

CITY OF RUTLAND, VERMONT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

Corrette & Associates, P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Aldermen
City of Rutland
Rutland, Vermont

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rutland, Rutland, Vermont as of and for the year ended June 30, 2016, 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 generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary information on pages 4 through 13 and page 60 through 61 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 62 through 65 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 January 21, 2017, on our consideration of the City of Rutland Vermont's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Corrette & Associates, P.C.
Saint Johnsbury, Vermont
January 21, 2017
Vermont License # 92-0130

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016

Presented here is the Management Discussion & Analysis Report for the City of Rutland, Vermont for the fiscal year ended June 30, 2016. 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, 2016 by \$29,380,453 comprised of investment in capital assets, net of related debt, and restricted and unrestricted funds, noted as Total net position-end of year.
- The City's total net position increased by \$1,126,597 primarily due to increased fund balances in the City's general fund and proprietary funds, increased assets, and a prior period adjustment to reflect deferred outflows of resources related to pension obligations.
- Despite an increase in net position the City's net pension liability has increased to \$22,651,034 with the full implementation of GASB statement 68 which required a prior period adjustment. This is an increase of \$2,805,278 over the prior year.
- Total Other Post Employment Liabilities (OPEB) decreased by \$826,764 in both governmental and proprietary funds.
- The General Fund fund balance at year end is \$4,656,331 or 22.5% of actual General Fund revenues; the unassigned fund balance in the General Fund is \$3,067,685 or 14.8% of actual General Fund revenues.
- The City's General Fund fund balance increased by \$1,588,646 due to budgetary performance and proceeds of borrowing. The City expected no change in the fund balance for the fiscal year at the time the budget was approved.
- Total unrestricted net position in the proprietary funds is \$867,652 as of June 30, 2016, an increase of \$1,729,662 over the prior year, primarily due to Sewage Disposal Fund increase in cash. Water Fund, Sewage Disposal Fund and Parking Meter Fund experienced improvements in unrestricted net position, while Transit Center Fund experienced reductions in net position.

- The Water Fund, Sewage Disposal Fund and Parking Meter Fund have cash at June 30, 2016; the Transit Center Fund does not.
- As of June 30, 2016 the Net Pension Liability in the city pension increased for school and municipal employees combined to \$41,581,852, an increase of \$4,607,474 over the prior year due to increases in liabilities. It remains the most significant liability and future financial risk for the City if unresolved.

Overview of the Financial Statements

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

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

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

Government-Wide Financial Statements

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

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

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

The implementation of GASB 67 and 68 require recognition of the City's pension liability in the government-wide financial statements including the statement of net position and the statement of activities. The pension liability for the pension system as a whole, including that for school employees, is included in the Notes to the financial statements.

Fund Financial Statements

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However; unlike the government-wide financial statements, governmental fund financial statements focus on current

period inflows and outflows of spendable resources, as well as spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

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

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

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

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

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 by \$1,126,597 for the year ended June 30, 2016, after a prior period adjustment was taken. At year end the City of Rutland is able to report positive balances in net position, for the government as a whole, as well as its governmental and business-type activities.

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

The government-wide statement of Net Position and Statement of Activity show a comparison between 2016 and the prior year:

| <i>Net Position as of June 30 is as follows:</i> | | | |
|--|---|--|--|
| | | 2016 Total Primary Government | 2015 Total Primary Government |
| Current and Other Assets: | | | |
| | Current Assets | 15,699,716 | 12,983,531 |
| | Capital Assets | 59,081,633 | 56,852,184 |
| | Other Assets | 1,297,994 | 1,417,357 |
| | Total Assets | \$ 76,079,343 | \$ 71,253,072 |
| Deferred Outflows of Resources: | | | |
| | Pension deferred outflows | \$ 2,975,736.00 | \$ - |
| Current and Other Liabilities: | | | |
| | Long-term bonds and capital leases payable | 14,576,053 | 12,946,257 |
| | Compensated absences payable | 2,420,060 | 2,303,391 |
| | Other post employment benefits payable (OPEB) | 6,172,219 | 6,998,983 |
| | Net Pension Liability | 22,651,034 | 19,845,756 |
| | Other liabilities | 3,855,260 | 3,785,269 |
| | Total Liabilities | \$ 49,674,626 | \$ 45,879,656 |
| Net Position: | | | |
| | Invested in capital assets, net of related debt | 43,022,593 | 42,320,110 |
| | Restricted for: | | |
| | Notes & mortgages receivable | 1,297,994 | 1,417,357 |
| | Restricted for specific purposes | 5,991,318 | 5,361,667 |
| | Unrestricted | (20,931,452) | (23,725,718) |
| | Total net position | \$ 29,380,453 | \$ 25,373,416 |

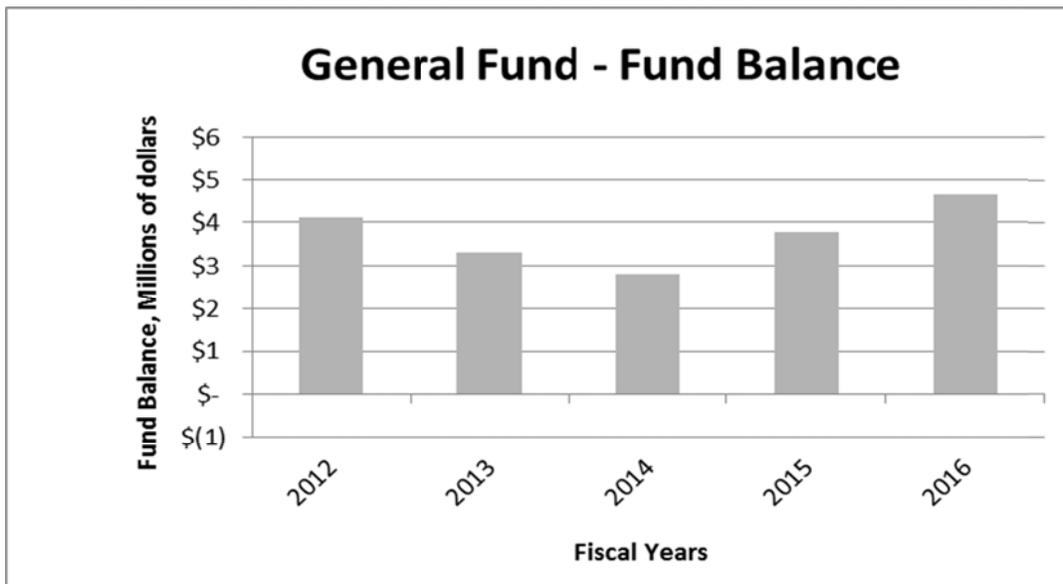
| Statement of Activities | | | |
|--|--|--------------------------------------|--------------------------------------|
| The Statement of Activities reports total operating expenses and change in net position for the year ending June 30: | | 2016 Total Primary Government | 2015 Total Primary Government |
| Program Revenues: | | | |
| Charges for services | | 10,248,630 | 10,423,229 |
| Operating grants | | 498,610 | 122,061 |
| Capital grants & contributions | | 701,095 | 763,036 |
| Total Program Revenues | | \$ 11,448,335 | \$ 11,308,326 |
| General Revenues: | | | |
| Property Tax assessments (Includes PILOT) | | 16,141,261 | 16,321,291 |
| Rooms, Meals & Entertainment Tax | | 500,858 | 495,301 |
| Judgments & fines | | - | - |
| Interest and investment earnings | | 228,601 | 238,442 |
| Change in Other Post Employment Benefits | | 273,599 | 631,168 |
| Transfers | | 14,962 | 480 |
| Miscellaneous | | 765,687 | 415,252 |
| Total general revenues | | \$ 17,924,968 | \$ 18,101,934 |
| Total revenues | | \$ 29,373,303 | \$ 29,410,260 |
| General Expenses: | | | |
| General government | | 6,419,998 | 6,965,075 |
| Public safety | | 8,886,803 | 8,809,996 |
| Highways & Streets | | 3,735,448 | 3,143,114 |
| DPW Administration | | 61,890 | 963,262 |
| Economic Development | | 646,743 | 379,918 |
| General services | | - | - |
| Culture & recreation | | 2,524,090 | 2,431,741 |
| Total governmental activities: | | \$ 22,274,972 | \$ 22,693,106 |
| Business-type activities | | 5,971,734 | 6,326,849 |
| Total Primary Governmental activities | | \$ 28,246,706 | \$ 29,019,955 |
| Change in net position: | | | |
| Net position-beginning of year | | 25,373,416 | 27,123,813 |
| Prior Period Adjustment | | 2,880,440 | (2,140,702) |
| Net Position-beginning of year restated | | 28,253,856 | 24,983,111 |
| Net position-end of year | | 29,380,453 | 25,373,416 |
| Change in net position: | | \$ 1,126,597 | \$ 390,305 |

Governmental Funds

At June 30, 2016 the City of Rutland's governmental funds report combined fund balances of \$9,403,196 and increase of \$1,266,366 over the prior period primarily due to the increase in cash and the unassigned General Fund fund balance. The governmental funds are comprised of the General Fund and non-major government funds, such as the Equipment Replacement Fund, Fire Equipment Fund, Zamias Fund and others used for special purposes. The City of Rutland maintains sixteen governmental funds. Of these only the General Fund is considered to be a major governmental fund.

General Fund-Fund Balance

The General Fund shows a fund balance of \$4,656,331 as of June 30, 2016, the fund balance as of June 30, 2015 was \$3,794,708. Therefore, the General Fund fund balance increased \$861,623. This increase was unexpected due to financing proceeds and budgetary performance that occurred during the year. At June 30, 2016 the City designated \$1,588,646 of the General Fund fund balance for specific purposes, an increase of \$415,013 over the prior year due to an increase in restricted, committed and assigned fund balances.



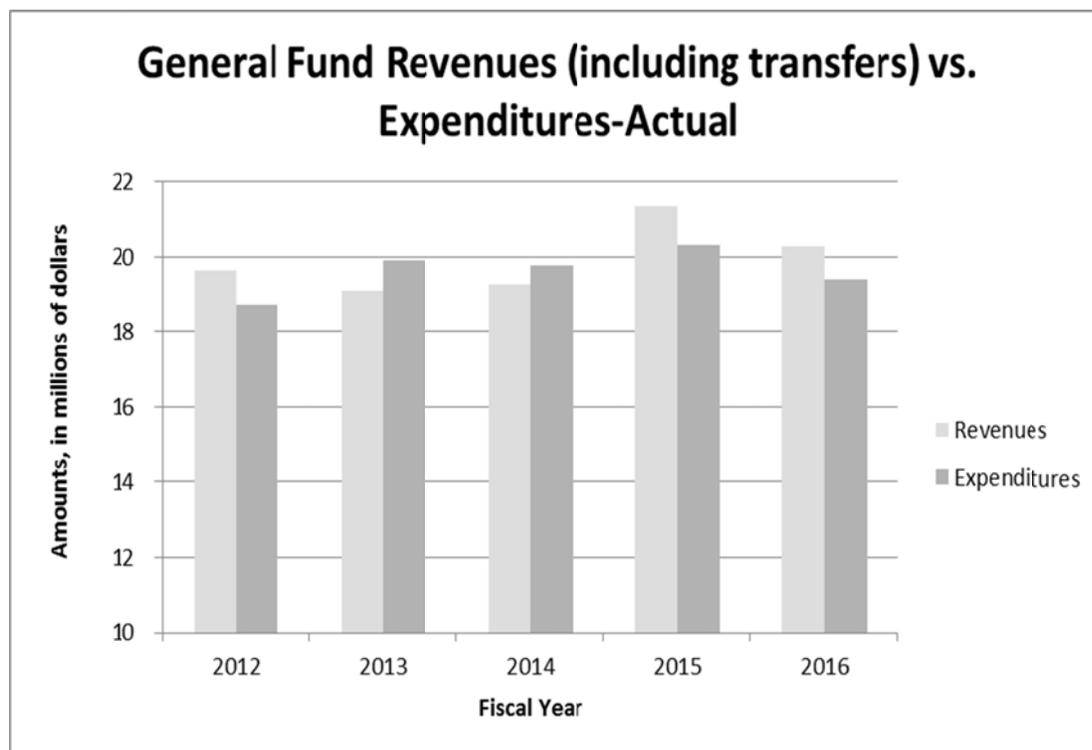
General Fund Budget vs. Actual

Final actual revenues exceeded budgeted revenues by \$605,469 before transfers at yearend. Most sources of revenue are higher than expected, except for taxes, licenses and permits, charges for services and investment earnings. General tax revenues are lower than expected due to delinquencies at year end, errors and omissions and other adjustments affecting the grand list. Increases in grant revenue were consumed by increased expenditures related to grant programs. As a result of delinquencies penalties and interest revenue exceeded budget as did tax sale revenue. Proceeds of borrowing were significant unexpected sources of revenue.

Final actual expenditures are higher than budgeted amounts by \$168,142. A few City departments posted higher expenses than budgeted, including Executive, Legislative (tax

abatements approved by the Board), Street Lighting, Community Development (grant expenditures, offset by revenues), Miscellaneous (including Northwest Neighborhood and streetlight improvements), and Debt Service (including post- employment payouts). All other City Departments met or fell below budget targets, some very significantly primarily due to vacancies or staffing changes.

The General Fund actuals show revenues under expenditures by \$422,770 before transfers. After application of transfers-in the net change to fund balance was \$861,623. The City planned a slight deficit of \$21,302 in the budget process.



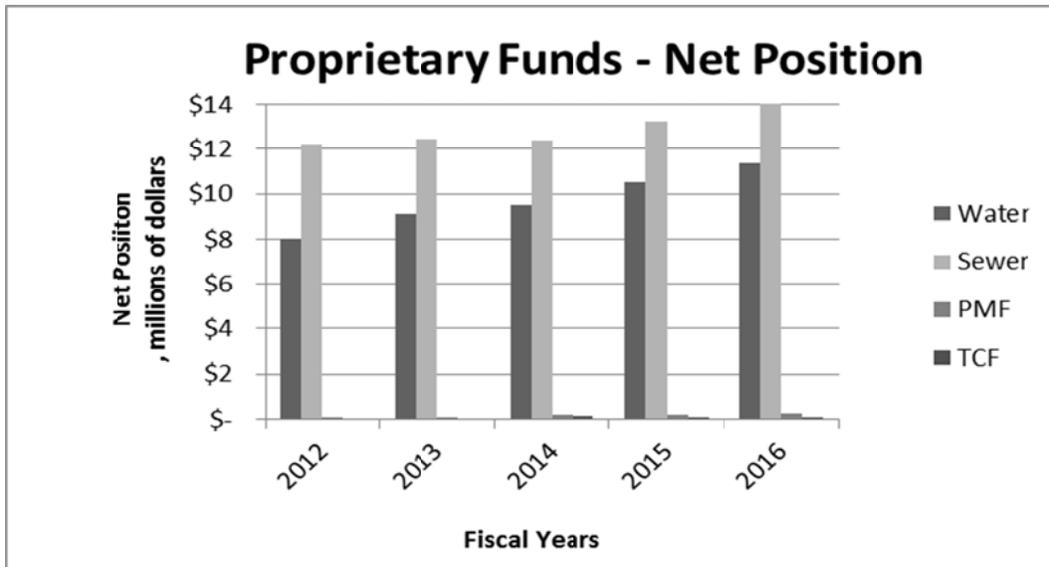
Proprietary Funds

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

Overall the proprietary funds experienced an increase in net position of \$1,885,702 over the prior fiscal year, due to increases in assets, including cash, and reductions in liabilities. Unrestricted net position is positive for the proprietary funds overall, at \$867,652 as of June 30, 2016, an increase of \$1,729,663 over the prior year. Net positions of the proprietary funds are represented primarily by capital assets. Unrestricted net position did improve for Water Fund, Sewage Disposal Fund and the Transit Center Fund. Parking Meter Fund and was reduced over the prior year. Both Water Fund and Sewage Disposal Fund have positive unrestricted net assets.

The City sets water and sewer rates in conjunction with the approval of the budgets for the Water Fund and the Sewerage Disposal Fund. Parking rates and fines are established by City ordinances. Revenues associated with the Transit Center Fund are determined by contracts with the State of Vermont and a parking management contractor.

The City presented a statement of cash flows for the proprietary funds at year end showing total cash at June 30, 2016 is \$847,250 for all funds combined. This is an increase of \$266,689 over June 30, 2015. 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 2016, totaling \$2,546,606 in Governmental activities and \$7,247,397 in Business-type (proprietary funds) activities. Additions exceed accumulated depreciation and decreases in capital assets in both governmental and proprietary funds.

Long-Term Obligations

At June 30, 2016 the City shows an increase in bonds payable of \$1,526,966 over the prior period and total long term debt was \$16,059,040 at year end. During the year the following change occurred to the City’s long term debt structure:

- The City entered into a 30 year bond at 3.95% through the Vermont Municipal Bond bank for \$1,000,000 to complete bridge work. This was the second phase of a \$2 million voter approved project to upgrade the City’s bridges.

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

As of January 1, 2016 valuation the total City pension system was 73.19% funded a slight increase in actuarial funding status over January 1, 2015. Despite market gains the deficiency of assets over unfunded actuarial accrued liability increased to \$27,816,999 for the total pension system covering both City and School employees. The Board of Education (Rutland Public Schools) actuarial accrued liability is \$10,578,291 as of January 1, 2016 compared to \$10,911,786 in the prior year due to increased contributions and changes to the plan. City (municipal government, not schools) actuarial accrued liability is \$17,238,708 as of January 1, 2016 compared to \$16,206,735 in the prior year, despite increases in contributions as the City has not paid the annually required contributions. As of January 1, 2015 all new City employees participate in Vermont Municipal Employee Retirement System (VMERS) unless previously vested in the City's pension plan, closing the plan to new entrants. This will have the effect of increasing the unfunded liability for a period of many years and then declining thereafter as the plan winds down.

Implementation of GASB (Government Accounting Standards Board) statement 67 and GASB 68 changed the way that pension obligations are presented in the City's financial statements. Implementation involved significant changes to the presentation of the City pension liability as a Net Pension Liability, rather than the actuarial accrued liability, calculated through June 30, 2016, for inclusion in the Statement of Net Position. For FY 2016 the Net Pension Liability is \$22,651,034, an increase in the liability of \$2,805,278 over the prior year.

Details relating to the assets and liabilities of the entire plan continue to be included in the Notes to the financial statements under Note V-Other information in addition to the disclosure of the liabilities in the financial statements.

Other post-employment benefits (OPEB) unfunded actuarial accrued liability at June 30, 2016 is \$6,172,219 for City (not Rutland Public Schools) employees and retirees, a reduction of \$826,764 over the prior year due to increases in employee healthcare contributions, changes to post-employment benefits and continuance of a high deductible health care plan.

Economic Factors, Tax Rates and 2016 Grand List

A soft, but improving economic climate continued to affect revenues for most municipalities in the region, state and the nation. The unemployment rate for the Rutland region was 4.3% in June 2016 whereas it was 4.7% as of June 2015 according to the Vermont Department of Labor. The unemployment rate for the state of Vermont as a whole was 3.3% and the national rate was 4.9% as of June 2016. The median year-round home price in Rutland County was \$140,000 in 2016 same as the prior two years indicating stabilization in the home market.

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

| | Delinquent Taxes | Expected tax revenue | % Delinquent |
|---------|-------------------------|-----------------------------|---------------------|
| FY 2016 | \$1,356,370 | \$31,332,858 | 4.33% |
| FY 2015 | \$1,215,424 | \$30,958,740 | 3.93% |
| FY 2014 | \$1,197,463 | \$29,094,822 | 4.12% |
| FY 2013 | \$1,119,279 | \$28,077,160 | 3.99% |
| FY 2012 | \$1,033,786 | \$27,796,059 | 3.72% |

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, 2016:

| | Grand List, BOY | Grand List EOY | Impact on tax revenue |
|---------|------------------------|-----------------------|------------------------------|
| FY 2016 | 10,229,353.34 | 10,218,268.75 | (\$109,098) |
| FY 2015 | 10,150,930.52 | 10,137,705.85 | (\$41,824) |
| FY 2014 | 10,141,084.62 | 10,134,000.92 | (\$21,058) |
| FY 2013 | 10,120,875.00 | 10,095,113.64 | (\$87,415) |
| FY 2012 | 10,053,741.50 | 10,049,189.62 | (\$15,207) |

The grand list value at beginning of year (BOY) is value at the time the rates are applied to create the billing file; the value for the end of year (EOY) is the grand list value at fiscal yearend. Modest gains on the grand list are made each year due to investments in commercial properties. Reductions are due to grievances, lister adjustments, and properties that become City-owned through tax sale. The City acquired several properties in FY 16 due to tax sale activity.

Overall property tax rates for FY 2016 increased over FY 2015 due to increases in education tax rates. The homestead education tax for FY 2016 was \$1.5683 compared to \$1.4476 in the prior year, an 8.34% increase. Non-residential education tax rate increased to \$1.6189 compared to \$1.5847 in the prior year, an increase of 2.11%. The municipal rate decreased from \$1.5779 to \$1.5346 a decrease of 2.74%. Both school and municipal budgets were approved by the voters.

Comparative Analysis:

Increased assets and decreases in OPEB in both governmental and proprietary funds increased the City's Net Position despite an increase in long term liabilities including pension liabilities for the year ended June 30, 2016.

Contacting City's Financial Management

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

FINANCIAL STATEMENTS

CITY OF RUTLAND, VERMONT
STATEMENT OF NET POSITION
JUNE 30, 2016

| | Primary Government | | | Component |
|---|----------------------------|---------------------------------|----------------------|---|
| | Governmental Activities | Business- Type Activities | Total | Unit Rutland Redevelopment Authority |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and equivalents | \$ 6,544,047 | \$ 847,250 | \$ 7,391,297 | \$ 294,833 |
| Receivables | 1,862,360 | 2,568,637 | 4,430,997 | 996 |
| Investments | 3,622,213 | - | 3,622,213 | - |
| Prepaid expenses | 27,432 | 28,350 | 55,782 | - |
| Inventories | 69,447 | 131,468 | 200,915 | - |
| Inter-fund balances | 144,721 | (146,209) | (1,488) | - |
| Total current assets | <u>12,270,220</u> | <u>3,429,496</u> | <u>15,699,716</u> | <u>295,829</u> |
| Non-current Assets | | | | |
| Notes and mortgages receivable | 1,297,994 | - | 1,297,994 | - |
| Capital assets not being depreciated | | | | |
| Land | 4,357,234 | 385,141 | 4,742,375 | - |
| Capital assets, net of depreciation | <u>16,900,405</u> | <u>37,438,853</u> | <u>54,339,258</u> | <u>-</u> |
| Total non-current assets | <u>22,555,633</u> | <u>37,823,994</u> | <u>60,379,627</u> | <u>-</u> |
| Total assets | <u>34,825,853</u> | <u>41,253,490</u> | <u>76,079,343</u> | <u>295,829</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| VMERS - deferred outflows | 164,245 | - | 164,245 | - |
| City pension deferred outflows | 2,811,491 | - | 2,811,491 | - |
| | <u>2,975,736</u> | <u>-</u> | <u>2,975,736</u> | <u>-</u> |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Accounts payable | 800,098 | 210,992 | 1,011,090 | 3,230 |
| Accrued expenses | 681,402 | 589,399 | 1,270,801 | 18,950 |
| Deferred revenue | 90,382 | - | 90,382 | - |
| Current portion of long-term debt | 287,986 | 1,195,001 | 1,482,987 | - |
| Total current liabilities | <u>1,859,868</u> | <u>1,995,392</u> | <u>3,855,260</u> | <u>22,180</u> |
| Non-current Liabilities | | | | |
| Long-term liabilities | | | | |
| Net pension liability | 22,651,034 | - | 22,651,034 | - |
| Sick and vacation liability | 2,420,060 | - | 2,420,060 | - |
| Other post employment liabilities | 4,448,266 | 1,723,953 | 6,172,219 | - |
| Long-term debt | 2,904,925 | 11,671,128 | 14,576,053 | - |
| Total non-current liabilities | <u>32,424,285</u> | <u>13,395,081</u> | <u>45,819,366</u> | <u>-</u> |
| Total liabilities | <u>34,284,153</u> | <u>15,390,473</u> | <u>49,674,626</u> | <u>-</u> |
| NET POSITION | | | | |
| Invested in capital assets, net | 18,064,728 | 24,957,865 | 43,022,593 | - |
| Restricted for: | | | | |
| Notes and mortgages receivable | 1,297,994 | - | 1,297,994 | - |
| Specific purposes | 5,953,818 | 37,500 | 5,991,318 | 50,005 |
| Unrestricted | (21,799,104) | 867,652 | (20,931,452) | 223,644 |
| Total net position | <u>\$ 3,517,436</u> | <u>\$ 25,863,017</u> | <u>\$ 29,380,453</u> | <u>\$ 273,649</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, 2016

| Functions and Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | | Component Unit RRA |
|---|------------------|----------------------|--------------------------|--------------------------|---|--------------------------|----------------|--------------------|
| | Expenses | Charges for Services | Operating | Capital | Primary Government | | | |
| | | | Grants and Contributions | Grants and Contributions | Governmental Activities | Business-type Activities | Total | |
| Governmental activities | | | | | | | | |
| General government | \$ 6,419,998 | \$ 519,694 | \$ 58,330 | \$ - | \$ (5,841,974) | \$ - | \$ (5,841,974) | \$ - |
| Public safety | 8,886,803 | 376,217 | 169,521 | - | (8,341,065) | - | (8,341,065) | - |
| Highway and streets | 3,735,448 | 48,437 | 221,747 | 15,200 | (3,450,064) | - | (3,450,064) | - |
| DPW administration | 61,890 | 2,586 | - | - | (59,304) | - | (59,304) | - |
| Economic development | 646,743 | 44,829 | 40,000 | 685,895 | 123,981 | - | 123,981 | - |
| Culture and recreation | 2,524,090 | 397,074 | 9,012 | - | (2,118,004) | - | (2,118,004) | - |
| Total governmental activities | 22,274,972 | 1,388,837 | 498,610 | 701,095 | (19,686,430) | - | (19,686,430) | - |
| Business-type activities | | | | | | | | |
| Water/Sewage Disposal/Parking/Transit Ctr | 5,971,734 | 8,859,793 | - | - | - | 2,888,059 | 2,888,059 | - |
| Total primary governmental | 28,246,706 | 10,248,630 | 498,610 | 701,095 | (19,686,430) | 2,888,059 | (16,798,371) | - |
| Component Unit | | | | | | | | |
| Rutland Redevelopment Authority | \$ 458,931 | \$ - | \$ - | \$ - | | | | \$ (458,931) |
| General revenues: | | | | | | | | |
| Property taxes | | | | | 16,141,261 | - | 16,141,261 | 280,000 |
| Rooms and meals tax | | | | | 500,858 | - | 500,858 | - |
| Investment earnings | | | | | 228,601 | - | 228,601 | 82 |
| Change in other post employment benefits | | | | | 273,599 | - | 273,599 | - |
| Other revenue | | | | | 405,204 | 360,483 | 765,687 | 326,036 |
| Transfers in (out) | | | | | 1,377,803 | (1,362,841) | 14,962 | - |
| Total general revenues and transfers | | | | | 18,927,326 | (1,002,358) | 17,924,968 | 606,118 |
| Change in net position | | | | | (759,104) | 1,885,701 | 1,126,597 | 147,187 |
| Net Position - June 30, 2015 | | | | | 1,396,100 | 23,977,316 | 25,373,416 | 126,462 |
| Prior period adjustment | | | | | 2,880,440 | - | 2,880,440 | - |
| Net position - beginning, restated | | | | | 4,276,540 | 23,977,316 | 28,253,856 | 126,462 |
| Net position - June 30, 2016 | | | | | \$ 3,517,436 | \$ 25,863,017 | \$ 29,380,453 | \$ 273,649 |

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, 2016

| | | |
|---|--|----------------------------|
| Total Fund Balances - Governmental Funds | | \$ <u>9,403,196</u> |
| Capital assets in governmental activities are not financial resources and therefore are not reported in the governmental fund financial statements. | | 64,190,758 |
| Accumulated depreciation has not been included in the governmental fund financial statements. | | (42,933,119) |
| Accrued liabilities represent non-current activity and are not reported in the governmental funds, however, are included in the Statement of Net Position. | | (9,666) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. | | (10,277,507) |
| Long-term liabilities related to pension obligations that are not included in the governmental financial statements. | | (22,651,032) |
| 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. | | 2,819,070 |
| Deferred Outflows of resources related to VMERS pension obligations | | 164,245 |
| Deferred outflows of resources related to City pension obligations | | 2,811,491 |
| Net Position of Governmental Activities | | \$ <u><u>3,517,436</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, 2016

| | |
|--|---------------------|
| Total Net Changes in Fund Balances - Governmental Funds | \$ <u>1,266,366</u> |
| 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. | 2,546,605 |
| 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. | (1,237,525) |
| 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. | 273,599 |
| Changes to the unfunded actuarial pension liability are not recognized as an expense in the governmental funds; however, the changes and total liability is included in the government wide financial statements. | (2,805,278) |
| Long-term notes receivable do not require current financial resources and are not reported in the fund financial statements; however, gain (loss) on the net present value of these notes is included in the government-wide financial statement | 316,634 |
| Revenues and receivables in the statement of activities that do not provide current resources are not reported as revenues in the fund financial statements | 326,651 |
| Changes in accrued liabilities are not recognized in the governmental funds and do not require the use of current financial resources; however, these changes are included in the government-wide financial statements. | (52,917) |
| Pension expenses to be paid in future periods do not require the use of current financial resources and are not report in the governmental funds | |
| VMERS pension expense | (79,488) |
| City retirement system pension expense | (66,859) |
| Principal disbursement and repayment of debt in governmental funds is reported in the fund financial statements but is removed from the government-wide Statement of Activities. | (1,227,441) |
| Accrued expenses, such as interest payable, is not an expense in the governmental fund but is report in the government-wide Statement of activities | (9,666) |
| Gain/(loss) on disposition of capital assets | (9,785) |
| Change in Net Position of Governmental Activities | \$ <u>(759,104)</u> |

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

CITY OF RUTLAND, VERMONT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

| | General | Non-Major | Total |
|-------------------------------------|---------------------|---------------------|----------------------|
| | Fund | Governmental | Governmental |
| ASSETS | <u>Fund</u> | <u>Funds</u> | <u>Funds</u> |
| Cash and cash equivalents | \$ 4,270,841 | \$ 2,273,206 | \$ 6,544,047 |
| Receivables | 331,848 | 9,436 | 341,284 |
| Investments | 568,286 | 3,053,925 | 3,622,211 |
| Prepaid expenses | 27,432 | - | 27,432 |
| Inventory | 69,447 | - | 69,447 |
| Due from other funds | 632,103 | 196,613 | 828,716 |
| Total assets | <u>5,899,957</u> | <u>5,533,180</u> | <u>11,433,137</u> |
| | | | |
| LIABILITIES AND FUND | | | |
| BALANCES | | | |
| Liabilities | | | |
| Accounts payable | 697,778 | 102,320 | 800,098 |
| Accrued expenditures | 455,467 | - | 455,467 |
| Deferred revenue | 90,381 | - | 90,381 |
| Due to other funds | - | 683,995 | 683,995 |
| Total liabilities | <u>1,243,626</u> | <u>786,315</u> | <u>2,029,941</u> |
| | | | |
| Fund balances | | | |
| Nonspendable | 96,879 | - | 96,879 |
| Restricted | 796,725 | - | 796,725 |
| Committed | 268,913 | 4,746,865 | 5,015,778 |
| Assigned | 426,129 | - | 426,129 |
| Unassigned | 3,067,685 | - | 3,067,685 |
| Total fund balances | <u>4,656,331</u> | <u>4,746,865</u> | <u>9,403,196</u> |
| Total liabilities and fund balances | <u>\$ 5,899,957</u> | <u>\$ 5,533,180</u> | <u>\$ 11,433,137</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, 2016

| | General Fund | Non-Major Governmental Funds | Total Governmental Funds |
|--|-----------------|------------------------------------|--------------------------------|
| Revenues | | | |
| Taxes - general | \$ 15,233,577 | \$ - | \$ 15,233,577 |
| Delinquent tax, penalties and interest | 189,856 | - | 189,856 |
| Fines and forfeitures | 224,011 | - | 224,011 |
| Rooms and meals tax | 500,858 | - | 500,858 |
| PILOT | 581,550 | - | 581,550 |
| Licenses and permits | 193,914 | - | 193,914 |
| Federal grants | 766,721 | - | 766,721 |
| State grants | 432,784 | - | 432,784 |
| Charges for services | 574,100 | 140,295 | 714,395 |
| Investment earnings | 20,558 | 18,515 | 39,073 |
| Rental income | 76,356 | - | 76,356 |
| Donations | 26,497 | - | 26,497 |
| Proceeds from borrowing and repayment | 59,433 | 1,512,094 | 1,571,527 |
| Miscellaneous | 122,349 | 1,700 | 124,049 |
| Total revenues | 19,002,564 | 1,672,604 | 20,675,168 |
| Expenditures | | | |
| Executive | 226,294 | - | 226,294 |
| Legislative | 38,495 | - | 38,495 |
| City Clerk | 398,914 | - | 398,914 |
| City Treasurer | 576,497 | - | 576,497 |
| City Attorney | 163,169 | - | 163,169 |
| City Assessor | 121,050 | - | 121,050 |
| Building and zoning | 306,423 | - | 306,423 |
| Libraries | 705,768 | - | 705,768 |
| Police department | 5,428,157 | - | 5,428,157 |
| Fire department | 3,224,759 | - | 3,224,759 |
| Highways | 2,116,715 | - | 2,116,715 |
| Street lighting | 403,910 | - | 403,910 |
| Catch basins | 22,799 | - | 22,799 |

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, 2016

| (continued) | General Fund | Non-Major Governmental Funds | Total Governmental Funds |
|---|---------------------|------------------------------------|--------------------------------|
| Community development | 352,858 | - | 352,858 |
| Recreation administration | 501,394 | - | 501,394 |
| DPW administration | 943,145 | - | 943,145 |
| Elections | 9,654 | - | 9,654 |
| Government buildings | 329,850 | - | 329,850 |
| Loan disbursements | - | 80,000 | 80,000 |
| Operations | 21,831 | 1,266,308 | 1,288,139 |
| General recreation maintenance | 989,042 | - | 989,042 |
| Giorgetti Park | 114,474 | - | 114,474 |
| Godnick Center | 13,233 | - | 13,233 |
| White Playground | 12,027 | - | 12,027 |
| Vehicle maintenance | 491,695 | - | 491,695 |
| Miscellaneous expense | 1,020,081 | - | 1,020,081 |
| Appropriations | 268,920 | - | 268,920 |
| Tax sale expense | 56,716 | - | 56,716 |
| Debt service | 567,464 | - | 567,464 |
| Total expenditures | <u>19,425,334</u> | <u>1,346,308</u> | <u>20,771,642</u> |
| Excess of revenues over (under) expenditures | <u>(422,770)</u> | <u>326,296</u> | <u>(96,474)</u> |
| Other financing sources (uses) | | | |
| Transfers in (out) | <u>1,284,393</u> | <u>78,447</u> | <u>1,362,840</u> |
| Total other financing sources (uses) | <u>1,284,393</u> | <u>78,447</u> | <u>1,362,840</u> |
| Net change in fund balances | <u>861,623</u> | <u>404,743</u> | <u>1,266,366</u> |
| Fund balances, June 30, 2015, as stated | <u>3,794,708</u> | <u>4,340,032</u> | <u>8,134,740</u> |
| Prior period adjustment | <u>-</u> | <u>2,090</u> | <u>2,090</u> |
| Fund balances, June 30, 2015, restated | <u>3,794,708</u> | <u>4,342,122</u> | <u>8,136,830</u> |
| Fund balances, June 30, 2016 | <u>\$ 4,656,331</u> | <u>\$ 4,746,865</u> | <u>\$ 9,403,196</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, 2016

| | Water Fund | Sewage Disposal Fund | Parking Meter Fund | Transit Center Mgmt Fund | Total Enterprise Funds |
|--|-------------------|----------------------------|--------------------------|--------------------------------|------------------------------|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash | \$ 483,128 | \$ 143,022 | \$ 221,100 | \$ - | \$ 847,250 |
| Accounts receivable, net of allowance | 1,077,734 | 1,454,081 | 36,822 | - | 2,568,637 |
| Prepaid expenses | - | - | 350 | 28,000 | 28,350 |
| Inventories | 101,714 | 29,754 | - | - | 131,468 |
| Total current assets | <u>1,662,576</u> | <u>1,626,857</u> | <u>258,272</u> | <u>28,000</u> | <u>3,575,705</u> |
| Non-current Assets | | | | | |
| Property and equipment, net of accumulated depr | 14,698,740 | 22,673,950 | 283,030 | 168,274 | 37,823,994 |
| Total non-current assets | <u>14,698,740</u> | <u>22,673,950</u> | <u>283,030</u> | <u>168,274</u> | <u>37,823,994</u> |
| Total assets | <u>16,361,316</u> | <u>24,300,807</u> | <u>541,302</u> | <u>196,274</u> | <u>41,399,699</u> |
| LIABILITIES AND NET POSITION | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | 22,779 | 82,482 | 77,333 | 28,398 | 210,992 |
| Accrued expenses | 273,714 | 303,277 | 12,408 | - | 589,399 |
| Due to other funds | - | - | - | 146,209 | 146,209 |
| Current portion of long-term debt | 545,000 | 650,001 | - | - | 1,195,001 |
| Total current liabilities | <u>841,493</u> | <u>1,035,760</u> | <u>89,741</u> | <u>174,607</u> | <u>2,141,601</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, 2016

| | Water Fund | Sewage Disposal Fund | Parking Meter Fund | Transit Center Mgmt Fund | Total Enterprise Funds |
|--|----------------------|----------------------------|--------------------------|--------------------------------|------------------------------|
| (continued) | | | | | |
| Non-current Liabilities | | | | | |
| Other post employment benefits | 729,713 | 776,241 | 217,999 | - | 1,723,953 |
| Long-term debt | 3,441,298 | 8,229,830 | - | - | 11,671,128 |
| Total non-current liabilities | <u>4,171,011</u> | <u>9,006,071</u> | <u>217,999</u> | <u>-</u> | <u>13,395,081</u> |
| Total liabilities | <u>5,012,504</u> | <u>10,041,831</u> | <u>307,740</u> | <u>174,607</u> | <u>15,536,682</u> |
| Net Position | | | | | |
| Invested in capital assets, net of related debt | 10,712,442 | 13,794,119 | 283,030 | 168,274 | 24,957,865 |
| Assigned | 37,500 | - | - | - | 37,500 |
| Unrestricted | 598,870 | 464,857 | (49,468) | (146,607) | 867,652 |
| Total net position | <u>\$ 11,348,812</u> | <u>\$ 14,258,976</u> | <u>\$ 233,562</u> | <u>\$ 21,667</u> | <u>\$ 25,863,017</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, 2016

| | Water Fund | Sewage Disposal Fund | Parking Meter Fund | Transit Center Mgmt Fund | Total Enterprise Funds |
|---|------------------|----------------------------|--------------------------|--------------------------------|------------------------------|
| Operating revenues | | | | | |
| Charges for services | \$ 3,518,551 | \$ 4,938,524 | \$ 133,959 | \$ 268,759 | \$ 8,859,793 |
| Miscellaneous income | 73,480 | 123,492 | 56,359 | 107,153 | 360,484 |
| Total operating revenues | <u>3,592,031</u> | <u>5,062,016</u> | <u>190,318</u> | <u>375,912</u> | <u>9,220,277</u> |
| Operating expenses | | | | | |
| Operating, maintenance, and general | 1,481,805 | 3,160,534 | 146,291 | 367,710 | 5,156,340 |
| Depreciation | 439,711 | 678,278 | 12,356 | 19,797 | 1,150,142 |
| Total operating expenses | <u>1,921,516</u> | <u>3,838,812</u> | <u>158,647</u> | <u>387,507</u> | <u>6,306,482</u> |
| Operating income (loss) | <u>1,670,515</u> | <u>1,223,204</u> | <u>31,671</u> | <u>(11,595)</u> | <u>2,913,795</u> |
| Nonoperating income/(expense) | | | | | |
| Interest expense | (141,206) | (77,212) | - | - | (218,418) |
| Change in OPEB liability | 206,511 | 328,291 | 18,364 | - | 553,166 |
| Total nonoperating income/(expenses) | <u>65,305</u> | <u>251,079</u> | <u>18,364</u> | <u>-</u> | <u>334,748</u> |
| Income (loss) before transfers | <u>1,735,820</u> | <u>1,474,283</u> | <u>50,035</u> | <u>(11,595)</u> | <u>3,248,543</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, 2016

| | <u>Water Fund</u> | <u>Sewage Disposal Fund</u> | <u>Parking Meter Fund</u> | <u>Transit Center Mgmt Fund</u> | <u>Total Enterprise Funds</u> |
|------------------------------------|-----------------------|-------------------------------------|-----------------------------------|---|---------------------------------------|
| (continued) | | | | | |
| Operating transfers in (out) | <u>(877,060)</u> | <u>(470,781)</u> | <u>(15,000)</u> | <u>-</u> | <u>(1,362,841)</u> |
| Change in net position | <u>858,760</u> | <u>1,003,502</u> | <u>35,035</u> | <u>(11,595)</u> | <u>1,885,702</u> |
| Total net position - June 30, 2015 | <u>10,490,052</u> | <u>13,255,474</u> | <u>198,527</u> | <u>33,262</u> | <u>-</u> <u>23,977,315</u> |
| Total net position, June 30, 2016 | <u>\$ 11,348,812</u> | <u>\$ 14,258,976</u> | <u>\$ 233,562</u> | <u>\$ 21,667</u> | <u>\$ 25,863,017</u> |

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

CITY OF RUTLAND, VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

| Cash Flows From Operating Activities | Water Fund | Sewage Disposal Fund | Parking Meter Fund | Transit Center Mgmt Fund | Total |
|--|------------------|----------------------------|--------------------------|--------------------------------|--------------------|
| Cash received from customers | \$ 3,561,900 | \$ 4,909,125 | \$ 178,795 | \$ 350,341 | \$ 9,000,160 |
| Cash paid for supplies, services and utilities | (838,584) | (2,282,207) | 24,070 | (316,768) | (3,413,489) |
| Cash paid for payroll and related expenses | (653,371) | (1,334,880) | (67,087) | - | (2,055,338) |
| Cash paid for rent and operating leases | - | - | (3,020) | - | (3,020) |
| Cash received from renting property | - | - | 6,500 | - | 6,500 |
| Cash deposits received from customers | 3,290 | 9,700 | - | - | 12,990 |
| Cash received from insurance reimbursement | 18,184 | - | - | - | 18,184 |
| Cash paid to customers - refunds and deposit returns | (2,350) | (7,760) | - | - | (10,110) |
| Cash received from employees - reimbursements | 2,057 | 2,889 | - | - | 4,946 |
| Net cash provided (used) by operating activities | <u>2,091,126</u> | <u>1,296,867</u> | <u>139,258</u> | <u>33,573</u> | <u>3,560,824</u> |
| Cash Flows From Non-capital Financing Activities | | | | | |
| Cash received (paid) through operating transfers | (877,060) | (470,781) | (15,000) | - | (1,362,841) |
| Cash advanced from (repaid to) pooled cash | 5,945 | (386,566) | - | (33,573) | (414,194) |
| Net cash provided (used) by non-capital and related financing activities | <u>(871,115)</u> | <u>(857,347)</u> | <u>(15,000)</u> | <u>(33,573)</u> | <u>(1,777,035)</u> |
| Cash Flows From Capital and Related Financing Activities | | | | | |
| Cash proceeds from capital debt | - | 1,804,647 | - | - | 1,804,647 |
| Cash paid for acquisition/construction of capital assets | (386,196) | (1,613,782) | (80,328) | - | (2,080,307) |
| Cash paid for principal on capital debt | (612,872) | (410,152) | - | - | (1,023,024) |
| Cash paid for interest on capital debt | (141,206) | (77,211) | - | - | (218,417) |

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

CITY OF RUTLAND, VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

| | Water Fund | Sewage Disposal Fund | Parking Meter Fund | Transit Center Mgmt Fund | Total |
|--|---------------------|----------------------------|--------------------------|--------------------------------|---------------------|
| Cash Flows From Operating Activities (continued) | | | | | |
| Net cash provided (used) by capital and related financing activities | <u>(1,140,275)</u> | <u>(296,498)</u> | <u>(80,328)</u> | <u>-</u> | <u>(1,517,101)</u> |
| Cash Flows From Investing Activities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net increase (decrease) in cash | <u>79,737</u> | <u>143,022</u> | <u>43,930</u> | <u>-</u> | <u>266,689</u> |
| Cash at June 30, 2015 | <u>403,391</u> | <u>-</u> | <u>177,170</u> | <u>-</u> | <u>580,561</u> |
| Cash at June 30, 2016 | <u>483,128</u> | <u>143,022</u> | <u>221,100</u> | <u>-</u> | <u>847,250</u> |
| Reconciliation of Operating Income to Net Cash Flows | | | | | |
| Operating income | <u>1,670,515</u> | <u>1,223,204</u> | <u>31,671</u> | <u>(11,595)</u> | <u>2,913,795</u> |
| Adjustments to reconcile operating income to cash flows from operating activities | | | | | |
| Depreciation expense | 439,711 | 678,278 | 12,356 | 19,797 | 1,150,142 |
| (Increase) decrease in accounts receivable | 7,938 | (115,442) | (2,976) | 98,687 | (11,793) |
| (Increase) decrease in inventories | 9,638 | (482) | - | - | 9,156 |
| (Increase) decrease in prepaids | 12,894 | 13,327 | 20,160 | - | 46,381 |
| Increase (decrease) in accounts payables | (32,479) | (516,031) | 71,802 | (73,316) | (550,024) |
| Increase (decrease) in accrued expenses | <u>(17,091)</u> | <u>14,013</u> | <u>6,245</u> | <u>-</u> | <u>3,167</u> |
| Net Adjustments | <u>420,611</u> | <u>73,663</u> | <u>107,587</u> | <u>45,168</u> | <u>647,029</u> |
| Net cash provided (used) by operating activities | <u>\$ 2,091,126</u> | <u>\$ 1,296,867</u> | <u>\$ 139,258</u> | <u>\$ 33,573</u> | <u>\$ 3,560,824</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, 2016

| | Pension | Private-Purpose | | | Agency Funds | |
|---------------------------------|----------------------|-----------------|------------------|-------------------|---------------|----------------|
| | Trust Fund | Trust Funds | | | | |
| | Employee | Property | Mayor's | Rec. | M. Garofano | Grace |
| | Pension | Escrow | Emergency | Activities | Memorial | Stoolfire |
| | Fund | Fund | Fuel | Fund | Fund | Trust |
| | Fund | Fund | Fund | Fund | Fund | Fund |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 6,981,910 | \$ 10,721 | \$ 16,150 | \$ 191,555 | \$ 14,483 | \$ 23,561 |
| Investments | 68,222,305 | - | - | - | - | 328,241 |
| Due from other funds | - | - | - | 1,488 | - | - |
| Total assets | <u>75,204,215</u> | <u>10,721</u> | <u>16,150</u> | <u>193,043</u> | <u>14,483</u> | <u>351,802</u> |
| LIABILITIES | | | | | | |
| Due to other funds | - | - | - | - | - | - |
| Accounts payable | - | - | - | 13,812 | 2,000 | - |
| Escrowed property | - | 10,632 | - | - | - | - |
| Held for the benefit of others | - | - | - | - | 12,483 | 351,802 |
| Total liabilities | <u>-</u> | <u>10,632</u> | <u>-</u> | <u>13,812</u> | <u>14,483</u> | <u>351,802</u> |
| NET POSITION | | | | | | |
| Benefits to be provided | 75,204,215 | - | - | - | - | - |
| Assets held in trust for others | - | 89 | 16,150 | 179,231 | - | - |
| Total net position | <u>\$ 75,204,215</u> | <u>\$ 89</u> | <u>\$ 16,150</u> | <u>\$ 179,231</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, 2016

| | Pension | Private- Purpose | | |
|--|---------------|------------------|-----------|------------|
| | Trust Fund | Trust Funds | | |
| | Employee | Property | Emergency | Rec. |
| | Pension | Escrow | Fuel | Activities |
| | Fund | Fund | Fund | Fund |
| Additions | | | | |
| Member contributions | \$ 3,628,082 | \$ - | \$ - | \$ - |
| City contributions | 701,816 | - | - | - |
| Fees | - | - | - | 17,560 |
| Donations | - | - | 750 | 62,165 |
| Tax sale deposits | - | - | - | - |
| Investment earnings | | | | |
| Interest and dividends | 1,543,399 | 10 | 8 | - |
| Net increase (decrease) in investment fair value | (795,092) | - | - | - |
| Total investments earnings | 748,307 | 10 | 8 | - |
| Total additions | 5,078,205 | 10 | 758 | 79,725 |
| Deductions | | | | |
| Retirement benefits | 5,775,914 | - | - | - |
| Disbursements | - | - | - | 67,740 |
| Total deductions | 5,775,914 | - | - | 67,740 |
| Changes in net position | (697,709) | 10 | 758 | 11,985 |
| Transfers in (out) | | | | |
| Total other financing sources | - | - | - | - |
| Net changes in net assets | (697,709) | 10 | 758 | 11,985 |
| Net position, beginning | 75,901,924 | 79 | 15,392 | 167,246 |
| Net position, ending | \$ 75,204,215 | \$ 89 | \$ 16,150 | \$ 179,231 |

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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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), prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in AU Section 411 of the Professional Standards of the American Institute of Certified Public Accountants (AICPA). 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.

The Board of Aldermen has the authority to make decisions, appoint administrators, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City of Rutland is a reporting entity as defined by the GASB in its Statement No. 61.

B. Discretely Presented Component Unit

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:

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies (continued)

B. Discretely Presented Component Unit (continued)

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

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

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

Rutland Redevelopment Authority

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

The organization levies an assessment tax which is collected by the City of Rutland.

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 all non-fiduciary 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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies (continued)

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

including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to program uses. Taxes and other revenue sources not included with program revenues are reported as general revenues.

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

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

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

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

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

Operating income reported in proprietary funds includes revenues and expenses related to the primary operations of the fund. Operating revenues are charges to customers for services. Operating expenses are the cost of providing goods or services and include administrative expenses. 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.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 Fund-Types:

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

Special Revenue Funds: Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The City has thirteen special revenue funds: the Equipment Replacement Fund is for replacement of police, recreation and DPW equipment; the Field Maintenance Fund is to maintain recreational fields; the Capital Improvement Fund is for major capital improvements to sewer infrastructure with the source of this funding from Sewer Allocation Fees; the Fire Equipment Fund is to purchase major equipment for the Fire Department; the Zamias Impact Fund is to foster economic activity to offset the economic impact of the Diamond Run Mall; the Water/Sewer Vehicle Fund is to purchase vehicles for the proprietary funds; the White's Pool Fund is to fund pool facility upgrades at White Park; the Giorgetti Fund is for development and improvement of Giorgetti Park; the Records Preservation Fund is to sustain City public records; the CSO Sinking Fund is to provide future sewer projects funding based on a 2004 resolution of the Board of Alderman; the Bridge Fund is for bridge repairs sourced by the unused portion of the Department of Public Works bridge repair budget from each year to pay for major bridge work and designated proceeds from borrowing as necessary; the Sidewalk Fund is for building and repairing City sidewalks; the Water System Capital Fund is to fund future water system capital improvements.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 VCDP Notes Receivable Fund, formerly the Maples Fund, used to finance a low-income housing project; and the Downtown Special Business District Revolving Loan Fund, used for funding building improvements, real estate acquisitions in Downtown Rutland, or business startup loans.

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

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

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

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

Agency Funds: Used to account for situations where the government's role is purely custodial. All assets reported in agency funds are offset by liabilities to party's on whose behalf they are held. Agency funds do not present results of operations or have a measurement focus. Agency funds use the full accrual basis of accounting. The City maintains two agency funds. The Grace Stoolfire Trust Fund is used to support music education; and the M. Garafano Memorial Fund to collect donations to commemorate the memory of a City employee who died in the line of service to the City.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Fund 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, 2016 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 affect interfund transfers as necessary for operational requirements and subsequently record and report this activity to the Board of Aldermen. The City approved a policy that interfund borrowing will not bear interest. Further, the City budgets transfers between departments within the General Fund. These transfers represent a cost shift between departments and are eliminated in these financial statements. Interfund due from/due to balances between individual funds of the City are presented in the fund financial statements but are eliminated for the government-wide Statement of Activities. The balance of activity between governmental and business-type activities is presented as internal balances in the government-wide Statement of Activities.

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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (continued)

6. Capital assets (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.

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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (continued)

9. Net Position and Fund Equity: (continued)

- 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. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then. Currently, the City has only one item that qualifies for reporting in this category, Deferred Net Pension Liability.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time. The City has two types of these items that qualify for reporting in this category, unavailable property tax revenue and unavailable notes receivable, which are reported in the Statement of Net Position. These amounts are recognized as an inflow of resources in the period that the amounts become available.

G. 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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies (continued)

G. Other accounting policies (continued)

1. Authorized expenditures (continued): goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded in order to reserve that portion of the applicable appropriation, would be employed as an extension of the formal budgetary integration in the General Fund. In accordance with the City Charter, all encumbrances expire at fiscal yearend.

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

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

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

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

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

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

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

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

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

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies (continued)

G. Other accounting policies (continued)

8. Revenue recognition (continued): 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 Activities Fund is recognized when earned, as these fees are collected during the spring for services provided during summer months, subsequent to year end.

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

10. Implementation of New Accounting Standards

The City began implementing new Government Accounting Standards Board (GASB) Statements 67 - *Financial Reporting for Pension Plans*, and 68 - *Accounting and Financial Reporting for Pensions* during the year ended June 30, 2014 and completed the implementation of these two standards for the year ended June 30, 2016.

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

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

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental fund and net assets – governmental activities as reported in the government-wide financial statement of net position. The total adjustment between the fund balance sheet and government-wide statement of net assets is a decrease of \$8,697,251:

| | | |
|---|----|------------------|
| Total Fund balances – governmental Funds | \$ | <u>9,403,196</u> |
| Capital assets | | 64,190,758 |
| Accumulated depreciation | | (42,933,119) |
| Accrued liabilities | | (9,666) |
| Long-term bonds payable | | (10,277,507) |
| Net Pension Liability | | (22,651,032) |
| Other long-term assets | | 2,819,070 |
| Deferred outflows of resources - VMERS | | 164,245 |
| Deferred outflows of resources – City Pension | | <u>2,811,491</u> |
| Net decrease | | (5,885,760) |
| Total Net Position of Governmental Activities | \$ | <u>3,517,436</u> |

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

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

The total adjustment between the statement of revenues, expenditures, and changes in fund balances and the statement of activities is a decrease of \$2,004,705, as follows:

| | | |
|---|----|---------------------|
| Total Net Changes in Fund Balances – Governmental Funds | \$ | <u>1,266,366</u> |
| Capital outlays | | 2,546,605 |
| Depreciation expense | | (1,237,525) |
| Change to OPEB liability | | 273,599 |
| Change in unfunded actuarial pension liability | | (2,805,278) |
| Changes in long-term notes receivable | | 316,634 |
| Noncurrent revenues | | 326,651 |
| Changes in accrued liabilities | | (52,917) |
| VMERS retirement expense | | (79,488) |
| City pension expense | | (66,859) |
| Proceeds from borrowing and repayment of debt | | (1,227,441) |
| Accrued expenses | | (9,666) |
| Gain/(loss) on disposition of assets | | (9,785) |
| Net increase/(decrease) | \$ | <u>(2,025,470)</u> |
| Total Change in Net Position | \$ | <u>(759,104)</u> |

Note III. Stewardship, compliance, and accountability

A. Budgetary accounting

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

B. Excess of expenditures over appropriations

For the year ended June 30, 2016, General Fund revenues exceeded budgeted revenues by \$605,469 and budgeted expenditures exceeded expenditures by \$168,142, resulting in a net decrease of \$422,770 before operating transfers in to the General Fund of \$1,284,393 from other funds. The net increase in the General Fund of actual revenues over expenditure was \$861,623.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note III. Stewardship, compliance, and accountability (continued)

C. Deficit/surplus fund equity

The City's proprietary funds each have surplus net position; at a the total \$25,863,017, with \$24,957,865 invested in capital assets, \$37,500 assigned, and an unrestricted surplus for the four funds of \$867,652. The Parking Meter Fund has an unrestricted deficit of \$49,468 and the Transit Center Management Fund has an unrestricted deficit of \$146,607. The City plans to resolve these deficits through normal operations.

Note IV. Detailed notes on all funds

A. Cash, Cash Equivalents, and Investments

At June 30, 2016, the carrying amount of the City's deposits with financial institutions was \$14,629,677 and the total balance reported by these institutions was \$14,788,564. These deposits are held in checking accounts, savings accounts, and money market accounts. Of the funds on deposit, \$1,154,045 - was insured by the Federal Deposit Insurance Corporation (FDIC), \$6,470,161 was collateralized and 7,005,471 was insured by the Securities Investor Protection Corporation (SIPC),

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

At June 30, 2016 the City had investments of \$72,172,759 held in the form of Certificates of Deposit with local financial institutions, in the City's investment account managed by Prudential Retirement Insurance and Annuity Co. (PRIAC) and in an investment account with Moors & Cabot Investments. These amounts held in certificates of deposits were insured by the Federal Deposit Insurance Corporation and the amounts held by the investment firms 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 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, 2016, pension fund investments were valued at \$68,222,305, determined by market prices at June 30, 2016, are as follows:

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note IV. Detailed notes on all funds (continued)

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

| | |
|---------------------|----------------------|
| U.S corporate Stock | \$ 35,576,975 |
| International Stock | 9,779,120 |
| Corporate Bonds | <u>22,866,210</u> |
| | \$ <u>68,222,305</u> |

As of June 30, 2016, the City's total investments were categorized as follows:

| | |
|-------------------------|----------------------|
| Certificates of Deposit | \$ 3,622,213 |
| Equities | 45,641,179 |
| Fixed income | <u>22,909,367</u> |
| | \$ <u>72,172,759</u> |

The City has investments in the Grace Stoolfire Trust Fund, 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, *Deposit and Investment Risk Disclosures*, requires the City's investments to be categorized to give an indication of the level of risk assumed by the City at yearend. Category 1 includes investments that are insured or registered or securities that are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counter party's trust department or agent in the City's name. At June 30, 2016, the City's investments in the Grace Stoolfire Trust Fund were all Category 1.

B. Allowance for Uncollectible Receivables

Delinquent taxes represent property taxes outstanding at June 30, 2016. 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, 2016. The City has the legal right to force sale of the property to recover sewer and water fees and; therefore, at June 30, 2016, 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 these uncollectible receivables. Parking ticket receivables represent the balance at June 30, 2016 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 from the date of issue as of June 30, 2016.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note IV. Detailed notes on all funds (continued)

C. Mortgages and Notes Receivable

The City annually revalues its notes receivable to present value. These 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, 2016:

| <u>Description</u> | 06/30/2016 Face Value <u>Balance</u> | 06/30/2016 Realizable <u>Amount</u> |
|--|--|---|
| 0% 2001 Columbian Avenue note receivable with a 25-year deferral with the full balance due June 2026. | \$ 280,200 | \$ 234,736 |
| 0% 2011 Rutland Housing Partnership note receivable with a 30-year deferral with the full balance due October 2040. | 750,000 | 437,259 |
| 0% 2004 Tuttle Block Housing Limited Partnership note receivable with a 30-year deferral with the full balance due August 2034. | 600,000 | 406,405 |
| 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. | 102,218 | - |
| 0% Hickory Street \$147,000 note receivable with a 30 year deferral period. Balance due November 2043. | 147,000 | 72,284 |
| <u>SBD Revolving Loan Fund</u> | | |
| 2% 2009 Deborah Dubay note receivable with quarterly payments of principal and interest of \$290 and a final balloon payment due in July 2019. | 8,312 | 8,312 |
| 0% 2008 Elizabeth Pimpare note receivable with semi-annual payments of principal of \$1,500 with final payment due in January 2018. | 6,000 | 6,000 |
| 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. | 12,946 | 12,946 |

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note IV. Detailed notes on all funds (continued)

C. Mortgages and Notes Receivable (continued)

| <u>Description</u> | 06/30/2016 Face Value <u>Balance</u> | 06/30/2016 Realizable <u>Amount</u> |
|---|--|---|
| 2% 2010 Rutland County Court Diversion note receivable with monthly principal and interest payments of \$138 with final payment due in May 2020. | 6,107 | 6,107 |
| 2% 2010 John and Jerri Sabataso note receivable with monthly principal and interest payments of \$230 with final payment due in July 2020. | 10,988 | 10,988 |
| 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. | 9,491 | 9,491 |
| 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. | 4,028 | 4,028 |
| 2% 2014 Charles Wagenhiem \$30,000 note receivable payable in monthly installments of \$276 through March 2024. | 23,287 | 23,287 |
| 2% 2014 24 Wales St. Condominium Association note receivable payable in monthly payments of \$184 through September 2024. | 16,626 | 16,626 |
| 2% 2015 MKF Properties note receivable payable in monthly payments of \$526 through January 2020. | 21,802 | 21,802 |
| 2% 2015 JetBar, Inc. note receivable payable in monthly payments of \$276 through September 2025. | <u>27,723</u> | <u>27,723</u> |
| Total long-term mortgages and notes receivable | \$ <u>2,026,528</u> | \$ <u>1,297,994</u> |

During the year ended June 30, 2016, the Maples L.L.P. note receivable to the City was repaid in the amount of \$479,673 of which \$239,684 was repaid to the State of Vermont as required by the terms of the revolving loan funds provided by the State originally, and \$95,935 was paid to the Rutland Redevelopment Authority for administrative management fees.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note IV. Detailed notes on all funds (continued)

D. 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 has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift at the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. Therefore, 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, 2016.

3. Return Objectives and Risk Parameters: The City has adopted investment and spending policies for endowment assets that will preserve the principal amounts for uses consistent with the donor's purposes, and provide availability to principal in a timely fashion for utilization. There is no requirement that the funds be held in perpetuity if the funds are spent in accordance with the restrictions. Under this policy the Board of Finance determined to protect the principal by investing in fully collateralized certificates of deposit or money market accounts reported to the Board. While the return objective will be low, based on market rates, the risk of loss will also be low. Actual returns as of June 30, 2016 are based on returns provided for on-demand deposits. Actual returns will vary each year.

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

Note IV. Detailed notes on all funds (continued)

D. Endowment Fund (continued)

4. Strategies Employed for Achieving Objectives: To satisfy the 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.

6. Investment Planning: During 2016, the City Board of Aldermen approved establishing an investment account for the Giorgetti Fund assets with to goal of achieving a higher rate of investment return than historically realized. As the current certificates of deposit mature, monies will be transferred to a brokerage account.

E. Individual Fund Interfund Receivable and Payable Balances

Due from and due to balances result from interfund loans and are recorded as assets and liabilities in the financial statements. The difference between the fund statement balances are due from/due to balances and the internal balance on the government-wide financial statements represents the cash used from the Recreation Activities Fund due to governmental activities.

Balances at June 30, 2016 were as follows:

| | <u>Receivables</u> | <u>Payables</u> |
|--------------------------------|--------------------|-------------------|
| General Fund | \$ 632,103 | \$ - |
| Recreation Activities Fund | 1,488 | - |
| Equipment Replacement Fund | 30,000 | - |
| Field Maintenance Fund | 90 | - |
| Capital Improvement Fund | 16,250 | - |
| Fire Equipment Fund | 25,000 | - |
| Zamias Impact Fund | - | 89,326 |
| Water/Sewer Vehicle Fund | 10,000 | - |
| White's Pool Fund | - | 143,815 |
| Records Preservation Fund | 1,266 | - |
| CSO Sinking Fund | 34,351 | - |
| Bridge Fund | - | 450,854 |
| Water System Capital Fund | 75,000 | - |
| SBD RLF Fund | 4,656 | - |
| Transit Center Management Fund | - | 146,209 |
| | \$ <u>830,204</u> | \$ <u>830,204</u> |

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

Note IV. Detailed notes on all funds (continued)

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

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

F. Capital Assets Activity

Capital asset activity of the City for the year ended June 30, 2016 is as follows:

| Governmental activities: | Beginning <u>Balance</u> | <u>Increase</u> | <u>Decrease</u> | Ending <u>Balance</u> |
|---------------------------------|-----------------------------|---------------------|------------------|--------------------------|
| Land, non-depreciable | \$ 4,030,473 | \$ 326,761 | \$ - | \$ 4,357,234 |
| General services | 2,490,662 | 48,329 | - | 2,538,991 |
| Fire Department | 3,961,358 | - | - | 3,961,358 |
| Police Department | 3,616,342 | 17,113 | - | 3,633,455 |
| Department of Public Works | 41,802,066 | 1,641,338 | 93,327 | 43,350,077 |
| Recreation | 4,902,562 | 329,487 | - | 5,232,049 |
| Library | 934,016 | - | - | 934,016 |
| Land improvements | <u>-</u> | <u>183,578</u> | <u>-</u> | <u>183,578</u> |
| Total capital assets at cost | \$ <u>61,737,479</u> | \$ <u>2,546,606</u> | \$ <u>93,327</u> | \$ <u>64,190,758</u> |

Less accumulated depreciation:

| Governmental activities: | | | | |
|-------------------------------------|----------------------|---------------------|-----------------|----------------------|
| General services | \$ 924,680 | \$ 44,265 | \$ - | \$ 968,945 |
| Fire Department | 3,064,050 | 86,555 | - | 3,150,605 |
| Police Department | 2,210,079 | 193,218 | - | 2,403,297 |
| Department of Public Works | 33,492,577 | 700,329 | 83,528 | 34,109,378 |
| Recreation | 1,809,075 | 195,230 | - | 2,004,305 |
| Library | <u>278,661</u> | <u>17,928</u> | <u>-</u> | <u>296,589</u> |
| Total accumulated depreciation | <u>41,779,122</u> | <u>1,237,525</u> | <u>83,528</u> | <u>42,933,119</u> |
| Capital assets, net of depreciation | \$ <u>19,958,357</u> | \$ <u>1,309,081</u> | \$ <u>9,799</u> | \$ <u>21,257,639</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------|---------------------|
| General government | \$ 44,265 |
| Public safety | 279,773 |
| Highway and street | 700,329 |
| Culture and recreation | <u>213,158</u> |
| Total | \$ <u>1,237,525</u> |

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note IV. Detailed notes on all funds (continued)

F. Capital Assets Activity (continued)

| Business-type activities: | <u>Beginning</u> <u>Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending</u> <u>Balance</u> |
|----------------------------------|------------------------------------|---------------------|---------------------|---------------------------------|
| Land, non-depreciable | \$ 385,141 | \$ - | \$ - | \$ 385,141 |
| Buildings | 42,874,998 | 105,000 | - | 42,979,998 |
| Infrastructure | 1,541,748 | 5,546,251 | - | 7,087,999 |
| Easements | 115 | - | - | 115 |
| Machinery & Equipment | 4,070,125 | 366,389 | - | 4,436,514 |
| Vehicles | 45,753 | 34,101 | - | 79,854 |
| Meters | 1,546,903 | 90,475 | - | 1,637,379 |
| Reservoirs | 2,694,613 | - | - | 2,694,613 |
| Current construction in progress | <u>4,060,964</u> | <u>1,105,181</u> | <u>5,166,145</u> | <u>-</u> |
| Total capital assets at cost | <u>57,220,361</u> | <u>7,247,397</u> | <u>5,166,145</u> | <u>59,301,613</u> |
| Less accumulated depreciation: | <u>(20,326,534)</u> | <u>(1,151,085)</u> | <u>-</u> | <u>(21,477,619)</u> |
| Capital assets, net | \$ <u>36,893,827</u> | \$ <u>6,096,312</u> | \$ <u>5,166,145</u> | \$ <u>37,823,994</u> |

Depreciations expense for the Proprietary funds was \$ 1,151,085.

G. Interfund Operating Transfers

The following are interfund operating transfers for the year ended June 30, 2016:

| Fund | Transfers In | Transfers Out |
|----------------------------|---------------------|---------------------|
| General Fund | \$ 1,503,111 | \$ 218,717 |
| Equipment Replacement Fund | 120,000 | 34,101 |
| Capital Improvement Fund | 65,000 | 214,000 |
| Fire Equipment Fund | 40,000 | - |
| Zamias Impact Fund | 93 | 111,824 |
| CSO Sinking Fund | 203,035 | 234,987 |
| Bridge Fund | 53,062 | 56,208 |
| Water System Capital Fund | 300,000 | 97,184 |
| Sidewalk Fund | 5,562 | - |
| Water Sewer Vehicle Fund | 40,000 | - |
| Water Fund | 102,979 | 980,039 |
| Sewage Disposal Fund | 477,293 | 948,074 |
| Parking Meter Fund | <u>-</u> | <u>15,000</u> |
| | \$ <u>2,910,135</u> | \$ <u>2,910,135</u> |

The City also executed an operating transfer out of the Recreation Activities Fund in the amount of \$14,962 to the government-wide Statement of Net Position to recognize the capitalization of certain assets.

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

Note IV. Detailed notes on all funds (continued)

H. Lease Agreements

1. Capital leases – The City has entered into lease agreements for equipment. Capital assets include purchases by capital lease. Capital assets, acquired by lease agreements, have been capitalized in the amount of \$759,768. Annual depreciation for this year for the City’s capital lease assets is \$54,706 and accumulated depreciation on this equipment totaled \$317,097.

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

| <u>Year</u> | <u>Lease Payments</u> |
|-------------|---------------------------|
| 2017 | \$ 53,808 |
| 2018 | 23,201 |
| 2019 | 23,201 |
| 2020 | <u>23,201</u> |
| Total | \$ <u>123,411</u> |

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

The City also has several operating leases for office copiers. The total of operating lease expense for 2016 was \$19,943. As of June 30, 2016 the City has no future minimum lease payments for its operating leases.

I. Short-Term Debt

The City borrowed no short-term debt and had no short-term debt balance at year end.

J. Long-Term Debt

Governmental Activities

General long-term debt activity for the year ended June 30, 2016 is as follows:

| | <u>06/30/15 Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>06/30/16 Balance</u> |
|--|-----------------------------|------------------|-------------------|-----------------------------|
| 5.484% Capital Improvement Bond – General Obligation - with annual principal payments of \$140,000 plus variable interest payments maturing December 2020 | \$ 840,000 | \$ - | \$ 140,000 | \$ 700,000 |

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note IV. Detailed notes on all funds (continued)

J. Long-Term Debt (continued)

| | 06/30/15 | | | 06/30/16 |
|--|---------------------|---------------------|-------------------|--------------------|
| | <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> |
| 3.75% Library roof repair with annual principal payments of \$46,320 plus semi-annual interest payments maturing 2022. | 324,249 | - | 46,329 | 277,920 |
| 3.53% 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. | 933,324 | - | 33,333 | 899,991 |
| 2.45% Capital improvements note with annual principal payments of \$35,000 and annual accrued interest payments beginning November 2016 and ending November 2024. | 350,000 | - | 35,000 | 315,000 |
| 3.95% Bridge bond with VMBB for City Bridge work with annual principal Payments of \$33,333 and semi-annual Interest payments beginning November 2015 and ending November 2045 | <u>-</u> | <u>1,000,000</u> | <u>-</u> | <u>1,000,000</u> |
| Total governmental long-term debt | \$ <u>2,447,573</u> | \$ <u>1,000,000</u> | \$ <u>254,662</u> | <u>\$3,192,911</u> |

Business-type Activities

Proprietary Funds notes and bonds payable consist of the following as of June 30, 2016:

| | 06/30/15 | | | 06/30/16 |
|---|----------------|------------------|-------------------|----------------|
| | <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> |
| <u>Sewer Fund</u> | | | | |
| 2.75% 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 2020. | 750,000 | - | 150,000 | 600,000 |

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note IV. Detailed notes on all funds (continued)

J. Long-Term Debt (continued)

| | <u>07/01/15</u> <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>06/30/16</u> <u>Balance</u> |
|---|-----------------------------------|---------------------|---------------------|-----------------------------------|
| 0.00% CSO VMBB construction bond with principal only annual payments of \$160,000 maturing December 2026. | 2,080,000 | - | 160,000 | 1,920,000 |
| 4.285% CSO Phase 2A VMBB construction bond with principal payments of \$80,000 and with variable semi-annual interest payments maturing December 2027. | 1,040,000 | - | 80,000 | 960,000 |
| 2% VMBB Bond for CSO West and Crescent Streets improvement with annual payments of \$28,285 maturing Oct 2031. | 403,208 | - | 20,148 | 383,060 |
| 2% VMBB Bond for an engineering study for stormwater separation with principal payments of \$10,500 beginning in June 2017 through March 2036 | 3,212,124 | 1,804,648 | - | 5,016,772 |
| <u>Water Fund</u> | | | | |
| 2.75% 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 2020. | 2,250,000 | - | 450,000 | 1,800,000 |
| 4.33% VMBB Capital Bond with annual principal Payments of \$95,000 plus variable interest semi-annual payments maturing December 2022. | 760,000 | - | 95,000 | 665,000 |
| 3.0% VMBB Water Roof Repair Bond with annual principal and interest payments of \$115,546, maturing December 2032 | <u>1,589,169</u> | <u>-</u> | <u>67,872</u> | <u>1,521,297</u> |
| Total business-type long-term debt | \$ <u>12,084,501</u> | \$ <u>1,804,648</u> | \$ <u>1,023,020</u> | \$ <u>12,866,129</u> |
| Total long-term debt | | | | \$ 16,059,040 |
| Less current portion | | | | <u>(1,482,987)</u> |
| Long-term portion | | | | \$ <u>14,576,053</u> |

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

Note IV. Detailed notes on all funds (continued)

J. Long-Term Debt (continued)

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 | \$ 1,552,894 | \$ 394,625 | \$ 1,947,519 |
| 2018 | 1,555,403 | 364,075 | 1,919,478 |
| 2019 | 1,557,982 | 317,297 | 1,875,279 |
| 2020 | 1,560,634 | 269,380 | 1,830,014 |
| 2021 | 963,362 | 343,696 | 1,307,058 |
| 2022-2026 | 3,823,403 | 896,322 | 4,719,725 |
| 2027-2031 | 2,986,677 | 546,192 | 3,532,869 |
| 2032-2036 | 1,492,015 | 236,211 | 1,728,226 |
| 2037-2041 | 333,330 | 62,315 | 395,645 |
| 2042-2046 | <u>233,340</u> | <u>18,333</u> | <u>25,673</u> |
| Total | <u>\$16,059,040</u> | <u>\$ 3,448,446</u> | <u>\$19,507,486</u> |

During 2016 long-term debt interest expense was \$ 596,950.

K. Fund Balances Designated for Specific Purposes

At June 30, 2016 the City's General Fund surplus balance were for the following purposes:

| <u>Designated for specific purposes:</u> | | <u>General Fund</u> |
|--|--|---------------------|
| Restricted | 2008 Whistle Repair Donations | \$ 438 |
| | Rail Car | 2,438 |
| | Lister Education | 3,881 |
| | Reappraisal | 564,394 |
| | Drug Forfeiture | 135,129 |
| | Community Policing | 3,304 |
| | Drug Homeland Security grant | 30,000 |
| | Police honor guard | 250 |
| | SBA award to Start a day program | 14,435 |
| | Creek Path | 18,642 |
| | Giorgetti Arena | 11,000 |
| | 62 Cleveland Avenue | 10,000 |
| | SIU Grant | 2,814 |
| Committed | Home Depot | 40,717 |
| | City Website | 2,753 |
| | Strongs Avenue improvements | 175,000 |
| | Business Incentive Revolving Loan Fund | 50,443 |

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note IV. Detailed notes on all funds (continued)

K. Fund Balances Designated for Specific Purposes (continued)

| | | |
|-------------------------------|-----------------|---------------------|
| Assigned | Home Depot | 15 |
| | Police Imprest | 15,517 |
| | Taxpayer relief | 350,000 |
| | Bridge Fund | 32,702 |
| | Sidewalk Fund | <u>27,895</u> |
| Total designated fund balance | | \$ <u>1,491,767</u> |

At June 30, 2016 the City had assigned \$37,500 of the Water Fund balance as a set aside for the future purchase of Pierpoint property from the State of Vermont.

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 responsible for collection of these taxes which are remitted to the other governments as required by law. The amount of taxes collected and remitted to the Rutland School District, Rutland County, and the Rutland Redevelopment Authority for the year ended June 30, 2016 was \$15,397,146, \$73,571 and \$280,025, respectively.

M. Deferred Revenue

The City collects recreational fees 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. 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, 2016 is \$90,382.

Note V. Other information

A. Commitments and Contingencies

1. Risk Management: The City is exposed to various risks related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains insurance coverage through the Vermont League of Cities and Towns Property and Casualty Intermunicipal Fund covering each of those risks. Management believes such coverage is sufficient to protect the City against loss. Settled claims have not exceeded this

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note V. Other information (continued)

A. Commitments and Contingencies (continued)

coverage in any of the past three fiscal years. The City may withdraw from this Fund by giving a sixty-day notice. Fund underwriting and rates are subject to an assessment in the event of deficiencies. If the assets of the Fund are exhausted, members are responsible for the Fund's liabilities. The City believes no such deficiency exists at June 30, 2016 and does not expect a future deficiency. 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 union contracts with the police, fire, and public works department employees. Of these contracts, the police department's union contract is in force through June 30, 2016 and during June 2016 the City entered into a new union contract effective July 01, 2016 through June 30, 2018; the firefighters union contract was renewed through June 30, 2017, and the public works department union contract was renewed through June 30, 2016.

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 2017.

B. Pensions

City employees participate in one of two pension plans, the City Defined Benefit Pension Plan or the Vermont Municipal Employees' Retirement System (VMERS).

1. 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 employee groups to contribute a percentage of annual salary identified in union contracts or as required by Board action for non-union employees. The City's required contribution is determined by the City's actuary and the City's actual contributions are limited by City Charter not to exceed .06 cents per dollar of the grand list, unless otherwise approved by the voters. The Retirement Plan is administered by Prudential Financial. The Retirement Plan does

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note V. Other information (continued)

B. Pensions (continued)

1. Defined Benefit Pension Plan (continued)

not issue separate financial reports. Assets are held separately and may be used only for the payment of benefits. Plan provisions are established or amended by the City's Pension Board. The Pension Board is composed of the City of Rutland Treasurer as the Pension Board Commissioner; five members of the City's Board of Aldermen and five members of the Rutland Board of School Commissioners.

Executive Summary of Defined Benefit Pension Plan

| | |
|---|------------------|
| Actuarial Valuation Date | January 01, 2016 |
| Measurement Date of the Net Pension Liability | June 30, 2016 |

Membership

| | |
|-------------------------------|--------------|
| Active members | 568 |
| Retirees and beneficiaries | 386 |
| Inactive, non-retired members | <u>167</u> |
| Total | <u>1,121</u> |

Net Pension Liability

| | |
|---|----------------------|
| Total pension liability | \$ 116,786,067 |
| Plan Fiduciary Net Position | <u>75,204,215</u> |
| Net Pension Liability/(Asset) | \$ <u>41,581,852</u> |
| Plan Fiduciary Net Position as a percentage of Total Pension Liability | 64.39% |
| Net Pension Liability as a percentage of Covered Payroll | 147.90% |

Pension Expense/(Income) Under GASB-68

| | |
|---|---------------------|
| Service Cost | \$ 2,380,555 |
| Interest | 8,448,525 |
| Current-Period Benefit Changes | (32,869) |
| Employee Contributions | (1,337,916) |
| Projected Earnings of Plan Investments | (5,635,977) |
| Recognition of Outflow Due to Liabilities | 44,605 |
| Recognition of Outflow Due to Assets | <u>1,552,559</u> |
| Total Pension Expense/(Income) | \$ <u>5,330,272</u> |

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note V. Other information (continued)

B. Pensions (continued)

1. Defined Benefit Pension Plan (continued)

Schedule of Changes in Net Pension Liability and Related Ratios

| <u>Total Pension Liability</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-----------------------|-----------------------|-----------------------|
| Service Cost | \$ 2,380,555 | \$ 2,310,233 | \$ 2,287,734 |
| Interest on total pension liability | 8,448,525 | 8,062,479 | 7,736,128 |
| Changes in benefit terms | (32,869) | (564,080) | - |
| Difference between actual and expected experience | (1,192,223) | 649,784 | (752,902) |
| Benefit payments | (5,694,224) | (5,116,791) | (4,794,328) |
| Net change in pension liability | 3,909,764 | <u>5,341,625</u> | <u>4,476,632</u> |
| Total pension liability, beginning of year | <u>112,876,303</u> | <u>107,534,678</u> | <u>103,058,046</u> |
| Total pension liability, end of year | <u>\$ 116,786,067</u> | <u>\$ 112,876,303</u> | <u>\$ 107,534,678</u> |

Schedule of Contributions

| FY | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency/ (Excess) | Covered Valuation Payroll | Actual Contribution as a % of Covered Valuation Payroll |
|--------|-------------------------------------|---------------------|-----------------------------------|---------------------------|---|
| Ending | | | | | |
| 2006 | 2,899,920 | 1,501,784 | 1,398,136 | N/A | N/A |
| 2007 | 3,609,894 | 1,690,335 | 1,919,559 | 24,161,415 | 7.00% |
| 2008 | 4,048,303 | 1,877,860 | 2,170,443 | 25,641,832 | 7.32% |
| 2009 | 5,388,980 | 2,039,388 | 3,349,592 | 26,389,650 | 7.73% |
| 2010 | 5,125,675 | 2,249,457 | 2,876,218 | 26,914,829 | 8.36% |
| 2011 | 3,842,585 | 2,498,651 | 1,343,934 | 27,594,551 | 9.05% |
| 2012 | 3,775,872 | 2,559,636 | 1,216,236 | 27,838,575 | 9.19% |
| 2013 | 3,799,091 | 2,622,349 | 1,176,742 | 28,416,600 | 9.23% |
| 2014 | 3,878,478 | 2,649,918 | 1,228,561 | 28,733,550 | 9.22% |
| 2015 | 3,921,797 | 2,746,100 | 1,175,697 | 29,597,118 | 9.28% |
| 2016 | 3,818,682 | 2,880,653 | 938,029 | 28,114,946 | 10.25% |

Vesting of employee contributions in the Plan is full and immediate. Vesting of 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

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note V. Other information (continued)

B. Pensions (continued)

1. Defined Benefit Pension Plan (continued)

the last ten years of employment. The minimum annual pension is \$1,350 for employees with at least fifteen years of service, and \$2,025 for employees with at least twenty one years of service.

Participating City employees contributed \$389,731 to the Plan in the fiscal year ended June 30, 2016. Employer contributions for the City’s employees for the year ended June 30, 2016 was \$707,816. Payroll for pension-plan covered employees for the year ended June 30, 2016 was \$6,568,469. The City’s total payroll was \$10,496,595.

According to the employee union contracts, the following represents contribution as a percentage of payroll to the City’s retirement system:

| | | <u>Employee</u> | <u>Employer</u> |
|---|---------|-----------------|-----------------|
| Department of Public Works contributions: | FY 2016 | 5.30% | 9.6% |
| | FY 2017 | 5.50% | 10.10% |
| | FY 2018 | 5.7% | 10.60% |
| | FY 2019 | 5.9% | 11.1% |
| Fire Department contributions: | FY 2016 | 7.98% | 10.520% |
| | FY 2017 | 8.35% | 10.89% |
| Police union contributions: | FY 2016 | 6.32% | 10.64% |
| | FY 2017 | 6.7% | 11.28% |
| | FY 2018 | 7.08% | 11.92% |
| General City employee contributions: | FY 2016 | 4.70% | 8.40% |
| | FY 2017 | 4.70% | 8.40% |
| | FY 2018 | 5.40% | 10.10% |

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

| | |
|---|---------------------------------------|
| Valuation date | January 01, 2016 |
| Measurement date | June 30, 2016 |
| Actuarial cost method – total pension liability | Entry Age Normal Level percent of pay |
| Actuarial cost method – Funding progress | Project Unit Cost |
| Asset Valuation method | Market value of assets |
| Interest rate | 7.5% |
| Amortization method | Level dollar |
| Remaining amortization period | 30 years as of valuation date |
| Projected Salary increases | 4.0% |
| Inflation rate | N/A |

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

Note V. Other information (continued)

B. Pensions (continued)

1. Defined Benefit Pension Plan (continued)

Development of Single Discount Rate

| | |
|-----------------------------------|------|
| Long-term expected rate of return | 7.5% |
| Long-term municipal bond rate | N/A |
| Resulting discount rate | 7.5% |

The City's proportionate share of June 30, 2016 deferred outflows/inflows to be recognized in future pension expense:

| | | |
|----------|------------|---------------------|
| June 30, | 2017 | \$ 820,533 |
| | 2018 | 820,533 |
| | 2019 | 820,533 |
| | 2020 | 508,710 |
| | 2021 | (12,793) |
| | Thereafter | <u>(146,026)</u> |
| | Total | \$ <u>2,811,490</u> |

2. Vermont Municipal Employees' Retirement System

Information Required Under GASB Statement No. 68

Government Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions* requires employers participating in a cost-sharing, multiple-employer defined benefit pension plan to recognize their proportional share of total pension liability, deferred outflows of resource, deferred inflows of resources, and pension expense. These financial statements reflect implementation of GASB Statement No. 68.

Plan Description

The Vermont Municipal Employees' Retirement System is a cost-sharing, multiple-employer defined benefit pension plan that is administered by the State Treasurer and its Board of Trustees. It is designed for municipal employees that work on a regular basis and also includes employees of museums and libraries, if at least half of that institution's operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or any time thereafter. Any employee hired subsequent to the effective participating date of their employer who meets the minimum hour requirements is required to join the system. During the year ended June 30, 2016, the

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

Note V. Other information (continued)

B. Pensions (continued)

2. Vermont Municipal Employees' Retirement System (continued)

retirement system consisted of 437 participating employers. Employees are eligible to participate in the Vermont Municipal Employees Retirement System (VMERS) providing they work more than 24 hours a week for the year and for not less than a total of 1,040 hours. There are four levels of contributions and benefits in the System called Group A, Group B, Group C, and Group D.

The City participates in Groups B and C. Normal retirement for Group B members is the earlier of age 62 and 5 years of service or age 55 with 35 years of service. Normal retirement for Group C members is age 55 with 5 years of service.

The Defined Benefit Plan of VMERS is an actuarial reserved, joint-contributory program. Both the City and participating employees make contributions based on gross wages at the following percentages:

| | | <u>Employer Contributions</u> | <u>Employee Contributions</u> |
|---------|---------|-----------------------------------|-----------------------------------|
| Group B | FY 2016 | 5.50% | 4.875% |
| | FY 2017 | 5.50% | 4.875% |
| Group C | FY 2016 | 7.125% | 9.875% |
| | FY 2017 | 7.25% | 10,00% |

As of fiscal year 2016, all new qualifying City employees participate in VMERS. Total payroll for VMERS participating employees for the year was \$2,711,463; total employee withholding contributions were \$235,551 and total City contributions were \$183,596. Additional information and ten-year historical trend information can be obtained from the separately issued State of Vermont's Comprehensive Annual Financial Report.

C. Post-Employment Obligations Other Than Pensions (OPEB)

Plan Description

The City offers other post-employment benefits to qualified retirees for health, dental, vision, and life insurance 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 the annual required contribution (ARC). The City does not 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

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

Note V. Other information (continued)

C. Annual Other Post-Employment Obligations (OPEB) (continued)

Plan Description (continued)

As of June 30, 2016, the last measurement date, there were 261 covered participants; 111 members are retirees (or their spouses) receiving benefits and 150 members are active participants.

Actuarial Assumptions

Actuarial assumptions of a plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The following set forth the significant actuarial assumptions used in this valuation:

Actuarial Methods and Assumptions

| | |
|--------------------------|---|
| Actuarial Valuation Date | July 1, 2014 |
| Actuarial cost method | Projected unit credit cost |
| Amortization method | Single equivalent amortized over 30 years |
| Annual Discount Rate | 3.50% |
| HRA Utilization Rate | 90% of the allowable maximum |
| Rate of inflation | 2.7% |

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, 2016 were as follows:

| | <u>06/30/2014</u> | <u>06/30/2015</u> | <u>06/30/2016</u> |
|-----------------------------------|---------------------|---------------------|---------------------|
| Annual Required Contribution | \$ 749,953 | \$ 672,385 | \$ 559,854 |
| Contributions Made | (473,514) | (436,778) | (408,138) |
| Adjustments to the Annual | | | |
| Required Contribution | (73,818) | (77,744) | (80,800) |
| Net Change in Net OPEB Liability | <u>202,621</u> | <u>157,863</u> | <u>70,916</u> |
| OPEB liability, beginning of year | <u>3,810,702</u> | <u>4,013,323</u> | <u>4,171,186</u> |
| OPEB liability, end of the year | \$ <u>4,013,323</u> | \$ <u>4,171,186</u> | \$ <u>4,242,102</u> |

Funded Status and Funding Progress

As of June 30, 2016, the plan was 0% funded. The actuarial accrued liability was \$6,172,219 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability

CITY OF RUTLAND, VERMONT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

Note V. Other information (continued)

C. Annual Other Post-Employment Obligations (OPEB) (continued)

Funded Status and Funding Progress (continued)

(UAAL) of \$6,172,219. For FY 2016, covered payroll, annual payroll of employees covered for OPEB purposes, was \$9,715,192, and the ratio of the unfunded liability to covered payroll is 63.53%. Amounts of funded status and required contributions are subject to revisions as actual results are compared to actual activity. The schedule of funding progress, presents trend information to show whether actual values are increasing or decreasing over time.

The City offered a high-deductible health-care plan combined with a flexible spending plan for all its employees during the fiscal year ended June 30, 2016.

D. Related Party Transactions

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

E. Prior Period Adjustment

The fund financial statements include the City’s recognition of prior period adjustments as follows:

| <u>Fund</u> | <u>Description</u> | |
|------------------|-----------------------------------|----------|
| CSO Sinking Fund | Prior year expenditures corrected | \$ 2,090 |

The Government-wide include a prior period adjustment as follows:

| | |
|---|-----------|
| Recognition of City’s Retirement System deferred outflows | 2,878,350 |
|---|-----------|

F. Business Incentive and Assistance Program

During fiscal year 2016, the City approved creating a Business Incentive & Assistance Program Fund in collaboration with the Heritage Federal Credit Union. The Fund is to be initially funded with \$50,000 from the Zamias Fund and matched by \$150,000 from the Heritage Credit Union. Further the Board approved that 50% of Solar Farm revenues would be transferred to the Business Incentive & Assistance Program Fund with the remaining Solar Farm revenue to go toward taxpayer relief from year two through year five. Subsequent to authorization, the Board approved management of this fund by the Rutland Redevelopment Authority, a discretely-presented component unit of the City of Rutland. This loan and activity is included in the Rutland Redevelopment Authority’s separate financial statements.

CITY OF RUTLAND, VERMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note V. Other information (continued)

G. Subsequent Events

During July 2016, the City approved a new union contract for the public works department effective July 01, 2016 through June 30, 2019.

During July 2016, the City borrowed \$2,500,000 for a pool construction bond from the Vermont Bond bank at 2.73% for 20 years.

During August 2016, the City borrowed \$1,300,000 as an Environment Protection Agency bond for water main replacement at 0.00% for 30years.

During August 2016, the City borrowed \$251,022 as in Environment Protection Agency bond for a feasibility study for CSO overflow model at 0.00% for 10 years.

Events occurring after June 30, 2016, have been evaluated for possible adjustment to the financial statements or disclosures through January 21, 2017 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, 2016

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|-------------------|-------------------|--|
| Revenues | | | |
| Taxes - general | \$ 15,698,336 | \$ 15,233,577 | \$ (464,759) |
| Delinquent tax, penalties, and interest | 196,344 | 189,856 | (6,488) |
| Fines and forfeitures | 169,525 | 224,011 | 54,486 |
| Rooms and meals tax | 482,939 | 500,858 | 17,919 |
| PILOT | 507,284 | 581,550 | 74,266 |
| Licenses and permits | 222,215 | 193,914 | (28,301) |
| Federal grants | - | 766,721 | 766,721 |
| State grants | 256,836 | 432,784 | 175,948 |
| Charges for services | 674,346 | 574,100 | (100,246) |
| Investment earnings | 49,119 | 20,558 | (28,561) |
| Rental income | 45,975 | 76,356 | 30,381 |
| Donations | - | 26,497 | 26,497 |
| Tax Sale | 54,600 | 59,433 | 4,833 |
| Miscellaneous | 39,576 | 122,349 | 82,773 |
| Total revenues | <u>18,397,095</u> | <u>19,002,564</u> | <u>605,469</u> |
| Expenditures | | | |
| Executive | 222,054 | 226,294 | (4,240) |
| Legislative | 26,901 | 38,495 | (11,594) |
| City Clerk | 404,990 | 398,914 | 6,076 |
| City Treasurer | 590,013 | 576,497 | 13,516 |
| City Attorney | 163,765 | 163,169 | 596 |
| City Assessor | 188,450 | 121,050 | 67,400 |
| Building and zoning | 400,217 | 306,423 | 93,794 |
| Libraries | 705,768 | 705,768 | - |
| Police department | 5,499,636 | 5,428,157 | 71,479 |
| Fire department | 3,467,814 | 3,224,759 | 243,055 |
| Highways | 2,313,501 | 2,116,715 | 196,786 |
| Street lighting | 307,500 | 403,910 | (96,410) |
| Catch basins | 75,102 | 22,799 | 52,303 |

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, 2016

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|---|--------------------|---------------------|--|
| (continued) | | | |
| Community development | 210,600 | 352,858 | (142,258) |
| Recreation administration | 516,990 | 501,394 | 15,596 |
| DPW administration | 941,024 | 943,145 | (2,121) |
| Elections | 14,163 | 9,654 | 4,509 |
| Government buildings | 712,338 | 329,850 | 382,488 |
| Operations | 19,000 | 21,831 | (2,831) |
| General recreation | 1,061,931 | 989,042 | 72,889 |
| Giorgetti Park | 154,818 | 114,474 | 40,344 |
| Godnick Center | 18,102 | 13,233 | 4,869 |
| White Playground | 17,214 | 12,027 | 5,187 |
| Vehicle maintenance | 585,657 | 491,695 | 93,962 |
| Miscellaneous expense | 335,991 | 1,020,081 | (684,090) |
| Appropriations | 268,870 | 268,920 | (50) |
| Tax sale expenses | | 56,716 | |
| Debt service | 371,067 | 567,464 | (196,397) |
| Total expenditures | <u>19,593,476</u> | <u>19,425,334</u> | <u>168,142</u> |
| Excess of revenues over (under) expenditures | <u>(1,196,381)</u> | <u>(422,770)</u> | <u>773,611</u> |
| Other financing sources (uses) | | | |
| Transfers in (out) | <u>1,175,079</u> | <u>1,284,393</u> | <u>109,314</u> |
| Total other financing sources (uses) | <u>1,175,079</u> | <u>1,284,393</u> | <u>109,314</u> |
| Net change in fund balance | <u>\$ (21,302)</u> | <u>861,623</u> | <u>\$ 882,925</u> |
| Fund balance, June 30, 2015 | | <u>3,794,708</u> | |
| Fund balance, June 30, 2016 | | <u>\$ 4,656,331</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, 2016

Special Revenue Funds

| | Equipment Replacement Fund | Field Maintenance Fund | Capital Improvement Fund | Fire Equipment Fund | Zamias Impact Fund | Water/Sewer Vehicle Fund | White's Pool Fund | Giorgetti Fund |
|--|----------------------------------|------------------------------|--------------------------------|---------------------------|--------------------------|--------------------------------|-------------------------|---------------------|
| ASSETS | | | | | | | | |
| Cash | \$ 121,547 | \$ 12,141 | \$ 116,084 | \$ 52,988 | \$ 365,533 | \$ 66,660 | \$ 5,269 | \$ 162,218 |
| Other receivables | - | - | - | 8,500 | - | - | - | - |
| Investments | - | - | - | 450,286 | 250,159 | - | - | 925,215 |
| Due from other funds | 30,000 | 90 | 16,250 | 25,000 | - | 10,000 | - | - |
| Total assets | <u>151,547</u> | <u>12,231</u> | <u>132,334</u> | <u>536,774</u> | <u>615,692</u> | <u>76,660</u> | <u>5,269</u> | <u>1,087,433</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | | |
| Liabilities | | | | | | | | |
| Accounts payable | - | - | 9,000 | - | - | - | - | 2,200 |
| Due to other funds | - | - | - | - | 89,326 | - | 143,815 | - |
| Total liabilities | <u>-</u> | <u>-</u> | <u>9,000</u> | <u>-</u> | <u>89,326</u> | <u>-</u> | <u>143,815</u> | <u>2,200</u> |
| Fund balances | | | | | | | | |
| Committed | <u>151,547</u> | <u>12,231</u> | <u>123,334</u> | <u>536,774</u> | <u>526,366</u> | <u>76,660</u> | <u>(138,546)</u> | <u>1,085,233</u> |
| Total fund balances | <u>151,547</u> | <u>12,231</u> | <u>123,334</u> | <u>536,774</u> | <u>526,366</u> | <u>76,660</u> | <u>(138,546)</u> | <u>1,085,233</u> |
| Total liabilities and fund balances | <u>\$ 151,547</u> | <u>\$ 12,231</u> | <u>\$ 132,334</u> | <u>\$ 536,774</u> | <u>\$ 615,692</u> | <u>\$ 76,660</u> | <u>\$ 5,269</u> | <u>\$ 1,087,433</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, 2016

| | Special Revenue Funds | | | | Permanent Funds | | | Non-Major Govt Funds |
|--|---------------------------|-------------------|---------------------|------------------|---------------------------|----------------------------|---|----------------------|
| | Records Preservation Fund | CSO Sinking Fund | Bridge Fund | Sidewalk Fund | Water System Capital Fund | VCDP Notes Receivable Fund | Downtown Special Bus. Dist. Revolving Loan Fund | |
| (continued) | | | | | | | | |
| ASSETS | | | | | | | | |
| Cash | \$ 32,836 | \$ 209,100 | \$ 843,055 | \$ 22,124 | \$ 138 | \$ 148,574 | \$ 114,939 | \$ 2,273,206 |
| Other receivables | 62 | - | - | - | - | - | 874 | 9,436 |
| Investments | 60,038 | - | 250,159 | - | 1,118,068 | - | - | 3,053,925 |
| Due from other funds | 1,266 | 34,351 | - | - | 75,000 | - | 4,656 | 196,613 |
| Total assets | <u>94,202</u> | <u>243,451</u> | <u>1,093,214</u> | <u>22,124</u> | <u>1,193,206</u> | <u>148,574</u> | <u>120,469</u> | <u>5,533,180</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | | |
| Liabilities | | | | | | | | |
| Accounts payable | - | - | 53,497 | - | 37,623 | - | - | 102,320 |
| Due to other funds | - | - | 450,854 | - | - | - | - | 683,995 |
| Total liabilities | <u>-</u> | <u>-</u> | <u>504,351</u> | <u>-</u> | <u>37,623</u> | <u>-</u> | <u>-</u> | <u>786,315</u> |
| Fund balances | | | | | | | | |
| Committed | 94,202 | 243,451 | 588,863 | 22,124 | 1,155,583 | 148,574 | 120,469 | 4,746,865 |
| Total fund balances | <u>94,202</u> | <u>243,451</u> | <u>588,863</u> | <u>22,124</u> | <u>1,155,583</u> | <u>148,574</u> | <u>120,469</u> | <u>4,746,865</u> |
| Total liabilities and fund balances | <u>\$ 94,202</u> | <u>\$ 243,451</u> | <u>\$ 1,093,214</u> | <u>\$ 22,124</u> | <u>\$ 1,193,206</u> | <u>\$ 148,574</u> | <u>\$ 120,469</u> | <u>\$ 5,533,180</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, 2016

| | Special Revenue Funds | | | | | | | |
|---|----------------------------------|------------------------|---------------------------|-----------------------|--------------------------|------------------------------------|-------------------------|---------------------|
| | Equipment Replacement Fund | Field Maint Fund | Capital Improv Fund | Fire Equip Fund | Zamias Impact Fund | Water/ Sewer Vehicle Fund | White's Pool Fund | Giorgetti Fund |
| Revenues | | | | | | | | |
| Fees and charges for services | \$ - | \$ 5,389 | \$ 2,560 | \$ 68,500 | \$ 44,828 | \$ - | \$ - | \$ - |
| Sale of assets | 700 | - | - | - | - | - | - | - |
| Insurance proceeds | 1,000 | - | - | - | - | - | - | - |
| Investment earnings | 45 | 17 | 195 | 919 | 1,109 | 30 | 6 | 9,905 |
| Loan repayments | - | 0 | - | - | - | - | - | - |
| Loan proceeds | - | - | - | - | - | - | - | - |
| Total revenues | <u>1,745</u> | <u>5,406</u> | <u>2,755</u> | <u>69,419</u> | <u>45,937</u> | <u>30</u> | <u>6</u> | <u>9,905</u> |
| Expenditures | | | | | | | | |
| Loan disbursements | - | - | - | - | 50,000 | - | - | - |
| Operating expenses | 138,298 | 114,750 | - | - | - | - | 155,815 | 7,815 |
| Total expenditures | <u>138,298</u> | <u>114,750</u> | <u>-</u> | <u>-</u> | <u>50,000</u> | <u>-</u> | <u>155,815</u> | <u>7,815</u> |
| Excess (deficiency of revenues over (under) expenditures | <u>(136,553)</u> | <u>(109,344)</u> | <u>2,755</u> | <u>69,419</u> | <u>(4,063)</u> | <u>30</u> | <u>(155,809)</u> | <u>2,090</u> |
| Transfers in (out) | <u>85,899</u> | <u>-</u> | <u>(149,000)</u> | <u>40,000</u> | <u>(111,731)</u> | <u>40,000</u> | <u>-</u> | <u>-</u> |
| Total other financing sources | <u>85,899</u> | <u>-</u> | <u>(149,000)</u> | <u>40,000</u> | <u>(111,731)</u> | <u>40,000</u> | <u>-</u> | <u>-</u> |
| Net changes in fund balances | <u>(50,654)</u> | <u>(109,344)</u> | <u>(146,245)</u> | <u>109,419</u> | <u>(115,794)</u> | <u>40,030</u> | <u>(155,809)</u> | <u>2,090</u> |
| Fund balances, beginning, as stated | <u>202,201</u> | <u>121,575</u> | <u>269,579</u> | <u>427,355</u> | <u>642,160</u> | <u>36,630</u> | <u>17,263</u> | <u>1,083,143</u> |
| Prior period adjustment | - | - | - | - | - | - | - | - |
| Fund balances, beginning, restated | <u>202,201</u> | <u>121,575</u> | <u>269,579</u> | <u>427,355</u> | <u>642,160</u> | <u>36,630</u> | <u>17,263</u> | <u>1,083,143</u> |
| Fund balances, ending | <u>\$ 151,547</u> | <u>\$ 12,231</u> | <u>\$ 123,334</u> | <u>\$ 536,774</u> | <u>\$ 526,366</u> | <u>\$ 76,660</u> | <u>\$ (138,546)</u> | <u>\$ 1,085,233</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, 2016

| | Special Revenue Funds | | | | Permanent Funds | | | Total Non-Major Govt Funds |
|---|----------------------------|------------------------|-------------------|------------------|------------------------------------|-------------------------------------|--|----------------------------------|
| | Records Preserv Fund | CSO Sinking Fund | Bridge Fund | Sidewalk Fund | Water System Capital Fund | VCDP Notes Receivable Fund | Downtown Special Bus. Dist. Revolving Loan Fund | |
| (continued) | | | | | | | | |
| Revenues | | | | | | | | |
| Fees and charges for services | \$ 17,618 | \$ 1,400 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 140,295 |
| Sale of assets | - | - | - | - | - | - | - | 700 |
| Insurance proceeds | - | - | - | - | - | - | - | 1,000 |
| Investment earnings | 80 | 654 | 317 | 10 | 2,115 | 41 | 3,072 | 18,515 |
| Loan repayments | - | - | - | - | - | 479,673 | 32,421 | 512,094 |
| Loan proceeds | - | - | 1,000,000 | - | - | - | - | 1,000,000 |
| Total revenues | <u>17,698</u> | <u>2,054</u> | <u>1,000,317</u> | <u>10</u> | <u>2,115</u> | <u>479,714</u> | <u>35,493</u> | <u>1,672,604</u> |
| Expenditures | | | | | | | | |
| Loan disbursements | - | - | - | - | - | - | 30,000 | 80,000 |
| Operating expenses | 9,660 | - | 504,351 | - | - | 335,619 | - | 1,266,308 |
| Total expenditures | <u>9,660</u> | <u>-</u> | <u>504,351</u> | <u>-</u> | <u>-</u> | <u>335,619</u> | <u>30,000</u> | <u>1,346,308</u> |
| Excess (deficiency of revenues over (under) expenditures | <u>8,038</u> | <u>2,054</u> | <u>495,966</u> | <u>10</u> | <u>2,115</u> | <u>144,095</u> | <u>5,493</u> | <u>326,296</u> |
| Transfers in (out) | <u>-</u> | <u>(31,952)</u> | <u>(3,146)</u> | <u>5,562</u> | <u>202,815</u> | <u>-</u> | <u>-</u> | <u>78,447</u> |
| Total other financing sources (uses) | <u>-</u> | <u>(31,952)</u> | <u>(3,146)</u> | <u>5,562</u> | <u>202,815</u> | <u>-</u> | <u>-</u> | <u>78,447</u> |
| Net changes in fund balances | <u>8,038</u> | <u>(29,898)</u> | <u>492,820</u> | <u>5,572</u> | <u>204,930</u> | <u>144,095</u> | <u>5,493</u> | <u>404,743</u> |
| Fund balances, beginning, as stated | <u>86,164</u> | <u>271,259</u> | <u>96,043</u> | <u>16,552</u> | <u>950,653</u> | <u>4,479</u> | <u>114,976</u> | <u>4,340,032</u> |
| Prior period adjustment | <u>-</u> | <u>2,090</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,090</u> |
| Fund balances, beginning, restated | <u>86,164</u> | <u>273,349</u> | <u>96,043</u> | <u>16,552</u> | <u>950,653</u> | <u>4,479</u> | <u>114,976</u> | <u>4,342,122</u> |
| Fund balances, ending | <u>\$ 94,202</u> | <u>\$ 243,451</u> | <u>\$ 588,863</u> | <u>\$ 22,124</u> | <u>\$ 1,155,583</u> | <u>\$ 148,574</u> | <u>\$ 120,469</u> | <u>\$ 4,746,865</u> |

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

CITY OF RUTLAND, VERMONT
INTERNAL CONTROL REPORT
JUNE 30, 2016

Corrette & Associates, P.C.

CORRETTE & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

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

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

To the Board of Aldermen
City of Rutland
Rutland, Vermont

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information for the City of Rutland, Vermont, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Rutland, Vermont's basic financial statements, and have issued our report thereon dated January 21, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City of Rutland, Vermont in a separate letter dated January 21, 2017.

Purpose of this Report

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

Corrette & Associates, P.C.
St. Johnsbury, Vermont
January 21, 2017
Vermont License # 92-130

CITY OF RUTLAND
RUTLAND, VERMONT

AUDITORS' REPORT
IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2016

Corrette & Associates, P. C.

CITY OF RUTLAND, VERMONT

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CORRETTE & ASSOCIATES

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Alderman
City of Rutland
Rutland, Vermont

Report on Compliance for Each Major Federal Program

We have audited City of Rutland, Vermont's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of City of Rutland, Vermont's major federal programs for the year ended June 30, 2016. City of Rutland, Vermont's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Rutland, Vermont's major federal programs based on our 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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 for each major federal program. However, our audit does not provide a legal determination of City of Rutland, Vermont's compliance.

Opinion on Each of the Major Federal Programs

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 other major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the City of Rutland, Vermont is responsible for establishing and maintains effect internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Rutland, Vermont's internal control over compliance with the types of requirement 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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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 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 material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Corrette & Associates, P.C.

January 21, 2017

Saint Johnsbury, Vermont

Vermont license # 92-0130

CITY OF RUTLAND, VERMONT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

| <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 Cluster | IG-2012 | 14.228 | <u>556,059</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>556,059</u> |
| U.S. Dept of Justice – Direct Grants | | | |
| Bulletproof Vest Partnership | - | 16.607 | 1,268 |
| OVW FFY 15STOP | | 16.588 | 35,746 |
| Byrne – Assistance Grants Pgm | - | 16.738 | <u>17,562</u> |
| Total U.S. Department of Justice | | | <u>54,576</u> |
| U.S. Department of Transportation - passed through the Vermont Agency of Transportation: | | | |
| Highway Planning and Construction | - | 20.205 | 107,040 |
| U.S. Department of Transportation - passed through the State of Vermont Dept of Public Safety: | | | |
| State & Community Safety Program | 02140-1213-1214 | 20.600 | 35,562 |
| Offenders for DUI | - | 20.608 | 6,318 |
| National Highway Traffic Safety Administration | - | 20.608 | <u>8,360</u> 14,678 |
| Total U.S. Department of Transportation | | | <u>211,856</u> |
| U. S. Environmental Protection Agency – passed through the State of Vermont | | | |
| CWSRF/Drinking Water State Revolving Funds | 06140-RUT | 66.458 | <u>22,104</u> |
| Total U. S. Environment Protection Agency | | | <u>22,104</u> |

See accompanying notes to schedule of expenditures of federal awards

CITY OF RUTLAND, VERMONT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2016

| <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: Hazard Mitigation Grant | 02140-RUT | 93.039 | 1,050 |
| U.S. Department of Homeland Security - passed through VT Dept of Public Safety | - | 97.067 | <u>1,715</u> |
| Total U.S. Department of Homeland Security | | | <u>2,765</u> |
| Total expenditures of federal awards | | \$ | <u>792,784</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, 2016

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, 2016. 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, 2016 were:

| <u>Federal Agency/Department</u> | <u>Program</u> | <u>CFDA</u> |
|-----------------------------------|-----------------------------|-------------|
| U. S. Housing & Urban Development | Neighborhood Revitalization | 14.228 |
| U. S. Dept of Transportation | Hwy Planning & Construction | 20.205 |
| U. S. Dept of Justice | OVW FFY 15STOP | 16.588 |

CITY OF RUTLAND, VERMONT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED JUNE 30, 2016

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, 2016.

CITY OF RUTLAND, VERMONT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2016

A. Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Rutland, Vermont.
2. No significant deficiencies in internal controls were identified during the audit of the financial statements and none are reported in the *Report on Internal Control over Financial Reporting and On Compliance with Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards*.
3. We identified no instances of noncompliance material to the financial statements of the City of Rutland, Vermont, which would be required to be reported in accordance with *Government Auditing Standards*, disclosed during the audit.
4. We identified no deficiencies in internal control over major federal programs disclosed during the audit are reported in the *Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133*.
5. The auditors' report on compliance for the major federal programs of the City of Rutland, Vermont expresses an unqualified opinion on major federal programs.
6. Audit findings that are required to be reported in accordance with OMB Circular A-133 are reported in the accompanying schedule.
7. The programs tested as major programs are:

| | | |
|-----------------------------------|-----------------------------|--------|
| U. S. Housing & Urban Development | Neighborhood Revitalization | 14.228 |
| U. S. Dept of Transportation | Hwy Planning & Construction | 20.205 |
| U. S. Dept of Justice | OVW FFY 15STOP | 16.588 |
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
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, 2016

B. Findings – Financial Statement Audit

Material Weaknesses

None

Significant Deficiencies

None

C. Findings – Major Federal Award Program Audit

Material Weaknesses

None

D. Findings – Major Federal Award Program Audit

Significant deficiencies

None

CITY OF RUTLAND, VERMONT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

A. Financial statements audit – findings

None

B. Findings and Questioned Costs - Major Federal Award Programs

No prior year single audit