

CITY OF RUTLAND, VERMONT  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009

Corrette & Associates, P.C.

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# CORRETTE & ASSOCIATES

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## INDEPENDENT AUDITORS' REPORT

To the Board of Aldermen  
City of Rutland  
Rutland, Vermont

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rutland, Vermont as of and for the year ended June 30, 2009, which collectively comprise the City of Rutland's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rutland's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The City has not established a consistent basis of accounting for each accounting fund. The City has not fully implemented procedures to accurately authorize, record and report financial activity. Operating transfers between funds and interfund loans are not consistently authorized nor reported as required. Not all revenues and expenditures are accurately recorded by source and function. Controls have not been established over equity accounts to ensure inappropriate adjustments do not occur throughout the year nor has the City established controls over designated fund balances to allow for the use of designated or restricted balances when activity related to restrictions exists.

In our opinion, except for the matters discussed in the preceding paragraph, the financial statements referred to above present fairly in conformity with accounting principles generally accepted in the United States of America, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Rutland, Vermont as of June 30, 2009 or the changes in its financial position or cash flows for the year then ended.

In accordance with "Government Auditing Standards," we have also issued our report dated February 11, 2010, on our consideration of the City of Rutland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12, and the Budget and Actual – General Fund, on pages 49 through 50, Combining Balance Sheet – Non-Major Governmental Funds and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds, on pages 51 and 52, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Corrette & Associates, P.C.  
February 11, 2010  
State of Vermont  
License #092-0000130

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED JUNE 30, 2009**

Presented here is the Management Discussion & Analysis for the City of Rutland, Vermont for the fiscal year ending June 30, 2009. Responsibility for both the accuracy, 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 exceeded liabilities at June 30, 2009 by \$13,016,112, comprised of investment in capital assets, net related debt, and restricted funds.
- The City's total net assets decreased by \$12,649,247 from the prior year, before current year prior period adjustments. After current year prior period adjustments net assets decreased by \$12,100,327. This is due primarily to recognition of \$15,867,813 in unfunded accrued liability of Other Post Employment Benefits (OPEB) required by Government Accounting Standards Board (GASB) Statement Number 45.
- The proprietary funds total net assets decreased by \$2,707,950 due primarily to the OPEB recognition, increased operating expenses, and prior period adjustments.
- The City's General Fund fund balance increased by \$100,406. This is due to a resolution of historical interfund activity through a reduction of transfers in to the General Fund from the proprietary funds.
- The General Fund fund balance at year end is \$3,051,689, or 19% of General Fund revenues, and undesignated fund balance in the General Fund was \$2,593,498 or 16% of General Fund revenues.

### **Overview of the Financial Statements**

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

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

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

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

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

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

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

### ***Fund Financial Statements***

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

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

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

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

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

The City has 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**

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

	<b>2009 Total Primary Government</b>	<i>Restated</i> <b>2008 Total Primary Government</b>
Current and Other Assets:	\$ 9,090,295	\$ 7,751,087
Capital Assets	42,214,486	42,668,424
Other Assets	527,355	515,570
Total Assets	<u>51,832,136</u>	<u>50,935,081</u>
Current and Other Liabilities:		
Long-term bonds and capital leases payable	16,840,811	19,385,798
Compensated absences payable	3,105,432	2,468,516
Post retirement benefits payable (OPEB)	15,867,813	2,783,390
Other liabilities	3,001,968	1,180,938
Total Liabilities	<u>38,816,024</u>	<u>25,818,642</u>
Net Assets:		
Invested in capital assets, net of related debt	22,873,675	23,282,627
Restricted for specific purposes	985,546	2,869,115
Unrestricted	(10,843,109)	(1,035,303)
Total net assets	<u>13,016,112</u>	<u>25,116,439</u>

***Statement of Activities***

	<b>2009 Total Primary Government</b>	<i>Restated</i> <b>2008 Total Primary Government</b>
The Statement of Activities reports total operating expenses and change in net assets for the year ending:		
Program Revenues:		
Charges for services	8,821,508	8,576,426

Operating grants	1,313,435	1,322,403
Total Program Revenues	<u>10,134,943</u>	<u>9,898,829</u>
General Revenues:		
Property Tax assessments (Includes PILOT)	13,457,494	13,409,150
Rooms, Meals & Entertainment Tax	442,649	456,138
Judgments & fines	192,217	103,115
Interest and investment earnings	173,094	323,328
Sale of fixed assets, stock	14,153	5,551
Miscellaneous	188,182	339,950
Total general revenues	<u>14,467,789</u>	<u>14,637,232</u>
Total revenues	<u>24,602,732</u>	<u>24,536,061</u>
General Expenses:		
General government	14,981,022	3,829,507
Public safety	7,437,443	8,983,342
Highways & Streets	2,171,245	2,225,840
DPW Administration	727,369	869,634
Economic Development	481,341	747,026
General services	-	621,370
Culture & recreation	2,456,492	2,354,312
Debt Service	-	678,360
Total governmental activities:	<u>28,254,912</u>	<u>20,309,391</u>
Business - type activities	<u>8,997,067</u>	<u>5,254,081</u>
Total Primary Governmental activities	<u>37,251,979</u>	<u>25,563,472</u>
Change in net assets:		
Net assets - beginning of year	25,116,439	26,143,850
Prior period adjustment	548,920	
Net assets – beginning of year (restated)	25,665,359	
Net assets - end of year	<u>13,016,112</u>	<u>25,116,439</u>
Change in net assets:	<u>\$ (12,649,247)</u>	<u>\$ (1,027,411)</u>

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

Net assets decreased during the year ended June 30, 2009 by \$12,649,247, due primarily to first-time recognition of the unfunded accrued liability of \$15,867,813 for post-employment benefits other than pensions as required by GASB 45. Without this recognition, the City would have seen an increase in net assets of \$3,218,566.

At the end of the fiscal year, the City of Rutland is able to report positive balances in all categories of net assets, for the government as a whole, as well as its governmental and business-type activities.

The net assets 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 those assets to provide services to citizens;

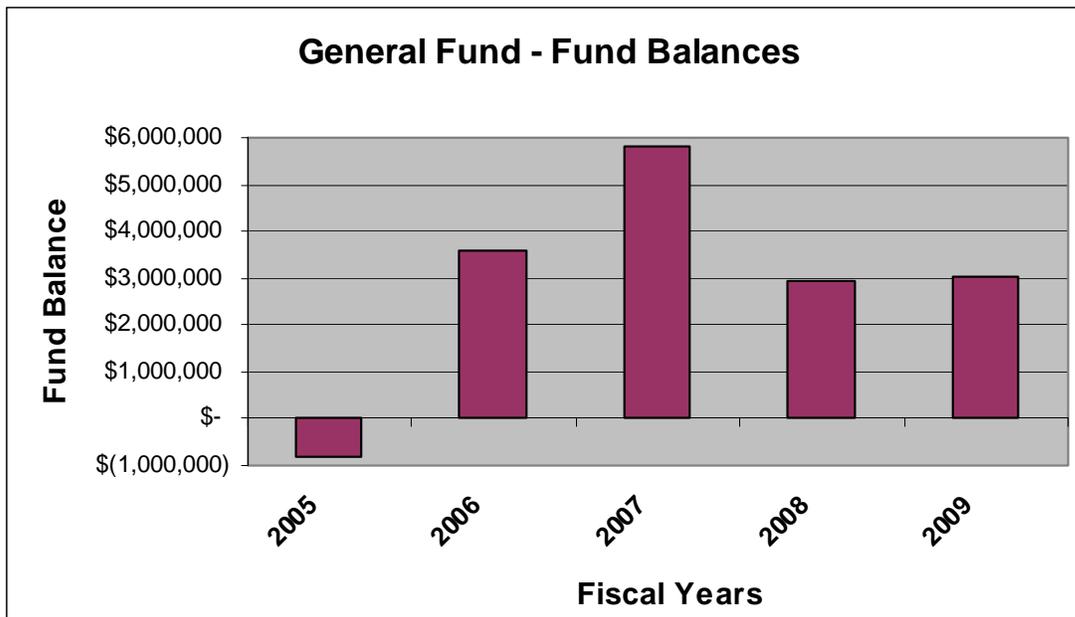
consequently they are not available for future spending. Although the City of Rutland’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to pay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

**Governmental Funds**

At June 30, 2009 the City of Rutland’s governmental funds reported a combined fund balance of \$5,195,242. 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 fourteen governmental funds. Of these only the General Fund is considered to be a major governmental fund.

***General Fund-Fund Balance***

The General Fund shows a fund balance of \$3,051,689, as of June 30, 2009. The fund balance as of June 30, 2008 is \$2,951,283. Therefore, the General Fund fund balance increased by \$100,406.



*Note: 2006 and 2007 General Fund fund balances were overstated due to unresolved interfund activity between the General Fund and the proprietary funds. Prior period adjustments in 2008 corrected this overstatement.*

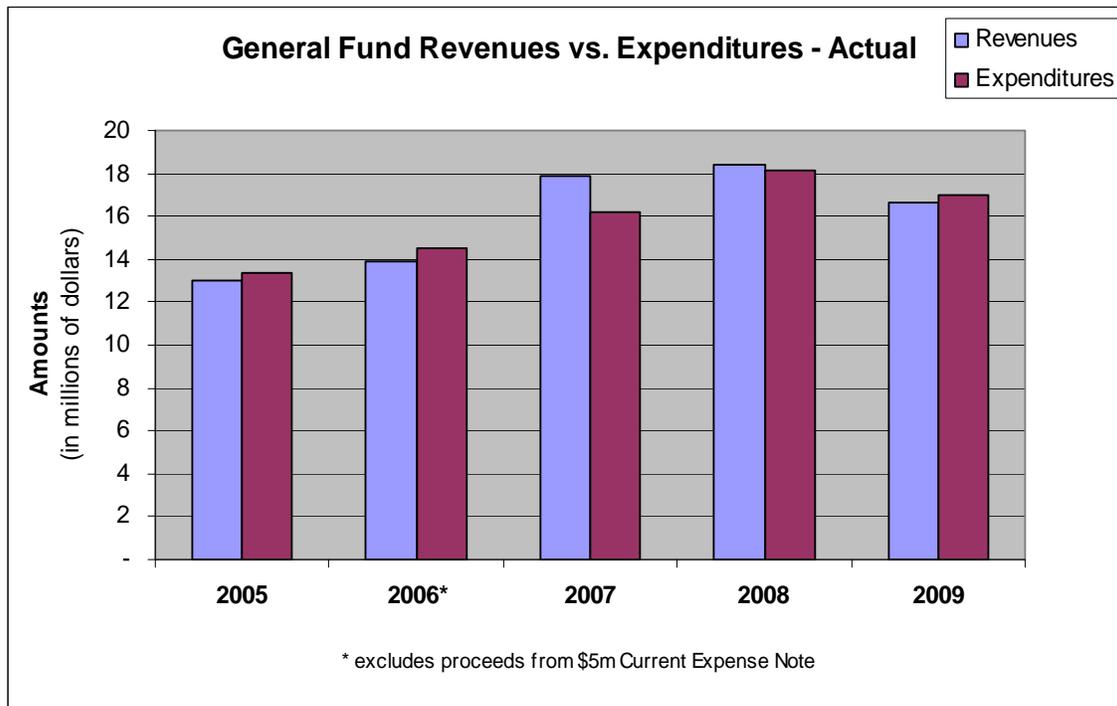
***General Fund Budget vs. Actual***

Actual revenues exceeded budgeted revenues by \$104,937, before transfers. Payments in lieu of taxes (PILOT), grant revenues, and delinquent tax penalties and interest were higher than expected. General tax revenues were lower than expected

to due delinquencies at yearend, errors and omissions and other adjustments affecting the grand list. Increases in grant revenue were consumed by increased expenditures in grant programs. As a result of late payments and strong collection efforts delinquent penalties and interest revenue exceeded budget by 288%. Fines and forfeitures exceeded budget by 147% due to increased traffic ticket revenue and collector's fees. Charges for current services and investment earnings were down due to general economic conditions.

Actual expenditures were lower than budgeted amounts by \$252,264. Certain City departments had significantly lower expenses than budgeted, including Attorney, Police, Fire, Winter Maintenance, Street lighting, and Vehicle Maintenance, due to mild winter weather and careful budgetary control, including overtime and other salary-related expenses. Some departments exceeded budget including: Treasurer's Office, due to unanticipated, one-time costs associated with the accounting system conversion, and Government Buildings, due to liability insurance cost increases. An unexpected expense of \$301,219 relating to pension fund contributions payable from 2006 caused the miscellaneous category to exceed budget. Increases in legislative expenses relate to tax abatement; management chooses to present abatements as an expense to avoid complications in reconciliation of the City's grand list due to complexities imposed by the statewide property tax system.

The General Fund shows a total excess of budgeted revenues over budgeted expenditures of \$357,201. Budgeted transfers were adjusted lower by the resolution of interfund activity in the amount of \$565,771.



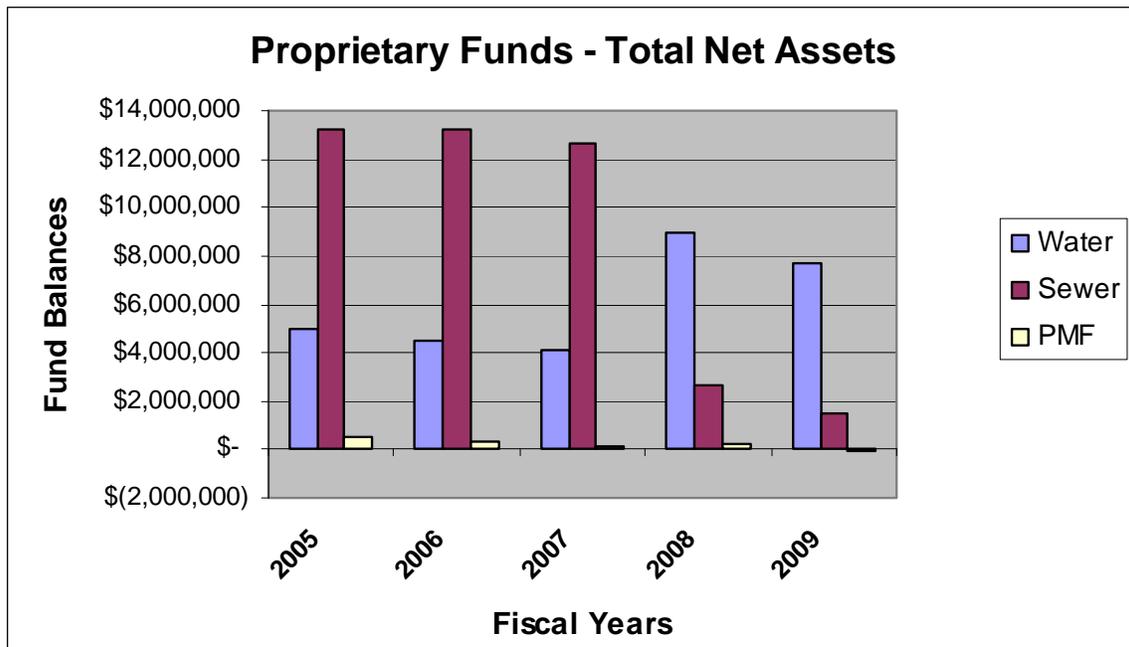
## Proprietary Funds

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

Overall the proprietary funds experienced a reduction in net assets of \$2,744,023 after the OPEB liability was recognized. The Water Fund experienced a reduction of \$1,207,869, the Sewage Disposal Fund experienced a reduction of \$1,238,500 and Parking Meter Fund experienced reduction of \$297,654 in net assets, respectively. Proprietary fund net assets were reduced by capital asset adjustments made in 2008 to comply with GASB-34 and the Water Fund was increased by recognition of the water plant roof repair construction.

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

The City presented a statement of cash flows for the proprietary funds at yearend which demonstrate that total cash at June 30, 2009 increased by \$431,268 for all funds combined. 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 management monthly since June 2009.



## **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 2009 totaling \$462,064 in Governmental activities and \$229,788 in Business-type activities. Accumulated depreciation in both areas exceeded additions.

## **Long-Term Obligations**

During FY 2009 the City had a reduction in bonds payable of \$1,210,891. Capital leases showed a decrease of \$85,039, no new leases were executed.

As of January 1, 2009 the City pension funded ratio fell to 69%. The deficiency of assets over unfunded actuarial accrued liability increased to \$21,863,424. The Board of Education (Rutland Public Schools) liability is \$12,248,546 and the City (municipal government, not school's) liability is \$9,614,878.

The OPEB unfunded actuarial accrued liability at June 30, 2009 was \$15,867,813 for City employees and retirees only.

## **Economic Factors, Rates and 2009 Budget**

The soft economic climate continued to affect revenues for most municipalities in the region, state and the nation. This had impacts on revenues and also on collections. The unemployment rate for the Rutland region was 6.0% in June 2008 and had risen to 10.1% by June 2009, according to the Vermont Department of Labor. Thereafter, the unemployment moderated to 8% for the remainder of 2009. The median year-round home price in Rutland County was \$154,000 in 2009, reflecting somewhat lower household incomes in the region compared to other areas, except northeastern Vermont.

Regional job losses had an impact on the ability of taxpayers and ratepayers to keep payments current. This led to increased collection efforts and outreach in the attempt to intervene before delinquencies became serious. These tactics included payment agreements, water/sewer shut offs, and tax sales for parcels that were seriously delinquent and for whom a payment arrangement was not feasible. Through these collection efforts the City was able to bring many accounts current, including payment by lenders on behalf of taxpayers and ratepayers to cure delinquencies. The overall delinquent tax amount as a percentage of annual tax revenue, at August 31:

	Delinquent Taxes	Expected tax revenue	% expected tax revenue
FY 2009	\$548,130	\$26,266,496	2.09%
FY 2008	\$504,434	\$25,599,040	2.05%

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

	Grand List, BOY	Grand List EOY	Expected Impact on tax revenue
FY 2009	10,031,847.71	10,014,686.95	(\$65,198)
FY 2008	10,042,451.88	10,006,583.24	(\$67,700)

Tax rates for FY 2009 increased for both education and municipal appropriations. The homestead education tax rate increased from \$1.1416 in FY 2008 to \$1.2458, an increase of 9.1%. The municipal rate increased from \$1.2567 to \$1.2811, an increase of 1.9%. The increases were driven by escalating healthcare costs, contractual cost of living increases, increased debt service, and increases to workers compensation and liability insurance costs.

Other financial notes of interest:

- During FY 2009 the City continued to pay litigation expenses relating to the water treatment plant roof failure. Costs to date totaled \$7,941,751 at June 30, 2009 including re-construction, short term interest and litigation expenses. Of this amount \$4,653,600 was financed with long term funding.
- The Fire Department union contract was negotiated in FY 2009, including a provision for employees, and retirees, to pay for a portion of healthcare premiums, which began mid- year. The Police Department employees remain the only employee group not yet contributing toward healthcare premiums at June 30.
- The City continues to experience employee attrition through retirements, which has helped contain expenses
- The City adhered to its operating budgetary goals with the exception of the unanticipated pension expense and the final resolution of the interfund activity.

**Comparative Analysis:**

Application of the OPEB liability dramatically changed total net assets and unrestricted net assets as reported for the primary government for June 30, 2009. If the OPEB liability were not applied in FY 2009, the City would have realized an increase in net assets of \$3,218,469, rather than a decrease of \$12,100,327. Net assets for the governmental activities would have increased by \$3,093,289 and business-type activities by \$674,100 over the prior fiscal year. Unrestricted net assets would have increased by \$6,059,910 rather than decreasing \$9,807,806. Thus, OPEB recognition significantly changes the availability of unrestricted assets for the City's use.

A cash flow statement is presented for the proprietary funds, providing a full set of financial statements and achieving compliance with GAAP.

The City made efforts to clarify functional activity across City departments that are more representative of actual activity that would allow more timely management decisions. These resulted in more accurate classification of expenses as seen in the Statement of Activities, compared to the previous year. General services and Debt service are no longer included for the 2009 statement of activities for this reason. This clarification was made possible by converting the accounting software and the implementation of a new chart of accounts that enable the City to sort data by fund, functional activity and department. Fiscal year 2009 was the first year on the new accounting system.

In general, the year ended June 30, 2009 will be less comparable to prior years due to several factors: full compliance with applicable GASB statements, compliance with GAAP regarding complete statement presentation, the cumulative impact of necessary prior period adjustments and restatements, and better classification of activity.

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

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

## FINANCIAL STATEMENTS

CITY OF RUTLAND, VERMONT  
STATEMENT OF NET ASSETS  
JUNE 30, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Rutland Redevelopment Authority
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and equivalents	\$ 4,824,610	\$ 567,471	\$ 5,392,081	\$ 12,313
Investments	326,788	-	326,788	-
Receivables	1,130,967	2,100,994	3,231,961	-
Inventories	14,394	58,991	73,385	-
Internal balances	224,381	(224,381)	-	-
Prepaid expenses	66,080	-	66,080	-
Total current assets	<u>6,587,220</u>	<u>2,503,075</u>	<u>9,090,295</u>	<u>12,313</u>
<b>Non-current Assets</b>				
Notes & mortgages	527,355	-	527,355	-
Capital assets not being depreciated				
Land	-	5,393,070	5,393,070	-
Capital assets, net of depreciation	14,005,455	22,815,961	36,821,416	-
Total non-current assets	<u>14,532,810</u>	<u>28,209,031</u>	<u>42,741,841</u>	<u>-</u>
Total assets	<u>21,120,030</u>	<u>30,712,106</u>	<u>51,832,136</u>	<u>12,313</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Liabilities</b>				
Accounts payable	315,204	58,325	373,529	13,282
Accrued expenses	15,017,388	3,955,857	18,973,245	-
Deferred revenue	128,439	-	128,439	-
Notes payable	-	2,500,000	2,500,000	-
Current portion of long-term debt	146,110	1,064,880	1,210,990	-
Total current liabilities	<u>15,607,141</u>	<u>7,579,062</u>	<u>23,186,203</u>	<u>13,282</u>
<b>Non-current Liabilities</b>				
Long-term debt	1,564,298	14,065,523	15,629,821	-
Total non-current liabilities	<u>1,564,298</u>	<u>14,065,523</u>	<u>15,629,821</u>	<u>-</u>
Total liabilities	<u>17,171,439</u>	<u>21,644,585</u>	<u>38,816,024</u>	<u>13,282</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	12,295,046	10,578,629	22,873,675	-
Restricted				
Notes & mortgages receivable	527,355	-	527,355	-
Specific purposes	458,191	-	458,191	-
Unrestricted	(9,332,001)	(1,511,108)	(10,843,109)	(969)
Total net assets	<u>\$ 3,948,591</u>	<u>\$ 9,067,521</u>	<u>\$ 13,016,112</u>	<u>\$ (969)</u>

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



CITY OF RUTLAND, VERMONT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2009

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,084,957	\$ 1,739,653	\$ 4,824,610
Investments	-	326,788	326,788
Receivables	486,744	-	486,744
Prepaid expenses	66,080	-	66,080
Inventory	9,894	4,500	14,394
Due from other funds	144,730	92,385	237,115
Total assets	<u>3,792,405</u>	<u>2,163,326</u>	<u>5,955,731</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	308,297	6,907	315,204
Accrued expenditures	303,980	132	304,112
Deferred revenue	128,439	-	128,439
Due to other funds	-	12,734	12,734
Total liabilities	<u>740,716</u>	<u>19,773</u>	<u>760,489</u>
<b>Fund Balance</b>			
Unreserved			
Designated for specific purposes	458,191	-	458,191
Undesignated	2,593,498	2,143,553	4,737,051
Total fund balances	<u>3,051,689</u>	<u>2,143,553</u>	<u>5,195,242</u>
Total liabilities and fund balances	<u>\$ 3,792,405</u>	<u>\$ 2,163,326</u>	<u>\$ 5,955,731</u>

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

CITY OF RUTLAND, VERMONT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2009

Total Fund Balances - Governmental Funds	<u>\$ 5,195,242</u>
Capital assets in governmental activities are not financial resources and therefore are not reported in the governmental fund financial statements.	49,427,905
Accumulated depreciation has not been included in the governmental fund financial statements.	(35,422,450)
Accrued liabilities represents non-current activity and are not reported in the governmental funds, however, are included in the Statement of Net Assets.	(14,713,276)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(1,710,408)
Other long-term assets, such as notes and property taxes receivables, are not available to pay for current period expenditure and, therefore, are not included in the funds.	<u>1,171,578</u>
Net Assets of Governmental Activities	<u><u>\$ 3,948,591</u></u>

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

CITY OF RUTLAND, VERMONT  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes - general	\$ 12,019,478	\$ -	\$ 12,019,478
Delinquent tax, penalties and interest	342,047	-	342,047
Fines & forfeitures	315,713	-	315,713
Rooms & meals tax	442,649	-	442,649
PILOT	567,771	-	567,771
Licenses & permits	95,357	-	95,357
Federal grants	261,852	5,324	267,176
State grants	705,013	2,850	707,863
Charges for services	1,016,932	274,078	1,291,010
Investment earnings	47,385	9,682	57,067
Tax sale	15,073	-	15,073
Rental income	68,805	-	68,805
Donations	-	349,303	349,303
Employee reimbursements	8,030	-	8,030
Miscellaneous	142,680	175	142,855
<b>Total revenues</b>	<b>16,048,785</b>	<b>641,412</b>	<b>16,690,197</b>
<b>Expenditures</b>			
Executive	103,036	-	103,036
Legislative	59,850	-	59,850
City Clerk	322,529	-	322,529
City Treasurer	727,888	-	727,888
City Attorney	167,470	-	167,470
City Assessor	149,529	-	149,529
Building and Zoning	219,134	-	219,134
Libraries	602,353	-	602,353
Police department	4,483,624	-	4,483,624
Fire department	2,673,324	-	2,673,324
Highways	1,113,430	-	1,113,430
Winter maintenance	379,222	-	379,222
Street lighting	245,817	-	245,817
Traffic control	88,406	-	88,406

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, 2009

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Catch basins	6,796	-	6,796
Community development	373,450	-	373,450
Dana Center	891,308	-	891,308
DPW administration	675,553	-	675,553
Elections	30,360	-	30,360
Government buildings	599,935	-	599,935
Recreation Department maintenance	464,287	-	464,287
Operations	16,001	293,952	309,953
Giorgetti Park	197,797	-	197,797
Godnick Center	154,153	-	154,153
White Playground	75,984	-	75,984
Vehicle maintenance	373,067	-	373,067
Miscellaneous expense	670,429	-	670,429
Contingency	77,728	-	77,728
Appropriations	312,006	-	312,006
Pension expense	510,000	-	510,000
Debt service	244,605	-	244,605
Total expenditures	<u>17,009,071</u>	<u>293,952</u>	<u>17,303,023</u>
Excess of revenues over (under) expenditures	<u>(960,286)</u>	<u>347,460</u>	<u>(612,826)</u>
Other financing sources (uses)			
Transfers in (out)	<u>625,463</u>	<u>378,019</u>	<u>1,003,482</u>
Total other financing sources (uses)	<u>625,463</u>	<u>378,019</u>	<u>1,003,482</u>
Net change in fund balances	<u>(334,823)</u>	<u>725,479</u>	<u>390,656</u>
Fund balances, June 30, 2008, as stated	<u>2,951,283</u>	<u>1,340,456</u>	<u>4,291,739</u>
Prior period adjustment	435,229	77,618	512,847
Fund balances, June 30, 2008, restated	3,386,512	1,418,074	4,804,586
Fund balances, ending	<u>\$ 3,051,689</u>	<u>\$ 2,143,553</u>	<u>\$ 5,195,242</u>

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

CITY OF RUTLAND, VERMONT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2009

Total Net Change in Fund Balances - Governmental Funds	<u>\$ 390,656</u>
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount is capital outlay costs incurred in the current year.</p>	
	462,064
<p>Depreciation is not recognized as an expense in governmental funds and does not require the use of current financial resources. The effect of the current year's depreciation is to decrease net assets.</p>	
	(525,414)
<p>Some accrued expenses, such as vacation and sick accruals, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>	
	(10,888,538)
<p>Revenues and receivables in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements.</p>	
	656,008
Change in Net Assets of Governmental Activities	<u>\$ (9,905,224)</u>

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

CITY OF RUTLAND, VERMONT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2009

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Total Enterprise Funds
<b>ASSETS</b>				
Current Assets				
Cash	\$ 566,253	\$ -	\$ 1,218	\$ 567,471
Accounts receivable	798,626	1,117,313	185,055	2,100,994
Inventories	44,935	14,056	-	58,991
Due from other funds	500	58,559	-	59,059
Total current assets	<u>1,410,314</u>	<u>1,189,928</u>	<u>186,273</u>	<u>2,786,515</u>
Non-current Assets				
Property and equipment, net of accumulated depr	19,186,890	8,753,136	269,005	28,209,031
Total non-current assets	<u>19,186,890</u>	<u>8,753,136</u>	<u>269,005</u>	<u>28,209,031</u>
Total assets	<u>20,597,204</u>	<u>9,943,064</u>	<u>455,278</u>	<u>30,995,546</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities				
Accounts payable	16,614	41,277	434	58,325
Accrued expenses	1,637,842	2,046,860	271,155	3,955,857
Due to other funds	-	-	283,440	283,440
Notes payable	2,500,000	-	-	2,500,000
Current portion of long-term debt	544,290	520,590	-	1,064,880
Total current liabilities	<u>4,698,746</u>	<u>2,608,727</u>	<u>555,029</u>	<u>7,862,502</u>
Non-current Liabilities				
Long-term debt	8,181,162	5,884,361	-	14,065,523
Total liabilities	<u>12,879,908</u>	<u>8,493,088</u>	<u>555,029</u>	<u>21,928,025</u>
Net Assets				
Invested in capital assets, net of related debt	7,961,439	2,348,185	269,005	10,578,629
Unrestricted	(244,143)	(898,209)	(368,756)	(1,511,108)
Total net assets	<u>\$ 7,717,296</u>	<u>\$ 1,449,976</u>	<u>\$ (99,751)</u>	<u>\$ 9,067,521</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 ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2009

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Total Enterprise Funds
Operating revenues				
Charges for services	\$ 3,022,821	\$ 4,085,914	\$ 142,770	\$ 7,251,505
Miscellaneous income	5,020	-	-	5,020
Total operating revenues	<u>3,027,841</u>	<u>4,085,914</u>	<u>142,770</u>	<u>7,256,525</u>
Operating expenses				
Operating, maintenance, & general	1,457,722	2,744,092	158,718	4,360,532
Other Post-Employment Benefits	1,372,534	1,758,240	250,776	3,381,550
Depreciation	327,798	276,363	15,930	620,091
Total operating expenses	<u>3,158,054</u>	<u>4,778,695</u>	<u>425,424</u>	<u>8,362,173</u>
Operating gain (loss)	<u>(130,213)</u>	<u>(692,781)</u>	<u>(282,654)</u>	<u>(1,105,648)</u>
Other income (expenses)				
Interest expense	(444,177)	(190,717)	-	(634,894)
Total other income (expenses)	<u>(444,177)</u>	<u>(190,717)</u>	<u>-</u>	<u>(634,894)</u>
Change in net assets	<u>(574,390)</u>	<u>(883,498)</u>	<u>(282,654)</u>	<u>(1,740,542)</u>
Operating transfers in (out)	<u>(633,479)</u>	<u>(355,002)</u>	<u>(15,000)</u>	<u>(1,003,481)</u>
Change in net assets	<u>(1,207,869)</u>	<u>(1,238,500)</u>	<u>(297,654)</u>	<u>(2,744,023)</u>
Total net assets - June 30, 2008, as stated	<u>8,925,165</u>	<u>2,652,403</u>	<u>197,903</u>	<u>11,775,471</u>
Prior period adjustment	<u>-</u>	<u>36,073</u>	<u>-</u>	<u>36,073</u>
Total net assets, June 30, 2008, restated	<u>8,925,165</u>	<u>2,688,476</u>	<u>197,903</u>	<u>11,811,544</u>
Total net assets, June 30, 2009	<u>\$ 7,717,296</u>	<u>\$ 1,449,976</u>	<u>\$ (99,751)</u>	<u>\$ 9,067,521</u>

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

CITY OF RUTLAND, VERMONT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2009

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Total Enterprise Funds
<b>Cash Flows From Operating Activities:</b>				
Cash received from customers	\$ 3,022,582	\$ 3,962,456	\$ 176,173	\$ 7,161,211
Cash paid to vendors for goods and services	(1,505,379)	(1,464,645)	(51,781)	(3,021,805)
Cash paid to employees	(614,166)	(1,076,653)	(96,556)	(1,787,375)
Cash paid for rent and operating leases	(36,000)	(1,200)	(4,200)	(41,400)
Cash deposits received from customers	6,760	13,880	-	20,640
Cash refunds and deposit returns paid to customers	(5,463)	(64,847)	-	(70,310)
Cash reimbursements rec'd from employees & insurance	189	213	-	402
Net cash provided (used) by operating activities:	<u>868,523</u>	<u>1,369,204</u>	<u>23,636</u>	<u>2,261,363</u>
<b>Cash Flows From Non-capital Financing Activities</b>				
Transfers to other funds	(633,479)	(355,002)	(15,000)	(1,003,481)
Cash paid to resolve interfund payables and receivables	-	(350,347)	(34,296)	(384,642)
Net cash provided (used) by capital & related financing activities:	<u>(633,479)</u>	<u>(705,349)</u>	<u>(49,296)</u>	<u>(1,388,123)</u>
<b>Cash Flows From Capital &amp; Related Financing Activities</b>				
Proceeds from capital debt	1,166,104	-	-	1,166,104
Purchases, acquisitions & construction of capital assets	(18,396)	(41,127)	(7,418)	(66,941)
Principal paid on capital debt	(544,290)	(554,052)	-	(1,098,342)
Interest paid on capital debt	(275,710)	(152,365)	-	(428,074)
Capital lease payments	(10,478)	(32,175)	-	(42,654)
Proceeds from insurance reimbursements	-	13,957	-	13,957
Proceeds from sale of capital assets	13,978	-	-	13,978
Net cash provided (used) by capital & related financing activities:	<u>331,209</u>	<u>(765,762)</u>	<u>(7,418)</u>	<u>(441,971)</u>
<b>Cash Flows From Investing Activities</b>				
Net cash provided (used) by investing activities	-	-	-	-
Net increase (decrease) in cash	<u>566,253</u>	<u>(101,907)</u>	<u>(33,078)</u>	<u>431,269</u>
Cash at June 30, 2008	-	101,907	34,296	136,203
Cash at June 30, 2009	<u>566,253</u>	<u>-</u>	<u>1,218</u>	<u>567,471</u>
<b>Reconciliation of Operating Income to Net Cash Flows from Operating Activities</b>				
Operating income	\$ (130,213)	\$ (692,781)	\$ (282,654)	\$ (1,105,648)
Adjustments to reconcile operating income to cash flows from operating activities				
Depreciation expense	327,798	276,363	15,930	620,091
(Increase) decrease in accounts receivable	41,369	(11,577)	40,302	70,093
(Increase) decrease in inventories	(27,874)	24,070	-	(3,804)
Increase (decrease) in accounts payables	(700,725)	(10,648)	(471)	(711,844)
Increase (decrease) in accrued expenses	1,358,168	1,783,778	250,529	3,392,476
Net adjustments	998,736	2,061,985	306,290	3,367,012
Net cash provided (used) by operating activities	<u>\$ 868,523</u>	<u>\$ 1,369,204</u>	<u>\$ 23,636</u>	<u>\$ 2,261,363</u>

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

CITY OF RUTLAND, VERMONT  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2009

	Employee Pension Plan	Property Escrow Fund	Grace Stoolfire Trusts	Graphic Arts Fund	Mission Fund	Emergency Fuel Fund	Total (Memorandum Only)
<b>ASSETS</b>							
Cash and cash equivalents	\$ 5,408,692	\$ 30,452	\$ 42,097	\$ 21,193	\$ 2,787	\$ 12,064	\$ 5,517,285
Due from other funds	-	-	-	-	-	-	-
Investments	37,741,873	-	159,097	-	-	-	37,900,970
Total assets	<u>43,150,565</u>	<u>30,452</u>	<u>201,194</u>	<u>21,193</u>	<u>2,787</u>	<u>12,064</u>	<u>43,418,255</u>
<b>LIABILITIES</b>							
Accounts payable	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS</b>							
Permanently restricted	-	-	25,237	-	-	-	25,237
Held for the benefit of others	43,150,565	30,452	-	21,193	2,787	12,064	43,217,061
Reserved for endowment	-	-	175,957	-	-	-	175,957
	<u>\$ 43,150,565</u>	<u>\$ 30,452</u>	<u>\$ 201,194</u>	<u>\$ 21,193</u>	<u>\$ 2,787</u>	<u>\$ 12,064</u>	<u>\$ 43,418,255</u>

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

CITY OF RUTLAND, VERMONT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2009

	Employee Pension Plan	Property Escrow Fund	Grace Stoolfire Trusts	Graphic Arts Fund	Mission Fund	Emergency Fuel Fund	Total (Memorandum Only)
<b>Additions</b>							
Contributions	\$ 3,354,233	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,354,233
<b>Investment earnings</b>							
Additions	-	36,508	1,547	-	-	-	38,055
Interest	1,367,021	225	6,828	90	8	47	1,374,219
Net gain (loss) in fair value of investments	(975,666)	-	(46,189)	-	-	-	(1,021,855)
Donations	-	-	-	-	-	1,673	1,673
Gain (loss) on disposition of investments	(7,609,165)	-	-	-	-	-	(7,609,165)
Total investments earnings	<u>(7,217,810)</u>	<u>36,733</u>	<u>(37,814)</u>	<u>90</u>	<u>8</u>	<u>1,720</u>	<u>(7,217,073)</u>
Total additions	<u>(3,863,577)</u>	<u>36,733</u>	<u>(37,814)</u>	<u>90</u>	<u>8</u>	<u>1,720</u>	<u>(3,862,840)</u>
<b>Deductions</b>							
Retirement benefits	3,109,245	-	-	-	-	-	3,109,245
Disbursements	-	19,837	-	-	-	-	19,837
Expenses	-	-	-	-	-	320	320
Total deductions	<u>3,109,245</u>	<u>19,837</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>320</u>	<u>3,129,402</u>
Changes in net assets	<u>(6,972,822)</u>	<u>16,896</u>	<u>(37,814)</u>	<u>90</u>	<u>8</u>	<u>1,400</u>	<u>(6,992,242)</u>
Net assets, beginning	<u>50,123,387</u>	<u>13,556</u>	<u>239,008</u>	<u>21,103</u>	<u>2,779</u>	<u>10,664</u>	<u>50,410,497</u>
Net assets, ending	<u>\$ 43,150,565</u>	<u>\$ 30,452</u>	<u>\$ 201,194</u>	<u>\$ 21,193</u>	<u>\$ 2,787</u>	<u>\$ 12,064</u>	<u>\$ 43,418,255</u>

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

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

**A. Reporting Entity**

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

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

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

The City implemented the requirements of the Government Accounting Standard Board Statement No. 34 for the first time in the FY2008 financial statements. Along with this conversion, the City evaluated its historical financial assets and financial activity to conform to generally accepted governmental accounting standards. This evaluation, continuing in the current fiscal year, has given rise to significant changes in fund definitions and presentation of the City's fund financial statements.

**B. Reporting Activities**

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

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

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

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

**B. Reporting Activities (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 entity's operations; the entities have distinct budgetary authority; the entities control surpluses and deficits; the City is not responsible for the entity's debts; and the entities are responsible for fiscal management and fee determination.

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

Rutland Redevelopment Authority

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

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

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly or similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines, and forfeitures and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to program uses. Taxes and other revenue sources not included with program revenues are reported as general revenues.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

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

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

Fund financial statements are provided for governmental, proprietary funds, and fiduciary funds. Major individual governmental and enterprise funds are reported as 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. Property tax revenues are recognized in the year they are levied while grants 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; however, for consistency with prior years, the Capital Projects Fund balance sheet includes both current and non-current assets and liabilities. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers all revenues available if they are collected within sixty (60) days after yearend. Expenditures are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary operations of the fund. Principal operating revenues for proprietary funds are charges to customers for services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements. Property taxes, sewer usage fees, and water usage fees are recognized under the susceptible-to-accrual concept in accordance with Governmental Accounting Standards Board (GASB) pronouncements. Miscellaneous revenues and fees are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

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

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.

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.

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

General Fund: The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds: Special revenue funds are used to account for the proceeds of specific revenue sources (other than permanent funds or major capital projects) that are legally restricted to expenditures for specified purposes. The City has eleven special revenue funds: the Hospital Fund, the Equipment Replacement Fund, the Field Maintenance Fund, the Capital Improvement Fund, the Fire Equipment Fund, the Zambias Fund, the Recreational Activities Fund, the White Fund, the Giorgetti Fund, the Records Preservation Fund, and the CSO Phase 2A Fund.

Creation of the CSO Phase 2A Fund was approved by the City in 2004 as a sinking fund to be funded from 5% of the net revenues of the Sewage Disposal Fund, with these monies to be used only to repair, replace, improve or enlarge the sewer treatment facilities, including CSO facilities. During the fiscal year ended June 30, 2009, Management began use of this fund and \$243,019 was transferred to this fund.

Permanent Fund: Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the government or its citizenry. The City has two permanent funds, the Maples Fund and the Downtown Special Business District Revolving Loan Fund.

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

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

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

Fiduciary Funds – Private-Purpose Trusts: To account for assets held by the City in trustee capacity for individuals, private organizations, and other governmental units and funds. Private-purpose trust funds are accounted for in the same manner as proprietary funds. The City maintains six fiduciary funds: the Employee Pension Fund, the Property Escrow Fund, the Grace Stoolfire Fund, the Graphics Arts Fund, the Mission Fund, and the Emergency Fuel Fund.

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

1. Cash and cash equivalents: Cash balances of the City's General Fund and Proprietary Funds are pooled and used by the City Treasurer for operating activities. The City considers all short-term investments of ninety (90) days or less to be cash equivalents.

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

3. Receivables: Receivables are shown net of an allowance for uncollectible accounts for the estimated losses that will be incurred in the collection of the receivables. The estimated losses are based on the judgment of management and a review of the current status of existing receivables. Unbilled revenues consist of various revenues earned as of June 30, but not yet billed as of that date.

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

5. Interfund receivables/payables and internal activity: Transactions between funds that are representative of lending/borrowing arrangements and are outstanding at the end of the fiscal year are referred to as interfund receivables/payables. As established by City Ordinance, the City Treasurer is required to record and report this activity to the Board of Aldermen at each regular meeting.

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.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

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

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

The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line and double-declining 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 a limited amount of earned but unused vacation, sick and compensation time benefits. Per the City Charter, vacation pay must be used or is lost at the end of each employee's anniversary year. Sick time may be accumulated and, if unused, is paid at termination. All sick and vacation pay is accrued and reported in the government-wide and proprietary fund financial statements. Compensation time must be used, cashed out or is lost at the end of each fiscal year.

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

9. Net assets or equity: In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management plans that are subject to change.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

**F. Other accounting policies**

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

2. Operating transfers: Operating transfers are legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

3. Capitalized interest: Interest expense and related interest income incurred in connection with various construction projects have been capitalized in the enterprise fund or the capital project fund.

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

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

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

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

During fiscal year 2009, the limit on property taxes to \$.85 per \$100 of assessed valuation for general government services was rescinded effective for FY2011. The Charter also set limits on other tax levies as outlined in Charter.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

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

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

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

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

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

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

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental fund and net assets – governmental activities as reported in the government-wide financial statement of net assets. The total adjustment between the fund balance sheet and government-wide statement of net assets is a decrease of \$1,246,651.

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental fund and changes in net assets of governmental activities as reported in the government-wide statement of activities. The total adjustment between the fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities is a decrease of \$10,295,880.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

**A. Budgetary accounting**

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary system in accordance with various legal requirements which govern the City's operations. The budgets of the City are proposed by the Mayor and adopted by the Board of Aldermen; beginning with the fiscal year 2011 budget, budget approval will be at voters' discretion. All budget appropriations lapse at yearend.

**B. Excess of expenditures over appropriations**

For the year ended June 30, 2009 General Fund expenditures exceeded revenues by \$960,286, before transfers in of \$625,463. Net change in fund balance in the General Fund was \$(334,823).

**C. Deficit/surplus fund equity**

There are no deficit fund balances for the year ended June 30, 2009. The total governmental activities statement of net assets presents a deficit of unrestricted net assets of \$10,843,109, due to liability associated with the City's post-retirement benefits, non-current liabilities, and the amount invested in capital assets.

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

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

At June 30, 2009, the carrying amount of the City's deposits with financial institutions was \$10,909,366, and the total balances reported by these institutions was \$10,897,291. These deposits are held in checking accounts, savings accounts, and money market accounts. Of the funds on deposit, \$820,575 was insured by the Federal Deposit Insurance Corporation (FDIC). \$3,992,258 was collateralized, and the remaining \$6,084,458 was uninsured and uncollateralized.

\$5,408,692 of the uninsured and uncollateralized balances was cash held in the City's investment account, reported in the Employee Pension Plan Fund.

The City has a collateralization agreement with TD Bank to secure deposits above the FDIC limits, to a limit of \$11,000,000.

The City has not adopted formal deposit and investment policies.

CITY OF RUTLAND, VERMONT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009

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

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

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

At June 30, 2009, trust fund investments were valued at \$43,150,565. Market value of trust fund investments, determined by quoted market prices at June 30, 2009, are as follows:

U.S corporate Stock	\$20,345,088
International Stock	6,670,386
Corporate Bonds	10,726,399
Money Market Funds	<u>5,408,692</u>
	<u>\$43,150,565</u>

These investments have not been rated as to credit risk.

Investments in registered equity securities and U. S. Government obligations are stated at fair value in the trust funds. The fair value at June 30, 2009 for corporate stock was \$159,097. The investments are held by the City or its agent in its name. Securities owned by the City are traded on a national exchange and valued at the last reported sales price. Gains or losses due to changes in fair value are included in investment income.

GASB Statement No. 40 requires the City's investments to be categorized to give an indication of the level of risk assumed by the City at yearend. Category 1 includes investments that are insured or registered or securities that are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counter party's trust department or agent in the City's name. At June 30, 2009, the City's investments in the Grace Stoolfire Trusts were in Category 1.

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

Balances at June 30, 2009 were as follows:

	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 144,730	\$ -
Downtown Special District Fund	4,790	-
Equipment Replacement Fund	-	2,940

CITY OF RUTLAND, VERMONT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009

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

**B. Individual Fund Interfund Receivable and Payable Balances (continued)**

	<u>Receivables</u>	<u>Payables</u>
Field Maintenance Fund	54,565	-
White Fund	2,000	-
Records Preservation Fund	1,300	-
Recreational Activities Fund	-	9,794
Zamias Fund	29,730	-
Water Fund	500	-
Sewage Disposal Fund	58,559	-
Parking Meter Fund	<u>-</u>	<u>283,440</u>
	<u>\$296,174</u>	<u>\$296,174</u>

During the fiscal year the City resolved the remaining \$565,771 historical interfund activity between the Enterprise Funds and the General Fund related to the City's Current Expense Note of \$5,000,000. As allowed by City Ordinance, the City Treasurer continues to process financial activity through a pooled-cash account using interfund receivable and payables to account for this activity. The Treasurer is required to provide the detail of this activity to the Board of Aldermen on a monthly basis.

**C. Allowance for Uncollectible Receivables**

Delinquent taxes receivable reported in the fund financial statements represent property taxes outstanding at June 30, 2009. 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 charges, sewer charges, and parking ticket receivables represent the outstanding balances at June 30, 2009. The City has the legal right to force sale of the property to recover the sewer and water rents and a legal right to enforce impounding vehicles and; therefore, at June 30, 2009, the City has not established an allowance for these uncollectible receivables.

The City implemented a new tracking system for parking ticket enforcement during the year that allows officers to install a locking boot on vehicles for which parking tickets remain unpaid after the due date. This action has increased parking ticket collection efforts and the City expects to collect substantially all parking ticket revenues and, therefore, does not recognize an allowance for uncollectible receivables for these amounts.

Other accounts receivable represent amounts due from the State of Vermont for grant and other cost reimbursements and for notes receivable due to the City. Based on past experience and because the receivables are in accordance with formal agreements, the City has not established an allowance for uncollectible receivables.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

**D. Capital Assets Activity**

Capital asset activity of the City for the year ended June 30, 2009 is as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
General services	\$ 2,265,197	\$ -	\$ -	\$2,265,197
Fire Department	3,191,642	20,290	-	3,211,932
Police Department	2,633,379	62,786	23,170	2,672,995
Department of Public Works	35,380,578	239,198	-	35,619,776
Recreation	5,303,967	124,680	16,301	5,412,312
Cemetery	200	-	-	200
Library	<u>230,379</u>	<u>15,110</u>	<u>-</u>	<u>245,489</u>
Total capital assets at cost	<u>49,005,342</u>	<u>462,064</u>	<u>39,471</u>	<u>49,427,905</u>
Less accumulated depreciation:				
Governmental activities:				
General services	622,064	32,158	-	654,222
Fire Department	2,383,263	73,127	-	2,456,390
Police Department	1,105,159	93,047	23,170	1,175,036
Department of Public Works	29,809,921	279,237	-	30,089,158
Recreation	810,075	45,423	16,301	839,197
Library	<u>206,055</u>	<u>2,422</u>	<u>-</u>	<u>208,447</u>
Total accumulated depreciation	<u>34,936,537</u>	<u>525,414</u>	<u>39,471</u>	<u>35,422,450</u>
Capital assets, net of depreciation	<u>\$14,068,805</u>	<u>\$ (63,350)</u>	<u>\$ -</u>	<u>\$ 14,005,455</u>
Business-type activities:				
Land	\$ 5,393,070	\$ -	\$ -	\$ 5,393,070
Buildings	22,393,613	128,491	-	22,522,104
Easements	115	-	-	115
Machinery & Equipment	5,545,209	82,901	-	5,628,110
Meters	1,172,006	18,396	-	1,190,402
Reservoirs	<u>2,694,613</u>	<u>-</u>	<u>-</u>	<u>2,694,613</u>
Total	<u>37,198,626</u>	<u>229,788</u>	<u>-</u>	<u>37,428,414</u>
Less accumulated depreciation:	<u>8,599,007</u>	<u>620,376</u>	<u>-</u>	<u>9,219,383</u>
Capital assets, net	<u>\$28,599,619</u>	<u>\$(390,588)</u>	<u>\$ -</u>	<u>\$28,209,031</u>

CITY OF RUTLAND, VERMONT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009

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

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

Depreciation expense was charged to governmental functions as follows:

General government	\$ 32,158
Public safety	166,174
Highway & street	279,237
Culture & recreation	<u>47,845</u>
Total	<u>\$525,414</u>

Total business-type depreciation expense for the year ended June 30, 2009 is \$620,376.

**E. Mortgages and Notes Receivable**

<u>Description</u>	<u>Amount</u>
0% 2008 Elizabeth Pimpare note receivable with semi-annual payments of principal of \$1,500 with final payment due in 2018.	\$ 25,500
2% 2009 Deborah Dubay note receivable with quarterly-annual payments of principal and interest of \$290 with final payment due in 2019.	14,785
0% 1998 Maples LLP note receivable with payments made over a 20-year period calculated as a function of net cash flow from the activity with final balance due December 2018.	487,070
Total long-term mortgages and notes receivable	<u>\$527,355</u>

The City holds a mortgage receivable from the Columbia Avenue Limited Partnership in the amount of \$280,200. This note is being forgiven by the amount of annual depreciation over the life of the mortgage and the City does not expect to collect proceeds from this note.

**F. Lease Agreements**

General capital assets include equipment purchased by capital leases. Each of these lease agreements permits the City to own the equipment at the end of the lease period for a nominal cost. The future minimum lease payments and net present value of these capital leases are as follows:

CITY OF RUTLAND, VERMONT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009

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

**F. Lease Agreements (continued)**

	<u>Balance</u>
2010	59,901
2011	<u>45,214</u>
	<u>105,115</u>
Interest expense	<u>8,083</u>
	<u><u>\$113,198</u></u>

The City has entered into numerous lease agreements as the lessor to various organizations from which the City receives rental income.

**G. Short-term Debt**

During the year ended June 30, 2009, the City borrowed funds in the form of a current expense note of \$2,500,000 with interest rate of 3.99%, with TD Bank, N.A., to fund emergency repairs and litigation expenses for the public water treatment facility.

Short-term debt activity for the year ended June 30, 2009 was as follows:

<u>06/30/08</u>	<u>Proceeds</u>	<u>Payments</u>	<u>06/30/09</u>
<u>\$ -0-</u>	<u>\$2,500,000</u>	<u>\$ -0-</u>	<u>\$2,500,000</u>

**H. Long-Term Debt**

**General**

During the year ended June 30, 2009, the City borrowed funds in the form of a capital improvement bond of \$4,653,600. This was funded by the Vermont Municipal Bond Bank and the Federal EPA for the water treatment plant roof repair.

General long-term debt payable activity for the year ended June 30, 2009 is as follows:

2.22% Capital Improvement Bond – General Obligation with annual principal payments of \$6,110 plus variable interest, payments maturing December 2013.	\$ 30,408
4.83% Capital Improvement Bond – General Obligation- Call Wendy with annual principal payments of \$140,000 plus variable interest, payments maturing December 2020.	\$1,680,000

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

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

**Proprietary Funds**

The long-term debt of the City's Proprietary Funds is in the form of long-term notes and bonds. The proceeds of such debt have been used for improvement of the City's water and sewer systems. Notes and bonds payable - Proprietary Funds consist of the following as of June 30, 2009:

**Sewer Fund**

0.00% Overflow Project VMBB construction bond with variable annual principal payments, maturing December 2012.	\$ 254,950
0.00% CSO VMBB construction bond with principal only annual payments of \$160,000, maturing December 2026.	2,880,000
3.865% CSO Phase 2A VMBB construction bond with principal payments of \$80,000 beginning in December 2008 with variable semi-annual interest payments, maturing December 2027.	1,520,000
5.82% TD Bank Current Expense Note for sewer portion of repayment of General Fund operating transfers with annual principal payments of \$250,000 plus interest, maturing June 2011.	1,750,000

**Water Fund**

3.01% VMBB Capital Improvement Bond with annual principal Payments of \$95,000 plus variable interest semi-annual payments maturing, December 2022.	1,330,000
3.00% VMBB Water Roof Repair Bond with annual principal and interest payments of \$312,795, maturing December 2029.	4,653,500
2.22% VMBB Capital Improvement Bond with principal and interest payments of \$199,290 through 2010 and principal and interest payments of \$197,757 thereafter, maturing in December 2013.	991,852

CITY OF RUTLAND, VERMONT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009

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

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

**Proprietary Funds (continued)**

5.82% TD Bank Current Expense Note for repayment of General Fund operating transfers with annual principal payments of \$250,000 plus interest, maturing June 2011.	1,750,000
Total long-term debt, all funds	<u>\$16,840,811</u>
Less current portion	\$ <u>1,210,990</u>
Long-term portion	<u>\$15,629,821</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Current portion	1,210,990	368,691	1,579,681
2011	3,884,177	332,388	4,216,565
2012	887,793	243,201	1,130,994
2013	1,025,734	220,184	1,245,918
2014	868,066	189,108	1,057,174
2015-2019	3,409,876	658,043	4,067,919
2020-2024	3,059,904	314,944	3,374,848
2025-2029	2,190,786	87,474	2,278,260
2030-2033	<u>303,485</u>	<u>3,035</u>	<u>306,520</u>
Total	<u>\$16,840,811</u>	<u>\$2,417,068</u>	<u>\$19,257,879</u>

For the year ended June 30, 2009, long-term debt interest expense was \$447,298.

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

At June 30, 2009 the City had designated General Fund fund balance for the following purposes:

	<u>General Fund</u>
Designated for specific purposes:	
Reappraisal Fund	\$ 154,083
2008 Whistle Repair Donations	438
Drug Forfeiture Fund	73,597

CITY OF RUTLAND, VERMONT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009

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

**I. Fund Balances Designated for Specific Purposes (continued)**

LEPC	7,241
Godnick Activity	336
Godnick Center	20,464
GIS	12,171
Home Depot Activity	17,920
Police Impress	15,898
Lister education	1,331
Landfill Closure	6,620
Community Police Fund	13,420
Route 4 & 7	83,539
Drug Investigations Donations	2,312
LCIF Grant	8,821
Rotary Park Renovation Grant	<u>40,000</u>
Total designated fund balance	\$458,191

**J. Deferred Revenue**

The City has entered into an agreement with the Rutland Area Hockey Association (RAHA) to lease use of the Giorgetti Ice Rink to RAHA for a period of five years with RAHA prepaying the City \$60,000 for this lease. The City recognizes one-fifth of this revenue each year with the balance presented as deferred revenue. The City also collects recreational activity member fees in the spring of each year for programs that occur subsequent to the end of the fiscal year. These collections represent deferred revenue to the City until the programs' execution satisfies the City's obligation to its members to provide the summer programs. The total amount of deferred revenue at June 30, 2009 is \$128,439.

**K. City/Town Ticket Revenue**

Revenues of \$226,773, related to traffic fines collected between June 2001 and June 2004 by local and/or State police, have historically been reimbursed by the State of Vermont solely to the Town of Rutland. Beginning in fiscal year ended June 30, 2009, the Town is to remit \$40,000 per year to the City, with final payment to be made in FY14. During this fiscal year, the City received \$40,000 from the Town of Rutland.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

**L. Taxes Collected for Others**

Property taxes collected by the City include taxes levied for the Rutland School District, Rutland County, and the Rutland Redevelopment Authority. The City is ultimately responsible for the collection of these taxes which are remitted to the governmental entities as required by law. The amount of taxes collected for and remitted to the Rutland School District, Rutland County, and the Rutland Redevelopment Authority during the year ended June 30, 2009 was \$13,130,760, \$82,118, and \$279,687, respectively.

**Note V. Other information**

**A. Commitments and Contingencies**

1. Risk Management: The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains insurance coverage through the Vermont League of City's and Towns Property and Casualty Intermunicipal Fund, Inc., covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three (3) fiscal years. The City must remain a member for a minimum of one year and may withdraw from the Fund after that time by giving sixty days notice. Fund underwriting and rate subject to a supplemental assessment in the event of deficiencies. If the assets of the Fund were to be exhausted, members would be responsible for the Fund's liabilities. The City 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 grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

3. Landfill Closure: During 1990, the City closed a landfill and executed a management plan for post-closure monitoring of the site. The City maintains a fund with active monitoring of the site. The City does not expect expenses to exceed those funds set aside for this purpose.

4. Long-Term Contracts: The City has entered into several contracts, which cover periods through June 30, 2009, with the police, fire, and public works department employees.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

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

5. Water Roof Replacement: The City is a plaintiff in litigation concerning liability for the Water Roof defects believed to be a product of engineering or installation resulting in premature failure of the roof system. The magnitude of the effect of this litigation on the financial statements is not known.

**B. Defined Benefit Pension Plan**

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

Participating City employees contributed \$264,048 to the Plan in the fiscal year ended June 30, 2009. Employer contributions for the City's employees for the year ended June 30, 2009 was \$510,000. The City contributed an additional \$301,219 to the pension plan on behalf of the Rutland School District. During 2009, the City Treasurer identified that this amount was sent to the City for deposit to the pension plan during fiscal year 2006; however, no deposit was made. This correction was approved by the Board of Aldermen. Payroll for pension-plan covered employees for the year ended June 30, 2009 was \$7,567,028. The City's total payroll was \$9,187,082.

The following is the required supplementary information for the pension plan:

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are as follows:

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

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

Actuarial cost method	Projected unit credit cost
Valuation method	20% smoothing method – sum of actuarial method at beginning of the year, contributions, expected investment earnings based on actuarial interest assumption less benefit payments, plus 20% of market value at end of year in excess of that sum, plus additional adjustment to market value so that final actuarial value is within 20% of market value
Inflation rate	N/A
Investment return	8.0%
Salary increases	5.0%
Amortization method	Level dollar over 15 years

**Schedule of Funding Progress**

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess/Deficiency of Assets over AAL (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/ (Deficiency) as a Percentage of Covered Payroll ((b) – (a))/(c)
01/1/2007	50,695,986	59,831,977	9,135,991	84.73%	24,161,425	37.81%
01/1/2008	53,598,552	66,495,591	12,897,039	80.60%	25,641,832	50.30%
01/1/2009	49,414,401	71,277,825	21,863,424	69.33%	26,389,650	82.85%

**Schedule of Employer Contributions**

Plan Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
<u>June 30</u> 2007	2,899,920	1,690,335	58.29%
2008	3,609,894	1,877,860	52.02%
2009	4,048,303	2,039,388	50.38%

CITY OF RUTLAND, VERMONT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009

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

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

**Schedule of Annual Pension Cost**

	<u>06/30/2009</u>	<u>06/30/2008</u>	<u>06/30/2007</u>
Annual Required Contribution (ARC)	4,048,303	3,609,894	2,899,920
Interest on NPO	534,375	410,947	326,194
ARC adjustment	780,383	600,133	476,362
Annual Pension Cost (APC)	3,802,375	3,420,708	2,749,752
Employer Contributions Made	2,039,388	1,877,860	1,690,335
NPO – Beginning of Year	6,679,687	5,136,839	4,077,424
NPO – End of Year	8,442,674	6,679,687	5,136,839
Percentage of APC Contributed	53.63%	54.90%	61.47%

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

The City maintains other post-employment obligations to retirees that includes health, dental, vision and life insurance expenses, and the City has offered early retirement incentive to employees in order to manage payroll expenses in the long-term. The City has implemented reporting for OPEB under GASB-45 for the year ended June 30, 2009 for the first time.

The annual cost of OPEB is called the annual required contribution (ARC). The City has elected not to prefund OPEB liabilities. The City is required to record the annual required contribution of the employer’s ARC, an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded liability over a period not to exceed thirty years. The following table displays the components of the City’s annual OPEB costs for the year:

Annual Required Contribution	\$1,604,215
Contributions Made	<u>(411,269)</u>
Net Change in Net OPEB Liability	\$1,192,946
Net OPEB liability at beginning of fiscal year	0
Net OPEB Obligation at end of the fiscal year	\$1,192,946

**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, 2009 were as follows:

CITY OF RUTLAND, VERMONT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009

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

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

Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability was \$15,867,813, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$15,867,813. For the fiscal year ended June 30, 2009, the covered payroll (annual payroll of active employees covered by for OPEB purposes) was \$7,567,028 and the ratio of the UAAL to covered payroll is 210.0%

Amounts determined regarding the funded status and annual required contributions of the employer are subject to continued revisions as actual results are compared to historical activity. The schedule of funding progress, which is required supplementary information, presents trend information that will show whether actual values are increasing or decreasing over time.

Actuarial Methods and Assumptions

Actuarial cost method	Projected unit credit cost
Amortization method	Level dollar over 30 years
Actuarial Valuation Date	July 1, 2008
Annual Discount Rate	4.00%

**D. Prior Period Adjustments**

The City has not historically classified its accounting by governmental funds as defined in governmental accounting standards, not used an accurate and consistent basis of accounting for its fund activity, not recorded financial activity and assets to the correct fund and not accurately tracked and reported interfund receivables and payables between the General Fund and the City's Enterprise Funds.

Fund

General Fund	Inaccurate bond principal	146,110
	Fund classification of accrued liabilities	365,300
	Fund classification of cash accounts	20,800
	Fund classification of cash accounts	20,993
	Interfund receivable not recorded	(95,500)
	Misrecorded interest income	(199)
	Misrecorded interfund payable	(24,071)
	Fund classification errors	<u>1,796</u>
		435,229

CITY OF RUTLAND, VERMONT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009

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

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

Fund

Recreational Activities Fund	Fund classification of cash accounts	(20,800)
	Interfund payable not recorded	35,000
	Fund classification errors	<u>(1,796)</u>
		12,403
Field Maintenance Fund	Interfund payable not recorded	60,500
Sewage Disposal Fund	Fund classification of cash accounts	(20,993)
	Misrecorded interest income	199
	Misrecorded debt service adjustment	32,796
	Misrecord interfund receivable	<u>24,071</u>
		36,073
Downtown SBD Fund	Misrecorded note receivable activity	4,715

**E. Related Party Transactions**

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

**F. School District Employee Pension Contributions**

Miscellaneous expenditures in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and general government expenses in the government-wide Statement of Activities include \$301,219 that represents pension contributions made by employees of the School District and not remitted by the City during the years the contributions were received. The City has determined not to treat this activity as a prior period adjustment.

**G. Subsequent Events**

The City continues to finance water treatment plant roof repairs. The City intends to convert these expenditures to long-term debt through the Vermont Municipal Bond Bank at the conclusion of the repairs.

In September 2009, the City received \$500,000 from the Giorgetti Trust to support the operations of Georgetti Park.

CITY OF RUTLAND, VERMONT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

**G. Subsequent Events (continued)**

In July 2009 the City negotiated a 2% loan agreement and note receivable of \$30,000 with S&E Enterprises, Inc., with monthly payments of principal and interest of \$352 beginning on August 1, 2011, with final payment due in 2019.

In December 2009 the City received approval of its loan application, in the amount of \$925,000, from the Vermont Department of Environmental Conservation and the Vermont Municipal Bond Bank for the City's sanitary and storm sewer replacement project.

In December 2009 the final loan amendment for the City, for emergency water treatment roof repairs, was negotiated, for a loan total of \$6,000,000.

In January 2010 the City repaid the short-term debt current expense note of \$2,500,000 with proceeds from permanent funding related to the water roof repair.

In February 2010 the City reached a mediation agreement related to the Water Treatment Plant roof repair litigation. The settlement involves a \$3.8 million payment to the City that will be used to repay a portion of the debt related to financing the new roof.

CITY OF RUTLAND, VERMONT  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Taxes - general	\$ 13,128,547	\$ 12,019,478	\$ (1,109,069)
Delinquent tax, penalties and interest	95,000	342,047	247,047
Fines & forfeitures	127,500	315,713	188,213
Rooms & meals tax	450,000	442,649	(7,351)
PILOT	468,142	567,771	99,629
Licenses & permits	65,000	95,357	30,357
Federal grants	-	261,852	261,852
State grants	293,000	705,013	412,013
Charges for services	1,093,192	1,016,932	(76,260)
Investment earnings	80,000	47,385	(32,615)
Tax sale	50,000	15,073	(34,927)
Rental income	43,467	68,805	25,338
Donations	-	-	-
Employee reimbursements	-	8,030	8,030
Miscellaneous	50,000	142,680	92,680
Total revenues	15,943,848	16,048,785	104,937
<b>Expenditures</b>			
Executive	99,969	103,036	(3,067)
Legislative	27,098	59,850	(32,752)
City Clerk	334,188	322,529	11,659
City Treasurer	696,342	727,888	(31,546)
City Attorney	179,895	167,470	12,425
City Assessor	149,653	149,529	124
Building and Zoning	215,811	219,134	(3,323)
Libraries	602,574	602,353	221
Police department	4,580,836	4,483,624	97,212
Fire department	2,803,216	2,673,324	129,892
Highways	1,184,765	1,113,430	71,335
Winter maintenance	614,156	379,222	234,934
Street lighting	311,016	245,817	65,199
Traffic control	104,000	88,406	15,594

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

CITY OF RUTLAND, VERMONT  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Catch basins	21,035	6,796	14,239
Community development	294,935	373,450	(78,515)
Dana center	1,016,817	891,308	125,509
DPW Administration	677,690	675,553	2,137
Elections	38,463	30,360	8,103
Government buildings	524,808	599,935	(75,127)
Operations	16,500	16,001	499
General recreation maintenance	452,987	464,287	(11,300)
Giorgetti Park	217,511	197,797	19,714
Godnick Center	125,829	154,153	(28,324)
White Playground	73,322	75,984	(2,662)
Vehicle maintenance	442,367	373,067	69,300
Miscellaneous expense	175,804	670,429	(494,625)
Contingency	80,000	77,728	2,272
Appropriations	312,006	312,006	-
Pension expense	510,000	510,000	-
Debt service	377,742	244,605	133,137
Total expenditures	<u>17,261,335</u>	<u>17,009,071</u>	<u>252,264</u>
Excess of revenues over (under) expenditures	<u>(1,317,487)</u>	<u>(960,286)</u>	<u>357,201</u>
Other financing sources (uses)			
Transfers in (out)	<u>1,357,552</u>	<u>625,463</u>	<u>(732,089)</u>
Total other financing sources (uses)	<u>1,357,552</u>	<u>625,463</u>	<u>(732,089)</u>
Net change in fund balance	<u>40,065</u>	<u>(334,823)</u>	<u>(374,888)</u>
Fund balance, June 30, 2008, as stated	<u>-</u>	<u>2,951,283</u>	<u>-</u>
Prior period adjustment	-	435,229	-
Fund balance, June 30, 2008, restated	-	3,386,512	-
Fund balance, June 30, 2009	<u>\$ -</u>	<u>\$ 3,051,689</u>	<u>\$ -</u>

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

CITY OF RUTLAND, VERMONT  
 COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2009

	Special Revenue Funds										Permanent Funds		Total Non-Major Govt Funds	
	Hospital Fund	Equipment Replace Fund	Field Maint Fund	Capital Improvement Fund	Fire Equipment Fund	Zamias Fund	Recreation Activities Fund	White Fund	Giorgetti Fund	Records Preserv Fund	CSO Phase 2 Fund	Maples Fund		Down-town Special Bus. Dist. Fund
<b>ASSETS</b>														
Cash	\$ 14,498	\$ 103,643	\$ 37,372	\$ 114,540	\$ 456,787	\$ 642,788	\$ 70,732	\$ 19,109	\$ 3,834	\$ 33,689	\$ 236,525	\$ 6,136	\$ -	\$ 1,739,653
Investments	-	-	-	-	-	-	-	-	326,788	-	-	-	-	326,788
Inventory	-	-	-	-	-	-	4,500	-	-	-	-	-	-	4,500
Notes receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	54,565	-	-	29,730	-	2,000	-	1,300	-	-	4,790	92,385
	<u>14,498</u>	<u>103,643</u>	<u>91,937</u>	<u>114,540</u>	<u>456,787</u>	<u>672,518</u>	<u>75,232</u>	<u>21,109</u>	<u>330,622</u>	<u>34,989</u>	<u>236,525</u>	<u>6,136</u>	<u>4,790</u>	<u>2,163,326</u>
<b>LIABILITIES AND FUND BALANCES</b>														
<b>Liabilities</b>														
Accounts payable	-	-	-	-	-	-	6,907	-	-	-	-	-	-	6,907
Accrued expenditures	-	-	-	-	-	-	132	-	-	-	-	-	-	132
Due to other funds	-	2,940	-	-	-	-	9,794	-	-	-	-	-	-	12,734
	<u>-</u>	<u>2,940</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,773</u>
<b>Fund balances</b>														
Unreserved, designated	-	-	-	-	-	-	-	-	-	-	0	-	-	-
Unreserved, undesignated	14,498	100,703	91,937	114,540	456,787	672,518	58,399	21,109	330,622	34,989	236,525	6,136	4,790	2,143,553
Total fund balances	<u>14,498</u>	<u>100,703</u>	<u>91,937</u>	<u>114,540</u>	<u>456,787</u>	<u>672,518</u>	<u>58,399</u>	<u>21,109</u>	<u>330,622</u>	<u>34,989</u>	<u>236,525</u>	<u>6,136</u>	<u>4,790</u>	<u>2,143,553</u>
<b>Total liabilities and fund balances</b>	<u>\$ 14,498</u>	<u>\$ 103,643</u>	<u>\$ 91,937</u>	<u>\$ 114,540</u>	<u>\$ 456,787</u>	<u>\$ 672,518</u>	<u>\$ 75,232</u>	<u>\$ 21,109</u>	<u>\$ 330,622</u>	<u>\$ 34,989</u>	<u>\$ 236,525</u>	<u>\$ 6,136</u>	<u>\$ 4,790</u>	<u>\$ 2,163,326</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  
 FOR THE YEAR ENDED JUNE 30, 2009

	Special Revenue Funds											Permanent Funds		Total Non-Major Govt Funds
	Hospital Fund	Equipment Replacement Fund	Field Maint Fund	Capital Improvement Fund	Fire Equipment Fund	Zamias Fund	Recreation Activities Fund	White Fund	Giorgetti Fund	Records Preserv Fund	CSO Phase 2 Fund	Maples Fund	Down-Town Special Bus. Dist. Fund	
<b>Revenues</b>														
Fees and charges for services	\$ -	\$ -	\$ 8,896	\$ 16,121	\$ 90,000	\$ 117,750	\$ 29,844	\$ -	\$ -	\$ 11,467	\$ -	\$ -	\$ -	\$ 274,078
Grants	-	-	-	-	-	-	5,324	-	2,850	-	-	-	-	8,174
Miscellaneous	-	175	-	-	-	-	-	-	-	-	-	-	-	175
Investment earnings	190	197	241	364	2,198	2,386	650	39	1,794	917	591	40	75	9,682
Donations	-	-	202	-	10,000	-	9,618	2,000	327,483	-	-	-	-	349,303
<b>Total revenues</b>	<b>190</b>	<b>372</b>	<b>9,339</b>	<b>16,485</b>	<b>102,198</b>	<b>120,136</b>	<b>45,436</b>	<b>2,039</b>	<b>332,127</b>	<b>12,384</b>	<b>591</b>	<b>40</b>	<b>75</b>	<b>641,412</b>
<b>Expenditures</b>														
Lease expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loan disbursements	-	-	-	-	-	-	-	-	-	-	-	-	15,000	15,000
Operating expenses	-	90,430	5,445	-	22,076	17,400	85,365	2,749	1,562	46,789	7,085	51	-	278,952
<b>Total Expenditures</b>	<b>-</b>	<b>90,430</b>	<b>5,445</b>	<b>-</b>	<b>22,076</b>	<b>17,400</b>	<b>85,365</b>	<b>2,749</b>	<b>1,562</b>	<b>46,789</b>	<b>7,085</b>	<b>51</b>	<b>15,000</b>	<b>293,952</b>
Excess (deficiency) of revenues over(under) expenditures	190	(90,058)	3,894	16,485	80,122	102,736	(39,929)	(710)	330,565	(34,405)	(6,494)	(11)	(14,925)	347,460
Transfers in (out)	-	95,000	-	-	40,000	(15,000)	-	-	-	-	243,019	-	15,000	378,019
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>95,000</b>	<b>-</b>	<b>-</b>	<b>40,000</b>	<b>(15,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>243,019</b>	<b>-</b>	<b>15,000</b>	<b>378,019</b>
<b>Net change in fund balances</b>	<b>190</b>	<b>4,942</b>	<b>3,894</b>	<b>16,485</b>	<b>120,122</b>	<b>87,736</b>	<b>(39,929)</b>	<b>(710)</b>	<b>330,565</b>	<b>(34,405)</b>	<b>236,525</b>	<b>(11)</b>	<b>75</b>	<b>725,479</b>
<b>Fund balances, June 30, 2008, as stated</b>	<b>14,308</b>	<b>95,761</b>	<b>27,543</b>	<b>98,055</b>	<b>336,665</b>	<b>584,782</b>	<b>85,925</b>	<b>21,819</b>	<b>57</b>	<b>69,394</b>	<b>-</b>	<b>6,147</b>	<b>-</b>	<b>1,340,456</b>
Prior period adjustment	-	-	60,500	-	-	-	12,403	-	-	-	-	-	4,715	77,618
<b>Fund balances, June 30, 2008, restated</b>	<b>14,308</b>	<b>95,761</b>	<b>88,043</b>	<b>98,055</b>	<b>336,665</b>	<b>584,782</b>	<b>98,328</b>	<b>21,819</b>	<b>57</b>	<b>69,394</b>	<b>-</b>	<b>6,147</b>	<b>4,715</b>	<b>1,418,074</b>
<b>Fund balances, ending</b>	<b>\$ 14,498</b>	<b>\$ 100,703</b>	<b>\$ 91,937</b>	<b>\$ 114,540</b>	<b>\$ 456,787</b>	<b>\$ 672,518</b>	<b>\$ 58,399</b>	<b>\$ 21,109</b>	<b>\$ 330,622</b>	<b>\$ 34,989</b>	<b>\$ 236,525</b>	<b>\$ 6,136</b>	<b>\$ 4,790</b>	<b>\$ 2,143,553</b>

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

# CORRETTE & ASSOCIATES

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

To the Board of Aldermen  
City of Rutland  
Rutland, Vermont

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rutland, Vermont, as of and for the year ended June 30, 2009, which collectively comprise the City of Rutland, Vermont's basic financial statements and have issued our report thereon dated February 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Rutland, Vermont's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Rutland, Vermont's financial statements that is more than inconsequential will not be prevented or detected by the City of Rutland, Vermont's internal control. We consider the deficiencies indicated in the accompanying schedule of findings and recommendations to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Rutland, Vermont's internal control. We believe

five of the seven deficiencies included in the accompanying schedule of findings and recommendations to be material weaknesses.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

#### 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" and which is described in the Schedule of Findings and Questioned Costs in the Single Audit report.

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

Corrette & Associates, P.C.  
February 11, 2010  
State of Vermont  
License #092-0000130

CITY OF RUTLAND  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2009

Significant Deficiencies

Material Weaknesses

09 – 01: Internal Control Risk Assessment

Condition: The City has not conducted a complete internal risk assessment necessary to identify weaknesses in internal control that should be designed to prevent or detect material misstatement due to error or malfeasance. This is a repeat finding.

Recommendation: The City should conduct a government-wide review of fraud and internal control risk that assesses these risks and develop a plan to mitigate these risks.

Management Response: Management agrees that a city-wide risk assessment should be accomplished. Management believes it should be done by an independent accounting firm, distinct from the independent auditor.

09 – 02: Pooled Cash Accounts – The City maintains a pooled-cash account to collect and disburse cash for the General Fund and Proprietary Funds of the City. However, the City does not comply with its own ordinances requiring the Treasurer to present interfund loan activity to the Board of Aldermen on a monthly basis. This is a repeat finding.

Recommendation: The City should develop procedures that provide detail to the Board of Aldermen in compliance with City ordinance regarding the interfund receivables and payables that result from the operations of the pooled-cash account and the City should develop procedures for resolving outstanding balances on a regular basis.

Management Response: The Treasurer's Office began reporting pooled cash allocation on a monthly basis to the Board of Aldermen in June 2009 with monthly budget-to-actual results and balance sheets for each major fund thus meeting the requirements of the ordinance. This issue is considered resolved.

09 – 03: Basis of Accounting – The City does not maintain its funds on a consistent basis of accounting. Some governmental funds recognize full accrual accounting, some recognize the cash basis of accounting, and the remaining funds use a mixed basis of accounting. This is a repeat finding.

Recommendation: Establish a clear basis of accounting for each type of fund within the City's Chart of Accounts and develop procedures to ensure consistent recording and reporting in consonance with the fund's basis of accounting.

Management Response: Management intends to make a decision regarding each fund as to which basis of accounting will be used. This will be supported by changes, where needed, in the accounting software to fully support the basis of accounting chosen by the end of the next fiscal year.

09 – 04: Grant Management – The City has not established adequate procedures for monitoring, recording, and reporting grant revenue and expenditures throughout the fiscal year to include internal City grants as well as grants managed by the Rutland Redevelopment Authority on behalf of the City. This is a repeat finding.

Recommendation: Conduct training that instructs all City employees regarding the requirement to monitor and document compliance with grant documents and establish procedures that allow for consolidated grant management throughout the year.

Management Response: The City will continue to improve fund classifications to better facilitate accurate recording and reporting of grant revenues and expenditures, including grants managed for the City by the Rutland Redevelopment Authority. This will also provide greater transparency for departments and for management. Cooperation of all City departments that manage grant funds or grant-funded resources is essential to ensure timely and accurate information is given to the Treasurer’s Office for entry into the general ledger. Compliance with grant requirements is the responsibility of each department.

#### Significant Deficiencies

09 – 05: Fuel Card Use – Fuel cards are distributed and held by the Department of Public Works employees and used without receipts or a tracking mechanism to ensure only authorized use of these cards occurs.

Recommendation: Develop the requirement that all employees remit receipts and the Department establishes a tracking system to monitor fuel use.

Management Response: The City will establish controls and policy regarding the use of fuel cards.

09 – 06: Revenue Recognition – The City does not require receipts be issued for all sources of miscellaneous revenue collected.

Recommendation: The City should accomplish a risk assessment for all departments and establish controls over the receipt of cash to detect and prevent the possibility of errors and malfeasance from occurring.

Management Response: The City Treasurer’s office will assist the recreation department in the implementation of a cash receipts process for miscellaneous revenues, primarily at the Godnick Center.

09 – 07: Expense Authorization – The City has not developed procedures to ensure that activity processed on behalf of the Rutland Redevelopment Authority is properly authorized prior to execution.

Recommendation: The City should develop controls to ensure that all activity is properly authorized prior to execution.

Management Response: The City requires the Board of the Rutland Redevelopment Authority to approve warrants for payment of expenses in writing. The financial activity of the Rutland Redevelopment Authority is now recorded in the City's accounting system to eliminate problems associated with information not recorded accurately or timely. This issue is considered resolved.