maintenance Fund	240	-
Records Preservation Fund	802	-
White's Pool Fund	150	-
Zamias Impact Fund		67,231
Capital Improvement Fund	8,000	-
Fire Equipment Fund	15,000	-
Downtown Special Business District Fund	810	-
Property Escrow Fund	-	7,180
Water Fund	-	3,415
Sewage Disposal Fund	-	<u>677,898</u>
	<u>\$ 808,459</u>	<u>\$ 808,459</u>

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

D. Capital Assets Activity

Capital asset activity of the City for the year ended June 30, 2013 is as follows:

Governmental activities:	Beginning <u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	Ending <u>Balance</u>
Land, non-depreciable	\$ 3,789,016	\$ 111,600	\$ -	\$ 3,900,616
General services	2,294,622	99,837	-	2,394,459
Fire Department	3,544,304	84,981	-	3,629,285
Police Department	3,035,554	376,618	62,218	3,349,954
Department of Public Works	37,619,011	1,625,136	90,936	39,153,211
Recreation	2,552,389	1,679,087	-	4,231,476
Library	<u>914,215</u>	<u>-</u>	<u>-</u>	<u>914,215</u>
Total capital assets at cost	\$ <u>53,749,111</u>	\$ <u>3,977,259</u>	\$ <u>153,154</u>	\$ <u>57,573,216</u>

Less accumulated depreciation:

Governmental activities:	\$	\$	\$	\$
General services	791,135	43,692	-	834,827
Fire Department	2,949,649	133,704	-	3,083,353
Police Department	1,648,577	288,876	62,218	1,875,235
Department of Public Works	32,008,254	558,825	90,936	32,476,143
Recreation	1,328,424	132,749	-	1,461,173
Library	<u>227,353</u>	<u>16,938</u>	<u>-</u>	<u>244,291</u>
Total accumulated depreciation	<u>38,953,392</u>	<u>1,174,784</u>	<u>153,154</u>	<u>39,975,022</u>
Capital assets, net of depreciation	\$ <u>14,795,719</u>	\$ <u>2,802,475</u>	\$ <u>-</u>	\$ <u>17,598,194</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 43,692
Public safety	422,580
Highway and street	558,825
Culture and recreation	<u>149,687</u>
Total	<u>\$1,174,784</u>

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note IV. Detailed notes on all funds (continued)

D. Capital Assets Activity (continued)

Business-type activities:	Beginning <u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	Ending <u>Balance</u>
Land, non-depreciable	\$ 386,098	\$ -	\$ 957	\$ 385,141
Buildings	42,023,740	24,256	-	42,047,996
Infrastructure	107,874	850,375	-	958,249
Easements	115	-	-	115
Machinery & Equipment	4,021,684	215,695	132,686	4,104,693
Meters	1,405,554	78,327	-	1,483,881
Reservoirs	2,694,613	-	-	2,694,613
Current construction in progress	<u>-</u>	<u>159,749</u>	<u>3,751</u>	<u>155,998</u>
Total capital assets at cost	<u>50,639,678</u>	<u>1,328,402</u>	<u>137,394</u>	<u>51,830,686</u>
Less accumulated depreciation:	<u>17,944,176</u>	<u>1,007,025</u>	<u>109,919</u>	<u>18,841,282</u>
Capital assets, net	\$ <u>32,695,502</u>	\$ <u>321,377</u>	\$ <u>27,475</u>	\$ <u>32,989,404</u>

Current-year construction in progress amounts to \$163,500. This amount has not been placed in service and is included in the figures above. Once this construction in progress is complete, the City will begin depreciating these assets.

Total business-type depreciation expense for the year ended June 30, 2013 is \$1,007,025.

E. Interfund Operating Transfers

The following are interfund operating transfers for the year ended June 30, 2013:

		<u>Transfers In:</u>						
				Water				
				CSO				
				System				
				Capital				
				Water				
				Equip				
				Fire				
				Repl				
				Equip				
				Total				
				Transfers				
				In				
<u>Transfers Out:</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>In</u>
General	\$ -	\$28,100	\$ -	\$ -	\$ -	\$120,000	\$40,000	\$188,100
Bridge Fund	477,392	-	-	-	-	-	-	477,392
CSO Sinking	25,193	-	-	-	-	-	-	25,193
Water Sys Capit	-	-	-	-	432,774	-	-	432,774
Water Fund	627,635	-	-	418,000	-	-	-	1,045,635
Sewage Disp	813,363	-	187,399	-	-	-	-	1,000,762
Parking Meter	15,000	-	-	-	-	-	-	15,000
Property Escrow	122	-	-	-	-	-	-	122
Zamias Impact	7,670	-	-	-	-	-	-	7,670
Total Transfers	<u>\$1,946,315</u>	<u>\$28,100</u>	<u>\$187,399</u>	<u>\$418,000</u>	<u>\$432,774</u>	<u>\$120,000</u>	<u>40,000</u>	<u>\$3,172,588</u>

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

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, 2013. 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, 2013. The City has the legal right to force sale of the property to recover the sewer and water fees and; therefore, at June 30, 2013, 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, 2013 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 2013.

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, 2013:

<u>Description</u>	06/30/2013 <u>Face Value</u> <u>Balance</u>	<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	206,067
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	206,497
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.	11,666	11,666

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note IV. Detailed notes on all funds (continued)

G. Mortgages and Notes Receivable (continued)

<u>Description</u>	06/30/2013 <u>Face Value</u> <u>Balance</u>	<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.	15,000	15,000
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.	24,191	24,191
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.	10,570	10,570
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.	18,402	18,402
0% 2004 Tuttle Block Housing Limited Partnership note receivable with a 30-year deferral with the full balance due August 2034.	600,000	359,514
0% 1999 Rutland County Community Land Trust note receivable payable only upon sale of the building or a change in use. The note is forgiven over a term of 27 years with full forgiveness in 2026.	139,389	-
0% 2011 Rutland Housing Partnership note receivable with a 30-year deferral with the full balance due October 2040.	750,000	351,059
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.	23,651	23,651

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

Note IV. Detailed notes on all funds (continued)

G. Mortgages and Notes Receivable (continued)

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.	<u>11,549</u>	<u>11,549</u>
Total long-term mortgages and notes receivable	\$ <u>2,364,291</u>	\$ <u>1,238,166</u>

H. Lease Agreements

1. Capital leases – In years prior to 2013, the City entered into lease agreements for equipment. Capital assets include purchases by capital lease. Capital assets, acquired by lease agreements, have been capitalized in the amount of \$471,308. Accumulated depreciation on this equipment totaled \$19,110.

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

<u>Year</u>	<u>Lease Payments</u>
2014	\$ 27,238
2015	28,044
2016	28,874
2017	<u>29,728</u>
Total	\$ <u>113,884</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 not future minimum lease payments for these leases.

The City also has several operating leases for office copiers. The City has the following future minimum lease payments for its operating leases:

<u>Year</u>	<u>Lease Payments</u>
2014	\$ 39,887
2015	<u>19,943</u>
Total	\$ <u>59,830</u>

The total of operating lease expense for 2013 was \$38,175.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note IV. Detailed notes on all funds (continued)

I. Short-term Debt

There is no short-term debt as of June 30, 2013 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, 2013 is as follows:

	<u>07/01/12</u>				<u>06/30/13</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>		<u>Balance</u>
3.70% Capital Improvement Bond – General Obligation with annual principal payments of \$6,063 plus variable interest, payments maturing December 2013.	\$ 12,128	\$ -	\$ 6,065	\$	6,064
5.054% Capital Improvement Bond – General Obligation - with annual principal payments of \$140,000 plus variable interest payments maturing December 2020.	1,260,000	-	140,000		1,120,000
3.75% Library roof repair with annual principal payments of \$46,320 plus semi- annual interest payments maturing 2022.	463,200	-	46,320		416,881
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.	-	<u>1,000,000</u>	-		<u>1,000,000</u>
Total governmental long-term debt:	\$ <u>1,735,328</u>	\$ <u>1,000,000</u>	\$ <u>192,385</u>		\$ <u>2,542,945</u>

Business-type Activities

Proprietary Funds notes and bonds payable consist of the following as of June 30, 2013:

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

Note IV. Detailed notes on all funds (continued)

J. Long-Term Debt (continued)

<u>Sewer Fund</u>	07/01/12			06/30/13
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
0% Overflow Project VMBB bond with variable annual principal payments matured in December 2012.	163,180	-	163,180	-
0.00% CSO VMBB construction bond with principal only annual payments of \$160,000 maturing December 2026.	2,400,000	-	-	2,400,000
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.	1,200,000	-	150,000	1,050,000
4.185% CSO Phase 2A VMBB construction bond with principal payments of \$80,000 beginning in December 2008 with variable semi-annual interest payments maturing December 2027.	1,280,000	-	80,000	1,200,000
2% VMBB Bond for CSO West and Crescent Streets improvement with annual payments of \$28,285 maturing Oct 2031.	461,313	-	18,986	442,327
0% VMBB Bond for an engineering study for stormwater separation with principal payments of \$10,500 beginning in March 2018 through March 2022	-	39,375	-	39,375
<u>Water Fund</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.	3,600,000	-	450,000	3,150,000

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note IV. Detailed notes on all funds (continued)

J. Long-Term Debt (continued)

	07/01/12			06/30/13
<u>Sewer Fund</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
4.07% VMBB Capital Bond with annual principal Payments of \$95,000 plus variable interest semi-annual payments maturing December 2022.	1,045,000	-	95,000	950,000
3.0% VMBB Water Roof Repair Bond with annual principal and interest payments of \$115,546, maturing December 2032.	1,781,151	-	62,112	1,719,039
2.22% VMBB Capital Improvement Bond with principal and interest payments of \$199,290 through 2010 and \$197,757 thereafter maturing in December 2013.	<u>395,514</u>	<u>-</u>	<u>197,757</u>	<u>197,757</u>
Total business-type long-term debt	\$ <u>12,326,158</u>	\$ <u>39,375</u>	\$ <u>1,217,035</u>	\$ <u>11,148,498</u>
Total long-term debt				\$ 13,691,441
Less current portion				<u>1,441,824</u>
Long-term portion				\$ <u>12,249,617</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	\$ 1,441,824	\$ 417,705	\$ 1,859,529
2015	4,240,301	373,190	4,613,491
2016	642,672	324,033	966,705
2017	645,111	165,415	810,526
2018	647,620	144,239	791,859
2019-2023	2,991,340	542,695	3,534,035
2024-2028	1,945,962	314,241	2,260,203
2029-2033	803,281	151,246	954,527
2034-2038	166,665	60,974	227,639
2039-2043	<u>166,665</u>	<u>21,951</u>	<u>188,616</u>
Total	\$ <u>13,691,441</u>	\$ <u>2,515,689</u>	\$ <u>16,207,130</u>

During 2013 long-term debt interest expense was \$442,502. The City approved a loan of \$2,000,000 to fund bridge repairs and withdrew \$1,000,000 of this as bond debt during the year.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note IV. Detailed notes on all funds (continued)

K. Fund Balances Designated for Specific Purposes

At June 30, 2013 the City had designated General Fund fund balance for the following purposes:

<u>Designated for specific purposes:</u>	<u>General Fund</u>
Nonspendable	
Inventories	\$ 66,782
Prepaid expenses	441,980
Restricted	
2008 Whistle Repair Donations	438
Rail Car	10,000
Lister Education	2,993
Reappraisal	387,857
Drug Forfeiture	126,956
Community Police	3,646
Drug Investigation Donations	1,006
Route 4 & 7	5,492
White's Pool	26,000
Housing Needs	47
Giorgetti Arena	11,000
Depot Park	40,000
White's/BGS	15,000
Police ICA	22,965
SIU Grant	680
Committed	
Giorgetti Capital	1,259
Railyard	4
Home Depot Activity	8,439
GIS	5,935
LED Streetlights	325,771
Assigned	
Godnick Trip	15,397
Police Impress	15,503
Downtown Homeowner	93
Bridge Fund	43,258
Sidewalk Fund	<u>5,756</u>
Total designated fund balance	<u>\$ 1,584,257</u>

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013 was \$12,595,018, \$68,822 and \$265,025, respectively.

M. Deferred Revenue

Deferred revenue at yearend consists of the following:

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

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

3 - The City changed the recognition of revenue for charged sprinkler systems to users during the year ended June 30, 2013 to more accurately allocate revenue to the period in which it is earned. Sprinkler now charges for standby sprinkler fees quarterly throughout the year.

4. 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, 2013 is \$100,331.

Note V. Other information

A. Commitments and Contingencies

1. Risk Management: The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains insurance coverage through the Vermont League of Cities and

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note V. Other information (continued)

A. Commitments and Contingencies (continued)

1. Risk Management: (continued) Towns Property and Casualty Intermunicipal Fund, Inc., covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three (3) fiscal years. The City must remain a member for a minimum of one year and may withdraw from the Fund after that time by giving sixty days notice. Fund underwriting and rates are subject to a supplemental assessment in the event of deficiencies. If the assets of the Fund were to be exhausted, members would be responsible for the Fund's liabilities. The City believes no such deficiency exists at June 30, 2013 and does not anticipate a deficiency in the future. The City maintains self-insurance for unemployment insurance purposes.

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 several union contracts with the police, fire, and public works department employees. Of these contracts, the police department's union contract was renewed through June 30, 2014; the fire fighters union contract was renewed through June 30, 2017, and the public works department union contract expired June 30, 2013.

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 contribution is determined by the City's actuary. The City's actual contributions are limited by City Charter and shall not exceed .06 cents on the dollar of the grand list. The Retirement Plan is administrated by Prudential Financial. The Retirement Plan does not issue separate financial reports. Assets are held separately and may be used only for the payment of benefits. Plan provisions are established or

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

Note V. Other information (continued)

B. Defined Benefit Pension Plan (continued)

amended by the City's Pension Board. Vesting in employee contributions in the Plan is full and immediate. Vesting in employer contributions is 100% after five years of participation. Benefits are based on the number of years of service and the employee's five highest consecutive calendar years of compensation during the last ten years of employment with the City. The minimum pension is \$1,350 per annum for those employees with at least fifteen years of service. The minimum pension is \$2,025 for those employees with at least twenty one years of service.

Participating City employees contributed \$273,006 to the Plan in the fiscal year ended June 30, 2013. Employer contributions for the City's employees for the year ended June 30, 2013 was \$600,000. Payroll for pension-plan covered employees for the year ended June 30, 2013 was \$7,944,050. The City's total payroll was \$9,837,751.

The City has modified the Department of Public Works employee union contract to change employee contributions as a percentage of payroll for the following years:

	Employee	Employer
FY 2014	3.1%	8.2%
FY 2015	4.2%	8.9%
FY 2016	5.3%	9.6%

The City also modified the Fire Department's contract; effective February 05, 2013 with agreed contribution increases to:

	Employee	Employer
FY 2013	7.54%	5.0%
FY 2014	9.77%	7.23%
FY 2015	10.145%	7.605%
FY 2016	10.52%	7.98%
FY 2017	10.895%	8.355%

This union contract is 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, 2012
Actuarial cost method	Projected Unit Credit

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note V. Other information (continued)

B. Defined Benefit Pension Plan (continued)

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	8.0%
Salary increases	5.0%
Post-employment benefit increases	N/A

<u>Schedule of Funding Progress</u>						(Excess)/ (Deficiency)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Excess)/ Deficiency of Assets over AAL (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	as a Percentage of Covered Payroll ((b) – (a))/(c)
01/1/2007	50,695,986	59,831,977	9,135,991	84.73%	24,161,425	37.81%
01/1/2008	53,598,552	66,495,591	12,897,039	80.60%	25,641,832	50.30%
01/1/2009	49,414,401	71,277,825	21,863,424	69.33%	26,389,650	82.85%
01/1/2010	52,555,207	76,305,676	23,750,469	68.87%	26,914,829	88.24%
01/1/2011	56,345,063	79,951,469	23,606,406	70.47%	27,594,551	85.55%
01/1/2012	59,550,537	82,683,836	23,133,299	72.02%	27,838,575	83.10%
01/1/2013	63,249,101	88,791,189	25,542,088	71.23%	28,416,600	89.88%

Schedule of Contributions

Plan Year Ended June 30	Annual Recommended Contribution	Actual Contribution	Percentage Contributed
2007	2,899,920	1,690,335	58.29%
2008	3,609,894	1,877,860	52.02%
2009	4,048,303	2,039,388	50.38%
2010	5,388,980	2,249,457	41.74%
2011	5,125,675	2,498,651	48.75%
2012	3,842,585	2,559,636	66.61%
2013	3,775,872	2,622,349	69.45%

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

V. Other information (continued)

B. Defined Benefit Pension Plan (continued)

	<u>Schedule of Annual Pension Cost</u>			
	<u>06/30/2013</u>	<u>06/30/2012</u>	<u>06/30/2011</u>	<u>06/30/2010</u>
Annual Required Contribution (ARC)	3,775,872	3,842,585	5,125,675	5,388,980
Interest on NPO	1,171,768	1,078,654	901,701	675,414
ARC adjustment	1,301,062	1,197,674	1,316,813	986,351
Annual Pension Cost (APC)	3,646,578	3,723,565	4,710,563	5,078,043
Actual Contributions Made	2,622,349	2,559,636	2,498,651	2,249,457
NPO – Beginning of Year	14,647,101	13,483,172	11,271,260	8,442,674
NPO – End of Year	15,671,330	14,647,101	13,483,172	11,271,260
Percentage of APC Contributed	71.91%	68.74%	53.04%	44.30%

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.

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.

Subsequent to June 30, 2013, 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’s had two employees participate in VMERS for the year ended June 30, 2013. Total payroll for VMERS participating employees for the year was \$10,472; total employee withholding contributions were \$768 and total City contributions were \$626.

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

Note V. Other information (continued)

D. Annual Other Post-Retirement Obligations (OPEB) Cost

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

The annual cost of OPEB is called the annual required contribution (ARC). The City has elected not to prefund OPEB liabilities. The City is required to record the 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>06/30/2012</u>	<u>06/30/2013</u>
Annual Required Contribution	\$ 1,004,667	\$ 880,574
Contributions Made	(523,035)	(452,916)
Adjustments to the Annual Required Contribution	<u>(58,634)</u>	<u>(66,828)</u>
Net Change in Net OPEB Liability	422,998	360,830
Net OPEB liability at beginning of fiscal year	<u>3,026,876</u>	<u>3,449,873</u>
Net OPEB Obligation at end of the fiscal year	\$ <u>3,449,874</u>	\$ <u>3,810,703</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, 2013 were as follows:

Funded Status and Funding Progress

As of June 30, 2013, the plan was 0% funded. The actuarial accrued liability was \$8,690,433 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability

(UAAL) of \$8,690,433. For FY 2013, covered payroll, annual payroll of employees covered for OPEB purposes, was \$7,944,050, and the ratio of the UAAL to covered payroll is 109%. 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, 2012
Annual Discount Rate	3.50%

The City transitioned to a high-deductible health-care plan combined with a flexible spending plan for all its employees during the fiscal year ended June 30, 2013.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note V. Other information (continued)

E. Prior Period Adjustments

The City continues to improve its recording and monitoring of financial assets, liabilities and activity. The City incorrectly recorded General Fund revenues as Recreation Activities Fund revenues in prior years. The total of this misclassification is \$31,948. These financial statements include that reclassification from the Recreation Activities Fund to the General Fund.

F. Related Party Transactions

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

G. Subsequent Events

During July 2013, the City into a contract with Pierce Manufacturing, Inc. for the purchase of a new pumper truck for the amount of \$608,258.

During November 2013, the City entered in an agreement with the State of Vermont to lease the Rutland Multi-Modal Transit Center for a three-year period. Under this agreement, the State will make four quarterly payments of \$12,500 annually as a management fee to the City. The Board of Alderman authorized the establishment of an additional proprietary fund to record and report the financial activity from this agreement.

On February 12, 2014, the City received \$147,000 in additional monies for Forest Park improvements and passed this money through as a loan and City receivable.

On March 04, 2014, City voters approved a Sewer bond in the amount of \$5,200,000 for infrastructure improvements.

Subsequent to year end the City purchased a replacement digester cover for the Wastewater Treatment Plant as a cost of \$279,900 and repaired a second digester at a cost of \$174,000, funded by monies from the Sewer Capital Fund.

Events occurring after June 30, 2013, the date of the most recent Statement of Net Position, have been evaluated for possible adjustment to the financial statements or disclosures through March 10, 2014 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, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes - general	\$ 13,465,364	\$ 13,262,665	\$ (202,699)
Delinquent tax, penalties, and interest	140,000	170,108	30,108
Fines and forfeitures	217,200	187,046	(30,154)
Rooms and meals tax	460,000	453,094	(6,906)
PILOT	464,311	472,302	7,991
Licenses and permits	204,800	221,121	16,321
Federal grants	-	1,072,766	1,072,766
State grants	201,700	621,218	419,518
Charges for services	758,047	736,702	(21,345)
Investment earnings	33,000	29,292	(3,708)
Rental income	17,000	28,717	11,717
Donations	-	5,090	5,090
Tax Sale	11,000	40,828	29,828
Miscellaneous	-	27,776	27,776
Total revenues	<u>15,972,422</u>	<u>17,328,725</u>	<u>1,356,303</u>
Expenditures			
Executive	109,590	110,778	(1,188)
Legislative	26,013	33,848	(7,835)
City Clerk	351,211	341,314	9,897
City Treasurer	597,112	634,841	(37,729)
City Attorney	137,736	122,257	15,479
City Assessor	166,639	166,883	(244)
Building and zoning	271,084	258,733	12,351
Libraries	636,695	636,522	173
Police department	4,787,593	4,806,021	(18,428)
Fire department	3,080,684	2,976,055	104,629
Highways	1,809,420	2,284,337	(474,917)
Winter maintenance	555,654	585,770	(30,116)
Street lighting	275,000	311,630	(36,630)
Traffic control	92,000	83,209	8,791

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, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
Catch basins	25,075	22,839	2,236
Community development	180,000	1,095,887	(915,887)
Recreation administration	501,498	476,611	24,887
DPW administration	660,193	785,856	(125,663)
Elections	34,115	24,934	9,181
Government buildings	627,171	912,567	(285,396)
Operations	19,000	15,304	3,696
General recreation	1,055,803	892,437	163,366
Giorgetti Park	234,103	157,491	76,612
Godnick Center	16,808	44,608	(27,800)
White Playground	85,849	93,418	(7,569)
Vehicle maintenance	530,603	558,672	(28,069)
Miscellaneous expense	376,558	262,451	114,107
Appropriations	268,773	268,870	(97)
Pension expense	600,000	600,000	-
Debt service	303,679	342,478	(38,799)
Total expenditures	<u>18,415,659</u>	<u>19,906,621</u>	<u>(1,490,962)</u>
Excess of revenues over (under) expenditures	<u>(2,443,237)</u>	<u>(2,577,896)</u>	<u>(134,659)</u>
Other financing sources (uses)			
Transfers in (out)	<u>1,502,123</u>	<u>1,747,948</u>	<u>245,825</u>
Total other financing sources (uses)	<u>1,502,123</u>	<u>1,747,948</u>	<u>245,825</u>
Net change in fund balance	<u>(941,114)</u>	<u>(829,948)</u>	<u>111,166</u>
Fund balance, June 30, 2012, as stated		<u>4,111,125</u>	
Prior period adjustment		<u>31,948</u>	
Fund balance, June 30, 2012, restated		<u>4,143,073</u>	
Fund balance, June 30, 2013		<u>\$ 3,313,125</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, 2013

	Special Revenue Funds								
	Hospital Fund	Equipment Replacement Fund	Field Maintenance Fund	Capital Improvement Fund	Fire Equipment Fund	Zamias Impact Fund	Recreation Activities Fund	White's Pool Fund	Giorgetti Fund
ASSETS									
Cash	\$ 14,617	\$ 127,173	\$ 124,504	\$ 116,379	\$ 782,993	\$ 842,992	\$ 169,897	\$ 21,545	\$ 397,567
Other receivables	-	-	-	-	-	50,000	-	-	-
Investments	-	-	-	-	-	-	-	-	706,567
Due from other funds	-	-	240	8,000	15,000	-	-	150	-
	<u>14,617</u>	<u>127,173</u>	<u>124,744</u>	<u>124,379</u>	<u>797,993</u>	<u>892,992</u>	<u>169,897</u>	<u>21,695</u>	<u>1,104,134</u>
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable	-	-	-	-	-	-	1,039	-	-
Due to other funds	-	-	-	-	-	67,231	36,738	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,231</u>	<u>37,777</u>	<u>-</u>	<u>-</u>
Fund balances									
Committed	14,617	127,173	124,744	124,379	797,993	825,761	132,120	21,695	1,104,134
Total fund balances	<u>14,617</u>	<u>127,173</u>	<u>124,744</u>	<u>124,379</u>	<u>797,993</u>	<u>825,761</u>	<u>132,120</u>	<u>21,695</u>	<u>1,104,134</u>
Total liabilities and fund balances	<u>\$ 14,617</u>	<u>\$ 127,173</u>	<u>\$ 124,744</u>	<u>\$ 124,379</u>	<u>\$ 797,993</u>	<u>\$ 892,992</u>	<u>\$ 169,897</u>	<u>\$ 21,695</u>	<u>\$ 1,104,134</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, 2013

	Special Revenue Funds				Permanent Funds		Non-Major Govt Funds
	Records Preservation Fund	CSO Sinking Fund	Bridge Fund	Water System Capital Fund	Maples Fund	Downtown Special Bus. Dist. Revolving Loan Fund	
ASSETS							
Cash	\$ 67,787	\$ 507,294	\$ 644,417	\$ 560,799	\$ 10,278	\$ 140,163	\$ 4,528,405
Other receivables	68	-	-	-	-	2,661	52,729
Investments	802	-	-	-	-	-	707,369
Due from other funds	-	-	-	-	-	810	24,200
	<u>68,657</u>	<u>507,294</u>	<u>644,417</u>	<u>560,799</u>	<u>10,278</u>	<u>143,634</u>	<u>5,312,703</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	-	-	-	-	-	-	1,039
Due to other funds	-	-	-	-	-	-	103,969
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,008</u>
Fund balances							
Committed	68,657	507,294	644,417	560,799	10,278	143,634	5,207,695
Total fund balances	<u>68,657</u>	<u>507,294</u>	<u>644,417</u>	<u>560,799</u>	<u>10,278</u>	<u>143,634</u>	<u>5,207,695</u>
Total liabilities and fund balances	<u>\$ 68,657</u>	<u>\$ 507,294</u>	<u>\$ 644,417</u>	<u>\$ 560,799</u>	<u>\$ 10,278</u>	<u>\$ 143,634</u>	<u>\$ 5,312,703</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, 2013

	Special Revenue Funds								
	Hospital Fund	Equipment Replacement Fund	Field Maintenance Fund	Capital Improvement Fund	Fire Equipment Fund	Zamias Impact Fund	Recreational Activities Fund	White's Pool Fund	Giorgetti Fund
Revenues									
Fees and charges for services	\$ -	\$ 82	\$ 5,970	\$ 14,896	\$ 75,000	\$ 100,000	\$ 39,888	\$ -	\$ -
Sale of assets	-	650	-	-	-	-	-	-	-
Investment earnings	8	-	55	53	367	406	91	10	6,820
Proceeds from borrowing	-	-	-	-	-	-	-	-	-
Loan repayments	-	-	-	-	-	-	-	-	-
Donations	-	-	630	-	-	-	18,751	1,461	-
Total revenues	<u>8</u>	<u>732</u>	<u>6,655</u>	<u>14,949</u>	<u>75,367</u>	<u>100,406</u>	<u>58,730</u>	<u>1,471</u>	<u>6,820</u>
Expenditures									
Loan disbursements	-	-	-	-	-	-	-	-	-
Operating expenses	-	127,787	-	420	-	78,564	85,882	39	-
Total Expenditures	<u>-</u>	<u>127,787</u>	<u>-</u>	<u>420</u>	<u>-</u>	<u>78,564</u>	<u>85,882</u>	<u>39</u>	<u>-</u>
Excess (deficiency of revenues over (under) expenditures	<u>8</u>	<u>(127,055)</u>	<u>6,655</u>	<u>14,529</u>	<u>75,367</u>	<u>21,842</u>	<u>(27,152)</u>	<u>1,432</u>	<u>6,820</u>
Transfers in (out)	<u>-</u>	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>(7,670)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>(7,670)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	<u>8</u>	<u>(7,055)</u>	<u>6,655</u>	<u>14,529</u>	<u>115,367</u>	<u>14,172</u>	<u>(27,152)</u>	<u>1,432</u>	<u>6,820</u>
Fund balances, beginning, as stated	14,609	134,228	118,089	109,850	682,626	811,589	191,220	20,263	1,097,314
Prior period adjustment		-	-	-	-	-	(31,948)	-	-
Fund balances, beginning, restated	<u>14,609</u>	<u>134,228</u>	<u>118,089</u>	<u>109,850</u>	<u>682,626</u>	<u>811,589</u>	<u>159,272</u>	<u>20,263</u>	<u>1,097,314</u>
Fund balances, ending	<u>\$ 14,617</u>	<u>\$ 127,173</u>	<u>\$ 124,744</u>	<u>\$ 124,379</u>	<u>\$ 797,993</u>	<u>\$ 825,761</u>	<u>\$ 132,120</u>	<u>\$ 21,695</u>	<u>\$ 1,104,134</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, 2013

	Records Preservation Fund	CSO Sinking Fund	Bridge Fund	Water System Capital Fund	Permanent Funds		Total Non-Major Govt Funds
					Maples Fund	Downtown Special Bus. Dist. Revolving Loan Fund	
Revenues							
Fees and charges for services	\$ 24,985	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 260,821
Sale of assets	-	-	-	-	-	-	650
Investment earnings	31	188	56	378	3	1,994	10,460
Proceeds from borrowing	-	-	1,000,000	-	-	-	1,000,000
Loan repayments	-	-	-	-	4,709	17,191	21,900
Donations	-	-	-	-	-	-	20,842
Total revenues	<u>25,016</u>	<u>188</u>	<u>1,000,056</u>	<u>378</u>	<u>4,712</u>	<u>19,185</u>	<u>1,314,673</u>
Expenditures							
Loan disbursements	-	-	-	-	-	13,000	13,000
Operating expenses	18,235	-	-	-	-	-	310,927
Total Expenditures	<u>18,235</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,000</u>	<u>323,927</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,781</u>	<u>188</u>	<u>1,000,056</u>	<u>378</u>	<u>4,712</u>	<u>6,185</u>	<u>990,746</u>
Transfers in (out)	<u>-</u>	<u>182,265</u>	<u>(449,293)</u>	<u>(14,774)</u>	<u>-</u>	<u>-</u>	<u>(129,472)</u>
Total other financing sources (uses)	<u>-</u>	<u>182,265</u>	<u>(449,293)</u>	<u>(14,774)</u>	<u>-</u>	<u>-</u>	<u>(129,472)</u>
Net changes in fund balances	<u>6,781</u>	<u>182,453</u>	<u>550,763</u>	<u>(14,396)</u>	<u>4,712</u>	<u>6,185</u>	<u>861,274</u>
Fund balances, June 30, 2012	<u>61,876</u>	<u>324,841</u>	<u>93,654</u>	<u>575,195</u>	<u>5,566</u>	<u>137,449</u>	<u>4,378,369</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,948)</u>
	<u>61,876</u>	<u>324,841</u>	<u>93,654</u>	<u>575,195</u>	<u>5,566</u>	<u>137,449</u>	<u>4,346,421</u>
Fund balances, June 30, 2013	<u>\$ 68,657</u>	<u>\$ 507,294</u>	<u>\$ 644,417</u>	<u>\$ 560,799</u>	<u>\$ 10,278</u>	<u>\$ 143,634</u>	<u>\$ 5,207,695</u>

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

CITY OF RUTLAND, VERMONT
INTERNAL CONTROL REPORT
JUNE 30, 2013

Corrette & Associates, P.C.

CORRETTE & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

P. O. Box 4039 • St. Johnsbury, VT 05819

Telephone (802) 748 - 4858

FAX (802) 748 - 2497

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Aldermen
City of Rutland
Rutland, Vermont

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rutland, Vermont, as of and for the year ended June 30, 2013, which collectively comprise the City of Rutland, Vermont's basic financial statements and have issued our report thereon dated March 10, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the City of Rutland's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying Schedule of Findings and Recommendations to be material weaknesses, 13-01, 13-02, 13-03, 13-04, and 13-05.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying Schedule of Findings and Recommendations to be significant deficiencies: 13-06, 13-07, and 13-08.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rutland, Vermont's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the Schedule of Findings and Questioned Costs in the Single Audit Report.

We noted certain other matters that we reported to management of the City of Rutland, Vermont in a separate letter dated March 10, 2014.

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

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

Corrette & Associates, P.C.

March 10, 2014

Vermont License # 92-0130

CITY OF RUTLAND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2013

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 which are properly General Fund activity have been incorrectly recorded and reported as Recreation Activities Fund and not considered available for City use.

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

Management Response: The City has reclassified the Recreation Activities Fund as a fiduciary fund and established policy through the Board of Aldermen to direct Recreation fee revenues to the City's General Fund. The Treasurer's Office will assist the department in developing procedures regarding recording of revenues. The City should continue its regular review of the purpose and uses of the City's funds to ensure compliance with the City Charter and generally accepted accounting principles.

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.

Management Response: The City has established policy through the reclassification of the Recreation Activities Fund as a fiduciary fund to restrict those revenues for the intended purposes. The Treasurer's Office will assist the department in developing procedures regarding recording of revenues.

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.

Management Response: The City fully implemented the auditor's recommendation with the exception that the Board of Alderman has authorized uniform check deposits be held by the Recreation Department.

The Recreation Department has developed procedures to batch deposits from the recreation facilities daily, record the revenue within 24 hours in the department's sub ledger and deliver the deposit to the Treasurer's Office within 48 hours of receipt for posting to the City's general ledger. Cash uniform deposits will be recorded in a customer deposit account and as a liability in the City's General Fund.

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 that 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.

Management Response: The City enacted sewer fee increases in FY 2014, reduced the transfers from the Sewage Disposal Fund to the General Fund in the 2015 rate study/budget, and developed more accurate revenue estimates to improve cash balances in the Sewage Disposal Fund over time.

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.

Management Response: The City issued a bond for bridge repairs but drew only the amount requisitioned. The remaining amount held by the custodian of the bond was not immediately available to the city and was not recorded in the general ledger. Procedures have been updated so that any bond issued will appear on the balance sheet at full value even if the funds are not yet drawn or available for use.

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.

Management Response: The City recognizes it may not receive any revenue or less revenue than face value on certain community development pass-through loans and must avoid overstatement of the value of these assets. The City has relied upon the RRA in the past through its contract to monitor these assets and determine the realizable values. The City Treasurer's office will develop procedures with the RRA to receive notice of new notes receivable for the City and continue to record the notes in the City's general ledger. The Treasurer's Office will develop net realizable values of these assets at year end.

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: Approved changes to committed fund balances are not consistently recorded, and funds loaned to an employee union are 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.

Management Response: The City has committed fund balances inappropriately from time to time which required amendment. The City Treasurer will review the fund balance classifications monthly and request changes by the Board if necessary.

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.

Management Response: The City has established policy through the Board of Aldermen that cash deposits from all departments will be processed within one week of receipt and cash uniform deposits will be recorded as a liability in the City's General Fund.

CITY OF RUTLAND
RUTLAND, VERMONT

AUDITORS' REPORT
IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2013

Corrette & Associates, P. C.

CITY OF RUTLAND, VERMONT

TABLE OF CONTENTS

Independent Auditors' Single Audit Report on Compliance for each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	1 - 3
Schedule of expenditures of federal awards	4 - 5
Notes to schedule of expenditures of federal awards	6 - 7
Schedule of findings and questioned costs	8 - 13
Summary schedule of prior audit findings	14

CORRETTE & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

P. O. Box 4039 • St. Johnsbury, VT 05819

Telephone (802) 748 - 4867

FAX (802) 748 - 2497

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 of Rutland, Vermont's major federal programs for the year ended June 30, 2013. 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, 2013.

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, 2013, 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 March 10, 2014, 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.

March 10, 2014

Vermont License # 92-0130

**CITY OF RUTLAND, VERMONT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Agency/Program Title</u>	<u>State Grant Contract #</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Expenditures</u>
U.S. Dept of Housing & Community Development passed through VT Dept of Economic, Housing and Community Development:			
Block Grant	MP-2012	14.228	<u>10,000</u>
Total U.S. Department of Housing and Urban Development			10,000
U.S. Dept of Justice – Direct Grants			
Bulletproof Vest Partnership	-	16.607	2,780
Enforcing Underage Drinking Laws	-	16.727	486
Domestic Violence Homicide Reduction		16,560	12,928
Byrne – Assistance Grants Pgm	-	16.738	62,335
ARRA - Byrne – Grants to Local Govts	JAG 4-R	16.804	<u>109,460</u>
JAG Program Cluster			<u>187,989</u>
Total U.S. Department of Justice			187,989
U.S. Department of Transportation - passed through the State of Vermont Dept of Public Safety:			
Highway Planning and Construction	EA #3000020	20.205	799,737
Highway Safety Program	02140-1213-2128	20.600	32,619
2012 Equipment Incentives	02140-0912-3538	20.609	<u>2,767</u>
Highway Safety Cluster			35,386
Offenders for DUI	-	20.608	8,812
Total U.S. Department of Transportation			<u>843,935</u>
U. S. Environmental Protection Agency – passed through the State of Vermont			
CWSFF/Drinking Water State Revolving Funds	06140-RUT	66.458	<u>56,408</u>
Total U. S. Environment Protection Agency			56,408

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, 2013**

<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:			
Trench Rescue Training	02140-70132-010	97.067	4,108
Technical Rescue Training	02140-70132-017	97.067	768
Trench Rescue Operations Training	02140-70132-204	97.067	25,231
Rope Rescue Training	02140-70132-001	97.067	2,136
Technical Rescue Training	02140-79132-205	97.067	10,000
Portable Radio Purchase	02140-70164V-132	97.067	22,845
Confined Spaces Training	02140-70132-006	97.067	1,851
Technical Rescue Water Equipment	02140-78152-052	97.067	18,424
Rescue Boat Purchase	02140-78152-054	97.067	11,000
Technical Rescue Swiftwater Training	02140-79132-101	97.067	23,661
2009 SHSP LPR Purchases	02140-79252-032	97.067	<u>70,080</u>
Total for indirect Public Safety			190,104
U.S. Department of Homeland Security - Direct			
AFG – Fire Equipment & Training	-	97.044	<u>94,298</u>
Total U.S. Department of Homeland Security			<u>284,402</u>
Total expenditures of federal awards			<u>\$ 1,382,734</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, 2013**

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, 2013. 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, 2013 were:

<u>Federal Agency/ Department</u>	<u>Program</u>	<u>CFDA</u>
U. S Dept of Justice	JAG Program Cluster	16.738/16.804
U. S. Dept Transportation	Highway Planning & Construction Cluster	20.205

CITY OF RUTLAND, VERMONT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED JUNE 30, 2013

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, 2013.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

A. Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Rutland, Vermont.
2. Eight significant deficiencies in internal controls were identified during the audit of the financial statements and are reported in the *Report on Internal Control over Financial Reporting and On Compliance with Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards*. Five of these are reported as a material weakness.
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. Department of Justice	JAG Program Cluster	CFDA 16.738/16.804
U. S. Dept Transportation	Hwy Plng & Const Cluster	CFDA 20.205
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, 2013**

B. Findings – Financial Statement Audit

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.

Management Response: The City has reclassified the Recreation Activities Fund as a fiduciary fund and established policy through the Board of Aldermen to direct Recreation fee revenues to the City's General Fund. The Treasurer's Office will assist the department in developing procedures regarding recording of revenues. The City should continue its regular review of the purpose and uses of the City's funds to ensure compliance with the City Charter and generally accepted accounting principles.

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.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

B. Findings – Financial Statement Audit (continued)

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.

Management Response: The City has established policy through the reclassification of the Recreation Activities Fund as a fiduciary fund to restrict those revenues for the intended purposes. The Treasurer's Office will assist the department in developing procedures regarding recording of revenues.

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.

Management Response: The City fully implemented the auditor's recommendation with the exception that the Board of Alderman has authorized uniform check deposits be held by the Recreation Department.

The Recreation Department has developed procedures to batch deposits from the recreation facilities daily, record the revenue within 24 hours in the department's sub-ledger and deliver the deposit to the Treasurer's Office within 48 hours of receipt for posting to the City's general ledger. Cash uniform deposits will be recorded in a customer deposit account and as a liability in the City's General Fund.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

B. Findings – Financial Statement Audit (continued)

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.

Management Response: The City enacted sewer fee increases in FY 2014, reduced the transfers from the Sewage Disposal Fund to the General Fund in the 2015 rate study/budget, and developed more accurate revenue estimates to improve cash balances in the Sewage Disposal Fund over time.

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.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

B. Findings – Financial Statement Audit (continued)

Management Response: The City issued a bond for bridge repairs but drew only the amount requisitioned. The remaining amount held by the custodian of the bond was not immediately available to the city and was not recorded in the general ledger. Procedures have been updated so that any bond issued will appear on the balance sheet at full value even if the funds are not yet drawn or available for use.

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.

Management Response: The City recognizes it may not receive any revenue or less revenue than face value on certain community development pass-through loans and must avoid overstatement of the value of these assets. The City has relied upon the RRA in the past through its contract to monitor these assets and determine the realizable values. The City Treasurer's office will develop procedures with the RRA to receive notice of new notes receivable for the City and continue to record the notes in the City's general ledger. The Treasurer's Office will develop net realizable values of these assets at year end.

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.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

B. Findings – Financial Statement Audit (continued)

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.

Management Response: The City has committed fund balances inappropriately from time to time which required amendment. The City Treasurer will review the fund balance classifications monthly and request changes by the Board if necessary.

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.

Management Response: The City has established policy through the Board of Aldermen that cash deposits from all departments will be processed within one week of receipt and cash uniform deposits will be recorded as a liability in the City's General Fund.

C. Findings – Major Federal Award Program Audit

Material Weaknesses

None

**CITY OF RUTLAND, VERMONT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

A. Findings – Financial Statement Audit

Material Weaknesses

12 – 01: The City has not established controls over recording and monitoring Notes Receivables

Condition: Failure to record and monitor long-term notes receivable. The City did not monitor the note receivable from the Rutland County Parent Child Center. This is a repeat finding.

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

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

Effect: Understated assets and related government-wide net assets.

Status: The City has established a monitoring of long-term notes receivable to record and report these assets on the general ledger.

Significant Deficiencies

12 – 02: Inventory Balances

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

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

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

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

Status: The City has established a procedure for regularly valuing and recording changes in inventory assets.

B. Findings – Major Federal Award Program Audit

Material Weaknesses

None