

CITY OF VERGENNES, VERMONT

AUDIT REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2016

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# FOTHERGILL SEGALE & VALLEY

Certified Public Accountants



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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Vergennes  
Vergennes, Vermont

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the City of Vergennes, Vermont as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise a portion of the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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 the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's 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 and the standards applicable to financial audits contained in (*Governmental Auditing Standards*), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 opinion.

## **Basis for Adverse Opinion on Financial Statements as a Whole**

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and business-type activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements resulting from transactions for the City's governmental activities and business-type activities have not been determined.

Management has chosen not to follow GASB 54 "Fund Balance Reporting and Governmental Fund Type Definition" which is used to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definition. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Management has chosen not to follow GASB 68 "Accounting and Financial Reporting for Pensions" which is used to improve accounting and financial reporting for pensions. The statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter period equity, and creating additional transparency.

The City treats the Sewer Fund as a Special Revenue Fund rather than an Enterprise Fund. Accounting principles generally accepted in the United States of America require funds financed with user charges to be treated as Enterprise Funds. This principle requires accounting similar to commercial enterprises, such as capitalization and depreciation of capital assets. Accordingly, the accompanying financial statements are not intended to present financial positions and results of operations of the Sewer Fund in conformity with accounting principles generally accepted in the United States of America.

## **Adverse Opinion**

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion on Financial Statements as a Whole" paragraph, the financial statements referred to above do not present fairly the financial position of the City of Vergennes, Vermont as of June 30, 2016, or the changes in financial position or the budget comparison thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other-Matters**

### *Required Supplementary Information*

Management has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is required to supplement, although not required to be a part of, basic financial statements.

### *Other Information*

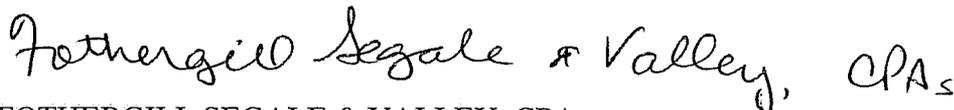
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Schedules 1 – 3 are presented for purposes of additional analysis and are not a required part of the financial statements.

Schedules 1 – 3 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the matters discussed above, we are not expressing an opinion on the supplementary schedules.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Respectfully submitted,



FOTHERGILL SEGALE & VALLEY, CPAs  
Montpelier, Vermont  
Vermont Public Accountancy License #110

November 28, 2016

CITY OF VERGENNES, VERMONT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

EXHIBIT A

	Major Funds						Total Governmental Funds
	General Fund	Sewer Fund	Watershed Fund	Community Development Fund	Ray E. Davison Fund	Other Governmental Funds	
<b>ASSETS</b>							
Cash and investments	\$ 385,779	\$ 0	\$ 378,698	\$ 0	\$ 257,585	\$ 696,771	\$ 1,718,833
Receivables							
Property taxes	38,003	0	0	0	0	0	38,003
Grant receivable	87,032	0	0	0	0	0	87,032
Sewer	0	58,274	0	0	0	0	58,274
Other	2,761	0	0	0	0	784	3,545
Note receivable	0	0	0	0	0	4,312	4,312
Prepaid expenses	20,938	0	0	0	0	0	20,938
Due from other funds	0	0	0	96,941	0	75,987	172,928
Community development loans, net	0	0	0	743,390	0	0	743,390
Total assets	<u>\$ 534,513</u>	<u>\$ 58,274</u>	<u>\$ 378,698</u>	<u>\$ 840,331</u>	<u>\$ 257,585</u>	<u>\$ 777,854</u>	<u>\$ 2,847,255</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>							
<b>LIABILITIES</b>							
Accounts payable	\$ 171,540	\$ 7,409	\$ 0	\$ 0	\$ 0	\$ 33,318	\$ 212,267
Unearned revenue	0	0	0	0	0	16,677	16,677
Due to other funds	158,846	8,270	0	0	0	5,812	172,928
Total liabilities	<u>330,386</u>	<u>15,679</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>55,807</u>	<u>401,872</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable revenue, property taxes	24,016	0	0	0	0	0	24,016
Unavailable revenue, loans	0	0	0	743,390	0	4,312	747,702
Total deferred inflows of resources	<u>24,016</u>	<u>0</u>	<u>0</u>	<u>743,390</u>	<u>0</u>	<u>4,312</u>	<u>771,718</u>
<b>FUND BALANCES</b>							
Reserved for fiscal year 2017	100,000	0	0	0	0	0	100,000
Reserved for Special Revenue Funds	0	42,595	378,698	96,941	0	482,088	1,000,322
Reserved for Permanent Fund	0	0	0	0	257,585	0	257,585
Reserved for Capital Project Funds	0	0	0	0	0	235,647	235,647
Unreserved	80,111	0	0	0	0	0	80,111
Total fund balances	<u>180,111</u>	<u>42,595</u>	<u>378,698</u>	<u>96,941</u>	<u>257,585</u>	<u>717,735</u>	<u>1,673,665</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 534,513</u>	<u>\$ 58,274</u>	<u>\$ 378,698</u>	<u>\$ 840,331</u>	<u>\$ 257,585</u>	<u>\$ 777,854</u>	<u>\$ 2,847,255</u>

CITY OF VERGENNES, VERMONT  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2016

EXHIBIT B

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General	Sewer Fund	Watershed Fund	Community Development Fund	Ray E. Davison Fund		
<b>REVENUES</b>							
Property taxes	\$ 1,676,242	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,676,242
Licenses, fees and permits	12,424	0	0	0	0	67,257	79,681
Intergovernmental	336,376	0	0	0	0	105,376	441,752
Charges for services	16,829	584,061	0	0	0	120,886	721,776
Fines and forfeits	76,366	9,031	0	0	0	0	85,397
Investment income	38,715	0	34,411	0	29,315	1,657	104,098
Miscellaneous	8,187	2,682	0	26,377	0	8,217	45,463
<b>Total revenues</b>	<u>2,165,139</u>	<u>595,774</u>	<u>34,411</u>	<u>26,377</u>	<u>29,315</u>	<u>303,393</u>	<u>3,154,409</u>
<b>EXPENDITURES</b>							
Current Expenditures							
General government	513,592	0	0	0	0	20,609	534,201
Public safety	775,649	0	0	0	0	81,812	857,461
Public works	604,618	0	0	0	0	0	604,618
Culture and recreation	0	0	0	0	0	68,501	68,501
Community services	58,661	0	0	0	0	0	58,661
Wastewater	0	314,363	0	0	0	63,176	377,539
Recycling	0	0	0	0	0	69,065	69,065
Debt Service							
Principal	108,775	123,403	0	0	0	15,000	247,178
Interest	48,855	0	0	0	0	11,644	60,499
Capital outlay	85,548	0	0	0	0	135,377	220,925
<b>Total expenditures</b>	<u>2,195,698</u>	<u>437,766</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>465,184</u>	<u>3,098,648</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<u>(30,559)</u>	<u>158,008</u>	<u>34,411</u>	<u>26,377</u>	<u>29,315</u>	<u>(161,791)</u>	<u>55,761</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Proceeds of equipment loan	30,000	0	0	0	0	0	30,000
Sale of vehicle	8,500	0	0	0	0	0	8,500
Transfers in	100,000	0	0	0	0	222,221	322,221
Transfers out	(86,305)	(220,000)	(15,916)	0	0	0	(322,221)
<b>Total other financing sources (uses)</b>	<u>52,195</u>	<u>(220,000)</u>	<u>(15,916)</u>	<u>0</u>	<u>0</u>	<u>222,221</u>	<u>38,500</u>
<b>NET CHANGE IN FUND BALANCES</b>	21,636	(61,992)	18,495	26,377	29,315	60,430	94,261
<b>FUND BALANCES - July 1, 2015</b>	<u>158,475</u>	<u>104,587</u>	<u>360,203</u>	<u>70,564</u>	<u>228,270</u>	<u>657,305</u>	<u>1,579,404</u>
<b>FUND BALANCES - June 30, 2016</b>	<u>\$ 180,111</u>	<u>\$ 42,595</u>	<u>\$ 378,698</u>	<u>\$ 96,941</u>	<u>\$ 257,585</u>	<u>\$ 717,735</u>	<u>\$ 1,673,665</u>

See Notes to Financial Statements.

CITY OF VERGENNES, VERMONT  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - COMPARED TO BUDGET  
GENERAL FUND  
YEAR ENDED JUNE 30, 2016

EXHIBIT C

	<u>Original and final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>			
Property taxes	\$ 1,657,909	\$ 1,676,242	\$ 18,333
Licenses and permits	10,980	12,424	1,444
Intergovernmental	143,736	336,376	192,640
Charges for services	17,500	16,829	(671)
Fines and forfeits	65,000	76,366	11,366
Investment income	20,000	38,715	18,715
Miscellaneous	3,787	8,187	4,400
Total revenues	<u>1,918,912</u>	<u>2,165,139</u>	<u>246,227</u>
<b>EXPENDITURES</b>			
<b>Current Expenditures</b>			
General government	459,336	513,592	(54,256)
Public safety grants	0	124,909	(124,909)
Public safety	620,603	650,740	(30,137)
Public works	685,955	604,618	81,337
Community services	58,661	58,661	0
<b>Debt service</b>			
Principal	108,775	108,775	0
Interest	48,777	48,855	(78)
Capital outlay	53,500	85,548	(32,048)
Total expenditures	<u>2,035,607</u>	<u>2,195,698</u>	<u>(160,091)</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<u>(116,695)</u>	<u>(30,559)</u>	<u>86,136</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds of equipment loan	0	30,000	30,000
Sale of vehicle	0	8,500	8,500
Transfer from other funds	100,000	100,000	0
Transfer to other funds	(86,305)	(86,305)	0
Total other financing sources (uses)	<u>13,695</u>	<u>52,195</u>	<u>38,500</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (103,000)</u>	21,636	<u>\$ 124,636</u>
<b>FUND BALANCE - JULY 1, 2015</b>		<u>158,475</u>	
<b>FUND BALANCE - JUNE 30, 2016</b>		<u>\$ 180,111</u>	

CITY OF VERGENNES, VERMONT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The City of Vergennes, Vermont was founded in 1788. The City of Vergennes operates under a Council-Manager form of government and provides the following services: general government, public safety, wastewater treatment, recycling, public works, culture and recreation and community services.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City's financial statements are not prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is primarily responsible for establishing GAAP for state and local governments through its pronouncements (including Statements and Interpretations).

The City's management has elected to present only the financial statements of the major funds and the aggregate remaining fund information, which is not in conformity with generally accepted accounting principles, specifically GASB 34, GASB 37, GASB 54 and GASB 68. Therefore, government-wide financial statements that include accounting for capital assets, lease payables, notes payable, pensions and fund balance categories are not included in the financial statements.

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* provide the significant changes in the Statements. The financial statements would include: A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations. Financial statements are prepared using full accrual accounting for all of the City's activities.

GASB Statement No. 37 establishes and modifies certain financial statement note disclosure requirements to make the financial statements more useful in the context of GASB Statement No. 34 reporting model. The Statement had an impact on the presentation of the notes to the financial statements, but no impact on net assets.

GASB Statement No. 54 "Fund Balance Reporting and Governmental Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent.

GASB 68 "Accounting and Financial Reporting for Pensions" which is used to improve accounting and financial reporting for pensions. The Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter period equity, and creating additional transparency.

CITY OF VERGENNES, VERMONT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Reporting Entity*

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity are set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards and GASB 14.

Based on the aforementioned criteria, the City has no component units.

*Basic Financial Statements – Fund Financial Statements*

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenue and expenditures. The various funds are reported by major funds within the financial statements.

The emphasis in fund financial statements is on the major funds. GASB No. 34 and No. 37 set forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combined) for the determination of major funds. The General Fund, Sewer Fund, Watershed Fund Community Development Fund, and Ray E. Davison Fund are shown as major funds. All other funds are nonmajor and are combined in one column in the fund financial statements.

The City reports on the following major governmental funds:

General Fund is the main operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Sewer Fund is used to account for the operations of the Sewer Department.

Watershed Fund is used to account for money reserved for City parks and recreation.

Community Development Fund is used to account for the Community Development grant and loan programs throughout the City.

Ray E. Davison Capital Equipment Fund is used to account for funds donated for capital equipment purchases for the Vergennes Fire Department.

*Unavailable Revenue*

Unavailable revenue consists of the following:

General Fund – Delinquent taxes not collected within sixty (60) days after year end and other receivables not collected within six months after year end.

Community Development Fund and Water Tower Fund – Long-term receivables

CITY OF VERGENNES, VERMONT  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Basis of Accounting*

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or 60 days for property taxes and related items and within six months for all other revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

*Deferred Inflows of Resources*

The City has implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which reports a separate section for deferred inflows of resources in the City's governmental funds. This separate financial statement element reflects an increase in net position that applies to a future period(s). The City will recognize the related revenues when a future event occurs. The City has two items which occur because governmental fund revenues are not recognized until available (collected not later than sixty days after the end of the City's fiscal year for property taxes, and six months for all other revenues) under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, unavailable property tax revenue (formerly deferred property taxes) and unavailable Community Development Fund loans are reported in the governmental funds balance sheet.

*Budgetary Accounting*

The City Council approves a budget for the General Fund based on the budget presented by the City Manager and the Grand List and then determines the tax rate. Formal budgetary accounting is employed as a management control device during the year for the General Fund. The budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF VERGENNES, VERMONT  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Interfund Activities*

During the course of normal operations, the City of Vergennes has transactions between funds including expenditures and transfers of resources to provide services, construct assets, and service debt. Interfund receivables and payables arise from transactions between funds and are recorded by all funds affected in the period in which the transactions are executed.

*Property Taxes*

Property taxes are recognized as revenue in the year for which taxes have been levied. Delinquent property taxes not collected within 60 days of year end are reflected as unavailable property tax revenue.

*Compensated Absences*

Vested or accumulated vacation leave and compensatory time that has matured is reported as expenditures of the governmental fund that pays it. Amounts of vested or accumulated vacation leave and compensatory time that are not expected to be liquidated with expendable available financial resources are not reported as a liability in the fund financial statements and no expenditure is reported for these accounts.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

The Treasurer invests excess cash according to policies established by the City Council.

*Custodial credit risk – deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City is subject to custodial credit risk as follows:

FDIC - Insured	\$ 250,000
Uninsured - Collateralized	<u>108,878</u>
Total bank balance at June 30, 2016	<u><u>\$ 358,878</u></u>

*Investments*

*Credit Risk – investments.* The City has an investment policy that limits its investment choices to policies established by the City Council.

CITY OF VERGENNES, VERMONT  
 NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

Investments at June 30, 2016 are as follows:

Investments	Maturities	Fair Value	Cost
Certificate of Deposits	8/24/2016-10/01/2041	\$ 117,220	\$ 117,000
Municipal Bonds	3/1/2019-6/1/2045	1,255,863	1,243,101
FNMA	10/1/2041	458	434
Cash		53,820	53,820
		<u>\$ 1,427,361</u>	<u>\$ 1,414,355</u>

**NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES**

The City has combined some of the cash resources of its governmental funds for accounting and reporting purposes. That portion of the pooled cash balance is reported in the specific fund as an interfund balance. Interfund balances at June 30, 2016 are as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 0	\$ 158,846
Special Revenue Funds -		
Sewer Fund	0	8,270
Community Development Fund	96,941	0
Other Special Revenue Funds	75,987	5,812
Total special revenue funds	<u>172,928</u>	<u>14,082</u>
Total	<u>\$ 172,928</u>	<u>\$ 172,928</u>

**NOTE 4 - INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2016 are as follows:

		Transfers From			
		General	Sewer	Watershed	Totals
Transfer to	General	\$ 0	100,000	\$ 0	\$ 100,000
	Other Governmental Funds	86,305	120,000	15,916	222,221
	Totals	<u>\$ 86,305</u>	<u>\$ 220,000</u>	<u>\$ 15,916</u>	<u>\$ 322,221</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF VERGENNES, VERMONT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**NOTE 5 - NOTE RECEIVABLES**

*Community Development Fund Note Receivables:*

Note receivable at June 30, 2016 consists of a \$45,006 mortgage loan made to the Addison Housing Limited Partnership on June 24, 1996. The proceeds originated from a Grant Agreement between the City of Vergennes and the Vermont Agency of Commerce and Community Development. The note is a non-interest bearing loan allowing for partial payments of any amount during the 25-year loan with a final balloon payment due June 24, 2021.

Note receivable at June 30, 2016 consists of a \$8,438 promissory note made to Shear Cuts, LLC. The note is an interest bearing loan of 4% due the first of each month commencing June 1, 2008 with the final payment due May 1, 2018.

Note receivable at June 30, 2016 consists of a \$29,946 promissory note made to Shear Properties, LLC. The note is an interest bearing loan of 4% due the tenth of each month commencing January 10, 2012 with the final payment due December 10, 2022.

Notes receivable at June 30, 2016 consists of a \$660,000 promissory note made to Armory Lane Housing Limited Partnership. The note is a non-interest bearing loan deferring all payments to November 21, 2052.

*Water Tower Fund Note Receivables:*

Note receivable consists of a \$5,750 promissory note made to 3BD, LLC. The note is an interest free note to be paid in four payments of \$1,438. The balance at June 30, 2016 was \$4,312.

**NOTE 6 – UNAVAILABLE REVENUE**

Unavailable revenue in the General Fund consists of \$24,016 of delinquent taxes that were not collected within sixty (60) days after year end as these would not be available to liquidate current liabilities. Unavailable revenue in the Community Development Fund and Water Tower Fund consists of \$747,702 of loans receivable.

CITY OF VERGENNES, VERMONT  
 NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**NOTE 7 – LONG-TERM LIABILITIES**

Long-term liabilities at June 30, 2016 consist of the following:

Vermont Municipal Bond Bank, interest at 0%, maturing November 1, 2022, principal payments of \$123,403 due annually beginning November 1, 2003.	\$ 863,821
State of Vermont Treasurer, interest at 2%, five annual principal payments of \$19,275, due December 2017, secured by dump truck.	38,550
Vermont Municipal Bond Bank, interest ranging 1.033% - 3.086%, maturing November 15, 2025, interest due December 15 and June 15, principal payments of \$40,000 due annually beginning December 2016.	400,000
State of Vermont Treasurer, interest of 2%, five annual principal payments of \$7,000 due June 30, 2018, secured by caterpillar loader.	14,000
State of Vermont Treasurer, interest of 2%, five annual principal payments of \$10,000 due December 31, 2019, secured by ram truck.	40,000
Merchants Bank, interest at 3.443%, maturing September 1, 2033, interest due March 1 and September 1, principal payments of \$72,500 for twenty years due September 1.	1,305,000
State of Vermont Treasurer, interest at 2%, five annual principal payments of \$6,000, due December 2020.	30,000
Total bonds and notes payable	2,691,371
Compensated absences	34,278
Total long-term liabilities	\$ 2,725,649

Interest paid on long-term liabilities for the year ended June 30, 2016 was \$60,499.

Maturities for long-term debt are as follows:

	Principal	Interest	Totals
2017	\$ 278,178	\$ 56,720	\$ 334,898
2018	278,178	52,484	330,662
2019	251,903	48,197	300,100
2020	251,903	44,473	296,376
2021	241,903	41,561	283,464
2022-2026	769,306	145,001	914,307
2027-2031	402,500	68,737	471,237
2032-2034	217,500	11,276	228,776
Totals	\$ 2,691,371	\$ 468,449	\$ 3,159,820

CITY OF VERGENNES, VERMONT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**NOTE 7 – LONG-TERM LIABILITIES (Continued)**

The following is a summary of changes in long-term liabilities:

	Balance			Balance
	June 30, 2015	Additions	Payments	June 30, 2016
Bonds and notes payable:				
Bonds payable	\$ 1,402,224	\$ 0	\$ (138,403)	\$ 1,263,821
Bond payable - Merchants Bank	1,377,500	0	(72,500)	1,305,000
Notes payable - State of Vermont	128,825	30,000	(36,275)	122,550
Total bond and notes payable	<u>2,908,549</u>	<u>30,000</u>	<u>(247,178)</u>	<u>2,691,371</u>
Other liabilities:				
Accrued compensated absences	34,509	5,274	(5,505)	34,278
Total long-term liabilities	<u>\$ 2,943,058</u>	<u>\$ 35,274</u>	<u>\$ (252,683)</u>	<u>\$ 2,725,649</u>

**NOTE 8 - BUDGETED DEFICIT**

The City elected to budget expenditures in excess of revenues by \$103,000 in the General Fund in order to reduce the carryover fund balance. This is reflected as a budgeted deficiency of revenues over expenditures in Exhibit C.

**NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2016, expenditures exceeded appropriations in the General Fund by \$160,091. The excess expenditures were funded by use of excess revenues from grant-related revenues, loan proceeds and available fund balance.

CITY OF VERGENNES, VERMONT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**NOTE 10 - RESERVED FUND BALANCES**

Fund balances are reserved as follows:

**General Fund**

Reserved for fiscal year 2017 expenditures \$ 100,000

**Sewer Fund**

42,595

**Watershed Fund**

378,698

**Community Development Fund**

96,941

**Ray E. Davison Capital Equipment Fund**

257,585

**Other Governmental Funds**

*Special Revenue Funds*

Recycling fund 392

Fire fund 49,259

Fire truck replacement fund 10,823

Pumphouse restoration fund 436

Swimming pool fund 2,069

Co-op agreement fund 10,537

Tree fund 2,267

Lister education fund 3,085

Reappraisal fund 64,149

Land records restoration fees fund 26,819

Land records computerization fund 48,802

Vergennes recreation events fund 4,861

Donnelly fund 21,526

Water tower fund 226,367

Vergennes burying ground fund 6,809

Junior Fishing Derby fund 874

Otter Creek basin fund 3,013

Total special revenue funds 482,088

*Capital Project Funds*

West Main/Route 22A fund 62,527

Biosolids fund 65,801

Sewer line replacement fund 30,250

Sewer capital improvement fund 77,069

Total capital project funds 235,647

Total reserved fund balances \$ 1,593,554

CITY OF VERGENNES, VERMONT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**NOTE 10 - RESERVED FUND BALANCES (continued)**

Ray E. Davison Capital Equipment Fund fund balance at June 30, 2016 was \$257,585. The investment in this fund consists mostly of municipal bonds that were purchased at a premium. The balance is above the original amount distributed to the City which was \$198,470. There are \$59,115 funds available to be spent at June 30, 2016.

**NOTE 11 – PROPERTY TAXES**

The City levies its property tax based upon the assessed value as of April 1, for all real property, with exemptions to qualifying veterans and excludes assessments on State, municipal, school and church properties and others. The tax is payable in four installments due August 15, November 15, February 15 and May 15. After a 15-day grace period, interest of 1% per month is charged for overdue taxes from the due date of each installment for the first three months and 1.5% per month thereafter. Any tax levy still delinquent after May 15, plus a 15-day grace period, is charged an 8% penalty.

The tax rate for fiscal year 2016 was:

	<u>Residential</u>	<u>Non-Residential</u>
General Fund	\$ 0.7534	\$ 0.7534
Education	1.5084	1.4699
Total	<u>\$ 2.2618</u>	<u>\$ 2.2233</u>

**NOTE 12 - RETIREMENT BENEFIT PLAN**

*Vermont Municipal Employees' Retirement System*

All eligible full-time employees are covered by the Vermont Municipal Employees' Retirement System. The Vermont Municipal Employees' Retirement System is a cost sharing multiple-employer public employees' retirement system. Vermont State statutes provide the authority under which benefit provisions and the obligation to contribute are established. The City and employees make required contributions to the System based upon a valuation report prepared by the System's actuary.

The City participates in the Group B level of contributions and benefits of the System. Under Group B, the employee contributions are 4.875% of gross pay and employer contributions are 5.5% of gross pay. Of the City's total payroll of \$952,389, \$803,440 was covered under the Vermont Municipal Employees' Retirement System.

The City pays both the employer and the employee contributions. Total contributions made to the System for the year ended June 30, 2016 were \$83,357, for the year ended June 30, 2015 were \$81,117 and for the year ended June 30, 2014 were \$75,950.

CITY OF VERGENNES, VERMONT  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**NOTE 12 - RETIREMENT BENEFIT PLAN (Continued)**

The State of Vermont issues an audited Financial Report that includes financial statements and required disclosures. This report may be obtained by writing the State Auditor of Accounts, 132 State Street, Montpelier, VT 05602.

**NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES**

*Health Care Benefits*

Effective January 1, 2012, CIGNA was no longer available for employer groups with less than 50 employees so the City enrolled in a Blue Cross Blue Shield High Deductible Health Plan with a similar Health Reimbursement Arrangement (HRA) with a \$2,500/\$5,000 maximum out-of-pocket expense. The City allocated up to \$5,000 per employee for calendar year 2016 toward out-of-pocket health, dental, and vision expenses.

*Grants*

The City participates in federally and state assisted grant programs which are subject to audit by the grantors or their representatives. The audits of these programs for or including the year ended June 30, 2016 have not yet been completed. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

*Cooperative Agreement*

The City and Green Mountain Power (GMP) entered into a Cooperative Agreement dated July 3, 2002. GMP has agreed to make certain funds available to the City in exchange for the City undertaking and being responsible for the design, development and construction of certain recreational enhancements required by the Federal Energy Regulatory Commission (FERC). The City will use GMP funds as a local match to obtain other grant funding. As of June 30, 2016, GMP had deposited \$158,000 and the balance of the account was \$39,403 as shown in the Co-op Agreement Fund.

**NOTE 14 - RISK MANAGEMENT**

The City of Vergennes is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The City of Vergennes maintains coverage through VLCT-PACIF for each of these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this coverage in any of the past three fiscal years.

CITY OF VERGENNES, VERMONT  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**NOTE 15 - LEASE AGREEMENT**

The City has two equipment leases. The lease expense for 2016 was \$4,800. The remaining lease payments are as follows:

2017	\$	3,100
2018		2,600
2019		<u>2,600</u>
Total	\$	<u>8,300</u>

**NOTE 16 – BUDGETARY COMPARISON SCHEDULES**

The City is not legally required to adopt budgets for the Sewer Fund, Watershed Fund, Water Tower Fund and the Community Development Fund. Therefore, a budgetary comparison is not presented for these funds.

**NOTE 17 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 28, 2016, the date which the financial statements were available for issue. Management is not aware of any subsequent events which require disclosure.

CITY OF VERGENNES, VERMONT  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE - COMPARED TO BUDGET  
 GENERAL FUND  
 YEAR ENDED JUNE 30, 2016

SCHEDULE 1

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
<b>Property Taxes</b>			
Property taxes	\$ 1,644,909	\$ 1,662,938	\$ 18,029
Delinquent interest	13,000	13,304	304
Total property taxes	<u>1,657,909</u>	<u>1,676,242</u>	<u>18,333</u>
<b>Licenses and Permits</b>			
Liquor licenses	1,455	1,640	185
Dog licenses	2,400	2,325	(75)
Other permits	2,125	2,281	156
Zoning	5,000	6,178	1,178
Total licenses and permits	<u>10,980</u>	<u>12,424</u>	<u>1,444</u>
<b>Intergovernmental</b>			
Highway state aid	60,000	59,385	(615)
Payment in lieu of taxes	77,736	82,226	4,490
Education tax service fee	6,000	6,189	189
Police grants	0	63,210	63,210
Forfeiture	0	1,555	1,555
SCBC grant	0	62,652	62,652
Paving grant	0	61,159	61,159
Total intergovernmental	<u>143,736</u>	<u>336,376</u>	<u>192,640</u>
<b>Charges for Services</b>			
Clerk's fees	17,500	16,829	(671)
<b>Fines and Forfeitures</b>			
Traffic fines - local	65,000	76,366	11,366
<b>Miscellaneous Income</b>			
Interest	20,000	38,715	18,715
Act 60 listers	1,000	985	(15)
Current use hold harmless	1,787	1,787	0
Other miscellaneous income	1,000	5,415	4,415
Total miscellaneous income	<u>23,787</u>	<u>46,902</u>	<u>23,115</u>
Total revenues	<u>1,918,912</u>	<u>2,165,139</u>	<u>246,227</u>

CITY OF VERGENNES, VERMONT  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - COMPARED TO BUDGET  
GENERAL FUND  
YEAR ENDED JUNE 30, 2016

SCHEDULE 1

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>EXPENDITURES</b>			
Current Expenditures			
General Government			
Assessments and Taxes			
ACEDC	3,000	3,000	0
Firefighters wages	6,000	5,852	148
County tax	9,168	9,168	0
Regional planning	2,670	2,760	(90)
Unemployment	2,500	135	2,365
VLCT dues	3,744	3,744	0
Vergennes Partnership	7,500	7,500	0
Total assessments and taxes	34,582	32,159	2,423
City administration			
Salaries	185,532	182,759	2,773
Mayor/Aldermen's stipend	6,400	6,250	150
Lister's stipend	2,400	2,400	0
Auditor's stipend	225	225	0
Crime coverage	1,100	1,214	(114)
Annual report	500	498	2
Employee benefits	71,000	72,002	(1,002)
Insurance	15,000	16,067	(1,067)
Expenses/training/dues	3,100	2,280	820
Telephone	2,500	2,594	(94)
Website	3,000	200	2,800
Heat	3,380	3,107	273
Electricity	4,500	3,534	966
Mileage	300	229	71
Building maintenance	10,000	12,024	(2,024)
Supplies/maintenance	10,000	9,788	212
Attorney fees	5,000	8,800	(3,800)
Advertising	2,000	921	1,079
Audit fee	13,000	13,000	0
Information technology	26,000	26,370	(370)
Appraisal consultant fee	800	488	312
Custodial	7,000	5,530	1,470
SCBC	0	62,652	(62,652)
Miscellaneous	1,000	306	694
Total City administration	373,737	433,238	(59,501)

CITY OF VERGENNES, VERMONT  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - COMPARED TO BUDGET  
GENERAL FUND  
YEAR ENDED JUNE 30, 2016

SCHEDULE 1

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Miscellaneous Appropriations			
Bixby Memorial Free Library	44,017	44,017	0
Parks and recreation	7,000	4,178	2,822
Total miscellaneous appropriations	<u>51,017</u>	<u>48,195</u>	<u>2,822</u>
Total general government	<u>459,336</u>	<u>513,592</u>	<u>(54,256)</u>
 Public Safety grants			
Paving grant expenditures	0	61,159	(61,159)
Police grant expenditures	0	63,750	(63,750)
Total public safety grants	<u>0</u>	<u>124,909</u>	<u>(124,909)</u>
 Public Safety			
Salaries	342,200	357,918	(15,718)
Employee benefits	161,900	178,524	(16,624)
Insurance	20,800	23,306	(2,506)
Expenses/training/dues	4,000	1,123	2,877
Uniforms	9,000	8,359	641
Office supplies/equipment	8,000	9,196	(1,196)
Telephone	8,000	4,736	3,264
Operation/gasoline	18,000	10,042	7,958
Information technology	15,000	16,650	(1,650)
Vehicle maintenance	10,000	17,712	(7,712)
Vehicle insurance	3,300	3,348	(48)
Building maintenance	7,000	7,062	(62)
Utilities	10,403	9,434	969
Miscellaneous	1,000	1,760	(760)
Forfeiture fund	0	1,555	(1,555)
Radio	2,000	15	1,985
Total public safety	<u>620,603</u>	<u>650,740</u>	<u>(30,137)</u>
 Public Works			
Salaries	228,000	212,063	15,937
Employee benefits	127,350	122,052	5,298
Insurance	4,200	4,164	36
Expense/training/dues	1,500	804	696
Uniforms	2,000	1,329	671
Telephone	850	799	51

CITY OF VERGENNES, VERMONT  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - COMPARED TO BUDGET  
GENERAL FUND  
YEAR ENDED JUNE 30, 2016

SCHEDULE 1

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Trash receptacles	4,000	3,849	151
Heat	2,255	2,154	101
Electricity	4,800	4,117	683
Gas and oil	15,000	6,553	8,447
Vehicle insurance	5,000	4,825	175
Information technology	3,000	1,017	1,983
Maintenance/repair	9,000	5,578	3,422
Equipment maintenance	10,000	8,494	1,506
Signs	5,000	5,883	(883)
Parking lines	3,500	3,160	340
Traffic and street lights	30,000	26,890	3,110
Shop supplies/equipment	5,500	7,727	(2,227)
Storm system/culverts/ditches	52,000	46,384	5,616
Highway improvements	100,000	100,419	(419)
Sidewalks and curbs	10,000	1,471	8,529
Park maintenance	10,000	3,124	6,876
Winter maintenance	45,000	25,562	19,438
Winter equipment rental	5,000	550	4,450
Miscellaneous	3,000	5,650	(2,650)
Total public works	<u>685,955</u>	<u>604,618</u>	<u>81,337</u>
Community Services			
ACHH&H	3,290	3,290	0
Elderly Services	2,000	2,000	0
Addison County Parent/Child Center	3,074	3,074	0
HOPE	2,000	2,000	0
Hospice Volunteer Services	2,000	2,000	0
John Graham Emergency Shelter	1,725	1,725	0
Boys and Girls Club	2,000	2,000	0
Counseling Service of Addison County	2,500	2,500	0
Retired Senior Volunteer Program	750	750	0
Vergennes Area Senior Center	1,500	1,500	0
WomenSafe	4,000	4,000	0
Champlain Valley Agency	2,500	2,500	0
Vermont Adult Learning	890	890	0
Addison County Transit Resources	8,160	8,160	0
Addison County Humane Society	2,000	2,000	0
Addison County Reader	600	600	0
Open Door Clinic	1,000	1,000	0
Addison County Court Diversion	850	850	0
Otter Creek Child Care	1,000	1,000	0
Vergennes Area Rescue Squad	16,822	16,822	0
Total community services	<u>58,661</u>	<u>58,661</u>	<u>0</u>

CITY OF VERGENNES, VERMONT  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE - COMPARED TO BUDGET  
 GENERAL FUND  
 YEAR ENDED JUNE 30, 2016

SCHEDULE 1

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Debt Service			
Principal	108,775	108,775	0
Interest	48,777	48,855	(78)
Total debt service	157,552	157,630	(78)
Capital Outlay			
Police technology	26,000	25,521	479
Public works equipment	27,500	60,027	(32,527)
Total capital outlay	53,500	85,548	(32,048)
Total expenditures	2,035,607	2,195,698	(160,091)
EXCESS REVENUES (EXPENDITURES)	(116,695)	(30,559)	86,136
OTHER FINANCING SOURCES (USES)			
Proceeds of equipment loan	0	30,000	30,000
Sale of vehicle	0	8,500	8,500
Transfers in	100,000	100,000	0
Transfers out	(86,305)	(86,305)	0
Total other financing sources (uses)	13,695	52,195	38,500
NET CHANGE IN FUND BALANCE	\$ (103,000)	21,636	\$ 124,636
FUND BALANCE - JULY 1, 2015		158,475	
FUND BALANCE - JUNE 30, 2016		\$ 180,111	

CITY OF VERGENNES, VERMONT  
 COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
 JUNE 30, 2016

SCHEDULE 2

SPECIAL REVENUE FUNDS

	Recycling Fund	Fire Fund	Fire Truck Replacement Fund	Pumphouse Restoration Fund	Swimming Pool Fund	Co-op Agreement Fund	Tree Fund	Listers Ed Fund	Reappraisal Fund
<b>ASSETS</b>									
Cash and investments	\$ 0	\$ 0	\$ 10,823	\$ 436	\$ 0	\$ 39,403	\$ 2,267	\$ 3,085	\$ 64,149
Miscellaneous receivables	0	0	0	0	784	0	0	0	0
Due from other funds	6,147	50,883	0	0	18,957	0	0	0	0
<b>Total assets</b>	<b>\$ 6,147</b>	<b>\$ 50,883</b>	<b>\$ 10,823</b>	<b>\$ 436</b>	<b>\$ 19,741</b>	<b>\$ 39,403</b>	<b>\$ 2,267</b>	<b>\$ 3,085</b>	<b>\$ 64,149</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>									
<b>Liabilities</b>									
Accounts payable	\$ 5,755	\$ 1,624	\$ 0	\$ 0	\$ 995	\$ 23,054	\$ 0	\$ 0	\$ 0
Unearned revenue	0	0	0	0	16,677	0	0	0	0
Due to other funds	0	0	0	0	0	5,812	0	0	0
<b>Total liabilities</b>	<b>5,755</b>	<b>1,624</b>	<b>0</b>	<b>0</b>	<b>17,672</b>	<b>28,866</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Deferred Inflows of Resources</b>									
Unavailable revenue, loans	0	0	0	0	0	0	0	0	0
<b>Fund balances</b>									
Reserved	392	49,259	10,823	436	2,069	10,537	2,267	3,085	64,149
<b>Total liabilities, deferred inflows and fund balances</b>	<b>\$ 6,147</b>	<b>\$ 50,883</b>	<b>\$ 10,823</b>	<b>\$ 436</b>	<b>\$ 19,741</b>	<b>\$ 39,403</b>	<b>\$ 2,267</b>	<b>\$ 3,085</b>	<b>\$ 64,149</b>

CITY OF VERGENNES, VERMONT  
 COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
 JUNE 30, 2016

SCHEDULE 2

SPECIAL REVENUE FUNDS

	Restoration Fees Fund	Records Computer- ization Fund	Vergennes Recreation Events Fund	Donnelly Fund	Water Tower Fund	Vergennes Burying Ground Fund	Junior Fishing Derby Fund	Otter Creek Basin Fund
<b>ASSETS</b>								
Cash and investments	\$ 26,819	\$ 48,802	\$ 4,861	\$ 21,526	\$ 227,370	\$ 6,809	\$ 1,266	\$ 3,508
Miscellaneous receivables	0	0	0	0	4,312	0	0	0
Due from other funds	0	0	0	0	0	0	0	0
Total assets	<u>\$ 26,819</u>	<u>\$ 48,802</u>	<u>\$ 4,861</u>	<u>\$ 21,526</u>	<u>\$ 231,682</u>	<u>\$ 6,809</u>	<u>\$ 1,266</u>	<u>\$ 3,508</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>								
<b>Liabilities</b>								
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,003	\$ 0	\$ 392	\$ 495
Unearned revenue	0	0	0	0	0	0	0	0
Due to other funds	0	0	0	0	0	0	0	0
Total liabilities	0	0	0	0	1,003	0	392	495
<b>Deferred Inflows of Resources</b>								
Unavailable revenue, loans	0	0	0	0	4,312	0	0	0
<b>Fund balances</b>								
Reserved	26,819	48,802	4,861	21,526	226,367	6,809	874	3,013
Total liabilities, deferred inflows and fund balances	<u>\$ 26,819</u>	<u>\$ 48,802</u>	<u>\$ 4,861</u>	<u>\$ 21,526</u>	<u>\$ 231,682</u>	<u>\$ 6,809</u>	<u>\$ 1,266</u>	<u>\$ 3,508</u>

CITY OF VERGENNES, VERMONT  
 COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
 JUNE 30, 2016

SCHEDULE 2

CAPITAL PROJECTS FUNDS

	West Main/ Rte 22A Fund	Biosolids Fund	Sewer Line Replacement Fund	Sewer Capital Improvement Fund	Total Other Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 62,527	\$ 65,801	\$ 30,250	\$ 77,069	\$ 696,771
Miscellaneous receivables	0	0	0	0	5,096
Due from other funds	0	0	0	0	75,987
Total assets	<u>\$ 62,527</u>	<u>\$ 65,801</u>	<u>\$ 30,250</u>	<u>\$ 77,069</u>	<u>\$ 777,854</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 33,318
Unearned revenue	0	0	0	0	16,677
Due to other funds	0	0	0	0	5,812
Total liabilities	0	0	0	0	55,807
<b>Deferred Inflows of Resources</b>					
Unavailable revenue, loans	0	0	0	0	4,312
<b>Fund balances</b>					
Reserved	62,527	65,801	30,250	77,069	717,735
Total liabilities, deferred inflows and fund balances	<u>\$ 62,527</u>	<u>\$ 65,801</u>	<u>\$ 30,250</u>	<u>\$ 77,069</u>	<u>\$ 777,854</u>

CITY OF VERGENNES, VERMONT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 OTHER GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2016

SCHEDULE 3

SPECIAL REVENUE FUNDS

	Recycling Fund	Fire Fund	Fire Truck Replacement Fund	Pumphouse Restoration Fund	Swimming Pool Fund	Co-op Agreement Fund	Tree Fund	Listers Ed Fund	Reappraisal Fund	Restoration Fees Fund
<b>REVENUES</b>										
Investment income (loss)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Intergovernmental	0	0	0	0	0	0	0	0	8,373	0
Licenses, permits, fees and miscellaneous	0	0	0	0	48,726	0	0	0	0	1,978
Contract revenue	34,000	86,886	0	0	0	0	0	0	0	0
Miscellaneous	0	81	0	0	0	0	0	0	0	0
Total revenues	<u>34,000</u>	<u>86,967</u>	<u>0</u>	<u>0</u>	<u>48,726</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,373</u>	<u>1,978</u>
<b>EXPENDITURES</b>										
<b>Current Expenditures</b>										
General government	0	0	0	0	0	0	0	0	0	0
Public safety	0	81,812	0	0	0	0	0	0	0	0
Culture and recreation	0	0	0	0	54,754	0	0	0	0	0
Wastewater	0	0	0	0	0	0	0	0	0	0
Recycling	69,065	0	0	0	0	0	0	0	0	0
<b>Debt Service</b>										
Principal	0	15,000	0	0	0	0	0	0	0	0
Interest	0	11,644	0	0	0	0	0	0	0	0
<b>Capital outlay</b>										
	0	0	0	0	5,088	0	0	0	0	0
Total expenditures	<u>69,065</u>	<u>108,456</u>	<u>0</u>	<u>0</u>	<u>59,842</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<u>(35,065)</u>	<u>(21,489)</u>	<u>0</u>	<u>0</u>	<u>(11,116)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,373</u>	<u>1,978</u>
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfers in	34,000	49,305	0	0	15,916	0	0	0	0	0
Total other financing sources (uses)	<u>34,000</u>	<u>49,305</u>	<u>0</u>	<u>0</u>	<u>15,916</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>NET CHANGE IN FUND BALANCES</b>										
	(1,065)	27,816	0	0	4,800	0	0	0	8,373	1,978
<b>FUND BALANCES - July 1, 2015</b>	<u>1,457</u>	<u>21,443</u>	<u>10,823</u>	<u>436</u>	<u>(2,731)</u>	<u>10,537</u>	<u>2,267</u>	<u>3,085</u>	<u>55,776</u>	<u>24,841</u>
<b>FUND BALANCES - June 30, 2016</b>	<u>\$ 392</u>	<u>\$ 49,259</u>	<u>\$ 10,823</u>	<u>\$ 436</u>	<u>\$ 2,069</u>	<u>\$ 10,537</u>	<u>\$ 2,267</u>	<u>\$ 3,085</u>	<u>\$ 64,149</u>	<u>\$ 26,819</u>

CITY OF VERGENNES, VERMONT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 OTHER GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2016

SCHEDULE 3

SPECIAL REVENUE FUNDS							
	Records Computerization Fund	Vergennes Recreation Events Fund	Donnelly Fund	Water Tower Fund	Vergennes Burying Ground Fund	Junior Fishing Derby Fund	Otter Creek Basin Fund
<b>REVENUES</b>							
Investment income (loss)	\$ 0	\$ 0	\$ 1,657	\$ 0	\$ 0	\$ 0	\$ 0
Intergovernmental	0	3,625	0	93,378	0	0	0
Licenses, permits, fees and miscellaneous	5,934	0	0	0	0	8,617	2,002
Contract revenue	0	0	0	0	0	0	0
Miscellaneous	0	0	0	6,120	0	0	0
Total revenues	<u>5,934</u>	<u>3,625</u>	<u>1,657</u>	<u>99,498</u>	<u>0</u>	<u>8,617</u>	<u>2,002</u>
<b>EXPENDITURES</b>							
<b>Current Expenditures</b>							
General government	0	0	0	20,609	0	0	0
Public safety	0	0	0	0	0	0	0
Culture and recreation	0	5,024	0	0	0	8,228	495
Wastewater	0	0	0	0	0	0	0
Recycling	0	0	0	0	0	0	0
<b>Debt Service</b>							
Principal	0	0	0	0	0	0	0
Interest	0	0	0	0	0	0	0
Capital outlay	0	0	0	42,999	0	0	0
Total expenditures	<u>0</u>	<u>5,024</u>	<u>0</u>	<u>63,608</u>	<u>0</u>	<u>8,228</u>	<u>495</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<u>5,934</u>	<u>(1,399)</u>	<u>1,657</u>	<u>35,890</u>	<u>0</u>	<u>389</u>	<u>1,507</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	0	3,000	0	0	0	0	0
Total other financing sources (uses)	<u>0</u>	<u>3,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>NET CHANGE IN FUND BALANCES</b>	5,934	1,601	1,657	35,890	0	389	1,507
FUND BALANCES - July 1, 2015	<u>42,868</u>	<u>3,260</u>	<u>19,869</u>	<u>190,477</u>	<u>6,809</u>	<u>485</u>	<u>1,506</u>
FUND BALANCES - June 30, 2016	<u>\$ 48,802</u>	<u>\$ 4,861</u>	<u>\$ 21,526</u>	<u>\$ 226,367</u>	<u>\$ 6,809</u>	<u>\$ 874</u>	<u>\$ 3,013</u>

CITY OF VERGENNES, VERMONT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 OTHER GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2016

SCHEDULE 3

	<u>CAPITAL PROJECTS FUNDS</u>				
	West Main/ Rte 22A Fund	Biosolids Fund	Sewer Line Replacement Fund	Sewer Capital Improvement Fund	Total Other Governmental Funds
<b>REVENUES</b>					
Investment income (loss)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,657
Intergovernmental	0	0	0	0	105,376
Licenses, permits, fees and miscellaneous	0	0	0	0	67,257
Contract revenue	0	0	0	0	120,886
Miscellaneous	0	0	0	2,016	8,217
Total revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,016</u>	<u>303,393</u>
<b>EXPENDITURES</b>					
<b>Current Expenditures</b>					
General government	0	0	0	0	20,609
Public safety	0	0	0	0	81,812
Culture and recreation	0	0	0	0	68,501
Wastewater	0	170	63,006	0	63,176
Recycling	0	0	0	0	69,065
<b>Debt Service</b>					
Principal	0	0	0	0	15,000
Interest	0	0	0	0	11,644
Capital outlay	0	0	0	87,290	135,377
Total expenditures	<u>0</u>	<u>170</u>	<u>63,006</u>	<u>87,290</u>	<u>465,184</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<u>0</u>	<u>(170)</u>	<u>(63,006)</u>	<u>(85,274)</u>	<u>(161,791)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	0	50,000	50,000	20,000	222,221
Total other financing sources (uses)	<u>0</u>	<u>50,000</u>	<u>50,000</u>	<u>20,000</u>	<u>222,221</u>
<b>NET CHANGE IN FUND BALANCES</b>					
	0	49,830	(13,006)	(65,274)	60,430
<b>FUND BALANCES - July 1, 2015</b>	<u>62,527</u>	<u>15,971</u>	<u>43,256</u>	<u>142,343</u>	<u>657,305</u>
<b>FUND BALANCES - June 30, 2016</b>	<u>\$ 62,527</u>	<u>\$ 65,801</u>	<u>\$ 30,250</u>	<u>\$ 77,069</u>	<u>\$ 717,735</u>

# FOTHERGILL SEGALE & VALLEY

*Certified Public Accountants*



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Teresa H. Kajenski, CPA  
Donald J. Murray, CPA

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

City Council Members  
City of Vergennes  
Vergennes, Vermont

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund, and the aggregate remaining fund information of City of Vergennes, Vermont, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 28, 2016.

We expressed an adverse opinion on the financial statements 1) because Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and business-type activities, 2) because the City treats the Sewer Fund as a Special Revenue Fund rather than an Enterprise Fund 3) because the City has not presented the fund balance classifications in accordance with GASB No. 54 and the City has not complied with GASB 68 related to Pensions. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

  
FOTHERGILL SEGALE & VALLEY, CPAs  
Vermont Public Accountancy License #110  
Montpelier, Vermont

November 28, 2016