CITY OF RUTLAND, VERMONT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

Corrette & Associates, P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Aldermen
City of Rutland
Rutland, Vermont

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rutland, Vermont as of and for the year ended June 30, 2008, 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 procedures to accurately record and report the financial activity of the City. A consistent and accurate basis of accounting is not applied to the activity within each fund. The City's accounting system does not reflect fund accounting which requires that each fund be a self-balancing set of books. Balance sheet accounts are not supported by substantiating documentation nor reconciled regularly to reflect actual financial activity and bank statements are not accurately reconciled to general ledger cash accounts. Operating transfers between funds are not accurately recorded or documented. Interfund activity is not accurately authorized nor recorded. Revenues and expenditures are not accurately recorded by source and function and, in some cases, revenues and expenditures are netted against one another understating both. Equity accounts are incorrectly adjusted throughout the year by current year activity misstating equity balances. The City has not presented a Statement of Cash Flows for its Enterprise Funds.

In our opinion, because of the effects on the financial statements of the matters described in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Rutland, Vermont as of June 30, 2008 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 March 11, 2009, 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 10, and the Budget and Actual – General Fund, on page 42 through 43, Combining Balance Sheet – Non-Major Governmental Funds and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds, on pages 44 through 45, 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 inquires 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.
March 11, 2009
State of Vermont
License #092-0000130

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008

Presented is the Management Discussion & Analysis Report for the City of Rutland, Vermont for the fiscal year ending June 30, 2008. Responsibility for both the accuracy of the data and the completeness and fairness of this presentation, including all disclosures, rests with management. To the best of our knowledge and belief the data contained herein is accurate in all material respects. This data is reported in a manner designed to fairly present the City's financial position, and the result of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an accurate understanding of the City's financial activities have been included.

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

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 for the first time.

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 revenues and expenditures 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 on balances of 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. The financial statements contain reconciliations for both the governmental fund balance sheet and the statement of revenues, expenditures and changes in fund balances to compare to the government-wide statement of net assets and statement of activities.

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

The City adopts an annual appropriation budget for its General Fund. A budgetary comparison has been provided for the General Fund with adopted budget to demonstrate compliance with that 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 presented in the government-wide and fund financial statements.

Government-Wide Financial Analysis

Statement of Net Assets

Net Assets of the City as of June 30, 2008 are as follows:

Current and other assets:	$ 7,751,087
Capital Assets	42,664,394
Other assets	515,570
Total assets	50,931,051
Current and other liabilities:	
Long-term bonds and capital leases payable	19,385,798
Compensated absences payable	2,330,245
Post retirement benefits payable	2,783,390
Other liabilities	1,318,674
Total liabilities	25,818,107
Net assets:	
Invested in capital assets, net of related debt	23,282,627
Restricted for specific purposes	2,869,115
Unrestricted	(1,038,798)
Total net asset	$ 25,112,944

Statement of Activities

The Statement of Activities reports total expenses and changes in net assets for the year ending June 30, 2008 as follows:

Program Revenues:	
Charges for Services	$ 8,679,541
Operating Grants	1,270,371
Total Program Revenues	9,949,912
General revenues:	
Property Tax assessments (includes PILOT)	13,409,147
Rooms, Meals & Entertainment Tax	456,138
Interest and investment earnings	323,328
Sale of fixed assets, stock	5,551
Miscellaneous	427,946
Total general revenues	14,622,110
Total revenues	24,572,022
General Expenses:	
General Government	3,341,950
Public Safety	8,983,342
Highways & Streets	2,225,840
DPW Administration	869,634
Economic Development	747,026
General Services	621,370
Culture & recreation	2,354,312
Debt Service	678,360

Total Governmental activities:	19,821,834
Business-type activities	5,254,081
Total Primary Governmental activities	25,075,915
Change in net assets	
Net assets – beginning of year	25,450,332
Net assets – end of year	24,946,439
Change in Net Assets:	$ (503,893)

City Activities

Government-wide Financial Analysis

Change in net assets for June 30, 2008 is ($503,893). This is partly due to an adjustment to expense vacation accruals at year end in the amount of $471,923 across all departments of the city. This is a one-time adjustment to properly record the transaction according to GAAP; Generally Accepted Accounting Principles. The remaining portion of the shortfall lies with the inability of the proprietary funds to provide the budgeted transfers and still maintain a position of profitability.

Governmental Funds

At June 30, 2008 the City of Rutland's governmental funds reported a combined fund balance of $4,291,739. 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.

General Fund Fund Balance

The General Fund shows a fund balance of $2,951,283, as of June 30, 2008. The restated fund balance as of June 30, 2007 is $2,711,140. The General Fund shows a net positive change to fund balance of $240,143 resulting primarily from budgeted transfers. The fund balance as of June 30, 2007 was restated from a June 30, 2007 balance of $5,831,165 down to $2,711,140 due primarily to a correction of interfund obligations. A significant portion of this adjustment included an amount owed to the General Fund of $4,534,272 due from the City's Water and Sewage Funds. This correction was approved by the Board of Alderman and had the effect of reducing the General Fund fund balance and increasing the Proprietary Fund fund balances. The General Fund fund balance had been overstated by the recognition of a current expense note of $5 million which occurred in FY 2006 - provided to the General Fund to be repaid by the Proprietary Funds to satisfy interfund payables from the Proprietary Funds to the General Fund.

General Fund Budget vs. Actual

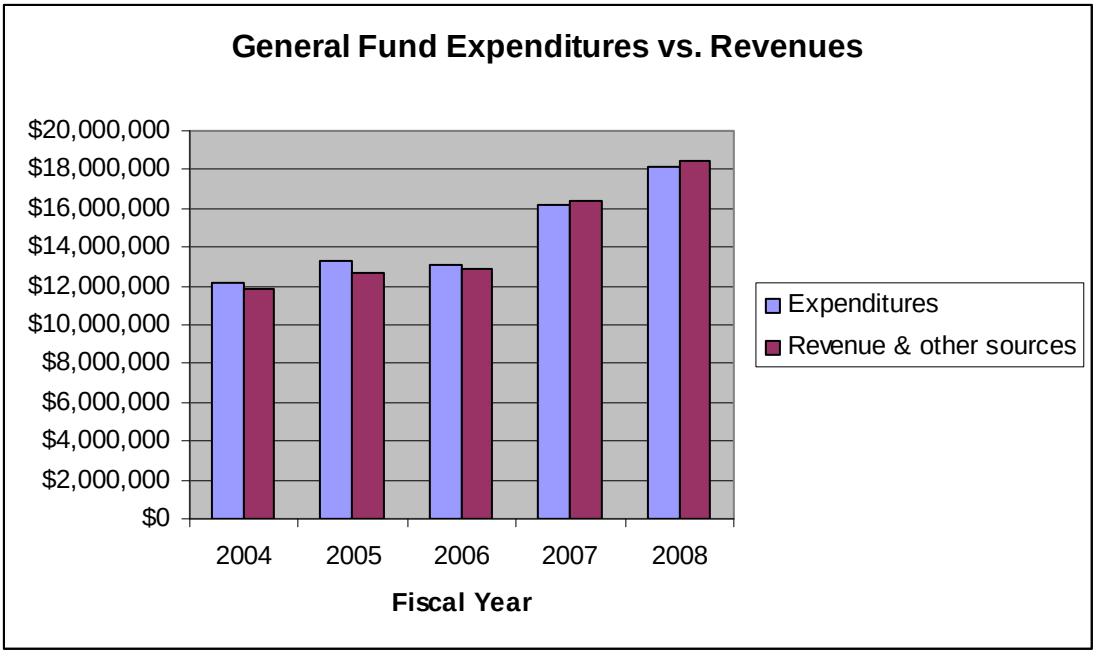
Final actual revenues exceeded budgeted revenues by $336,910, before transfers. Payment in Lieu of Taxes and grant revenues were higher than expected and general tax revenues were lower than expected. Increases in grant revenue were consumed by increased expenditures in grant programs.

Final actual expenditures exceeded budgeted expenditures by $1,317,783. Approximately half of this is accounted for by the transfer of the Current Expense Note to the General

Fund, which is offset by an additional transfer from the proprietary funds. All department expenses were increased by an amount relating to vacation accruals, which represent one-time adjustments for each department. Police and community development expenses were higher than expected due to expenses associated with grants that were previously considered separate from the General Fund.

Miscellaneous expenses included grant expenses that were also incorporated from these miscellaneous accounts. Government building expenses were higher due to unexpected City Hall repairs and highways saw greater expenses due to storm events. Debt service was higher than budgeted due to the approved transfer of the current expense note principal and interest into the General Fund.

Also, a current-year review of the City's accounting fund structure revealed that numerous accounts existed that had historically been presented as separate governmental funds and as a result of implementing current governmental accounting standards these accounts were incorporated into the General Fund.

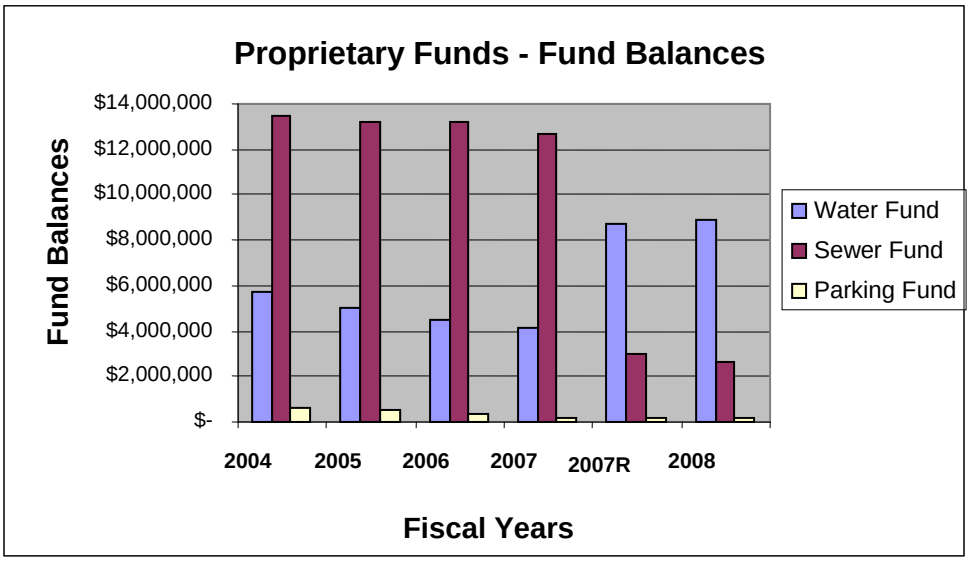


Proprietary Funds

Overall the proprietary funds—Water Fund, Sewage Disposal Fund, and Parking Meter fund—experienced a reduction in net assets of $69,811. The Water Fund experienced a $245,360 increase in net assets, while Sewage Disposal Fund and Parking Meter Fund experience reductions in net assets of $314,756 and $415, respectively.

During the current year review to implement government accounting standards, significant adjustments were made to the historical cost of capital assets of the Proprietary Funds, primarily Water and Sewage Disposal Funds, ultimately affecting fund balances. The City has not maintained actual historical costs for all capital assets and the conversion to the new

reporting model required by government accounting standards resulted in a decrease in the reported cost of capital assets, primarily in the Sewage Disposal Fund. Conversely, Water Fund capital assets historical costs recognition and the recent completion of the water plant roof repair caused an increase in capital asset book value. Lastly, a significant liability was eliminated between the Water Fund, Sewage Disposal Fund and the General Fund.



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.

Long-Term Obligations

During FY 2008 the City had a principal reduction in bonds payable of $1,130,990. The City increased its long-term debt by $6,253,500 by converting short-term debt for the water treatment plant roof repair and the final stage of the CSO project to long-term funding, in amounts of $4,653,500 and $1,600,000 respectively. This reduced the City's exposure to interest rate risk in short-term financing, lines of credit or bond anticipation notes, and began principal repayments associated with those debts. The net change in long term debt for the City was an increase of $5,122,510.

Capital leases showed an increase of $31,435 in conjunction with the purchase of the valve exerciser for the water department. Capital leases showed a reduction of $96,235 through payments made with a net reduction of $64,800. Post-retirement benefits payable increased by

$102,790 to a balance of $2,783,390. See Note 8 in the Basic Financial Statements for a summary of all outstanding long-term obligations.

Economic Factors, Rates and 2008 Budget

The most significant factor affecting City revenues was the softening of the economic climate in the region, the State and the nation. This decline had an impact on revenues and on collections. The unemployment rate for the Rutland region was 4.9% in June 2007 and had risen to 6.0% by June 2008, according to the Vermont Department of Labor. The median year-round home price in Rutland County was $160,000 in 2007, ranking fourth lowest in the state, 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, including payment agreements shut-offs and tax sales for parcels that were seriously delinquent and for which a payment arrangement was not

feasible. Through these collection efforts the City was able to bring many accounts current as lenders intervened on behalf of taxpayers to cure the delinquencies reducing the overall delinquent tax amount at the end of FY 2008 to $504,434.15 for all tax years, or 2.05% of the expected tax revenue of $24,599,040.

Changes in the grand list due to state tax department homestead changes, errors and omissions, grievances, and abatements reduced the expected tax revenue in FY 08 over the course of the fiscal year. The grand list value used to set the tax rate in June 2007 was $10,042,451.88 which would have raised tax revenue of $24,826,015 including the special benefits district tax of $226,975. The grand list was reduced to $10,006,583.24 by the time the rate was applied and bills mailed, reducing the expected tax revenue to $24,770,944.16. At the close of the fiscal year the grand list had dropped to $9,988,259.67 reducing expected tax revenue to $24,703,243.71.

Tax rates in FY 2008 increased for both state education and municipal appropriations. The homestead education tax rate increased from $1.1054 in FY 2007 to $1.1416 in FY 2008, a change of 3.27%. The municipal rate increased from $1.1373 to $1.2567, an increase of 10.5%. The increase was driven by increases in healthcare costs, cost of living increases by contract, increased debt service, and workers compensation insurance costs. Some cost increases occurred in FY 2007, and were not reflected in the FY 2007 budget, causing the increase in tax rates from FY 2007 to FY 2008 to appear even more significant.

During FY 2008 the City completed the water treatment plant roof repair with a total price of over $7 million, including re-construction and legal costs, to date. The City also renovated Giorgetti Rink and completed an extensive trail system at Pine Hill Park. The Department of Public Works union contract was negotiated in FY 2008, which included a retroactive pay increase for FY 2008, but also included a provision for employees, and retirees, to pay for a portion of healthcare premiums, with increased contributions beginning in FY 2009.

Comparative Analysis:

As this is the first year of government-wide reporting a comparative analysis is not available at this time. The City will present a comparative analysis for FY 2009 and FY 2008 with the management discussion and analysis presented with the audited financial statements for FY 2009.

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

FINANCIAL STATEMENTS

CITY OF RUTLAND, VERMONT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Primary Government			Component Unit
ASSETS	Governmental Activities	Business-type Activities	Total	Rutland Redevelopment Authority
Current Assets				
Cash and equivalents	$ 4,354,353	$ 136,203	$ 4,490,556	$ 8,343
Receivables	993,587	2,174,112	3,167,699	13,750
Inventories	-	55,187	55,187	-
Prepaid expenses	37,645	-	37,645	-
Total current assets	5,385,585	2,365,502	7,751,087	22,093
Non-current Assets				
Notes & mortgages	515,570	-	515,570	-
Property and equipment, net of depr	14,064,775	28,599,619	42,664,394	-
Total non-current assets	14,580,345	28,599,619	43,179,964	-
Total assets	19,965,930	30,965,121	50,931,051	22,093
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	256,664	770,169	1,026,833	-
Accrued liabilities	4,905,617	346,289	5,251,906	-
Deferred revenue	153,570	-	153,570	-
Notes and bonds payable-current	146,110	1,064,880	1,210,990	-
Total current liabilities	5,461,961	2,181,338	7,643,299	-
Non-current Liabilities				
Notes and bonds payable	1,710,409	16,464,399	18,174,808	-
Total non-current liabilities	1,710,409	16,464,399	18,174,808	-
Total liabilities	7,172,370	18,645,737	25,818,107	-
Net Assets				
Invested in capital assets, net of related debt	12,212,286	11,070,341	23,282,627	-
Restricted				
Notes & mortgages receivable	515,570	-	515,570	-
Specific purposes	2,353,545	-	2,353,545	-
Unrestricted	(2,287,841)	1,249,043	(1,038,798)	22,093
Total net assets	$ 12,793,560	$ 12,319,384	$ 25,112,944	$ 22,093

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

CITY OF RUTLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

		Program Revenues			Net (Expense) Revenue & Changes in Net Assets			
					Primary Government			Component Unit
Functions/Programs	Expenses	Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Business-type Activities	Total	RRA
Governmental activities								
General government	$ 3,341,950	$ 53,861	$ 1,270,371	$ -	$ (2,017,718)	$ -	$ (2,017,718)	$ -
Public safety	8,983,342	81,750	-	-	(8,901,592)	-	(8,901,592)	-
Highway & streets	2,225,840	-	-	-	(2,225,840)	-	(2,225,840)	-
DPW administration	869,634	-	-	-	(869,634)	-	(869,634)	-
Economic development	747,026	-	-	-	(747,026)	-	(747,026)	-
General services	621,370	644,774	-	-	23,404	-	23,404	-
Culture & recreation	2,354,312	595,879	-	-	(1,758,433)	-	(1,758,433)	-
Judgments & fines	678,360	103,115	-	-	(575,245)	-	(575,245)	-
Total governmental activities	19,821,834	1,479,379	1,270,371	-	(17,072,084)	-	(17,072,084)	-
Business-type activities								
Water, Sewer and Parking Meter Activity	5,254,081	7,200,162	-	-	-	1,946,081	1,946,081	-
Total primary governmental	25,075,915	8,679,541	1,270,371	-	(17,072,084)	1,946,081	(15,126,003)	-
Component Unit								
Rutland Redevelopment Authority	$ 597,330	$ -	$ 222,226	$ -				(375,104)
General revenues								
Property taxes					13,409,147	-	13,409,147	226,975
Rooms & Meals Tax					456,138	-	456,138	-
Interest income					204,620	118,708	323,328	-
Sale of fixed assets/stock					-	5,551	5,551	-
Miscellaneous					350,073	77,873	427,946	123,711
Transfers in (out)					2,218,024	(2,218,024)	-	-
Total general revenues & transfers					16,638,002	(2,015,892)	14,622,110	350,686
Change in net assets					(434,082)	(69,811)	(503,893)	(24,418)
Net assets - June 30, 2007 as stated					14,483,452	18,070,623	32,554,075	46,511
Prior period adjustment					(3,120,025)	(6,225,341)	(9,345,366)	-
Net assets - June 30, 2007, restated					11,363,427	11,845,282	23,208,709	46,511
Net assets - June 30, 2008					$ 10,929,345	$ 11,775,471	$ 22,704,816	$ 22,093

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

CITY OF RUTLAND, VERMONT
BALANCE SHEETS - GOVERNMENTAL FUNDS
JUNE 30, 2008

ASSETS	General Fund	Non-Major Governmental Funds	Total
Cash and cash equivalents	$ 3,329,103	$ 1,025,250	$ 4,354,353
Receivables	446,768	-	446,768
Prepaid expenses	37,645	-	37,645
Due from other funds	791,927	402,607	1,194,534
Total assets	4,605,443	1,427,857	6,033,300
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	253,484	3,180	256,664
Deferred revenue	153,570	-	153,570
Due to other funds	566,935	84,221	651,156
Accrued expenses	680,171	-	680,171
Total liabilities	1,654,160	87,401	1,741,561
Fund Balance			
Unreserved			
Designated for specific purposes	1,013,089	1,340,456	2,353,545
Undesignated	1,938,194	-	1,938,194
Total fund balances	2,951,283	1,340,456	4,291,739
Total liabilities and fund balances	$ 4,605,443	$ 1,427,857	$ 6,033,300

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

CITY OF RUTLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEETS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total Fund Balances - Governmental Funds	$ 4,291,739
Capital assets in governmental activities are not financial resources and therefore are not reported in the governmental fund financial statements.	49,001,342
Accumulated depreciation has not been included in the governmental fund financial statements.	(34,936,537)
Accrued liabilities represents non-current activity and are not reported in the governmental funds, however, are included in the Statement of Net Assets.	(4,225,446)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(1,856,519)
Interfund activity is reported in the fund financial statements but eliminated for the government-wide financial statements.	(543,378)
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.	1,062,359
Net Assets of Governmental Activities	$ 12,793,560

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

CITY OF RUTLAND, VERMONT
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Total Non-Major Governmental Funds	Total Memorandum Only
Revenues			
Taxes - general	$ 12,312,334	$ -	$ 12,312,334
Delinquent tax, penalties and interest	61,825	-	61,825
Fines & forfeitures	103,115	-	103,115
Rooms & meals tax	456,138	-	456,138
PILOT	488,172	-	488,172
Licenses & permits	53,861	-	53,861
Federal grants	121,197	8,252	129,449
State grants	1,140,922	-	1,140,922
Charges for services	1,084,039	238,364	1,322,403
Interest income	204,620	-	204,620
Tax sale	17,329	15,902	33,231
Rental income	42,866	-	42,866
Donations	37,200	-	37,200
Employee reimbursements	165,139	2,000	167,139
Miscellaneous	30,439	3,233	33,672
Total revenues	16,319,196	267,751	16,586,947
Expenditures			
Executive	94,015	-	94,015
Legislative	23,565	-	23,565
City Clerk	334,916	-	334,916
City Treasurer	715,854	-	715,854
City Attorney	177,756	-	177,756
City Assessor	153,104	-	153,104
Building and Zoning	228,890	-	228,890
Libraries	571,975	-	571,975
Police department	4,416,943	-	4,416,943
Fire department	2,714,077	-	2,714,077
Highways	1,368,091	-	1,368,091
Winter maintenance	444,636	-	444,636
Street lighting	259,315	-	259,315
Traffic control	73,798	-	73,798

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

CITY OF RUTLAND, VERMONT
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Total Non-Major Governmental Funds	Total Memorandum Only
Catch basins	24,586	-	24,586
Community development	747,026	-	747,026
Dana Center	954,802	-	954,802
DPW Administration	623,110	-	623,110
Elections	10,197	-	10,197
Government buildings	506,472	-	506,472
Recreation Department Maintenance	453,300	-	453,300
Operations	15,079	204,680	219,759
Giorgetti Park	174,604	-	174,604
Godnick Center	94,951	-	94,951
White Playground	66,329	-	66,329
Annual Report	5,150	-	5,150
Vehicle maintenance	413,113	-	413,113
Miscellaneous expense	484,089	-	484,089
Appropriations	341,443	-	341,443
Pension expense	536,919	-	536,919
Interest expense	475,111	-	475,111
Debt service	678,360		678,360
Total expenditures	18,181,577	204,680	18,386,257
Excess of revenues over (under) expenditures	(1,862,381)	63,071	(1,799,310)
Other financing sources (uses)			
Transfers in (out)	2,102,524	115,500	2,218,024
Total other financing sources (uses)	2,102,524	115,500	2,218,024
Net change in fund balances	240,143	178,571	418,714
Fund Balances, June 30, 2007, as stated	5,831,165	1,161,885	6,993,050
Prior period adjustment	(3,120,025)	-	(3,120,025)
Fund Balance, June 30, 2007, restated	2,711,140	1,161,885	3,873,025
Fund Balances, June 30, 2008	$ 2,951,283	$ 1,340,456	$ 4,291,739

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

CITY OF RUTLAND, VERMONT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

Total Net Change in Fund Balances - Governmental Funds	$ 418,714
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.	360,306
The issuance of long-term debt (bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction; however, has any affect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt.	678,360
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.	(485,441)
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.	(2,330,245)
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.	546,816
Change in Net Assets of Governmental Activities	$ (811,490)

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, 2008

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Totals (Memorandum Only)
ASSETS				
Current Assets				
Cash	$ -	$ 101,907	$ 34,296	$ 136,203
Accounts receivable	843,018	1,105,736	225,358	2,174,112
Inventories	17,061	38,126	-	55,187
Total current assets	860,079	1,245,769	259,654	2,365,502
Non-current Assets				
Property and equipment, net of accumulated depr	19,496,292	8,825,810	277,517	28,599,619
Total non-current assets	19,496,292	8,825,810	277,517	28,599,619
Total assets	20,356,371	10,071,579	537,171	30,965,121
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	717,339	51,925	905	770,169
Accrued expenses	110,130	215,530	20,629	346,289
Due to other funds	-	226,179	317,734	543,913
Notes payable-current	544,290	520,590	-	1,064,880
Total current liabilities	1,371,759	1,014,224	339,268	2,725,251
Non-current Liabilities				
Notes payable	10,059,447	6,404,952	-	16,464,399
Total liabilities	11,431,206	7,419,176	339,268	19,189,650
Net Assets				
Invested in capital assets, net of related debt	8,892,555	1,900,269	277,517	11,070,341
Unrestricted	32,610	752,134	(79,614)	705,130
Total net assets	$ 8,925,165	$ 2,652,403	$ 197,903	11,775,471
Adjustment to eliminate interfund activity between proprietary funds and governmental funds				543,913
Net assets of business-type activities				$ 12,319,384

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

CITY OF RUTLAND, VERMONT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Water Fund	Sewage Disposal Fund	Parking Meter Fund	Totals (Memorandum Only)
Operating revenues				
Charges for services	$ 3,197,732	$ 3,794,321	$ 208,110	$ 7,200,163
Miscellaneous income	77,873	-	-	77,873
Total operating revenues	3,275,605	3,794,321	208,110	7,278,036
Operating expenses				
Operating, maintenance, & general	1,437,032	2,486,979	193,337	4,117,348
Depreciation	325,667	265,519	15,188	606,374
Total operating expenses	1,762,699	2,752,498	208,525	4,723,722
Operating gain/(loss)	1,512,906	1,041,823	(415)	2,554,314
Other income (expenses)				
Interest income	56,658	62,050	-	118,708
Interest expense	(311,040)	(219,320)	-	(530,360)
Sale of assets	5,551	-	-	5,551
Total other income (expenses)	(248,831)	(157,270)	-	(406,101)
Change in net assets	1,264,075	884,553	(415)	2,148,213
Operating transfers in (out)	(1,018,715)	(1,199,309)	-	(2,218,024)
Change in net assets	245,360	(314,756)	(415)	(69,811)
Total net assets - June 30, 2007, as stated	4,515,938	13,213,431	341,254	18,070,623
Prior period adjustment	4,163,867	(10,246,272)	(142,936)	(6,225,341)
Total net assets - June 30, 2007, restated	8,679,805	2,967,159	198,318	11,845,282
Total net assets, June 30, 2008	$ 8,925,165	$ 2,652,403	$ 197,903	$ 11,775,471

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, 2008

	Employee Pension Plan	Property Escrow Fund	Grace Stoolfire Trusts	Graphic Arts Fund	Mission Fund	Emergency Fuel Fund	Total Fiduciary Funds
ASSETS							
Cash and cash equivalents	$ 6,239,752	$ 13,022	$ 38,684	$ 21,103	$ 2,779	$ 10,664	$ 6,326,004
Due from other funds	-	534	-	-	-	-	534
Investments	43,883,635	-	205,323	-	-	-	44,088,958
Total assets	50,123,387	13,556	244,007	21,103	2,779	10,664	50,415,496
LIABILITIES							
Accounts payable	-	-	4,999	-	-	-	4,999
	-	-	4,999	-	-	-	4,999
NET ASSETS							
Permanently restricted	-	-	25,237	-	-	-	25,237
Held for the benefit of others	50,123,387	13,556		21,103	2,779	10,664	50,171,489
Reserved for endowment	-	-	213,771	-	-	-	213,771
	$ 50,123,387	$ 13,556	$ 239,008	$ 21,103	$ 2,779	$ 10,664	$ 50,410,497

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, 2008

	Employee Pension Plan	Property Escrow Fund	Grace Stoolfire Trusts	Graphic Arts Fund	Mission Fund	Emergency Fuel Fund	Total Fiduciary Funds
Additions							
Contributions	$ 3,279,738	$ -	$ -	$ -	$ -	$ -	$ 3,279,738
Investment earnings							
Additions	-	95,057	-	-	-	-	95,057
Investment income	1,478,915	489	8,495	351	105	103	1,488,458
Net gain (loss) in fair value of investments	(5,315,427)	-	-	-	-	-	(5,315,427)
Donations	-	-	-	-	-	2,696	2,696
Gain (loss) on disposition of investments	328,204	-	(35,129)	-	-	-	293,075
Total investments earnings	(3,508,308)	95,546	(26,634)	351	105	2,799	(3,436,141)
Total additions	(228,570)	95,546	(26,634)	351	105	2,799	(156,403)
Deductions							
Retirement benefits	2,588,606	-	-	-	-	-	2,588,606
Disbursements	-	96,948	-	-	24,682	1,179	122,809
Expenses	253,320	-	4,999	-	-	-	258,319
Total deductions	2,841,926	96,948	4,999	-	24,682	1,179	2,969,734
Changes in net assets	(3,070,496)	(1,402)	(31,633)	351	(24,577)	1,620	(3,126,137)
Net assets, beginning	53,193,883	14,958	270,641	20,752	27,356	9,044	53,536,634
Net assets, ending	$ 50,123,387	$ 13,556	$ 239,008	$ 21,103	$ 2,779	$ 10,664	$ 50,410,497

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

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.

B. Reporting Activities

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

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

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

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

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.

Note 1. Summary of Significant Accounting Policies (continued)

B. Reporting Entity (continued)

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

Rutland Redevelopment Authority

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

C. Accounting Policies

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 accounting policies of the City of Rutland, Vermont conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant 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.

Note 1. Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

4. Investments: Investments in registered equity securities and U. S. Government obligations are stated at fair value in the expendable trust funds. The fair value at June 30, 2008 for corporate stock was $205,322. 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.

5. 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.

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 unit as required by laws. The amount of taxes collected for and remitted to the Rutland School District during the year ended June 30, 2008 is $11,912,083, to the Rutland Redevelopment Authority is $226,975, and for Rutland County is $138,749.

7. 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.

The City Charter limits property taxes to $.85 per $100 of assessed valuation for general government services. The Charter also set limits on other tax levies as outlined in Charter.

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 1. Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

9. Total Columns: The combined financial statements include a total column that is described as "memorandum only." Data in these columns do not present financial position, results of operations, or cash flow in consolidation. Interfund transactions have not been eliminated from the total column of each fund financial statement.

D. 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 properly included with program revenues are reported as general revenues. The fiduciary funds of the City are not included in the government-wide financial statements; however, separate financial statements are presented.

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.

E. 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

Note 1. Summary of Significant Accounting Policies (continued)

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

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 there after 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.

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.

Note 1. Summary of Significant Accounting Policies (continued)

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

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 expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The City has ten special revenue funds: the Hospital Fund, the Equipment Replacement Fund, the Field Maintenance Fund, the Capital Improvement Fund, the Fire Equipment Fund, the Zamias Fund, the Recreational Activities Fund, the White Fund, the Giorgetti Fund, and the Records Preservation 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.

During 2004 the City approved the creation of a sinking fund to be funded from 5% of the net revenues of the Sewage Disposal Fund, with these monies to be used for improvements to the CSO Phase 2A project. As of June 30, 2008, no monies have been transferred to this 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.

Fiduciary Funds - Expendable and Nonexpendable Trust and Agency Funds: To account for assets held by the City in trustee capacity or as an agent for individuals, private organizations, and other governmental units and funds. Nonexpendable 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.

Note 1. Summary of Significant Accounting Policies (continued)

F. Assets, liabilities and nets assets or equity

1. Capital Assets: The City's property, plant, equipment, and infrastructure with useful lives of more that 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

2. 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.

3. 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.

4. 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.

5. Sewage Disposal Fund Net Revenues: The City Board of Aldermen passed a resolution April 5, 2004 to establish a separate fund to be funded at 5% of total yearly net revenues for the Sewer Treatment Plant, which fund is to be used only to repair, replace, improve or enlarge the Sewer Treatment Facilities, including CSO facilities. As of June 30, 2008, no net revenues from the Sewer Treatment Plant have been reserved for this activity.

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 an increase of $8,501,821.

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 $1,376,314.

C. Explanation of differences between the proprietary fund statement of net assets and the government-wide statement of net assets.

The proprietary statement of net assets includes a reconciliation between net assets – total enterprise funds and net assets of business-type activities as reported in the government-wide statement of net assets. The description of the sole element of that reconciliation is an adjustment to eliminate interfund receivables and payables related to enterprise funds. The total of this adjustment is $543,913.

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. All budget appropriations lapse at yearend.

B. Excess of appropriations over expenditures

For the year ended June 30, 2008 General Fund revenues exceeded expenditures by $240,143. This was the result of strong budget controls and increased revenues.

Note III. Stewardship, compliance and accountability (continued)

C. Deficit/surplus fund equity

There are no deficit fund balances for the year ended June 30, 2008. The total governmental activities statement of net assets presents a deficit of undesignated/unrestricted net assets of $2,287,841, due to non-current liabilities and the amount invested in capital assets.

Note IV. Detailed notes on all funds

A. Cash, Cash Equivalents, and Investments

For financial statement reporting purposes, cash and cash equivalents are defined as all bank deposits with original maturities of three (3) months or less. The City has not adopted formal deposit and investment policies.

At June 30, 2008, the carrying amount of the City's deposits with financial institutions was $4,490,556, and the bank balances were $4,430,959. These deposits are held in checking accounts, savings accounts, and money market accounts. Of the funds on deposit, $404,473 was covered by the Federal Deposit Insurance Corporation (FDIC). $3,350,264 was collateralized and the remaining $676,222 was uninsured and uncollateralized. The City has a collateralization agreement with TD BankNorth to secure deposits above the FDIC limits up to a limit of $11,000,000.

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, 2008, trust fund investments were valued at $50,123,387. Market value of trust fund investments, determined by quoted market prices at June 30, 2008, are as follows:

Corporate Stock	$22,032,282
International Stock	7,457,339
Corporate Bonds	14,394,014
Money Market Funds	6,239,752
	$50,123,387

The investments have not been rated as to credit risk.

Note IV. Detailed notes on all funds (continued)

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

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, 2008, all the City's investments were in Category 1.

B. Individual Fund Interfund Receivable and Payable Balances

Balances at June 30, 2008 were as follows:

	Receivables	Payables
General Fund	$ 224,992	$ -
Capital Improvement Fund	17,867	
Equipment Replacement Fund	-	12,241
Field Maintenance Fund	-	6,058
Fire Equipment Fund	100,991	
Hospital Fund	-	13,032
Property Escrow Fund	534	
Recreational Activities Fund	-	21,464
Records Preservation Fund		31,426
Zamias Fund	283,750	
Sewage Disposal Fund		226,179
Parking Meter Fund	-	317,734
	$628,134	$628.134

All governmental fund interfund receivable and payable balances are eliminated in the government-wide Statement of Net Assets.

C. Allowance for Uncollectible Receivables

Delinquent taxes receivable reported in the fund financial statements represent property taxes outstanding at June 30, 2008. 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, 2008. 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, 2008, the City has not established an allowance for these uncollectible receivables.

Note IV. Detailed notes on all funds (continued)

C. Allowance for Uncollectible Receivables (continued)

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.

D. Capital Assets Activity

Capital asset activity of the City for the year ended June 30, 2008 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental activities:				
General services	$ 2,261,197	-	-	2,261,197
Fire Department	3,191,642	-	-	3,191,642
Police Department	2,586,015	47,364	-	2,633,379
Department of Public Works	35,380,578	-	-	35,380,578
Recreation	4,991,025	312,942	-	5,303,967
Cemetery	200	-	-	200
Library	230,379	-	-	230,379
Total capital assets at cost	$48,641,036	$360,306	$ -	$49,001,342
Less accumulated depreciation:				
Governmental activities:				
General services	$ 589,086	32,978	-	622,064
Fire Department	2,307,037	76,226	-	2,383,263
Police Department	1,013,797	91,362	-	1,105,159
Department of Public Works	29,563,397	246,524	-	29,809,921
Recreation	772,686	37,389	-	810,075
Library	205,063	962	-	206,025
Total accumulated depreciation	$34,451,066	$ 485,441	$ -	$34,936,507
Capital assets, net	$14,189,910	$(125,561)	$ -	$14,064,775

Note IV. Detailed notes on all funds (continued)

D. Capital Assets Activity (continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Proprietary Fund activities:				
Land	$ 5,393,070	$ -	$ -	$ 5,393,070
Buildings	19,473,886	2,919,727	-	22,393,613
Easements	115	-	-	115
Machinery & Equipment	5,503,059	42,150	-	5,545,209
Meters	1,172,006	-	-	1,172,006
Reservoirs	2,694,613	-	-	2,694,613
Total	34,236,749	2,961,877	-	37,198,626
Less accumulated depreciation:	7,992,633	606,374	-	8,599,007
Capital assets, net	$26,244,116	$2,355,503	$ -	$28,599,619

Total Proprietary Fund depreciation expense for the year ended June 30, 2008 is $606,374.

E. Mortgages and Notes Receivable

Description	Amount
0% 2008 Elizabeth Pimpare note receivable with semi-annual payments of principal of $1,500 with final payment due in 2018.	$ 28,500
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	$515,570

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 fixed 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:

Note IV. Detailed notes on all funds (continued)

F. Lease Agreements (continued)

	Balance
2009	$97,587
2010	66,226
2011	51,689
	215,502
Interest portion	17,265
	$198,237

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

G. General Long-Term Debt

During the year ended June 30, 2008, 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, 2008 is as follows:

2.22% Capital Improvement Bond – General Obligation with annual principal payments of $6,110 plus variable interest payments maturing December 2013.	$ 36,519
4.83% Capital Improvement Bond – General Obligation- Call Wendy with annual principal payments of $140,000 plus variable interest payments maturing December 2020.	$1,820,000

H. Notes and Bonds Payable - 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, 2008:

Sewer Fund

0.00% Overflow Project VMBB construction bond with variable annual principal payments maturing December 2012.	$ 285,542

Note IV. Detailed notes on all funds (continued)

H. Notes and Bonds Payable - Proprietary Funds (continued)

0.00% CSO VMBB construction bond with principal only annual payments of $160,000 maturing December 2026.	3,040,000
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.	1,600,000
5.82% TD BankNorth 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.	2,000,000
Water Fund	
3.01% VMBB Capital Improvement Bond with annual principal Payments of $95,000 plus variable interest semi-annual payments Maturing December 2022.	1,425,000
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.	1,191,141
5.82% TD BankNorth Current Expense Note for water of repayment of General Fund operating transfers with annual principal payments of $250,000 plus interest maturing June 2011.	2,000,000
Total notes and bonds	$18,051,702
Less current portion:	$ 1,210,990
Long-term portion	$16,840,712

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

Note IV. Detailed notes on all funds (continued)

H. Notes and Bonds Payable - Proprietary Funds (continued)

	Principal	Interest	Total
Current portion	1,210,990	490,218	1,701,208
2010	1,210,990	442,341	1,653,331
2011	1,384,177	440,076	1,824,253
2012	3,387,793	243,201	3,630,994
2013	1,025,736	220,184	1,245,920
2014-2018	3,583,553	798,286	4,381,839
2019-2023	3,259,961	365,419	3,625,380
2024-2028	2,390,278	117,643	2,507,921
2029-2033	598,224	9,020	607,244
Total	$18,051,702	$3,126,388	$21,178,090

For the year ended June 30, 2008, long-term debt interest expense was $636,820.

I. Fund Balances Designated for Specific Purposes

At June 30, 2008, the City had designated General Fund fund balances for the following purposes:

	General Fund
Designated for specific purposes:	
Reappraisal Fund	$ 95,840
Rutland Redevelopment Authority	344,698
Drug Forfeiture Fund	73,233
LEPC	7,223
LLEBG	826
GIS	12,151
Home Depot Activity	57,442
Giorgetti Ice Rink	231,786
Landfill Closure	11,970
Community Police Fund	15,730
Route 4 & 7	91,189
Homeland Security – Fire	51,163
Justice Assistance Grant	19,838
Totals	$1,013,089

Note IV. Detailed notes on all funds (continued)

J. Deferred Revenue

The City has entered into an agreement with the Rutland Area Hockey Association (RAHA) to lease use of the 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, 2008 is $153,570.

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, 2008, with the police, fire, and public works department employees.

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. Pension Plan

The City has historically not included the pension plan in its financial statements and, therefore, the amounts presented here are not comparable to prior periods.

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 $257,516 to the Plan in the fiscal year ended June 30, 2008. Employer contributions for the City's employees for the year ended June 30, 2008 was $510,000.

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

Valuation date	01/01/2007
Actuarial cost method	Pro-rata, projected unit credit
Actuarial asset valuation method	20% smoothing of investment returns greater or less than expected

Note V. Other information (continued)

B. Pension Plan (continued)

Actuarial assumptions	
Inflation rate	N/A
Investment return	8.0%
Project salary increases	5.0%
Post-retirement benefit increases	N/A
Amortization method	Level dollar over 15 years
Actuarial value of assets	$50,695,986
Actuarial accrued liability	$59,831,977
Unfunded actuarial accrued liability	$ 9,135,991
Unfunded liability - percent of covered payroll	37.81%
Funded rate	84.73%
Covered payroll	$24,161,425
Annual contribution	$ 1,877,860
Recommended contribution at 12/31/2007	$ 3,609,894
Percent of contribution to recommended contribution	52.02%

C. Post-Retirement Obligations

The City maintains 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 net present value of these various obligations are as follows:

Year	Amount
6/30/2009	$391,063
6/30/2010	370,060
6/30/2011	356,986
6/30/2012	318,832
6/30/2013	279,987
6/30/2014	226,160
6/30/2015	191,321
6/30/2016	157,507
6/30/2017	117,255
6/30/2018	110,067
6/30/2019	121,074
6/30/2020	123,988

Note V. Other information (continued)

C. Post-Retirement Obligations (continued)

6/30/2021	9,514
6/30/2022	4,566
6/30/2023	5,010
Total	$2,783,390

D. Prior Period Adjustments

These financial statements include the following prior period adjustments:

The City has not historically classified its accounting by governmental funds as defined in governmental accounting standards. The City has not used an accurate basis of accounting for its fund activity. Government accounting standards require that municipal governments report on their financial activity on the modified accrual basis of accounting as defined above. The City has also not accurately tracked and reported interfund receivables and payables between the General Fund and the City's Enterprise Funds.

As a function of the City's pooled cash accounting for the General Fund and Enterprise Funds, the City has used General Fund cash assets to settle obligations of the Enterprise Funds. The total of the amount due to the General Fund as of June 30, 2006 equaled $4,534,272. During June 2006, the City entered into a current expense note of $5,000,000 to fund a General Fund cash flow with the intent that this borrowing be repaid from the Enterprise Fund activity. Enterprise Fund water and sewer rates were raised in consideration of this burden in the Enterprise Funds; however, for the years ended June 30, 2006 and June 30, 2007, these payments by the Enterprise Funds were incorrectly recorded as additional operating transfers to the General Fund rather than as repayment of the interfund due to General Fund amounts. These departures created a variety of misstatements in fund balances. In the General Fund, there is an aggregate prior period adjustment of $(3,120,025).

Further, the City has not maintained historical cost data for all capital assets in its enterprise funds. In the Water Fund there is a period adjustment of $4,163,867, in the Sewage Disposal Fund the prior period adjustment is $(10,246,272), and in the Parking Meter Fund the prior period adjustment is $(142,936).

E. Related Party Transactions

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

Note V. Other information (continued)

F. Subsequent Events

The City continues to finance water treatment plant roof repairs. The amount expended on these repairs subsequent to June 30, 2008 is $2,382,550. The City intends to convert these expenditures to long-term debt through the Vermont Municipal Bond Bank at the conclusion of the repairs.

During November 2008, the Board of Alderman voted to correct the recording of payment of the City's Current Expense Note of $5,000,000 from the Enterprise Funds from operating transfers to accurately reflect settlement of $4,434,229 of the amounts due from the Enterprise Funds to the General Fund effective June 30, 2008. This leaves a remaining balance of $565,771 of interfund receivable from the Enterprise Funds to the General Fund that has not yet been recognized as satisfied.

During November 2008, the voters of the City of Rutland passed a resolution rescinding the charter-established $0.85 general fund tax cap limitation and requiring the City's Board of Aldermen to amend the City Charter to allow voters to decide budgets and change when budgets are approved rather than the Board of Aldermen. These changes are affective for the fiscal year 2011 budget.

CITY OF RUTLAND, VERMONT
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes - general	$ 12,842,950	$ 12,312,334	$ (530,616)
Delinquent tax, penalties and interest	620,000	61,825	(558,175)
Fines & forfeitures	70,000	103,115	33,115
Rooms & meals tax	475,000	456,138	(18,862)
PILOT	219,000	488,172	269,172
Licenses & permits	113,000	53,861	(59,139)
Federal grants	40,803	121,197	80,394
State grants	203,000	1,140,922	937,922
Charges for services	1,149,099	1,084,039	(65,060)
Interest income	140,200	204,620	64,420
Tax sale	56,000	17,329	(38,671)
Rental income	42,234	42,866	632
Donations	11,000	37,200	26,200
Employee reimbursements	-	165,139	165,139
Miscellaneous	-	30,439	30,439
Total revenues	15,982,286	16,319,196	336,910
Expenditures			
Executive	93,205	94,015	(810)
Legislative	27,098	23,565	3,533
City Clerk	310,982	334,916	(23,934)
City Treasurer	740,545	715,854	24,691
City Attorney	148,837	177,756	(28,919)
City Assessor	143,329	153,104	(9,775)
Building and Zoning	217,303	228,890	(11,587)
Libraries	571,975	571,975	-
Police department	4,262,386	4,416,943	(154,557)
Fire department	2,696,681	2,714,077	(17,396)
Highways	1,336,035	1,368,091	(32,056)
Winter maintenance	543,428	444,636	98,792
Street lighting	311,016	259,315	51,701
Traffic control	104,000	73,798	30,202

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

CITY OF RUTLAND, VERMONT
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Budget	Actual	Variance Favorable (Unfavorable)
Catch basins	39,238	24,586	14,652
Community development	292,000	747,026	(455,026)
Dana center	1,031,365	954,802	76,563
DPW Administration	627,242	623,110	4,132
Elections	15,682	10,197	5,485
Government buildings	468,213	506,472	(38,259)
General maintenance	429,092	453,300	(24,208)
Operations	-	15,079	(15,079)
Giorgetti Park	157,513	174,604	(17,091)
Godnick Center	116,817	94,951	21,866
White Playground	71,391	66,329	5,062
Annual Report	5,000	5,150	(150)
Vehicle maintenance	416,674	413,113	3,561
Miscellaneous expense	211,637	484,089	(272,452)
Appropriations	390,917	341,443	49,474
Pension expense	510,017	536,919	(26,902)
Interest expense	343,567	475,111	(131,544)
Debt service	230,609	678,360	(447,751)
Total expenditures	16,863,794	18,181,577	(1,317,783)
Excess of revenues over (under) expenditures	(881,508)	(1,862,381)	(980,873)
Other financing sources (uses)			
Transfers in (out)	1,361,734	2,102,524	740,790
Total other financing sources (uses)	1,361,734	2,102,524	740,790
Net change in fund balances	480,226	240,143	(240,083)
Fund balances, June 30, 2007, as stated	-	5,831,165	-
Prior period adjustment	-	(3,120,025)	-
Fund Balance, June 30, 2007, restated	-	2,711,140	-
Fund balances, June 30, 2008	$ -	$ 2,951,283	$ -

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, 2008

	Special Revenue Funds										Permanent Funds		
	Hospital Fund	Equip Repl Fund	Field Maint Fund	Capital Improv Fund	Fire Equip Fund	Zamias Fund	Recreation Activities Fund	White Fund	Giorgetti Fund	Records Preserv Fund	Maples Fund	Down-town Special Bus. Dist. Fund	Total Non-Major Govt Funds
ASSETS													
Cash	$ 27,340	$ 108,002	$ 34,237	$ 80,221	$ 235,674	$ 301,032	$ 109,901	$ 21,819	$ 57	$ 100,820	$ 6,147	$ -	$ 1,025,250
Due from other funds	-	-	-	17,866	100,991	283,750	-	-	-	-	-	-	402,607
Notes receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
	27,340	108,002	34,237	98,087	336,665	584,782	109,901	21,819	57	100,820	6,147	-	1,427,857
LIABILITIES AND FUND BALANCES													
Liabilities													
Accounts payable	-	-	636	32	-	-	2,512	-	-	-	-	-	3,180
Due to other funds	13,032	12,241	6,058	-	-	-	21,464	-	-	31,426	-	-	84,221
	13,032	12,241	6,694	32	-	-	23,976	-	-	31,426	-	-	87,401
Fund balances													
Reserved for notes receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Unreserved, designated	-	-	-	-	-	-	-	-	-	-	-	-	-
Unreserved, undesignated	14,308	95,761	27,543	98,055	336,665	584,782	85,925	21,819	57	69,394	6,147	-	1,340,456
Total fund balance	14,308	95,761	27,543	98,055	336,665	584,782	85,925	21,819	57	69,394	6,147	-	1,340,456
Total liabilities and fund balances	$ 27,340	$ 108,002	$ 34,237	$ 98,087	$ 336,665	$ 584,782	$ 109,901	$ 21,819	$ 57	$ 100,820	$ 6,147	$ -	$ 1,427,857

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, 2008

	Special Revenue Funds										Permanent Funds		
	Hospital Fund	Equip Repl Fund	Field Maint Fund	Capital Improv Fund	Fire Equip Fund	Zamias Fund	Rec Activities Fund	White Fund	Giorgetti Fund	Records Preserv Fund	Maples Fund	Down-Town Special Bus. Dist. Fund	Total Non-Major Govt Funds
Fees and charges for services	$ -	$ -	$ 9,880	$ 7,309	$ 30,000	$ 132,251	$ 44,342	$ -	$ -	$ 14,582	$ -	$ -	$ 238,364
Grants	-	-	-	-	8,252	-	-	-	-	-	-	-	8,252
Miscellaneous	-	-	298	2,935	-	-	-	-	-	-	-	-	3,233
Interest income	354	981	769	1,877	4,200	5,099	775	136	29	1,580	102	-	15,902
Donations	-	-	-	-	-	-	1,000	1,000	-	-	-	-	2,000
Total revenues	354	981	10,947	12,121	42,452	137,350	46,117	1,136	29	16,162	102	-	267,751
Lease expense	-	8,115	-	-	-	-	-	-	-	-	-	-	8,115
Loan disbursements	-	-	-	-	-	-	-	-	-	-	-	28,500	28,500
Operating expenses	-	83,564	21	2,500	10,818	34,885	26,723	-	-	9,554	-	-	168,065
Total Expenditures	-	91,679	21	2,500	10,818	34,885	26,723	-	-	9,554	-	28,500	204,680
Excess (deficiency) of revenues over(under) expenditures	354	(90,698)	10,926	9,621	31,634	102,465	19,394	1,136	29	6,608	102	(28,500)	63,071
Transfers in (out)	-	82,500	-	-	40,000	(35,500)	-	-	-	-	-	28,500	115,500
Total other financing sources (uses)	-	82,500	-	-	40,000	(35,500)	-	-	-	-	-	28,500	115,500
Net change in fund balances	354	(8,198)	10,926	9,621	71,634	66,965	19,394	1,136	29	6,608	102	-	178,571
Fund balance, June 30, 2007	13,954	103,959	16,617	88,434	265,031	517,817	66,531	20,683	28	62,786	6,045	-	1,161,885
Fund balance, June 30, 2008	$ 14,308	$ 95,761	$ 27,543	$ 98,055	$ 336,665	$ 584,782	$ 85,925	$ 21,819	$ 57	$ 69,394	$ 6,147	$ -	$ 1,340,456

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

CORRETTE & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

P. O. Box 4039 • St. Johnsbury, VT 05819 • (802) 748 – 4858 Toll Free (888) 748 - 4867
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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, 2008, which collectively comprise the City of Rutland, Vermont's basic financial statements and have issued our report thereon dated March 11, 2009. 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 result 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

seven of the ten 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.
March 11, 2009
State of Vermont
License #092-0000130

CITY OF RUTLAND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2008

Significant Deficiencies

Material Weaknesses

08 – 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.

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

Management Response: The City acknowledges that a complete risk assessment is needed on a government-wide basis. The City has worked with Castleton State College to understand what internal control means and develop policies to address this concern. A current project to document procedures in the Treasurer's Office is a start to review procedures against internal control standards to assure mitigation of risk.

08 – 02: Balance Sheet Reconciliations – The City has not developed procedures to reconcile balance sheet accounts such as cash, interfund receivables and payables, deferred revenue, accounts receivables, and equity balances, nor does the City have supporting documentation for these accounts.

Recommendation: The City Treasurer should develop regular reconciliations of all balance sheet accounts and maintain supporting documentation for each of these reconciliations.

Management Response: The City did not have an accurate balance sheet in FY 2008 or in the prior year. While reconciliation of bank statements was being done during FY 2008, after adjusting starting balances were established from the FY 2007 audit, problems inherent in the MUNIS accounting system thwarted the City's efforts to reconcile the bank statements to the balance sheet. Conversion of the accounting system to NEMRC has demonstrated in subsequent reconciliation activity to solve this problem and provide supporting documentation. The City has developed forms and procedures to accomplish monthly reconciliation based on the new system. Bank reconciliation after year end has proven exactly against the general ledger balances.

08 – 03: Pooled Cash Accounts – The City has not developed procedures to allocate cash to appropriate funds when cash is pooled for those funds into a single banking account. This creates effective operating transfers from one fund to another when expenditures are made from the pooled cash account without consideration of the availability of cash in that account attributable to each fund.

Recommendation: The City should develop a tracking system, preferably within its general ledger system, to allocate cash in a pooled cash account between the funds that possess ownership over that cash.

Management Response: The City will strive to develop a tracking system to separate cash from the General Fund from Proprietary Funds. In our conversations with NEMRC, this appears possible due to way NEMRC handles cash receipts and upload of data to the modules representing tax, utility bill and accounts receivable data. We will work with NEMRC to develop a procedure to properly allocate cash with a process at month-end.

08 – 04: Basis of Accounting – The City maintains funds on inconsistent bases 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.

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: The City had inconsistencies in accounting representation in MUNIS. The intention of the City is to avoid a "mixed" basis of accounting and reflect full accrual for proprietary funds and modified accrual for the general fund in FY 09.

Changes to be implemented within the chart of accounts to be consistent with fund definitions consistent with government accounting standards (GAAFR, or GFOA Blue Book) will help to provide clarity for the City in this regard.

08 – 05: Grant Management – The City has not established adequate procedures for monitoring, recording and reporting grant revenue and expenditures throughout the fiscal year.

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 did not have adequate procedures for monitoring, reporting or recording grant revenue primarily due to a disorganized chart of accounts. A clean up of the chart of accounts occurred in the conversion to a new accounting system and further refinement during FY 2009 to define funds will provide better clarity for the board and the departments. This will be an area of focus and process improvement for the remainder of 2009.

08 – 06: Revenue recording – The City has not developed adequate procedures for accurately recognizing revenue by source. Approximately $1,332,814 of grant and reimbursement activity was posted to miscellaneous revenue.

Recommendation: Develop procedures that require management to identify revenue by source prior to recording that revenue in the general ledger system of accounts.

Management Response: Miscellaneous revenue accounts are a legacy problem in MUNIS as the City did not correctly identify separate grant sources. More definition will be provided to grant revenues and other non-tax or fee revenues in the modified chart of accounts in NEMRC. Funds will be established according to government accounting standards with approval by the Board of Finance.

08 – 07: General Ledger System and Fund Accounting – The City has failed to accurately identify all fund types and individual funds in compliance with government accounting standards and funds as established by legal requirements.

Recommendation: Conduct a thorough review of all legal and operational requirements for establishing funds throughout the government. Modify the general ledger chart of accounts to reflect those identified funds and establish procedures that allow for recording activity in the appropriate fund.

Management Response: Miscellaneous revenue accounts are a legacy problem in MUNIS as the City did not correctly identify separate grant sources. More definition will be provided to grant revenues and other non-tax or fee revenues in the modified chart of accounts in NEMRC. Funds will be established according to government accounting standards with approval by the Board of Finance.

Significant Deficiencies

08 – 08: Reimbursement recognition – The City independently recognizes expenditures on behalf of employees as expenses, and the reimbursement of those disbursements from employees as revenues, with the result that both are overstated in governmental funds.

Recommendation: Monitor those expenditures made by the City on behalf of employees and ensure that employees provide these reimbursement timely to the City and that these expenditures and reimbursements are netted against one another to avoid overstatement of either revenues or expenditures.

Management Response: The City recognized certain reimbursements as revenue based on advice previously provided. The City has instituted this change in FY 2009 and made adjustments to reflect a policy to consider these reimbursements as a reduction of expense to avoid overstating revenue and expenses.

08 – 09: Segregation of duties – The City has established an internal control of segregation of duties over expenditures by requiring three independent passwords on its check creation software; however, single individuals possess and enter these passwords undermining the intent of the internal control.

Recommendation: Require that system passwords not be shared with others and that individuals enter their own passwords into a check control system.

Management Response: The password system for check generation has been re-configured to require the City Clerk utilize a separate password. The Treasurer will continue to apply the two signatures of the majority of the Board of Finance based upon the signatures on the warrant.

08 – 10: Timely Recording of Financial Activity – The City has not developed procedures to ensure that all financial activity for all funds is recognized and recorded in a timely manner.

Recommendation: Develop the requirement that all financial activity is posted timely to the general ledger accounting system by fund.

Management Response: The City's conversion to NEMRC has vastly improved management's ability to record financial activity in a timely manner as activity on the several sub ledgers are batched and posted daily to the general ledger. The Treasurer's Office has developed a series of standardized adjustment forms which facilitate the timely and accurate recording of activity and adjustments. The Treasurer's Office will continue to develop standard procedures to identify and record all financial activity as well as monthly reconciliation procedures to ensure full and accurate accounting for all activity.

08 – 11: Monitoring by Management – The Board of Aldermen is responsible for oversight of the financial assets, liabilities and activities of the City. The Board is presented only with cash and debt balances and with current budget to actual revenues and expenditures.

Recommendation: Management of the City should be presented with a complete set of financial statements at each review of the City's finances. This should include a complete balance sheet as well as budget-to-actual results from operations.

Management Response: The City agrees that the management should have a full set of financials—including budget to actual results and a balance sheet. By the last quarter of FY 2009, after audit adjustments have been entered for FY 2008 and the balance sheet established in the new accounting system, this will be provided to the Board and management of the City on a quarterly basis. This has been a goal of the Treasurer's office since 2007 but system configuration in MUNIS and data issues relating the previous accounting system negated that goal.