

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

FINANCIAL STATEMENTS

JUNE 30, 2019 and 2018

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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, 2019 and 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, 2019 and 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.

Opinion

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, 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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

November 27, 2019

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, 2019. 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, 2019, it shows our net position of \$13,820,031, a change of \$318,512 in comparison to the prior year. The unrestricted net position decreased from the prior year by (\$566,884) as the fund used unrestricted net position for repayment of a historical billing error to a large customer (see discussion "Significant Refund of Over-Billed Charges" below).

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 2019 increased by \$318,512 whereby fiscal year 2018 resulted in a decrease to our net position of (\$351,421). Three significant events highlight the difference between the fiscal years. First, the overall operating revenues (charges for service) increased by approximately \$508,000. Secondly, overall operating expenses increased by about \$81,000. Finally, the reduction of approximately \$209,000 between fiscal years in non-operating expenses related to a Water Quality Management Plan. These non-operating expenses are fully reimbursable through a State Revolving Fund Loan, but reimbursements can only occur according to project milestones being met. These milestones do not always line up with the close out of the fiscal year and so the project "balance" will fluctuate. However, at close of these projects, the impact on the net position is expected to be neutral as all expenses are eligible for reimbursements.

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>2019</u> | <u>2018</u> | <u>2017</u> |
| Assets: | | | |
| Current assets | \$ 4,307 | \$ 4,913 | \$ 4,689 |
| Non-current assets | <u>24,077</u> | <u>24,966</u> | <u>25,981</u> |
| Total assets | 28,384 | 29,879 | 30,670 |
| Deferred outflows of resources | <u>500</u> | <u>389</u> | <u>698</u> |
| Total assets and deferred outflows of resources | <u>\$ 28,884</u> | <u>\$ 30,268</u> | <u>\$ 31,368</u> |
| Liabilities: | | | |
| Current liabilities | \$ 1,935 | \$ 2,913 | \$ 1,897 |
| Noncurrent liabilities | <u>12,723</u> | <u>13,442</u> | <u>15,573</u> |
| Total liabilities | 14,658 | 16,355 | 17,470 |
| Deferred inflows of resources | 406 | 411 | 45 |
| Net position: | | | |
| Net investment in capital assets | 9,961 | 9,107 | 10,239 |
| Restricted | 1,487 | 1,456 | 1,440 |
| Unrestricted | <u>2,372</u> | <u>2,939</u> | <u>2,174</u> |
| Total net position | <u>13,820</u> | <u>13,502</u> | <u>13,853</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 28,884</u> | <u>\$ 30,268</u> | <u>\$ 31,368</u> |

| Statements of Changes in Net Position | | | |
|--|------------------|------------------|------------------|
| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
| Operating revenues | \$ 7,939 | \$ 7,431 | \$ 7,570 |
| Operating expenses | <u>(7,103)</u> | <u>(7,023)</u> | <u>(7,241)</u> |
| Operating income | 836 | 408 | 329 |
| Nonoperating revenues (expenses) | | | |
| Other revenue | 66 | 44 | 24 |
| Other expense | <u>(584)</u> | <u>(803)</u> | <u>(739)</u> |
| Total nonoperating (expenses) | <u>(518)</u> | <u>(759)</u> | <u>(715)</u> |
| Change in net position | 318 | (351) | (386) |
| Beginning net position, as restated | <u>13,502</u> | <u>13,853</u> | <u>14,239</u> |
| Ending net position | <u>\$ 13,820</u> | <u>\$ 13,502</u> | <u>\$ 13,853</u> |

Capital Assets:

Capital Assets – Net capital assets decreased by (\$920,064) in the current year. Significant capital asset activity in the current year consisted of the following:

- South Cove Force Main Replacement \$235,525
- CIPP Sewer Lining \$27,099
- McNeil Pump Station \$22,076
- (2) Main Plant grinders \$47,590
- Flow meters \$18,875
- Depreciation \$1,294,408

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 \$12,517,537, a decrease of (\$894,293) 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, the 2014 Bonds "AA+", and "Aa2", respectively.

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

Significant Refund of Over-Billed Charges (Restatement):

The Wastewater fund paid a significant refund of over-billed charges (\$1,096,495) incurred over a 6-year period to one of its larger customers in fiscal year 2019. This over-billing was discovered as the result of an on-going comprehensive review of all water meters 1" or greater in size across the City. This review identified both over-billing and under-billing due to discrepancies in the meter-to-cash billing process such as cross-wiring of compound meter heads (over-billing) or missing multipliers in the billing system when the physical meter has one or more fixed zeros (under-billing). Multiple changes to business workflow have been implemented in order to address the root causes of the errors, including but not limited to: a reorganization of the meter technician and billing staff workgroups into one team with one supervisor, implementation of electronic meter inspection forms with photo documentation, and a QA/QC step of all account changes.

At this point, no other refunds of this size are anticipated to any of our other customers. Refer to Note 19 for further information regarding the restatement.

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
AS OF JUNE 30

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| Current: | | |
| Cash and cash equivalents | \$ 2,664,509 | \$ 3,089,029 |
| Receivables, net of allowance for uncollectibles: | | |
| User fees | 1,433,613 | 1,376,902 |
| Intergovernmental | 100,472 | 334,854 |
| Inventory | 106,752 | 110,124 |
| Prepaid expenses | <u>2,102</u> | <u>2,476</u> |
| Total current assets | 4,307,448 | 4,913,385 |
| Noncurrent: | | |
| Restricted cash | 1,486,796 | 1,456,271 |
| Capital assets: | | |
| Land | 859,865 | 853,525 |
| Capital assets, net of accumulated depreciation | <u>21,729,909</u> | <u>22,656,313</u> |
| Total noncurrent assets | <u>24,076,570</u> | <u>24,966,109</u> |
| TOTAL ASSETS | 28,384,018 | 29,879,494 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension related: | | |
| Changes in proportional share of contributions | 212,222 | 85,141 |
| Change in assumptions | 57,444 | 59,213 |
| Difference between expected and actual experience | 18,978 | 34,266 |
| Difference between projected and actual investment earnings | 96,254 | 109,583 |
| Deferred current year pension contributions | 111,498 | 98,654 |
| OPEB related | <u>3,540</u> | <u>1,682</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>499,936</u> | <u>388,539</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 28,883,954</u> | <u>\$ 30,268,033</u> |

(continued)

CITY OF BURLINGTON, VERMONT
WASTEWATER ENTERPRISE FUND
STATEMENTS OF NET POSITION
AS OF JUNE 30

(continued)

| | 2019 | 2018 |
|--|---------------|---------------|
| LIABILITIES | | |
| Current: | | |
| Accounts payable | \$ 341,245 | \$ 329,406 |
| Accrued payroll | 27,475 | 25,964 |
| Refunds payable | - | 1,096,494 |
| Notes payable | 640,476 | 540,504 |
| Current portion of long-term liabilities: | | |
| Revenue bonds payable | 732,281 | 732,281 |
| State revolving loans | 165,252 | 162,013 |
| Capital lease payable | 17,883 | 17,224 |
| Compensated absences | 10,641 | 8,772 |
| Total current liabilities | 1,935,253 | 2,912,658 |
| Noncurrent: | | |
| Revenue bonds payable net of current portion | 10,251,934 | 10,984,215 |
| State revolving loans, net of current portion | 1,368,070 | 1,533,321 |
| Capital lease payable, net of current portion | 92,934 | 110,817 |
| Net pension liability | 838,441 | 664,669 |
| Total OPEB liability | 64,364 | 60,161 |
| Compensated absences | 106,685 | 89,148 |
| Total noncurrent liabilities | 12,722,428 | 13,442,331 |
| TOTAL LIABILITIES | 14,657,681 | 16,354,989 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pension related: | | |
| Difference between projected and actual investment earnings | 93,962 | 69,848 |
| Difference between expected and actual experience | 35,745 | 24,394 |
| Change in assumptions | 62,387 | - |
| Change in proportional share of contributions | 210,406 | 315,608 |
| OPEB related | 3,742 | 1,675 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 406,242 | 411,525 |
| NET POSITION | | |
| Net investment in capital assets | 9,961,420 | 9,106,549 |
| Restricted for bond resolution | 1,486,796 | 1,456,271 |
| Unrestricted | 2,371,815 | 2,938,699 |
| TOTAL NET POSITION | 13,820,031 | 13,501,519 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | \$ 28,883,954 | \$ 30,268,033 |

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

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Operating Revenues: | | |
| Charges for services | \$ 7,939,307 | \$ 7,430,870 |
| Total Operating Revenues | 7,939,307 | 7,430,870 |
| Operating Expenses: | | |
| Personnel | 1,774,402 | 1,612,332 |
| Non-personnel | 2,933,851 | 2,831,279 |
| Depreciation | 1,294,408 | 1,492,438 |
| Payments in lieu of taxes | 1,100,743 | 1,086,643 |
| Total Operating Expenses | <u>7,103,404</u> | <u>7,022,692</u> |
| Operating Income | 835,903 | 408,178 |
| Nonoperating Revenues/(Expenses): | | |
| Interest income | 40,335 | 21,143 |
| Other income | 25,400 | - |
| Stormwater design (see page 3) | (116,554) | (325,876) |
| Interest expense | (466,572) | (477,366) |
| Gain on disposal of capital assets | - | 22,500 |
| Total Nonoperating Revenues/(Expenses) | <u>(517,391)</u> | <u>(759,599)</u> |
| Change in Net Position | 318,512 | (351,421) |
| Net Position at Beginning of Year, as restated | <u>13,501,519</u> | <u>13,852,940</u> |
| Net Position at End of Year | <u>\$ 13,820,031</u> | <u>\$ 13,501,519</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

| | 2019 | 2018 |
|---|--------------|--------------|
| Cash flows from operating activities: | | |
| Receipts from users and customers | \$ 7,882,596 | \$ 7,389,013 |
| Payments to suppliers | (2,918,266) | (2,880,862) |
| Payments for wages and benefits | (1,692,190) | (1,539,215) |
| Payment in lieu of taxes | (1,100,743) | (1,086,643) |
| Other revenues | 25,400 | - |
| Net cash provided by operating activities | 2,196,797 | 1,882,293 |
| Cash flows from noncapital financing activities: | | |
| Stormwater design costs financed by revolving loan | (116,554) | (325,876) |
| Refunds to customers | (1,096,494) | - |
| Net cash used by noncapital financing activities | (1,213,048) | (325,876) |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (374,344) | (461,311) |
| Proceeds from issuance of capital lease | - | 133,640 |
| Proceeds of short term state revolving loans | 334,354 | 205,650 |
| Proceeds from sale of capital assets | - | 22,500 |
| Principal payments on revenue bonds | (732,281) | (732,281) |
| Principal payments on state revolving loans | (162,012) | (158,836) |
| Principal paid on capital leases | (17,224) | (5,599) |
| Interest paid on outstanding debt | (466,572) | (477,366) |
| Net cash used by capital and related financing activities | (1,418,079) | (1,473,603) |
| Cash flows from investing activities: | | |
| Investment income | 40,335 | 21,143 |
| Net cash provided by investing activities | 40,335 | 21,143 |
| Net change in cash | (393,995) | 103,957 |
| Cash and cash equivalents, beginning of year | 4,545,300 | 4,441,343 |
| Cash and cash equivalents, end of year | \$ 4,151,305 | \$ 4,545,300 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | |
| Operating income | \$ 835,903 | \$ 408,178 |
| Adjustments to reconcile operating income to net cash provided from operating activities: | | |
| Depreciation | 1,294,408 | 1,492,438 |
| Other revenues | 25,400 | - |
| Changes in assets, liabilities, and deferred outflows/inflows: | | |
| Accounts receivable | (56,711) | (41,857) |
| Inventories | 3,372 | (8,563) |
| Prepaid expense | 374 | (2,394) |
| Deferred outflows related to pensions | (109,539) | 310,639 |
| Deferred outflows related to OPEB | (1,858) | (1,682) |
| Accounts payable | 11,839 | (38,626) |
| Accrued salaries and wages | 1,511 | 3,673 |
| Net pension liability | 173,772 | (591,474) |
| Total OPEB liability | 4,203 | 122 |
| Accrued compensated absences | 19,406 | (14,505) |
| Deferred inflows related to pensions | (9,025) | 364,669 |
| Deferred inflows related to OPEB | 3,742 | 1,675 |
| Net cash provided by operating activities | \$ 2,196,797 | \$ 1,882,293 |

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 liability 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.

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>2019</u> | <u>2018</u> |
|-----------------------------------|---------------------|---------------------|
| Billed user fees | \$ 899,394 | \$ 826,125 |
| Unbilled at year end | 537,219 | 553,777 |
| Less: allowance for doubtful fees | <u>(3,000)</u> | <u>(3,000)</u> |
| Net user fees receivable | <u>\$ 1,433,613</u> | <u>\$ 1,376,902</u> |

4. INTERGOVERNMENTAL

The June 30, 2019 balance represents reimbursements requested from Federal and State agencies for expenses incurred in fiscal 2019. The June 30, 2018 balance represents reimbursements requested from Federal and State agencies for expenses incurred in fiscal 2018.

5. INVENTORY

Inventory at June 30 consisted of the following:

| | <u>2019</u> | <u>2018</u> |
|---------------|-------------------|-------------------|
| Fuel stock | \$ 14,246 | \$ 16,866 |
| Chemicals | 40,835 | 29,670 |
| Miscellaneous | <u>51,671</u> | <u>63,588</u> |
| Total | <u>\$ 106,752</u> | <u>\$ 110,124</u> |

6. PROPERTY, PLANT, AND EQUIPMENT

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

| | 2019 | | | |
|--|----------------------|--------------|-----------|-------------------|
| | Beginning Balance | Increases | Decreases | Ending Balance |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 847,952 | \$ - | \$ - | \$ 847,952 |
| Construction in progress | 5,573 | 6,340 | - | 11,913 |
| Total capital assets, not being depreciated | 853,525 | 6,340 | - | 859,865 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 29,919,035 | - | - | 29,919,035 |
| Buildings and building improvements | 137,951 | 22,076 | - | 160,027 |
| Vehicles, machinery, equipment and furniture | 12,330,334 | 66,465 | - | 12,396,799 |
| Distribution and collection systems | 17,888,928 | 279,463 | - | 18,168,391 |
| Total capital assets, being depreciated | 60,276,248 | 368,004 | - | 60,644,252 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (17,759,503) | (732,301) | - | (18,491,804) |
| Buildings and building improvements | (13,574) | (5,960) | - | (19,534) |
| Vehicles, machinery, equipment and furniture | (11,227,280) | (196,517) | - | (11,423,797) |
| Distribution and collection systems | (8,619,578) | (359,630) | - | (8,979,208) |
| Totals | (37,619,935) | (1,294,408) | - | (38,914,343) |
| Total capital assets, being depreciated | 22,656,313 | (926,404) | - | 21,729,909 |
| Capital assets, net | \$ 23,509,838 | \$ (920,064) | \$ - | \$ 22,589,774 |

| | 2018 | | | |
|--|----------------------|----------------|-----------|-------------------|
| | Beginning Balance | Increases | Decreases | Ending Balance |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 847,952 | \$ - | \$ - | \$ 847,952 |
| Construction in progress | - | 5,573 | - | 5,573 |
| Total capital assets, not being depreciated | 847,952 | 5,573 | - | 853,525 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 29,919,035 | - | - | 29,919,035 |
| Buildings and building improvements | 94,035 | 43,916 | - | 137,951 |
| Vehicles, machinery, equipment and furniture | 12,178,832 | 255,610 | (104,108) | 12,330,334 |
| Distribution and collection systems | 17,732,715 | 156,213 | - | 17,888,928 |
| Total capital assets, being depreciated | 59,924,617 | 455,739 | (104,108) | 60,276,248 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (17,027,201) | (732,302) | - | (17,759,503) |
| Buildings and building improvements | (8,934) | (4,640) | - | (13,574) |
| Vehicles, machinery, equipment and furniture | (10,935,760) | (395,628) | 104,108 | (11,227,280) |
| Distribution and collection systems | (8,259,709) | (359,869) | - | (8,619,578) |
| Totals | (36,231,604) | (1,492,439) | 104,108 | (37,619,935) |
| Total capital assets, being depreciated | 23,693,013 | (1,036,700) | - | 22,656,313 |
| Capital assets, net | \$ 24,540,965 | \$ (1,031,127) | \$ - | \$ 23,509,838 |

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. REFUNDS PAYABLE

Refunds payable represents overbillings to customers. In fiscal year 2017 the Fund became aware of overbillings that covered a period of approximately 6 years. In fiscal year 2019 the fund restated the net position for the overbillings prior to 2017. The fiscal year 2018 and 2017 refunds payable amounts represent overbillings that were related to those periods. Refer to footnote 19 for more information regarding the restatement.

9. CAPITAL LEASE OBLIGATIONS

In 2018, the Fund entered into a lease agreement as the lessee for the purpose of financing the acquisition of a Wastewater pump truck. This lease agreement qualifies as a capital lease obligation for accounting purposes (even though the agreement includes a clause that allows for cancellation of the lease in the event the City does not appropriate funds in future years) and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date of the leases.

The Fund had the following lease outstanding at June 30:

| | <u>2019</u> | <u>2018</u> |
|---|-------------------------|--------------------------|
| Capital lease for a 2018 International Wastewater pump truck. The lease payments are made monthly for a total of \$21,744 annually including interest at 3.76% annually, maturing on February 20, 2025. | \$ <u>123,213</u> | \$ <u>144,957</u> |
| Total lease payments | 123,213 | 144,957 |
| Less: amount that represents interest | <u>(12,396)</u> | <u>(16,916)</u> |
| Total lease obligation | 110,817 | 128,041 |
| Less: amount due within one year | <u>(17,883)</u> | <u>(17,224)</u> |
| Capital lease obligation, net of current portion | \$ <u><u>92,934</u></u> | \$ <u><u>110,817</u></u> |

The following is an analysis for the leased assets included in capital assets at June 30:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|--------------------------|--------------------------|
| Machinery, vehicles and equipment | \$ 156,140 | \$ 156,140 |
| Less: accumulated depreciation | <u>(15,614)</u> | <u>(5,205)</u> |
| Equipment under capital leases, net | \$ <u><u>140,526</u></u> | \$ <u><u>150,935</u></u> |

10. 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>2019</u> | <u>2018</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. | \$ 419,980 | \$ 345,551 |
| 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>220,496</u> | <u>194,953</u> |
| Total notes payable | <u>\$ 640,476</u> | <u>\$ 540,504</u> |

Notes payable activity for the years ended June 30 consisted of the following:

| <u>Description</u> | <u>Balance at 7/1/18</u> | <u>Additions</u> | <u>Repayments</u> | <u>Balance at 6/30/19</u> |
|--|--------------------------|------------------|-------------------|---------------------------|
| System-wide Gravity Pipe Assessment (SRL RF1-187-1) | \$ 345,551 | \$ 74,429 | \$ - | \$ 419,980 |
| Integrated Water Quality Management Plan (SRL RF1-196-1) | <u>194,953</u> | <u>25,543</u> | <u>-</u> | <u>220,496</u> |
| | <u>\$ 540,504</u> | <u>\$ 99,972</u> | <u>\$ -</u> | <u>\$ 640,476</u> |

| <u>Description</u> | <u>Balance at 7/1/17</u> | <u>Additions</u> | <u>Repayments</u> | <u>Balance at 6/30/18</u> |
|--|--------------------------|-------------------|-------------------|---------------------------|
| System-wide Gravity Pipe Assessment (SRL RF1-187-1) | \$ - | \$ 345,551 | \$ - | \$ 345,551 |
| Integrated Water Quality Management Plan (SRL RF1-196-1) | <u>-</u> | <u>194,953</u> | <u>-</u> | <u>194,953</u> |
| | <u>\$ -</u> | <u>\$ 540,504</u> | <u>\$ -</u> | <u>\$ 540,504</u> |

11. 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 Rate(s) | Amount Outstanding as of <u>6/30/19</u> |
|---|------------------------------------|--|---------------------|--|
| State of VT-EPA 2006 Series 1 (Siphon) \$ | 1,650,000 | 2/1/2027 | 0.00% | \$ 688,023 |
| State of VT-EPA 2009 Series I (Turbo) | 120,000 | 10/1/2031 | 0.00% | 39,211 |
| State of VT-EPA 2001 Series 1 (Digester) | 2,500,000 | 8/1/2027 | 0.00% | 806,087 |
| VT Municipal Bond Bank 2014 Series 1 | 14,645,620 | 11/15/2033 | 0.643-4.723% | <u>10,984,216</u> |
| Total | | | | \$ <u>12,517,537</u> |

| | Original Issue <u>Amount</u> | Serial Maturities <u>Through</u> | Interest Rate(s) | Amount Outstanding as of <u>6/30/18</u> |
|---|------------------------------------|--|---------------------|--|
| State of VT-EPA 2006 Series 1 (Siphon) \$ | 1,650,000 | 2/1/2027 | 0.00% | \$ 766,613 |
| State of VT-EPA 2009 Series I (Turbo) | 120,000 | 10/1/2031 | 0.00% | 41,618 |
| State of VT-EPA 2001 Series 1 (Digester) | 2,500,000 | 8/1/2027 | 0.00% | 887,103 |
| VT Municipal Bond Bank 2014 Series 1 | 14,645,620 | 11/15/2033 | 0.643-4.723% | <u>11,716,496</u> |
| Total | | | | \$ <u>13,411,830</u> |

Maturities are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|----------------------|---------------------|----------------------|
| 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 | 907,648 | 345,881 | 1,253,529 |
| 2024 | 911,155 | 320,766 | 1,231,921 |
| 2025 - 2029 | 4,322,414 | 1,184,894 | 5,507,308 |
| 2030 - 2034 | <u>3,673,738</u> | <u>406,474</u> | <u>4,080,212</u> |
| | \$ <u>12,517,537</u> | \$ <u>3,427,900</u> | \$ <u>15,945,437</u> |

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

| | 2019 | | | | | |
|-----------------------|----------------------|-------------------|---------------------|----------------------|---------------------|----------------------|
| | Total | | | Total | Less | Equals |
| | Balance 7/1/2018 | Additions | Reductions | Balance 6/30/2019 | Current Portion | Long-Term Portion |
| Revenue bonds | \$ 11,716,496 | \$ - | \$ (732,281) | \$ 10,984,215 | \$ (732,281) | \$ 10,251,934 |
| State revolving loans | 1,695,334 | - | (162,012) | 1,533,322 | (165,252) | 1,368,070 |
| Capital leases | 128,041 | - | (17,224) | 110,817 | (17,883) | 92,934 |
| Net pension liability | 664,669 | 173,772 | - | 838,441 | - | 838,441 |
| Total OPEB liability | 60,161 | 4,203 | - | 64,364 | - | 64,364 |
| Compensated absences | 97,920 | 62,577 | (43,171) | 117,326 | (10,641) | 106,685 |
| Total | <u>\$ 14,362,621</u> | <u>\$ 240,552</u> | <u>\$ (954,688)</u> | <u>\$ 13,648,485</u> | <u>\$ (926,057)</u> | <u>\$ 12,722,428</u> |

| | 2018 | | | | | |
|-----------------------|----------------------|-------------------|-----------------------|----------------------|---------------------|----------------------|
| | Total | | | Total | Less | Equals |
| | Balance 7/1/2017 | Additions | Reductions | Balance 6/30/2018 | Current Portion | Long-Term Portion |
| Revenue bonds | \$ 12,448,777 | \$ - | \$ (732,281) | \$ 11,716,496 | \$ (732,281) | \$ 10,984,215 |
| State revolving loans | 1,854,170 | - | (158,836) | 1,695,334 | (162,013) | 1,533,321 |
| Capital leases | - | 133,639 | (5,598) | 128,041 | (17,224) | 110,817 |
| Net pension liability | 1,256,143 | - | (591,474) | 664,669 | - | 664,669 |
| Total OPEB liability | 60,039 | 122 | - | 60,161 | - | 60,161 |
| Compensated absences | 112,425 | 65,522 | (80,027) | 97,920 | (8,772) | 89,148 |
| Total | <u>\$ 15,731,554</u> | <u>\$ 199,283</u> | <u>\$ (1,568,216)</u> | <u>\$ 14,362,621</u> | <u>\$ (920,290)</u> | <u>\$ 13,442,331</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.

12. 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, 2019 and 2018, restricted net position was \$1,486,796 and \$1,456,271, respectively.

13. 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*, 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. 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, 2019, 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, 2018. At June 30, 2019 and 2018, the Fund's portion was 1.11% and 0.76%, 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 \$111,498 and \$98,654, for the fiscal years ended June 30, 2019 and 2018, respectively. The policy of the City for fiscal years 2016-2018 is to fund the actuarially 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% and in FY19 from 7.625% to 7.5%. Beginning in FY19, the City is using the direct rate smoothing method for funding. The Fund's contributions were based on full time equivalents and wages.

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, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.60% |
| Salary increases | 3.00%, 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, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2017, with the discount rate updated from 7.625% to 7.50% 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, 2018 are summarized in the following table:

| Asset Class | Target Allocation | Expected Real Rate of |
|-------------------------|-------------------|-----------------------|
| 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 2.60%.

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. 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, 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 or one percentage-point higher than the current rate:

| Fund's net pension liability as of: | 1% Decrease | Current Discount Rate | 1% Increase |
|-------------------------------------|--------------|-----------------------|-------------|
| June 30, 2019 | \$ 1,152,868 | \$ 838,441 | \$ 567,664 |
| June 30, 2018 | \$ 908,599 | \$ 664,669 | \$ 455,366 |

Deferred Outflows and (Inflows) of Resources: The Fund recognized pension expense of \$159,469 and \$139,088 for the fiscal years ending June 30, 2019 and 2018, respectively. Deferred outflows of resources related to pensions resulting from contributions subsequent

to the measurement date will be recognized in pension expense for of subsequent fiscal year. Other amounts reported as deferred outflows and (inflows) of resources related to pension are recognized in pension expense in future fiscal years as follows:

| | As of June 30, 2019 | As of June 30, 2018 |
|--------------------|-----------------------------|-----------------------------|
| Amortization year: | <u> </u> | <u> </u> |
| 2019 | \$ - | \$ 7,128 |
| 2020 | 26,034 | (29,065) |
| 2021 | (45,571) | (85,299) |
| 2022 | 9,698 | (14,411) |
| 2023 | (7,763) | - |
| | <u>\$ (17,602)</u> | <u>\$ (121,647)</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.

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

14. 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.

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.

Contributions

Employer and employee contribution rates are governed by the respective collective bargaining agreements. The OPEB plan is currently funded on a pay-as-you-go basis. The employer and plan members share the cost of benefits. The plan members contribute 5.51% of the monthly premium cost, depending on the plan in which they are enrolled. The Fund contributes the balance of the premium costs.

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 | 3.51% |
| 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, 2012.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.51% and 3.87%, for the years ending June 30, 2019 and 2018, respectively.

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, 2019 and 2018.

Total OPEB Liability

The Fund's total OPEB liability of \$64,364 and \$60,161 were measured as of each year's end 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:

| | <u>1% Decrease in Discount</u> | <u>Current Discount Rate</u> | <u>1% Increase in Discount Rate</u> |
|---------------------------|------------------------------------|----------------------------------|---|
| 2019 Total OPEB liability | \$72,259 | \$64,364 | \$57,778 |
| 2018 Total OPEB liability | \$67,375 | \$60,161 | \$54,124 |

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:

| | <u>1% Decrease in Discount</u> | <u>Current Discount Rate</u> | <u>1% Increase in Discount Rate</u> |
|---------------------------|------------------------------------|----------------------------------|---|
| 2019 Total OPEB liability | \$72,259 | \$64,364 | \$57,778 |
| 2018 Total OPEB liability | \$67,375 | \$60,161 | \$54,124 |

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

For the years ended June 30, 2019 and 2018, the Fund recognized an OPEB expense of \$4,961 and \$115, respectively. 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.

15. 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.

16. 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 year ended June 30 was as follows:

| <u>Entity Paid by Wastewater</u> | <u>Description of Service</u> | <u>2019</u> | <u>2018</u> |
|----------------------------------|--|---------------------|---------------------|
| General Fund: | | | |
| Public Work's Department | Administrative costs for wastewater division operations | \$ 68,601 | \$ 68,154 |
| Public Work's Department | Facility charges | 8,800 | 8,798 |
| Public Work's Department | Equipment maintenance | 48,440 | 46,676 |
| Public Work's Department | Excavation fees | 26,000 | 26,000 |
| Public Work's Department | Street services | 104,013 | 164,606 |
| Clerk/Treasurer's Office | Payment in lieu of taxes (PILOT) ⁽¹⁾ | 1,100,743 | 1,086,643 |
| Clerk/Treasurer's Office | Administration and risk management fees, approved via budget process | 167,329 | 169,738 |
| City Attorney | Legal fees | 19,176 | 4,626 |
| Water | Billing services | 199,220 | 214,745 |
| Stormwater | Stormwater usage | 9,991 | 9,948 |
| Telecom | Data, internet, phone usage | 69,773 | 69,668 |
| Burlington Electric Department | Electricity usage | 490,429 | 439,513 |
| Total related party transactions | | \$ <u>2,312,515</u> | \$ <u>2,309,115</u> |

⁽¹⁾ 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.

17. COMMITMENTS AND CONTINGENCIES

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 expenses which may be disallowed by the grantor cannot be determined at this time, although the Fund expects such amounts, if any, to be immaterial.

18. 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 2019 or 2018.

19. BEGINNING NET POSITION RESTATEMENT

The Fund's beginning net position has been restated from the previous year due to prior period billing errors. Accordingly, the following reconciliation is provided.

| | |
|---------------------------------------|-----------------------------|
| June 30, 2018, as previously reported | \$ 14,234,014 |
| Prior period billing errors | <u>(732,495)</u> |
| June 30, 2018, as restated | <u><u>\$ 13,501,519</u></u> |
| June 30, 2017, as previously reported | \$ 14,585,435 |
| Prior period billing errors | <u>(732,495)</u> |
| June 30, 2017, as restated | <u><u>\$ 13,852,940</u></u> |

**CITY OF BURLINGTON, VERMONT
BURLINGTON WATER WORKS
SCHEDULE OF PROPORTIONATE SHARE (GASB 68)
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION**

(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, 2019 | June 30, 2018 | 1.11% | \$838,441 | \$955,901 | 87.71% | 71% |
| June 30, 2018 | June 30, 2017 | 0.76% | \$664,669 | \$880,025 | 75.53% | 67% |
| June 30, 2017 | June 30, 2016 | 1.41% | \$1,256,143 | \$854,549 | 146.99% | 64% |
| June 30, 2016 | June 30, 2015 | 1.26% | \$856,352 | \$863,280 | 99.20% | 70% |
| June 30, 2015 | June 30, 2014 | 0.99% | \$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
BURLINGTON WATER WORKS**

**SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)
REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

Burlington Employee's Retirement System

| <u>Fiscal Year</u> | <u>Measurement Date</u> | <u>Contractually Required Contribution</u> | Contributions in Relation to the <u>Contractually Required Contribution</u> | <u>Contribution Deficiency (Excess)</u> | <u>Covered Payroll</u> | <u>Contributions as a Percentage of Covered Payroll</u> |
|------------------------|-----------------------------|--|---|---|----------------------------|---|
| June 30, 2019 | June 30, 2018 | \$ 111,498 | \$ 111,498 | \$ - | \$ 955,901 | 12% |
| June 30, 2018 | June 30, 2017 | \$ 98,654 | \$ 98,654 | \$ - | \$ 880,025 | 11% |
| June 30, 2017 | June 30, 2016 | \$ 128,908 | \$ 128,908 | \$ - | \$ 854,549 | 15% |
| June 30, 2016 | June 30, 2015 | \$ 111,067 | \$ 111,067 | \$ - | \$ 863,280 | 13% |
| June 30, 2015 | June 30, 2014 | \$ 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.

**CITY OF BURLINGTON, VERMONT
BURLINGTON WATER WORKS**

**SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY (GASB 75
REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

| City OPEB plan | | | |
|----------------|------------------|---|---|
| Fiscal Year | Measurement Date | Proportion of the Net OPEB Liability | Proportionate Share of the Net OPEB Liability |
| June 30, 2019 | June 30, 2019 | 1.2065% | \$ 64,364 |
| June 30, 2018 | June 30, 2018 | 1.2065% | \$ 60,161 |

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

See Independent Auditors' Report.