

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

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3 |
| BASIC FINANCIAL STATEMENTS: | |
| Statements of Net Position | 6 |
| Statements of Revenues, Expenses and Changes in Net Position | 7 |
| Statements of Cash Flows | 8 |
| Notes to Financial Statements | 9 |
| REQUIRED SUPPLEMENTARY INFORMATION: | |
| Schedule of Proportionate Share of the Net Pension Liability | 22 |
| Schedule of Contributions | 23 |

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, 2016 and 2015, 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 entity'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 entity'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, 2016 and 2015, 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, 2016 and 2015, 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.

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 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

December 28, 2016

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, 2016. The Division'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:

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.

The Statement of Net Position is designed to indicate our financial position as of a specific point in time. At June 30, 2016, it shows our net position of \$14,971,394, a change of \$466,991 in comparison to the prior year. In addition to total net position increasing, the unrestricted increased from the prior year by \$1,086,638.

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. Our change in net position for June 30, 2016 was \$466,991.

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 in fiscal year 2016.

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>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|------------------|
| Assets: | | | |
| Current assets | \$ 3,902 | \$ 2,762 | \$ 3,101 |
| Non-current assets | <u>27,146</u> | <u>28,651</u> | <u>29,042</u> |
| Total assets | 31,048 | 31,413 | 32,143 |
| Deferred outflows of resources | <u>467</u> | <u>262</u> | <u>-</u> |
| Total assets and deferred outflows of resources | <u>\$ 31,515</u> | <u>\$ 31,675</u> | <u>\$ 32,143</u> |
| Liabilities: | | | |
| Current liabilities | \$ 1,245 | \$ 1,262 | \$ 327 |
| Noncurrent liabilities | <u>15,299</u> | <u>15,846</u> | <u>17,099</u> |
| Total liabilities | 16,544 | 17,108 | 17,426 |
| Deferred inflows of resources | - | 63 | - |
| Net position: | | | |
| Net investment in capital assets | 10,520 | 11,142 | 11,769 |
| Restricted | 1,435 | 1,433 | - |
| Unrestricted | <u>3,016</u> | <u>1,929</u> | <u>2,948</u> |
| Total net position | <u>14,971</u> | <u>14,504</u> | <u>14,717</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 31,515</u> | <u>\$ 31,675</u> | <u>\$ 32,143</u> |

Statements of Changes in Net Position

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|-------------------------------------|------------------|------------------|------------------|
| Operating revenues | \$ 8,026 | \$ 7,690 | \$ 7,728 |
| Operating expenses | <u>(7,060)</u> | <u>(7,056)</u> | <u>(7,006)</u> |
| Operating income | 966 | 634 | 722 |
| Nonoperating revenues (expenses) | | | |
| Other revenue | 2 | 11 | 10 |
| Other expense | <u>(501)</u> | <u>(507)</u> | <u>(284)</u> |
| Total nonoperating (expenses) | <u>(499)</u> | <u>(496)</u> | <u>(274)</u> |
| Transfers and capital contributions | <u>-</u> | <u>(23)</u> | <u>-</u> |
| Change in net position | 467 | 115 | 448 |
| Beginning net position, as restated | <u>14,504</u> | <u>14,389</u> * | <u>14,269</u> |
| Ending net position | <u>\$ 14,971</u> | <u>\$ 14,504</u> | <u>\$ 14,717</u> |

* July 1, 2014 net position was restated for GASB 68, while prior periods were not restated. See Note 15.

Financial Highlights:

The Fund reported operating income of \$966,350 and \$634,355 for fiscal years 2016 and 2015, respectively. Effective July 1, 2015, wastewater rates were increased to ensure the fund is provided sufficient cash flow to pay debt service (principle and interest) without borrowing from the City's general fund.

Capital Assets:

Capital Assets - Net capital assets decreased by \$(1,506,014) in 2016. This change equals the difference between current net year additions of \$75,300 and annual depreciation expense of \$(1,581,314).

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 \$15,190,949, a decrease of \$(884,949) from the prior year, all of which was backed by the full faith and credit of the government.

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, 2016 AND 2015

| | 2016 | 2015 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current: | | |
| Cash and cash equivalents | \$ 2,328,436 | \$ 1,174,975 |
| Receivables, net of allowance for uncollectibles: | | |
| User fees | 870,081 | 890,761 |
| Estimated unbilled revenues | 581,999 | 568,875 |
| Inventory | 119,870 | 126,374 |
| Prepaid expenses | 1,462 | 1,462 |
| Total current assets | 3,901,848 | 2,762,447 |
| Noncurrent: | | |
| Restricted cash | 1,434,845 | 1,433,426 |
| Capital assets: | | |
| Land and construction in progress | 847,952 | 847,952 |
| Capital assets, net of accumulated depreciation | 24,863,647 | 26,369,661 |
| Total noncurrent assets | 27,146,444 | 28,651,039 |
| TOTAL ASSETS | 31,048,292 | 31,413,486 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension related: | | |
| Changes in proportional share of contributions | 221,014 | 150,546 |
| Difference between expected and actual experience | 40,510 | - |
| Difference between projected and actual investment earnings | 76,411 | - |
| Deferred current year pension contributions | 128,909 | 111,067 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 466,844 | 261,613 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 31,515,136 | \$ 31,675,099 |
| LIABILITIES | | |
| Current: | | |
| Accounts payable | \$ 338,072 | \$ 347,990 |
| Accrued payroll and benefits payable | 19,031 | 28,597 |
| Current portion of long-term liabilities: | | |
| Revenue bonds payable | 888,002 | 884,949 |
| Total current liabilities | 1,245,105 | 1,261,536 |
| Noncurrent: | | |
| Revenue bonds payable | 14,302,947 | 15,190,949 |
| Net pension liability | 856,352 | 532,524 |
| Compensated absences payable | 78,419 | 75,035 |
| Net OPEB obligation | 60,919 | 47,206 |
| Total noncurrent liabilities | 15,298,637 | 15,845,714 |
| TOTAL LIABILITIES | 16,543,742 | 17,107,250 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pension related: | | |
| Difference between projected and actual investment earnings | - | 63,446 |
| NET POSITION | | |
| Net investment in capital assets | 10,520,649 | 11,141,715 |
| Restricted for contingency reserve | 1,434,845 | 1,433,426 |
| Unrestricted | 3,015,900 | 1,929,262 |
| TOTAL NET POSITION | 14,971,394 | 14,504,403 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | \$ 31,515,136 | \$ 31,675,099 |

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, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Operating Revenues: | | |
| Charges for services | \$ 8,026,247 | \$ 7,690,557 |
| Total Operating Revenues | <u>8,026,247</u> | <u>7,690,557</u> |
| Operating Expenses: | | |
| Personnel | 1,454,677 | 1,385,309 |
| Non-personnel | 3,105,993 | 3,184,002 |
| Depreciation | 1,581,314 | 1,580,054 |
| Payments in lieu of taxes | 917,913 | 906,837 |
| Total Operating Expenses | <u>7,059,897</u> | <u>7,056,202</u> |
| Operating Income | 966,350 | 634,355 |
| Nonoperating Revenues/(Expenses): | | |
| Interest income | 1,799 | 129 |
| Interest expense | (498,700) | (507,243) |
| Other income (expense) | <u>(2,458)</u> | <u>10,564</u> |
| Total Nonoperating Revenues/(Expenses) | <u>(499,359)</u> | <u>(496,550)</u> |
| Income Before Transfers and Capital Contributions | 466,991 | 137,805 |
| Transfers out | - | (28,921) |
| Capital contributions | <u>-</u> | <u>6,881</u> |
| Change in Net Position | 466,991 | 115,765 |
| Net Position at Beginning of Year, as restated | <u>14,504,403</u> | <u>14,388,638</u> |
| Net Position at End of Year | <u>\$ 14,971,394</u> | <u>\$ 14,504,403</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, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Receipts from users and customers | \$ 8,033,803 | \$ 7,623,325 |
| Payments to suppliers | (3,109,407) | (3,120,274) |
| Payments for wages and benefits | (1,391,995) | (1,389,202) |
| Payment in lieu of taxes | <u>(917,913)</u> | <u>(906,837)</u> |
| Net cash provided by operating activities | <u>2,614,488</u> | <u>2,207,012</u> |
| Cash flows from noncapital financing activities: | | |
| Other income, net | 2,542 | 14,744 |
| Receipt/(payment) of interfund transfers | <u>-</u> | <u>(28,921)</u> |
| Net cash provided/(used) by noncapital financing activities | <u>2,542</u> | <u>(14,177)</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (80,300) | (118,303) |
| Capital grants/contributions | - | 6,881 |
| Principal paid on: | | |
| Revenue bonds | (884,949) | (875,074) |
| Capital lease obligations | - | (7,947) |
| Interest paid on outstanding debt | <u>(498,700)</u> | <u>(507,243)</u> |
| Net cash used by capital and related financing activities | <u>(1,463,949)</u> | <u>(1,501,686)</u> |
| Cash flows from investing activities: | | |
| Increase in restricted cash | (1,419) | (1,075,071) |
| Receipt of interest & dividends | <u>1,799</u> | <u>129</u> |
| Net cash provided/(used) by investing activities | <u>380</u> | <u>(1,074,942)</u> |
| Net change in cash | 1,153,461 | (383,793) |
| Cash and cash equivalents, beginning of year | <u>1,174,975</u> | <u>1,558,768</u> |
| Cash and cash equivalents, end of year | <u>\$ 2,328,436</u> | <u>\$ 1,174,975</u> |
| Adjustments to reconcile operating income to net cash provided from operating activities: | | |
| Operating income | \$ 966,350 | \$ 634,355 |
| Depreciation | 1,581,314 | 1,580,054 |
| Changes in: | | |
| Accounts receivable | 20,680 | (48,030) |
| Unbilled revenues | (13,124) | (19,200) |
| Inventories | 6,504 | 22,016 |
| Accounts payable | (9,918) | 41,710 |
| Accrued salaries and wages | (9,566) | 7,626 |
| Accrued compensated absences | 3,384 | (17,899) |
| Post-employment benefits | 13,713 | - |
| Net pension liability and related deferred inflows/outflows | <u>55,151</u> | <u>6,380</u> |
| Net cash provided by operating activities | <u>\$ 2,614,488</u> | <u>\$ 2,207,012</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 (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., net total assets) 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. Under this method, revenues for water sales that have not been billed are recorded as estimated unbilled revenues.

Operating revenues are defined as income received from the sale of water to customers as well as to other entities for the purpose of resale. In addition, it includes service revenue for new customers and repairs for old customers and from rents and fees from water property or services.

Nonoperating revenues are defined as income received from sources other than the sale of water or from rents and fees from water property or services. Non-operating revenues include interest income.

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

Cash recorded by the Fund is combined with cash of the City in determining amounts covered by Federal Depository Insurance or collateral held by the City's banks.

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, 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, and
2. The unit estimated life is greater than five (5) years

Interest incurred during the construction phase for the Fund's capital assets is reflected in the capitalized value of the asset constructed, net of any interest earned on the invested proceeds during the same period.

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 payable, net pension liability, compensated absences payable, and net other post-employment benefits obligation are reported as long-term liabilities.

2. CASH AND CASH EQUIVALENTS

A. Custodial Credit Risk

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. RECEIVABLES

Receivables at June 30 consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|-------------------|-------------------|
| Billed user fees | \$ 873,081 | \$ 893,761 |
| Less: allowance for doubtful fees | <u>(3,000)</u> | <u>(3,000)</u> |
| Net user fees receivable | <u>\$ 870,081</u> | <u>\$ 890,761</u> |

4. INVENTORY

The Fund's policy is to value inventory at the lower of cost or market. Inventory at June 30 consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|---------------|-------------------|-------------------|
| Fuel Stock | \$ 13,424 | \$ 17,572 |
| Chemicals | 49,623 | 53,033 |
| Miscellaneous | <u>56,823</u> | <u>55,769</u> |
| Total | <u>\$ 119,870</u> | <u>\$ 126,374</u> |

6. ACCOUNTS PAYABLE

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

7. 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>6/30/16</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% | <u>13,181,059</u> |
| Total | | | | <u>\$ 15,190,949</u> |

| | Original Issue <u>Amount</u> | Serial Maturities <u>Through</u> | Interest Rate(s) | Amount Outstanding as of <u>6/30/15</u> |
|---|------------------------------------|--|---------------------|--|
| State of VT-EPA 2006 Series 1 (Siphon) \$ | 1,650,000 | 2/1/2027 | 0.00% | \$ 993,257 |
| State of VT-EPA 2009 Series I (Turbo) | 120,000 | 10/1/2031 | 0.00% | 48,558 |
| State of VT-EPA 2001 Series 1 (Digester) | 2,500,000 | 8/1/2027 | 0.00% | 1,120,744 |
| VT Municipal Bond Bank 2014 Series 1 | 14,645,620 | 11/15/2033 | 0.643-4.723% | <u>13,913,339</u> |
| Total | | | | <u>\$ 16,075,898</u> |

Maturities are as follows:

| Fiscal Year | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------|----------------------|---------------------|----------------------|
| 2017 | \$ 888,002 | \$ 445,750 | \$ 1,333,752 |
| 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 - 2026 | 4,556,129 | 1,595,906 | 6,152,035 |
| 2027 - 2031 | 3,959,904 | 885,825 | 4,845,729 |
| 2032 - 2034 | 2,203,131 | 144,725 | 2,347,856 |
| | <u>\$ 15,190,949</u> | <u>\$ 4,734,024</u> | <u>\$ 19,924,973</u> |

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

| | 2016 | | | | | |
|---------------------------------|----------------------|-------------------|---------------------|----------------------|---------------------|----------------------|
| | Total | | | Total | Less | Equal |
| | Balance | Additions | Reduction | Balance | Current | Long |
| | 7/1/2015 | | | 6/30/2016 | Portion | Term |
| | | | | | | Portion |
| Revenue bonds and loans payable | \$ 16,075,898 | \$ - | \$ (884,949) | \$ 15,190,949 | \$ (888,002) | \$ 14,302,947 |
| Net pension obligation | 532,524 | 323,828 | - | 856,352 | - | 856,352 |
| Compensated absences | 75,035 | 3,384 | - | 78,419 | - | 78,419 |
| Net OPEB obligation | 47,206 | 13,713 | - | 60,919 | - | 60,919 |
| Total | <u>\$ 16,730,663</u> | <u>\$ 340,925</u> | <u>\$ (884,949)</u> | <u>\$ 16,186,639</u> | <u>\$ (888,002)</u> | <u>\$ 15,298,637</u> |

| | 2015 | | | | | |
|----------------------------------|----------------------|-------------------|---------------------|----------------------|---------------------|----------------------|
| | Total | | | Total | Less | Equal |
| | Balance | Additions | Reduction | Balance | Current | Long |
| | 7/1/2014 | | | 6/30/2015 | Portion | Term |
| | | | | | | Portion |
| Revenue bonds and loans payable | \$ 16,950,972 | \$ 6,882 | \$ (881,956) | \$ 16,075,898 | \$ (884,949) | \$ 15,190,949 |
| Obligations under capital leases | 7,947 | - | (7,947) | - | - | - |
| Net pension obligation | 416,229 | 116,295 | - | 532,524 | - | 532,524 |
| Compensated absences | 92,934 | - | (17,899) | 75,035 | - | 75,035 |
| Net OPEB obligation | 47,206 | - | - | 47,206 | - | 47,206 |
| Total | <u>\$ 17,515,288</u> | <u>\$ 123,177</u> | <u>\$ (907,802)</u> | <u>\$ 16,730,663</u> | <u>\$ (884,949)</u> | <u>\$ 15,845,714</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. On an annual basis, revenues must be sufficient after deducting operating expenses (as defined) to meet minimum debt service coverage requirements (as defined). If minimum debt service coverage requirements are not met, the Fund must take timely corrective action.

8. 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, 2016 and 2015, restricted net position was \$1,434,845 and \$1,433,426, respectively.

9. 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. For the year ended June 30, 2015 AFSCME contributions were 3%. 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, 2016, 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, 2015. 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, 2016 and 2015, the Fund's proportions were 1.2563 and 0.9893 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 \$111,067 and \$88,252 for the measurement years ended June 30, 2015 and 2014, respectively, the measurement date of the net pension liability used for the June 30, 2015 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, 2015 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, 2015 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, 2015 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------|-------------------|--|
| Equity | 30.80% | 6.70% |
| Fixed income | 31.50% | 2.94% |
| Alternatives | 23.30% | 6.26% |
| Multi-strategy | 14.40% | 5.98% |
| 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 8.00%. 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:

| Fund's net pension liability as of: | 1% Decrease (7.00%) | Discount Rate | 1% Increase (9.00%) |
|-------------------------------------|------------------------|------------------|------------------------|
| June 30, 2016 | \$ 1,203,098 | \$ 856,352 | \$ 566,756 |
| June 30, 2015 | \$ 777,919 | \$ 532,524 | \$ 324,780 |

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>6/30/2016</u> | As of <u>6/30/2015</u> |
| Amortization year: | | |
| 2016 | \$ - | \$ 34,321 |
| 2017 | 117,969 | 34,321 |
| 2018 | 117,969 | 34,320 |
| 2019 | 67,787 | (15,862) |
| 2020 | 34,210 | - |
| | <u>\$ 337,935</u> | <u>\$ 87,100</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.

10. 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.

11. 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.

12. RELATED PARTY TRANSACTIONS

The Fund charges other City Departments for services performed. For the years ended 2016 and 2015, the Fund charged the Department of Public Works \$216,368 and \$210,985, respectively.

The Department of Public Works allocates its administrative costs to the different divisions which it operates. The costs allocated to the Fund were \$45,654 and \$48,513 in 2016 and 2015, respectively.

The Fund pays fees for billing services to the Water Department. The amount paid by the Fund to the Water Fund for services for the years ended 2016 and 2015 were \$203,175 and \$199,270, respectively.

The Fund paid \$70,131 and \$65,071 to the Telecom Fund for data, internet, and phone usage during the years ending June 30, 2016 and 2015, respectively.

Pursuant to an ordinance adopted by the City of Burlington, effective July 1, 1990, the Fund is required to pay the City Treasurer a franchise fee of 3.5% of gross revenue, as defined by the City ordinance. The fee for the years ended June 30, 2016 and 2015 was \$266,103 and \$254,171, respectively.

The Fund's physical plant is exempt from property taxes; however, it does pay the City a payment in lieu of taxes (PILOT). The amount of PILOT is determined annually by the City Assessor. Total PILOT paid for the years ending June 30, 2016 and 2015 was \$917,913 and \$906,837, respectively.

The City's General Fund also charges the Fund for services performed by the Public Works Department. The annual payments vary depending on the amount of service performed. The facility charge for the years ending June 30, 2016 and 2015 was \$8,800 and \$8,733, respectively. The equipment maintenance charges for the years ending June 30, 2016 and 2015 were \$100,316 and \$102,758, respectively. For the year ending

June 30, 2015, the Fund also incurred engineering charges of \$47,579 and excavation fees of \$25,337.

The City Treasurer's office charges all departments for administration and risk management fees. The City Council approves, through the budget process, the annual assessments. For the years ended June 30, 2016 and 2015, administrative and risk management fees paid to the City General Fund were \$157,311 and \$202,171, respectively.

13. 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 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.

14. 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 2016 and 2015.

15. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF BEGINNING NET POSITION

For fiscal year 2015, the Fund adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. GASB 68 establishes accounting and financial reporting standards that significantly impacted the Fund's basic financial statements by recognizing as a liability and expense, the Airport's applicable portion of the City of Burlington Employee's Retirement System's Net Pension Liability.

The beginning net position of the Fund was restated for July 1, 2014 Net Pension Liability of \$416,229, less contributions made during fiscal year 2014 of \$88,252, for a net reduction to beginning net position of \$430,970. Fiscal year 2014 and prior periods have not been restated for GASB 68 due to impractical nature of allocating annual activity and lack of information for measurement dates June 30, 2012 and prior; as this is a new standard and beginning net position restatement for July 1, 2014 does not recognize beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions in accordance with GASB 71.

16. 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, 2016
(Unaudited)

| Burlington Employee's Retirement System | | | | | |
|---|--|---|-----------------|---|---|
| Fiscal Year | 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, 2016 | 1.2563% | \$856,352 | \$ 863,280 | 99.20% | 70% |
| June 30, 2015 | 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, 2016
(Unaudited)**

Burlington Employee's Retirement System

| 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, 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.