CITY OF BURLINGTON, VERMONT
WATER ENTERPRISE FUND

FINANCIAL STATEMENTS

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Department of Public Works
City of Burlington, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Enterprise Fund of the City of Burlington, Vermont, (the Fund), as of and for the year ended June 30, 2018 as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City of Burlington, Vermont, as of June 30, 2018 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2018 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, the fund has become aware of an error in the installation of certain meter reading devices that may result in the need to refund prior collections. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Pension and OPEB Schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson Heath

January 23, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Burlington Water Enterprise Fund's (the Fund) annual financial report, management provides a narrative discussion and analysis of the financial activities for the year ended June 30, 2018. The Fund's performance is discussed and analyzed within the context of the accompanying financial statements and note disclosures following this section.

Overview of the Financial Statements:

Water is an enterprise fund of the City of Burlington. An enterprise fund is established to account for the operations that are financed and operated in a manner similar to business-type activities, where fees are charged to external parties to cover the costs of providing goods and services. An enterprise fund uses the accrual basis of accounting and accordingly, revenue are recognized when earned and expenses are recognized as incurred.

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements include (1) the statements of net position, (2) the statements of revenues, expenses and changes in net position, (3) the statements of cash flows, and (4) notes to financial statements.

Financial Highlights:

The Statement of Net Position is designed to indicate our financial position as of a specific point in time. At June 30, 2018, it shows our net position of $14,405,229, a change of $519,728 in comparison to the prior year. The unrestricted net position increased from the prior year by $277,844 as further explained in the following paragraph.

The Statement of Revenues, Expenses, and Changes in Net Position summarize our operating results and reveals how much, if any, of a profit was earned for the year. Net position in fiscal year 2018 increased by $519,728. Two significant events highlight the increase in net position. First being an increase in charges in services by approximately $100,000. Secondly, operating expenses decreased by approximately $90,000.

The Statement of Cash Flows provides information about cash receipts and cash payments during the accounting period. It also provides information about investing and financing activities for the same period. A review of our Statement of Cash Flows indicates that cash receipts from operating activities adequately covered our operating expenses (excluding depreciation), debt services as well as providing some for capital investment.

As the result of the discovery of a substantial overbilling error of one of our large customers (approximately $2 M) in November 2017, the Water Division initiated a third party led review of the compound meter assets and our billing Standard Operating Procedures. Additional overbilling, as well as underbilling, errors were uncovered and as a result, we have extended the revenue assurance improvement program (meter inspections) to include all meters 1″ and above. This assessment is anticipated to be completed by the end of FY19.

The following table highlights the fund's Statement of Net Position and Statement of Changes in Net Position as of and for the years ended June 30 (in thousands):

Statements of Net Position

	2018	2017
Assets:		
Current assets	$ 8,425	$ 7,805
Non-current assets	14,582	11,457
Total assets	23,007	19,262
Deferred outflows of resources	476	945
Total assets and deferred outflows of resources	$ 23,483	$ 20,207
Liabilities:		
Current liabilities	$ 1,547	$ 531
Noncurrent liabilities	6,908	5,765
Total liabilities	8,455	6,296
Deferred inflows of resources	623	62
Net position:		
Net investment in capital assets	10,901	10,876
Restricted	621	367
Unrestricted	2,883	2,606
Total net position	14,405	13,849
Total liabilities, deferred inflows of resources, and net position	$ 23,483	$ 20,207

Statements of Changes in Net Position

	2018	2017
Operating revenues	$ 6,396	$ 6,335
Operating expenses	(5,726)	(5,816)
Operating income	670	519
Nonoperating revenues (expenses)		
Other revenue	69	48
Other expense	(220)	(86)
Total nonoperating (expenses)	(151)	(38)
Change in net position	519	481
Beginning net position, as restated	* 13,886	13,368
Ending net position	$ 14,405	$ 13,849

* Fiscal year 2017 amounts were not restated as the Fund has elected to apply GASB 75 prospectively.

Capital Assets:

Capital Assets – The Fund capital investment in fiscal year 2018 consisted of the following:

- Water filtration facility (HVAC) $37,124
- Pump house entrances $28,157
- Pine Street main valves $25,500
- Water main relining $1,221,880
- Water main replacement $1,855,968
- Meters, radio boxes, parts $76,961
- Other miscellaneous additions $27,378

The primary capital focus for the Water Division has been the generational reinvestment into relining or replacing aging water main infrastructure in a coordinated approach with the street paving program. Water mains with high likelihoods of failure (based on age or break history) and high consequence of failure (on major roads and/or serving critical customers) are being relined or, where additional flow capacity is needed, replaced through open digging. In calendar year 2017 (primarily in FY18) approximately 2.2 miles were relined or replaced.

Additional information on capital assets can be found in the Notes to the Financial Statements.

Long-term Debt:

Long-term Debt - At the end of the current fiscal year, total debt outstanding, including unamortized bond premiums, was $6,120,943, an increase of $2,191,285 from the prior year, all of which was backed by the full faith and credit of the government.

Standard and Poor's Rating Group and Moody's Investors Services, Inc. has rated, both the 2017 and the 2018 Bonds "A1".

Debt Coverage - As the Water Division begins to pay full debt service in FY19 on our initial 2017 bond series sale, as well as subsequent bond series 2018 and 2018B, and then draws down fully on the $8.34 M Bond Authorization, the debt coverage ratio will begin to decrease. The debt coverage ratio will also be pressured by the burdens of increasing O&M costs due to inflation and potentially decreasing revenues due to increased water efficiency reducing overall demand. We do anticipate some growth in revenue due to redevelopment within the City adding additional units, possible growth due to an increased focus on our revenue assurance program (meter assessments, replacement), and possible growth due to improved cost recovery through additional fees for service. The Water Division maintains a rate planning model to forecast revenues needed to support increased O&M, strong debt coverage ratios and days of cash on hand and to support needed requests for rate increases with the approval of the City Council.

The debt coverage score in Fiscal Year 2018 was 6.03, which is greater than the required score of 1.25.

Additional information on long-term debt can be found in the Notes to the Financial Statements.

REQUESTS FOR INFORMATION:

This financial report is designed to provide a general overview of the Fund's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of Clerk/Treasurer

City of Burlington, City Hall

149 Church Street

Burlington, VT 05401

CITY OF BURLINGTON, VERMONT
WATER ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2018

	2018
ASSETS	
Current:	
Cash and cash equivalents	$ 5,839,723
Investments	997,598
Receivables, net of allowance for uncollectibles:	
User fees	1,327,330
Inventory	259,084
Prepaid expenses	1,664
Total current assets	8,425,399
Noncurrent:	
Restricted cash	621,019
Capital assets:	
Land	51,250
Capital assets, net of accumulated depreciation	13,910,113
Total noncurrent assets	14,582,382
TOTAL ASSETS	23,007,781
DEFERRED OUTFLOWS OF RESOURCES	
Pension related:	
Changes in proportional share of contributions	97,598
Changes in assumptions	67,196
Difference between expected and actual experience	38,886
Difference between projected and actual investment earnings	124,359
Deferred current year pension contributions	146,939
OPEB related	1,246
TOTAL DEFERRED OUTFLOWS OF RESOURCES	476,224
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 23,484,005

(continued)

(continued)

		2018
LIABILITIES		
Current:		
Accounts payable	$	1,024,077
Accrued payroll		38,163
Refunds payable		266,000
Other current liabilities		38,480
Current portion of long-term liabilities:		
Revenue bonds		156,275
State revolving loans		6,690
Compensated absences		17,843
Total current liabilities		1,547,528
Noncurrent:		
Revenue bonds, net of current portion		5,796,637
State revolving loans, net of current portion		161,341
Net pension liability		754,288
Total OPEB liability		44,570
Compensated absences		151,236
Total noncurrent liabilities		6,908,072
TOTAL LIABILITIES		8,455,600
DEFERRED INFLOWS OF RESOURCES		
Pension related:		
Difference between projected and actual investment earnings		79,266
Difference between expected and actual experience		27,684
Change in proportional share of contributions		514,985
OPEB related		1,241
NET POSITION		
Net investment in capital assets		10,900,737
Restricted for bond resolution		621,019
Unrestricted		2,883,473
TOTAL NET POSITION		14,405,229
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$	23,484,005

The accompanying notes are an integral part of these financial statements.

CITY OF BURLINGTON, VERMONT
WATER ENTERPRISE FUND
STATEMENT OF REVENUE, EXPENSES AND
CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	2018
Operating Revenues:	
Charges for services	$ 6,118,527
Miscellaneous	277,575
Total Operating Revenues	6,396,102
Operating Expenses:	
Personnel	2,495,764
Non-personnel	2,124,974
Depreciation	729,996
Payments in lieu of taxes	375,018
Total Operating Expenses	5,725,752
Operating Income	670,350
Nonoperating Revenues/(Expenses):	
Interest income	30,338
Interest expense	(216,744)
Other income	16,114
Amortization of bond premium	22,582
Loss on disposal of capital assets	(2,912)
Total Nonoperating Revenues/(Expenses)	(150,622)
Change in Net Position	519,728
Net Position at Beginning of Year, as restated	13,885,501
Net Position at End of Year	$ 14,405,229

The accompanying notes are an integral part of these financial statement

CITY OF BURLINGTON, VERMONT
WATER ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	2018
Cash flows from operating activities:	
Receipts from users and customers	$ 6,206,043
Payments to suppliers	(1,223,331)
Payments for wages and benefits	(2,374,507)
Payment in lieu of taxes	(375,018)
Other receipts	16,116
Net cash provided by operating activities	2,249,303
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(3,236,967)
Proceeds from revenue bonds	2,000,000
Proceeds from state revolving loans	57,211
Proceeds from premium	273,842
Principal payments on revenue bonds	(59,975)
Interest paid on outstanding debt	(216,744)
Net cash used by capital and related financing activities	(1,182,633)
Cash flows from investing activities:	
Increase in restricted cash	(8,943)
Investment income	37,622
Net cash provided by investing activities	28,679
Net change in cash	1,095,349
Cash and cash equivalents, beginning of year	5,365,393
Cash and cash equivalents, end of year	$ 6,460,742
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	$ 670,350
Adjustments to reconcile operating income to net cash provided from operating activities:	
Depreciation	729,996
Other revenues	16,116
Changes in assets, liabilities, and deferred outflows/inflows:	
Accounts receivable	(186,141)
Inventories	(14,777)
Customer deposits	(3,918)
Deferred outflows - related to pension	469,584
Deferred outflows - related to OPEB	(1,246)
Accounts payable	917,581
Accrued salaries and wages	6,310
Other operating assets/liabilities	(1,161)
Net pension liability	(958,151)
Total OPEB liability	90
Accrued compensated absences	43,087
Deferred inflows related to pension	560,342
Deferred inflows related to OPEB	1,241
Net cash provided by operating activities	$ 2,249,303

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *The Financial Reporting Entity*

The City of Burlington, Vermont, Water Enterprise Fund (the Fund) is a municipally owned utility organized in 1865 to provide maintenance and treatment of water to the residents of Burlington, Vermont.

The Fund is an enterprise fund within the City of Burlington, Vermont (the City). As such, this financial statement is not intended to present the financial position and results of operations of the City of Burlington, Vermont as a whole.

The accounting policies of the Fund conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

B. *Basis of Presentation*

Enterprise Funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Based on the above definition, the Fund is accounted for utilizing enterprise fund accounting.

C. *Measurement Focus*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary fund financial statements are reported using the economic resources measurement focus. This means that all assets and liabilities associated with the operation of these funds (whether current or noncurrent) are included on the balance sheet (or statement of net position). Fund equity (i.e., total net position) is segregated into net investment in capital assets, restricted net position, and unrestricted net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

D. Basis of Accounting

Basis of accounting refers to when revenue and expenses are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The financial statements are prepared utilizing the accrual basis of accounting. Accordingly, revenues and expenses are recognized at the time goods and services are provided or received. In general, water revenue is determined by water consumption multiplied by the water rate. Under this method, water revenues that have not been billed are recorded as estimated unbilled revenues.

Operating revenues are defined as income received from consumption from customers as well as service revenue for new customers and repairs for old customers.

Nonoperating revenues are defined as income received from sources other than sales. Non-operating revenues include interest income and gain on sale of assets.

Operating expenses are defined as the ordinary costs and expenses for the operation, maintenance and repair of the water facilities. Operating expenses include the cost of water treatment, maintenance of transmission and distribution systems, administrative and general expenses, and depreciation. Operating expenses do not include the interest on bonds, notes, and revolving loans, or indebtedness and related costs.

E. Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash includes amounts in demand deposits and cash on hand, as well as short-term investments with a maturity date within three (3) months of the date of acquisition.

G. Receivables

Receivables are shown net of an allowance for uncollectible accounts for the estimated losses that will be incurred in the collection of the receivables. The estimated losses are based on the judgment of management and a review of the current status of existing receivables.

H. Inventories

Inventory quantities are determined by physical count and are valued at the lower of cost or market. Inventories of the Fund consist of construction materials, meters, fuel, and chemicals.

I. *Capital Assets*

Capital assets, which include land, land improvements, building, and building improvements, vehicles, machinery and equipment, and distribution and collection systems, are recorded at cost including equipment acquired under capital leases that transfer substantially all risk of ownership to the Fund. Contributed assets are recorded at acquisition value at the time received. The cost of normal maintenance and repairs that do not add to the value or materially extend the asset's lives are not capitalized. The Fund's capitalization policy considers two factors. Property will be capitalized when:

1. The combined cost to put a unit in service come to more than $10,000
2. The unit estimated life is greater than five (5) years

The Fund follows the policy of charging to expenses annual amounts of depreciation which allocates the cost of plant and equipment over their estimated useful lives. The Fund employs the straight-line method for determining the annual charge for depreciation.

The depreciable lives of capital assets are as follows:

	Depreciable Lives
Land improvements	30 Years
Buildings and improvements	25 - 150 Years
Infrastructure	10 - 40 Years
Machinery, equipment, and vehicles	5 - 15 Years

J. *Long-Term Obligations*

In the Fund's statements, revenue bonds, state revolving loans, net pension liability, compensated absences payable, and net other post-employment benefits obligation are reported as long-term liabilities.

2. CASH AND CASH EQUIVALENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City does not have a policy for custodial credit risk.

Cash received by the Fund is placed in the custody of the City Clerk/Treasurer's Office. Disclosures related to collateralization are included in the City's Comprehensive Annual Financial Report.

3. INVESTMENTS

A. *Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to holder of the investment.

As of June 30, 2018, the Fund Invested $829,688 in U.S. Treasury Notes and $167,910 in U.S. Government Agencies, which have an implied credit rating of AAA.

B. *Custodial Credit Risk*

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that in the possession of another party. The Fund does not have a policy for custodial credit risk.

C. *Concentration of Credit Risk*

The Fund does not have an investment in one issuer greater than 5% of the total investments for the City.

D. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Fund does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Fund's investment in U.S. Treasury Notes and U.S. Government Agencies had maturities of one to five years, for June 30, 2018.

E. *Fair Value*

The categorization of financial instruments within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2: Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborate with observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the investments.

The fair value of the Fund's investment in U.S. Treasury Notes and U.S. Government Agencies were determined based on "Level 2" inputs for June 30, 2018. The valuation techniques used to measure the fair value of the "Level 2" instruments were valued based on quoted market prices or model-driven valuations using significant inputs derived from or corroborated by observable market data. The Fund does not have any marketable securities in the "Level 1" or "Level 3" category.

4. USER FEES RECEIVABLE

Receivables at June 30 consisted of the following:

	2018
Billed user fees	$ 859,931
Unbilled at year end	470,399
Less: allowance for doubtful fees	(3,000)
Net user fees receivable	$ 1,327,330

5. INVENTORY

Inventory at June 30 consisted of the following:

	2018
Chemicals	$ 37,344
Construction stock	218,367
Traffic meters	3,373
Total	$ 259,084

6. PROPERTY, PLANT, AND EQUIPMENT

Capital asset activity for the year ended June 30 was as follows:

	2018			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 51,250	$ -	$ -	$ 51,250
Construction in progress	36,000	-	(36,000)	-
Total capital assets, not being depreciated	87,250	-	(36,000)	51,250
Capital assets, being depreciated:				
Buildings and building improvements	-	65,281	-	65,281
Vehicles, machinery, equipment and furniture	1,633,646	-	-	1,633,646
Distribution and collection systems	35,884,718	3,207,687	(37,392)	39,055,013
Total capital assets, being depreciated	37,518,364	3,272,968	(37,392)	40,753,940
Less accumulated depreciation for:				
Buildings and building improvements	-	(1,306)	-	(1,306)
Vehicles, machinery, equipment and furniture	(1,040,539)	(98,363)	-	(1,138,902)
Distribution and collection systems	(25,107,774)	(630,327)	34,482	(25,703,619)
Totals	(26,148,313)	(729,996)	34,482	(26,843,827)
Total capital assets, being depreciated	11,370,051	2,542,972	(2,910)	13,910,113
Capital assets, net	$ 11,457,301	$ 2,542,972	$ (38,910)	$ 13,961,363

7. **DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows of resources represent the consumption of net position by the Fund that are applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions and OPEB, in accordance with GASB Statement No. 68 and 75 are more fully discussed in the corresponding pension and OPEB notes.

8. **ACCOUNTS PAYABLE**

Accounts payable and accrued liabilities represent current year expenditures paid on or after July 1 of the subsequent year.

9. **LONG-TERM DEBT**

Revenue Bonds - The Fund issues bonds where the City pledges the Fund's revenues to pay the debt service.

State Revolving Loans Payable - The Fund has special revolving loans payable with the State of Vermont.

Revenue bonds and loans payable outstanding at June 30 are as follows:

	Original Issue Amount	Serial Maturities Through	Interest Rate(s)	Amount Outstanding as of 6/30/18
Design and Construction Loan RF3-295	$ 253,340	11/1/2034	1.00%	$ 168,031
Water System Revenue Bonds, Series 2017	$ 3,250,000	11/1/2036	2.00 - 5.00%	3,250,000
Water System Revenue Bonds, Series 2018	$ 2,000,000	11/1/2038	4.00 - 5.00%	2,000,000
Total				$ 5,418,031

Maturities are as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 126,690	$ 242,331	$ 369,021
2020	186,891	244,290	431,181
2021	197,097	28,509	225,606
2022	202,310	231,871	434,181
2023	207,530	224,051	431,581
2024 - 2028	1,191,175	967,954	2,159,129
2029 - 2033	1,512,733	638,296	2,151,029
2034 - 2038	1,643,605	223,069	1,866,674
2039	150,000	3,750	153,750
	$ 5,418,031	$ 2,804,121	$ 8,222,152

Changes in long-term debt and other obligations are as follows for the year ended June 30:

	2018					
	Total Balance 7/1/2017	Additions	Reduction	Total Balance 6/30/2018	Less Current Portion	Equals Long-Term Portion
Revenue bonds	$ 3,250,000	$ 2,000,000	$ -	$ 5,250,000	$ (120,000)	$ 5,130,000
Add unamortized premium	451,652	273,843	(22,583)	702,912	(36,275)	666,637
Subtotal	3,701,652	2,273,843	(22,583)	5,952,912	(156,275)	5,796,637
State revolving loans	228,006	-	(59,975)	168,031	(6,690)	161,341
Net pension liability	1,712,439	-	(958,151)	754,288	-	754,288
Total OPEB liability	44,480	90	-	44,570	-	44,570
Compensated absences	125,992	137,824	(94,737)	169,079	(17,843)	151,236
Total	$ 5,812,569	$ 2,411,757	$ (1,135,446)	$ 7,088,880	$ (180,808)	$ 6,908,072

The revenue bonds have been issued pursuant to General Bond Resolutions and are collateralized by a pledge of revenues. Pursuant to the General Bond Resolutions, revenues (as defined) means all rates, fees, charges or other income and includes rentals, proceeds of insurance or condemnation or other disposition of assets, proceeds of bonds or notes and earnings from the investment of revenues.

On an annual basis, revenue must be sufficient after deducting operating expenses to meet minimum debt service coverage requirements of 1.25. Revenues for this purpose represent all rates, charges, rents, and other income for debt service. Operating expenses represent O&M (operation and maintenance), excluding depreciation. Certain other exclusions apply. City's Bond Counsel has determined that the effect of GASB 68 on pension expense is excludable from O&M and, therefore, not included in determining Net Revenues available for debt service. If minimum debt service coverage requirements are not met, the Fund must take timely corrective action. The Fund met the required debt coverage for 2018 with 6.03. The debt coverage will go down in subsequent years as the Fund will begin to pay their debt service payments.

10. RESTRICTED NET POSITION

The Fund established a contingency reserve fund for the Series 2017 and Series 2018 bonds pursuant to the General Bond Resolution adopted December 9, 2013. For the years ended June 30, 2018, restricted net position was $621,019.

11. RETIREMENT BENEFITS AND RESULTING NET PENSION LIABILITY

Defined Benefit Plan: All full-time employees of the Fund participate in the City of Burlington Employees' Retirement System (the Plan), a cost-sharing, single-employer defined benefit plan. The Fund follows the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, with respect to the Plan.

Plan Description: Substantially all employees of the Fund are members of the Plan and are classified as Class B members. Eligible employees must participate in the Plan. Effective July 1, 2015 the City required a 3.40% contribution of earnable compensations from AFSCME employees. All other employees contributed 3%. The policy of the City for fiscal year 2016 – 2018 is to fund the actuarily determined contributions based on the open group entry age normal method using a discount of 8%, while the net pension liability is based on the closed method and the discount rate has been revised in FY18 from 8% to 7.625%. The Fund's contributions were based on full time equivalents and wages. The City Council has the authority to amend the benefit terms of the Plan by enacting ordinances and sending them to the Mayor for approval.

At June 30, 2018, the Fund reported a net pension liability for its proportionate share of the City's net pension liability per GASB 68. The net pension liability was measured as of June 30, 2017. The Fund's proportion of the net pension liability was based on a projection of the Fund's payroll relative to the total payroll of the City. At June 30, 2018, the Fund's proportion was 0.86%. For more information on the City's plan, see the City of Burlington, VT financial statements.

Benefits Provided: Class B retirees who has attained the age of 55 or older and completed 7 or more years of creditable service (age and years of creditable service vary depending on agreements) are eligible for benefits based on average final earnable compensation (AFC) during either the highest 5 or 3 non-overlapping 12-month periods depending on hiring dates. For details on agreements and AFC, see the City of Burlington, VT financial statements.

Contributions: The Fund contributed $158,244 for the measurement year ended June 30, 2017.

Summary of Significant Accounting Policies: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan was used as reported on the City of Burlington, VT Financial Statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Actuarial Assumptions: The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3 percent
Salary increases	3.50 percent per year
Investment rate of return	investment expense, including inflation

Mortality rates were based on the RP-2000 Mortality Table with separate male and female rates, with no adjustment, combined table for non-annuitants and annuitants, projected to the valuation date with Scale BB.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2007 through June 30, 2012, with discount rate updated from 8% to 7.625% based on the latest draft of the new experience study.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class as of June 30, 2017 are summarized in the following table:

Asset Class	Target Allocation	Expected Real Rate of Return
Large Cap Core Equity	30.00%	7.70%
SMID Cap Core Equity	18.00%	10.10%
International Equity	10.00%	6.00%
Emerging Markets Equity	10.00%	10.80%
Private Equity	2.00%	10.20%
Real Estate / Timber	10.00%	7.30%
Core Fixed Income	20.00%	4.40%
Total	100.00%	

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long-term inflation rate of 3.00%.

Discount Rate: The discount rate used to measure the total pension liability was 7.625%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the fiduciary net position was projected to be available to make all future benefit payments to the current plan members.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the Fund’s proportionate share of the net pension liability calculated using the discount rate of 7.625%, as well as what the Fund’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.625%) or one percentage-point higher (8.625%) than the current rate:

Fund's net pension liability as of:	1% Decrease (6.625%)	Discount Rate (7.625%)	1% Increase (8.625%)
June 30, 2018	$ 1,018,518	$ 754,288	$ 532,606

Deferred Outflows and Inflows of Resources: As a result of implementing GASB 68, the deferred current year pension contributions are included in pension expense the following year. Deferred current year pension contributions of $146,939 are not included in the below amortization. Remaining amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense in future fiscal years as follows:

Amortization year		Net deferred outflows (inflows)
2019	$	(47,840)
2020		(80,627)
2021		(149,075)
2022		(16,354)
	$	(293,896)

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued City of Burlington financial report. No separate stand-alone report is issued for the pension system. Further disclosures about the Plan are included in the City of Burlington's financial statements.

Further disclosures about the Pension Plan are included in the City of Burlington, Vermont's financial statements.

12. OTHER POST-EMPLOYMENT BENEFITS (OTHER THAN PENSION) – OPEB GASB 75

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, replaces the requirements of *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Fund OPEB Plan

All of the following OPEB disclosures are based on a measurement date of June 30, 2018.

General Information about the OPEB Plan

Plan Description

In addition to providing the pension benefits described, the City provides postemployment healthcare and life insurance benefits for retired employees through the City's plan.

In addition, the City allows certain retired employees to purchase health insurance through the City at the City's group rates. GASB No. 75 recognizes this as an implied subsidy and requires accrual of this liability.

Benefits Provided

The City provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria may receive these benefits.

Funding Policy

The Plan Sponsor's Funding Policy is to contribute the employer portion of retiree benefit payments annually.

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.60% per year. This assumptions is consistent with the Social Security Administration's current best estimate of the ultimate long-term annual percentage increase in CPI, as published in the 2017 OASDI Trustees Report.
Rate of annual aggregate payroll growth	2.60% per year
Discount rate	3.87%
Healthcare cost trend rates	7.0% for 2017, fluctuating 0.5%, to an ultimate rate of 4.60% as of 2022 and later years
Retirees' share of benefit-related costs	Retirees are responsible for a portion of premium rates not covered by the City.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study that was performed for the five-year period ending June 30, 2022.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.87%.

Since the OPEB plan is not funded, the selection of the discount rate is consistent with the GASB 75 standards linking the discount rate to the 20- year AA municipal bond index for unfunded OPEB plans. The discount rate used for the valuation is equal to the published Bond Buyer general obligation 20 year-Bond Municipal Index effective as of June 30, 2018.

Total OPEB Liability

The Fund's total OPEB liability of $44,570 was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2017.

Changes in the Total OPEB Liability

Detailed information about the changes in total OPEB liability is available in the separately issued City of Burlington, Vermont's Comprehensive Annual Financial Report.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

	1% Decrease (2.87%) in Discount Rate	Current Discount Rate (3.87%)	1% Increase (4.87%) in Discount Rate
Total OPEB liability	$49,915	$44,570	$40,098

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (6.00% decreasing to 3.60%)	Healthcare Cost Trend Rates (7.00% decreasing to 4.60%)	1% Increase (8.00% decreasing to 5.60%)
Total OPEB liability	$41,307	$44,570	$48,416

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Fund recognized an OPEB expense of $85. The remaining amounts reported as deferred outflows, relating to differences between expected and actual experiences, and deferred inflows, relating to the changes of assumptions, will be recognized in OPEB expense over the next 6 years.

Further disclosures about the OPEB Plan are included in the City of Burlington, Vermont's financial statements.

13. DEFERRED COMPENSATION PLAN

The Department offers its employees a deferred compensation plan administered through the City in accordance with Section 457 of the Internal Revenue Code (IRC). The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or for "unforeseeable emergency" as defined by IRS guidelines. The assets of the plan are not included in the accompanying financial statements.

14. RELATED PARTY TRANSACTIONS

During the year departments of the City bill the Fund pursuant to City ordinances and for services received. Related party transactions for the years ended June 30, 2018 were as follows:

Entity Paid by Water	Description of Service	2018
General Fund:		
Public Works Department	Administrative costs for wastewater division operations	$ 58,206
Public Works Department	Facility charges	$ 35,029
Public Works Department	Equipment maintenance	$ 120,092
Public Works Department	Excavation fees	$ 50,000
Clerk/Treasurer's Office	Payment in lieu of taxes (PILOT) (1)	$ 375,018
Clerk/Treasurer's Office	Administration and risk management fees, approved via budget process	$ 200,845
City Attorney	Legal fees	$ 13,878
Stormwater	Stormwater usage	$ 6,571
Telecom	Data, internet, phone usage	$ 35,520
Burlington Electric Department	Electricity usage	$ 393,112

(1)The Fund's physical plan is exempt from property taxes. The PILOT is determined annually by the City Clerk/Treasurer's office per City ordinance. The calculation is based on the capital investment of the Fund.

15. COMMITMENTS AND CONTINGENCIES

Refunds - In FY17, the Water and Wastewater Funds became aware of an error in the installation of a compound water meter reading device which resulted in an overbilling of that customer of approximately $2,000,000 over a period of approximately 6 years. Negotiations regarding reimbursement are ongoing. As a result of the discovery of the original error, the City contracted with an outside auditing and advisory firm to review the remaining compound meter accounts and recommend initial improvements to Standard Operating Procedures (SOPs) for compound meter installations (Phase I Revenue Assurance Improvements). That Phase I review found instances of underbilling, as well as some additional overbilling. All Phase I recommendations have been or are being implemented.

To ensure the highest level of revenue assurance for the Funds, the City has since engaged an additional outside consultant (Phase II Revenue Assurance Improvements) to assist with (1) continuing the meter assessment for all meters 1″ or greater in size (all commercial meters), (2) continuing improvements to SOPs, and (3) making recommendations regarding any other organizational structural changes that would improve revenue assurance. The City anticipates completing Phase II meter assessments before the end of FY19. The meter assessments completed as part of Phase I, as well as several meter assessments completed as part of early Phase II, indicate that the overall net impact of the metering errors to the Funds will likely be less than $2,000,000, when both underbilled and overbilled accounts are included.

The City Council has authorized the Public Works Director to enter into agreements to repay overbilled amounts and recover underbilled amounts, and efforts to pursue those agreements are underway. Identified errors were verified and either corrected in the field or in the billing system to ensure future bills are accurate.

Grants - Amounts received or receivable from grantor agencies, including possible grant assurance violations at the Fund, are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Fund expects such amounts, if any, to be immaterial.

16. RISK MANAGEMENT

The Fund is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employee; and natural disasters. The Fund manages these risks through a combination of commercial insurance packages and through the City's risk management program.

The City carries commercial insurance to cover its property, casualty and general liability risks. Commercial property insurance, inland marine and employment practices insurance coverage is provided by Travelers and is offered on a guaranteed cost basis with a deductible of $50,000. Starting fiscal year 2016, the City has a large-deductible worker's compensation plan with Travelers Indemnity Company. Prior to fiscal year 2016, the City was self-insured for worker's compensation.

All of the City's self-insurance programs are administered by a third-party administrator, which processes and pays the claims and then bills the City for the amount of the total claims paid.

The costs associated with these self-insurance plans are budgeted in the City's General Fund and allocated to the Fund based on the following:

Type	Allocation Method
Worker's compensation	50% Experience and 50% exposure
Health	Number of employees and levels of coverage
Dental	Actual claims and administrative fees paid
Liability	Adjusted operating budgets
Property	Insured value of city structures

The City has elected to pay actual unemployment claims instead of enrolling in an unemployment insurance program. The Fund did not pay any unemployment claims during fiscal year 2018.

17. BEGINNING NET POSITION RESTATEMENT

The Fund's beginning net position has been restated from the previous fiscal year to conform to GASB Statement 75. In accordance with Statement 75, the Fund has elected to apply the standard prospectively and not recalculate Other Post-Employment Benefits (OPEB) related deferred outflows and inflows of resources for prior periods. Accordingly, the following reconciliation is provided:

As previously reported	$ 13,848,941
Implementation of GASB 75	36,560
As restated	$ 13,885,501

CITY OF BURLINGTON, VERMONT
BURLINGTON WATER

SCHEDULE OF PROPORTIONATE SHARE (GASB 68)
OF THE NET PENSION LIABILITY

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018
(Unaudited)

Burlington Employee's Retirement System

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Positior Percentage of the Total Pension Liability
June 30, 2018	June 30, 2017	0.86%	$754,288	$1,240,307	60.81%	67%
June 30, 2017	June 30, 2016	1.92%	$1,712,439	$1,200,056	142.70%	64%
June 30, 2016	June 30, 2015	1.72%	$1,169,736	$1,172,612	99.75%	70%
June 30, 2015	June 30, 2014	1.47%	$790,242	$1,033,848	76.44%	75%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independe See Independent Auditors' Report.

CITY OF BURLINGTON, VERMONT
BURLINGTON WATER

SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018
(Unaudited)

Burlington Employee's Retirement System

Fiscal Year	Measurement Date	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2018	June 30, 2017	$158,244	$158,244	$ -	$ 1,240,307	13%
June 30, 2017	June 30, 2016	$175,734	$175,734	$ -	$ 1,200,056	15%
June 30, 2016	June 30, 2015	$151,712	$151,712	$ -	$ 1,172,612	13%
June 30, 2015	June 30, 2014	$130,962	$130,962	$ -	$ 1,033,848	13%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

CITY OF BURLINGTON, VERMONT
BURLINGTON WATER

SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY (GASB 75)
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

(Unaudited)

City OPEB plan					
Fiscal Year	Measurement Date	Proportion of the Net OPEB Liability	Proportionate Share of the Net OPEB Liability	Covered Payroll	Share of the Net OPEB Liability as Percentage of Covered
June 30, 2018	June 30, 2018	0.8938%	$ 44,570	$ 1,311,943	3.3973%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

CITY OF BURLINGTON, VERMONT
BURLINGTON WATER

SCHEDULE OF OPEB CONTRIBUTIONS (GASB 75)
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

(Unaudited)

Schedule of Contributions	Fiscal Year June 30, 2018
Actuarially determined contribution	$ 3,447
Contributions in relation to the actuarially determined contribution	3,447
Contribution deficiency (excess)	$ -
Covered employee payroll	$ 1,311,943
Contributions as a percentage of covered employee payroll	0.26%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See notes to the Fund's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.