

**CITY OF BURLINGTON, VERMONT  
WASTEWATER ENTERPRISE FUND**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

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## INDEPENDENT AUDITORS' REPORT

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

**Additional Offices:**  
Andover, MA  
Greenfield, MA  
Manchester, NH  
Ellsworth, ME

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Wastewater Enterprise Fund of the City of Burlington, Vermont, (the Fund), as of and for the years ended June 30, 2017 and 2016, 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 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. 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 opinions.

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, 2017 and 2016, 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, 2017 and 2016, 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 16 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, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Pension Contributions 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*

November 20, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Burlington Wastewater 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, 2017. 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:**

Wastewater 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, 2017, it shows our net position of \$14,584,555, a change of \$(386,839) in comparison to the prior year. The unrestricted net position decreased from the prior year by \$(109,604) 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 2017 decreased by \$386,839 whereby fiscal year 2016 resulted in an increase to our net position of \$466,991. Three significant events highlight the difference between the fiscal years. First, personnel expenses in fiscal year 2017 increased as pension expense, as required to be reported under GASB 68, increased by approximately \$200,000. Secondly, the City recognized approximately \$250,000 in non-operating expenses related to a Water Quality Management Plan. Because of the uncertainty associated with obtaining voter approval to proceed with project's size and scope, management has expensed these costs when incurred. Thirdly, the fiscal year 2017 impact of the billing adjustment (discussed in Note 16) reduced revenues by approximately \$316,000.

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.

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**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current assets	\$ 4,689	\$ 3,902	\$ 2,762
Non-current assets	<u>25,981</u>	<u>27,146</u>	<u>28,651</u>
Total assets	30,670	31,048	31,413
Deferred outflows of resources	<u>698</u>	<u>467</u>	<u>262</u>
Total assets and deferred outflows of resources	<u>\$ 31,368</u>	<u>\$ 31,515</u>	<u>\$ 31,675</u>
Liabilities:			
Current liabilities	\$ 1,897	\$ 1,245	\$ 1,262
Noncurrent liabilities	<u>14,841</u>	<u>15,299</u>	<u>15,846</u>
Total liabilities	16,738	16,544	17,108
Deferred inflows of resources	45	-	63
Net position:			
Net investment in capital assets	10,239	10,520	11,142
Restricted	1,440	1,435	1,433
Unrestricted	<u>2,906</u>	<u>3,016</u>	<u>1,929</u>
Total net position	<u>14,585</u>	<u>14,971</u>	<u>14,504</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 31,368</u>	<u>\$ 31,515</u>	<u>\$ 31,675</u>

**Statements of Changes in Net Position**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 7,570	\$ 8,026	\$ 7,690
Operating expenses	<u>(7,241)</u>	<u>(7,060)</u>	<u>(7,056)</u>
Operating income	329	966	634
Nonoperating revenues (expenses)			
Other revenue	24	2	11
Other expense	<u>(739)</u>	<u>(501)</u>	<u>(507)</u>
Total nonoperating (expenses)	(715)	(499)	(496)
Transfers and capital contributions	<u>-</u>	<u>-</u>	<u>(23)</u>
Change in net position	(386)	467	115
Beginning net position	<u>14,971</u>	<u>14,504</u>	<u>14,389</u>
Ending net position	<u>\$ 14,585</u>	<u>\$ 14,971</u>	<u>\$ 14,504</u>

## **Capital Assets:**

Capital Assets – The Fund capital investment in fiscal year 2017 consisted of the following:

- Water main relining \$43,046
- Vactor vacuum/sewer cleaner \$385,195
- Conveyor belt replacement \$17,124
- Polymer pump \$28,837
- East plant turbo blower \$22,099

The Fund capital investment in fiscal year 2016 consisted of the following:

- Main plant roof replacement \$11,717
- East plant waste pump \$16,443
- 2016 Ford F350 pickup \$52,140

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 was \$14,302,947, a decrease of \$(888,001) from the prior year, all of which was backed by the full faith and credit of the government. At the end of the prior fiscal year, total debt outstanding was \$15,190,948, a decrease of \$(884,950) from the previous year.

Standard and Poor's Rating Group and Moody's Investors Services, Inc. has rated, the 2014 Bonds "AA+", and "Aa2", respectively.

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  
WASTEWATER ENTERPRISE FUND  
STATEMENTS OF NET POSITION  
JUNE 30, 2017 AND 2016

	2017	2016
<b>ASSETS</b>		
Current:		
Cash and cash equivalents	\$ 3,001,101	\$ 2,328,436
Receivables, net of allowance for uncollectibles:		
User fees	1,335,045	1,452,081
Intergovernmental	251,579	-
Inventory	101,561	119,870
Prepaid expenses	82	1,462
Total current assets	4,689,368	3,901,849
Noncurrent:		
Restricted cash	1,440,242	1,434,845
Capital assets:		
Land	847,952	847,952
Capital assets, net of accumulated depreciation	23,693,013	24,863,647
Total noncurrent assets	25,981,207	27,146,444
<b>TOTAL ASSETS</b>	<b>30,670,575</b>	<b>31,048,293</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related:		
Changes in proportional share of contributions	198,003	221,014
Difference between expected and actual experience	102,700	40,510
Difference between projected and actual investment earnings	283,211	76,411
Deferred current year pension contributions	113,583	128,909
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>697,497</b>	<b>466,844</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 31,368,072</b>	<b>\$ 31,515,137</b>
<b>LIABILITIES</b>		
Current:		
Accounts payable	\$ 416,032	\$ 338,074
Accrued payroll	22,291	19,031
Refunds payable	316,000	-
Notes payable	251,579	-
Current portion of long-term liabilities:		
Revenue bonds	732,281	732,281
State revolving loans	158,836	155,721
Total current liabilities	1,897,019	1,245,107
Noncurrent:		
Revenue bonds, net of current portion	11,716,496	12,448,777
State revolving loans, net of current portion	1,695,334	1,854,169
Net pension liability	1,256,143	856,352
Net OPEB obligation	60,919	60,919
Compensated absences	112,425	78,419
Total noncurrent liabilities	14,841,317	15,298,636
<b>TOTAL LIABILITIES</b>	<b>16,738,336</b>	<b>16,543,743</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension related:		
Difference between projected and actual investment earnings	45,181	-
<b>NET POSITION</b>		
Net investment in capital assets	10,238,017	10,520,649
Restricted for contingency reserve	1,440,242	1,434,845
Unrestricted	2,906,296	3,015,900
<b>TOTAL NET POSITION</b>	<b>14,584,555</b>	<b>14,971,394</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 31,368,072</b>	<b>\$ 31,515,137</b>

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

CITY OF BURLINGTON, VERMONT  
WASTEWATER ENTERPRISE FUND  
STATEMENTS OF REVENUE, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Operating Revenues:</b>		
Charges for services	\$ 7,569,694	\$ 8,026,247
Total Operating Revenues	<u>7,569,694</u>	<u>8,026,247</u>
<b>Operating Expenses:</b>		
Personnel	1,641,442	1,454,677
Non-personnel	3,059,654	3,105,993
Depreciation	1,594,846	1,581,314
Payments in lieu of taxes	945,450	917,913
Total Operating Expenses	<u>7,241,392</u>	<u>7,059,897</u>
Operating Income	328,302	966,350
<b>Nonoperating Revenues/(Expenses):</b>		
Interest income	7,104	2,341
Stormwater design (see page 3)	(251,579)	-
Interest expense	(486,578)	(498,700)
Other income (expense)	15,912	(3,000)
Total Nonoperating Revenues/(Expenses)	<u>(715,141)</u>	<u>(499,359)</u>
Change in Net Position	(386,839)	466,991
Net Position at Beginning of Year	<u>14,971,394</u>	<u>14,504,403</u>
Net Position at End of Year	<u>\$ 14,584,555</u>	<u>\$ 14,971,394</u>

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

CITY OF BURLINGTON, VERMONT  
WASTEWATER ENTERPRISE FUND  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Receipts from users and customers	\$ 8,002,730	\$ 8,033,803
Payments to suppliers	(2,962,005)	(3,109,407)
Payments for wages and benefits	(1,389,857)	(1,391,995)
Payment in lieu of taxes	(945,450)	(917,913)
	<u>2,705,418</u>	<u>2,614,488</u>
Net cash provided by operating activities	2,705,418	2,614,488
<b>Cash flows from noncapital financing activities:</b>		
Stormwater design costs financed by revolving loan	(251,579)	-
Other income	-	2,542
	<u>(251,579)</u>	<u>2,542</u>
Net cash (used) provided by noncapital financing activities	(251,579)	2,542
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(408,301)	(80,300)
Principal payments on revenue bonds	(732,281)	(732,281)
Principal payments on state revolving loans	(155,721)	(152,668)
Interest paid on outstanding debt	(486,578)	(498,700)
	<u>(1,782,881)</u>	<u>(1,463,949)</u>
Net cash used by capital and related financing activities	(1,782,881)	(1,463,949)
<b>Cash flows from investing activities:</b>		
Increase in restricted cash	(5,397)	(1,419)
Investment income	7,104	1,799
	<u>1,707</u>	<u>380</u>
Net cash provided by investing activities	1,707	380
Net change in cash	672,665	1,153,461
Cash and cash equivalents, beginning of year	<u>2,328,436</u>	<u>1,174,975</u>
Cash and cash equivalents, end of year	<u>\$ 3,001,101</u>	<u>\$ 2,328,436</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating income	\$ 328,302	\$ 966,350
Adjustments to reconcile operating income to net cash provided from operating activities:		
Depreciation	1,594,846	1,581,314
Changes in assets, liabilities, and deferred outflows/inflows:		
Accounts receivable	117,036	7,556
Inventories	18,309	6,504
Prepaid expense	1,380	-
Deferred outflows of resources, pension related	(230,653)	(205,231)
Accounts payable	77,960	(9,918)
Accrued salaries and wages	3,260	(9,566)
Refunds payable	316,000	-
Net pension liability	399,791	323,828
Post-employment benefits	-	13,713
Accrued compensated absences	34,006	3,384
Deferred inflows of resources, pension related	45,181	(63,446)
	<u>2,705,418</u>	<u>2,614,488</u>
Net cash provided by operating activities	<u>\$ 2,705,418</u>	<u>\$ 2,614,488</u>

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

CITY OF BURLINGTON, VERMONT  
WASTEWATER ENTERPRISE FUND

NOTES TO THE FINANCIAL STATEMENTS

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. *The Financial Reporting Entity*

The City of Burlington, Vermont, Wastewater Enterprise Fund (the Fund) is a municipally owned utility organized in 1865 to provide maintenance and treatment of wastewater 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, wastewater revenue is determined by water consumption multiplied by the wastewater rate. Under this method, wastewater 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 wastewater facilities. Operating expenses include the cost of wastewater 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:

	<u>Depreciable Lives</u>
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. USER FEES RECEIVABLE**

Receivables at June 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Billed user fees	\$ 786,428	\$ 873,081
Unbilled at year end	551,617	582,000
Less: allowance for doubtful fees	<u>(3,000)</u>	<u>(3,000)</u>
Net user fees receivable	<u>\$ 1,335,045</u>	<u>\$ 1,452,081</u>

**4. INTERGOVERNMENTAL**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2017.

**5. INVENTORY**

Inventory at June 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Fuel Stock	\$ 12,376	\$ 13,424
Chemicals	25,716	49,623
Miscellaneous	<u>63,469</u>	<u>56,823</u>
Total	<u>\$ 101,561</u>	<u>\$ 119,870</u>



**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, in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions, are more fully discussed in Note 12.

**8. ACCOUNTS PAYABLE**

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

**9. NOTES PAYABLE**

The Fund had State Revolving Loans from the State of Vermont EPA Clean Water State Revolving Fund outstanding at year end. The notes will be permanently financed upon completion.

Notes payable at June 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Note payable authorized up to \$997,204, including interest of 0%, for a planning loan of a system-wide gravity pipe assessment. 50% of the liability is attributable to the City's stormwater fund.	\$ 195,510	\$ -
Note payable authorized up to \$600,000, including interest of 0%, financing Integrated Water Quality Management Plan and related costs. 50% of the liability is attributable to the City's stormwater fund.	<u>56,069</u>	<u>-</u>
Total notes payable	<u><u>\$ 251,579</u></u>	<u><u>\$ -</u></u>

**10. LONG-TERM DEBT**

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

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 <u>Amount</u>	Serial Maturities <u>Through</u>	Interest <u>Rate(s)</u>	Amount Outstanding as of <u>6/30/17</u>
State of VT-EPA 2006 Series 1 (Siphon) \$	1,650,000	2/1/2027	0.00%	\$ 843,662
State of VT-EPA 2009 Series I (Turbo)	120,000	10/1/2031	0.00%	43,977
State of VT-EPA 2001 Series 1 (Digester)	2,500,000	8/1/2027	0.00%	966,530
VT Municipal Bond Bank 2014 Series 1	14,645,620	11/15/2033	0.643-4.723%	12,448,778
Total				<u>\$ 14,302,947</u>

	Original Issue <u>Amount</u>	Serial Maturities <u>Through</u>	Interest <u>Rate(s)</u>	Amount Outstanding as of <u>6/30/16</u>
State of VT-EPA 2006 Series 1 (Siphon) \$	1,650,000	2/1/2027	0.00%	\$ 919,200
State of VT-EPA 2009 Series I (Turbo)	120,000	10/1/2031	0.00%	46,290
State of VT-EPA 2001 Series 1 (Digester)	2,500,000	8/1/2027	0.00%	1,044,400
VT Municipal Bond Bank 2014 Series 1	14,645,620	11/15/2033	0.643-4.723%	13,181,058
Total				<u>\$ 15,190,948</u>

Maturities are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 891,117	\$ 436,690	\$ 1,327,807
2019	894,294	424,683	1,318,977
2020	897,533	409,497	1,307,030
2021	900,839	390,948	1,291,787
2022	904,210	369,440	1,273,650
2023 - 2027	4,574,022	1,465,285	6,039,307
2028 - 2032	3,773,194	729,873	4,503,067
2033 - 2034	1,467,738	62,858	1,530,596
	<u>\$ 14,302,947</u>	<u>\$ 4,289,274</u>	<u>\$ 18,592,221</u>

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

	2017					
	Total			Total	Less	Equals
	Balance <u>7/1/2016</u>	<u>Additions</u>	<u>Reduction</u>	Balance <u>6/30/2017</u>	Current <u>Portion</u>	Long-Term <u>Portion</u>
Revenue bonds	\$ 13,181,058	\$ -	\$ (732,281)	\$ 12,448,777	\$ (732,281)	\$ 11,716,496
State revolving loans	2,009,890	-	(155,720)	1,854,170	(158,836)	1,695,334
Net pension liability	856,352	399,791	-	1,256,143	-	1,256,143
Net OPEB obligation	60,919	-	-	60,919	-	60,919
Compensated absences	78,419	34,006	-	112,425	-	112,425
Total	<u>\$ 16,186,638</u>	<u>\$ 433,797</u>	<u>\$ (888,001)</u>	<u>\$ 15,732,434</u>	<u>\$ (891,117)</u>	<u>\$ 14,841,317</u>

2016

	Total			Total		
	Balance			Balance	Less	Equals
	<u>7/1/2015</u>	<u>Additions</u>	<u>Reduction</u>	<u>6/30/2016</u>	<u>Current</u>	<u>Long-Term</u>
					<u>Portion</u>	<u>Portion</u>
Revenue bonds	\$ 13,913,339	\$ -	\$ (732,281)	\$ 13,181,058	\$ (732,281)	\$ 12,448,777
State revolving loans	2,162,558	-	(152,668)	2,009,890	(155,721)	1,854,169
Net pension liability	532,524	323,828	-	856,352	-	856,352
Net OPEB obligation	47,206	13,713	-	60,919	-	60,919
Compensated absences	75,035	3,384	-	78,419	-	78,419
Total	<u>\$ 16,730,662</u>	<u>\$ 340,925</u>	<u>\$ (884,949)</u>	<u>\$ 16,186,638</u>	<u>\$ (888,002)</u>	<u>\$ 15,298,636</u>

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.

#### 11. RESTRICTED NET POSITION

The Fund established a contingency reserve fund for the Series 2014 bonds pursuant to the General Bond Resolution adopted December 9, 2013. For the years ended June 30, 2017 and 2016, restricted net position was \$1,440,242 and \$1,434,845 respectively.

#### 12. 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%. It is the current policy of the City of Burlington to fund the actuarially determined periodic contributions using the projected unit credit cost method. Gains (losses), as they occur, reduce (increase) the unfunded past service cost. 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, 2017, the Fund reported a net pension liability for its proportionate share of the City's net pension liability per the new GASB 68. The net pension liability was measured as of June 30, 2016. 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, 2017 and 2016, the Fund's proportions were 1.4090 and 1.2563 percent, respectively. 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 \$128,908 and \$111,067 for the measurement years ended June 30, 2016 and 2015, respectively, the measurement date of the net pension liability used for the June 30, 2016 reporting period.

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, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3 percent
Salary increases	3.8 to 8.8 percent, including inflation
Investment rate of return	investment expense, including inflation

Mortality rates were based on the RP-2000 combined mortality tables for males and females, with full generational projection by scale BB.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the most recent actuarial experience study, which was for the five year period ended June 30, 2012.

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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Expected Real Rate of Return
US Large Cap	30.09%	7.16%
US Mid Cap	8.99%	9.04%
US Small Cap	8.99%	9.03%
MSCI EAFE	9.31%	5.61%
MSCI Emerging Markets	10.40%	8.22%
Intermediate Government Credit	27.74%	1.72%
Real Estate	2.08%	6.63%
Private Equity	1.56%	8.31%
Cash	0.84%	0.86%
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 8%. 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 8.00 percent, 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 (7.00%) or one percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Fund's net pension liability as of:			
June 30, 2017	\$ 1,667,192	\$ 1,256,143	\$ 912,619
June 30, 2016	\$ 1,203,098	\$ 856,352	\$ 566,756

*Deferred Inflows and Outflows of Resources:* As a result of implementing GASB 68, the deferred current year pension contributions are included in pension expense the following

year. 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:

	Net deferred outflows (inflows) of resources:	
	As of <u>6/30/2017</u>	As of <u>6/30/2016</u>
Amortization year:		
2017	\$ -	\$ 117,969
2018	209,947	117,969
2019	159,765	67,787
2020	126,994	34,210
2021	42,027	-
	<u>\$ 538,733</u>	<u>\$ 337,935</u>

*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.

**13. OTHER POST-EMPLOYMENT BENEFITS (OTHER THAN PENSION)**

The City follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45) for reporting other post-employment benefits (OPEB) including healthcare, life insurance, and other non-pension benefits offered to retirees. The City allows certain retired employees to purchase health insurance through the City at the City’s group rates, which is recognized as implicit subsidy. GASB 45 addresses how the City should account for and report its costs related to OPEB, such as the City’s implicit subsidy of retiree health insurance and the City’s direct subsidy of retiree health insurance. GASB 45 requires that the City recognize the cost of the retiree health subsidy during the period of employees’ active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the City. The Fund’s portion of the OPEB liability as presented in the long-term debt section.

*Funding Policy:* The City funds the benefits on a pay-as-you-go basis.

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

**14. 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.

**15. RELATED PARTY TRANSACTIONS**

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

<u>Entity Paid by Wastewater</u>	<u>Description of Service</u>	<u>2017</u>	<u>2016</u>
General Fund:			
Public Work's Department	Administrative costs for wastewater division operations	\$ 47,024	\$ 45,654
Public Work's Department	Facility charges	8,800	8,800
Public Work's Department	Equipment maintenance	45,258	100,316
Public Work's Department	Excavation fees	26,000	-
Public Work's Department	Street services	133,992	153,099
Public Work's Department	Engineering	-	47,579
Clerk/Treasurer's Office	Payment in lieu of taxes (PILOT) <sup>(1)</sup>	945,450	917,913
Clerk/Treasurer's Office	Franchise fee of 3.5% of gross revenue, pursuant to City ordinance	263,451	266,103
Clerk/Treasurer's Office	Administration and risk management fees, approved via budget process	143,923	157,311
City Attorney	Legal fees	4,335	3,308
Water	Billing services	237,030	203,175
Stormwater	Stormwater usage	9,773	7,765
Telecom	Data, internet, phone usage	72,749	70,131
Burlington Electric Department	Electricity usage	436,541	448,033
Total related party transactions		\$ <u>2,374,326</u>	\$ <u>2,429,187</u>

<sup>(1)</sup> The Fund’s physical plant 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.

**16. COMMITMENTS AND CONTINGENCIES**

Refunds - The Fund has become aware of an error in the installation of a limited number of electronic meter reading devices. The error had an impact on a number of commercial accounts, and may have resulted in inaccurate reporting of actual usage for such meters. The City has implemented steps to correct such error and is continuing, with an outside

consultant, to investigate the exact impact on the Fund. The estimate of this one-time extraordinary charge to the Fund is currently estimated to be approximately \$2,000,000, but may be lower or greater depending upon completion of the Fund’s review. The Fund does not expect such extraordinary expense to adversely impact the Fund’s ability to meet its rate covenant for the outstanding revenue bond. The effect of the billing adjustments on fiscal year 2017 overbilling is reported as refunds payable. The remaining amount will be accrued once the amount is determined.

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.

**17. 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:

<u>Type</u>	<u>Allocation Method</u>
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 2017 and 2016.

**18. IMPLEMENTATION OF NEW GASB STANDARDS**

The Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, replacing requirements of Statements No. 45 and 57, effective for the Fund beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet specific criteria and for employers whose employees are provided with defined contribution OPEB. Management's current assessment is that this pronouncement will have an impact on the Fund's basic financial statements by increasing the net OPEB liability and, as a result, decreasing unrestricted net position.

**CITY OF BURLINGTON, VERMONT**  
**SCHEDULE OF PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2017**

**(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 Position Percentage of the Total Pension Liability
June 30, 2017	June 30, 2016	1.4090%	\$1,256,143	\$854,549	146.99%	64%
June 30, 2016	June 30, 2015	1.2563%	\$856,352	\$863,280	99.20%	70%
June 30, 2015	June 30, 2014	0.9893%	\$532,524	\$859,294	61.97%	75%

*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**

**SCHEDULE OF PENSION CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2017  
(Unaudited)**

Burlington Employee's Retirement System

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Fiscal Year	Contributions in Relation to the			Covered Payroll	Contributions as a Percentage of Covered Payroll
	Contractually Required Contribution	Contractually Required Contribution	Contribution Deficiency (Excess)		
June 30, 2017	\$128,908	\$128,908	\$ -	\$854,549	15%
June 30, 2016	\$111,067	\$111,067	\$ -	\$863,280	13%
June 30, 2015	\$ 88,252	\$ 88,252	\$ -	\$859,294	10%

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

See Independent Auditors' Report.