

TOWN OF CHARLOTTE, VERMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

The Town of Charlotte (the "Town") herein sets forth an overview and analysis of its financial operations for the fiscal years ending June 30, 2016 and 2015.

Financial Highlights

- Assets exceeded liabilities on June 30, 2016 by \$9,428,165 (*net position*). Of this amount, \$1,125,365 (*unrestricted net position*) may be used by the various funds of the Town to meet the Town's ongoing obligations.
- The Town's total governmental activities net position increased by \$132,323.
- Fund Balances of Governmental Funds decreased by \$171,749 to a total of \$1,349,221 in fiscal year 2016. The General Fund had a total fund balance of \$127,842 of which \$123,971 was unassigned.

Overview of the Town's Financial Statements:

The annual financial report consists of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town of Charlotte's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Town of Charlotte's assets and liabilities with the difference between the two reported as net position.

The *statement of activities* presents information showing how the Town's net position changed during the past fiscal year. The *statement of activities* is on the full accrual basis (i.e. all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows) whereas the *statement of revenues, expenditures and changes in fund balances - governmental funds* is on the modified accrual basis (i.e. revenue is recognized when it becomes measurable and available as net current position and expenditures are recognized when the related liability is incurred). Thus in the *statement of activities*, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The major governmental activities of the Town of Charlotte include general government, highways and bridges, and public safety. The government-wide financial statements can be found in Exhibits A and B of this report. The business-type activity of the Town is the wastewater operation on Thompson's Point, which is accounted for in the proprietary fund statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town has three types of funds: governmental funds, a proprietary fund and fiduciary funds. The proprietary fund of the Town is an enterprise fund (business activities). This covers our Thompson's Point wastewater department. Fund financial statements can be found in Exhibits C through J.

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Notes to the financial statements. The notes provide additional information that is necessary for an understanding of the information in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements in this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. This supplementary information includes the General Fund budget/actual reports and combining statements for various funds. The supplementary information can be found immediately following the notes to the financial statements.

Table 1
Net Position

	Governmental Activities		Business-type Activities		Total	
	FY2016	FY2015	FY2016	FY2015	FY2016	FY2015
Current and Other Assets	\$ 1,645,994	\$ 1,828,456	\$ 218,677	\$ 226,154	\$ 1,864,671	\$ 2,054,610
Capital Assets	7,028,164	6,788,938	984,654	988,341	8,012,818	7,777,279
Total Assets	<u>8,674,158</u>	<u>8,617,394</u>	<u>1,203,331</u>	<u>1,214,495</u>	<u>9,877,489</u>	<u>9,831,889</u>
Deferred Outflows of Resources	63,853	19,046	0	0	63,853	19,046
Current Liabilities	182,425	223,106	521	51	182,946	223,157
Long-term Liabilities	324,155	277,683	0	0	324,155	277,683
Total Liabilities	<u>506,580</u>	<u>500,789</u>	<u>521</u>	<u>51</u>	<u>507,101</u>	<u>500,840</u>
Deferred Inflows of Resources	6,076	42,619	0	0	6,076	42,619
Net Investment in Capital Assets	7,028,164	6,788,938	984,654	988,341	8,012,818	7,777,279
Restricted	289,982	332,464	0	0	289,982	332,464
Unrestricted	907,209	971,630	218,156	226,103	1,125,365	1,197,733
Total Net Position	<u>\$ 8,225,355</u>	<u>\$ 8,093,032</u>	<u>\$ 1,202,810</u>	<u>\$ 1,214,444</u>	<u>\$ 9,428,165</u>	<u>\$ 9,307,476</u>

As indicated above, assets exceeded liabilities by \$9,428,165 at the end of fiscal year 2016. Assets exceeded liabilities by \$9,307,476 at the end of fiscal year 2015.

The largest portion of the Town's net position is in its investment in capital assets (85.0% = \$8,012,818). These assets are used to provide services to its citizens (e.g. land, buildings, equipment, and infrastructure). Therefore these assets are not available for future spending. A portion (3.1% = \$289,982) of the Town's net position is subject to restrictions on how it may be used (e.g. highway maintenance, trails, etc.). The remaining balance is an unrestricted net position (11.9% = \$1,125,365) may be used to meet the government's ongoing obligations to citizens and creditors. Some of the amounts included in unrestricted net position have been assigned by management for particular purposes (e.g. capital projects).

Governmental activities. Governmental activities increased the Town's net position by \$132,323 in FY16.

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**Table 2
Change in Net Position**

	Governmental Activities		Business-type Activities		Total	
	FY2016	FY2015	FY2016	FY2015	FY2016	FY2015
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,066,601	\$ 1,038,326	\$ 158,269	\$ 261,592	\$ 1,224,870	\$ 1,299,918
Operating Grants and Contributions	235,226	380,269	0	0	235,226	380,269
Capital Grants and Contributions	279,543	173,724	0	0	279,543	173,724
General Revenues:						
Property Taxes	1,364,362	1,476,095	0	0	1,364,362	1,476,095
Penalties and Interest on Delinquent Taxes	38,049	80,478	0	0	38,049	80,478
General State Grants	97,676	100,324	0	0	97,676	100,324
Unrestricted Investment Earnings	499	308	104	12	603	320
VELCO Property Tax Settlement	0	32,783	0	0	0	32,783
Other Revenues	2,061	8,913	0	0	2,061	8,913
Total Revenues	3,084,017	3,291,220	158,373	261,604	3,242,390	3,552,824
Expenses:						
General Government	892,113	799,651	0	0	892,113	799,651
Public Safety	596,181	540,501	0	0	596,181	540,501
Highways and Streets	991,160	935,688	0	0	991,160	935,688
Culture and Recreation	448,278	442,489	0	0	448,278	442,489
Community Development	12,594	220,972	0	0	12,594	220,972
Cemetery	1,144	0	0	0	1,144	0
Interest on Long-term Debt	10,224	10,779	0	0	10,224	10,779
Wastewater	0	0	170,007	177,464	170,007	177,464
Total Expenses	2,951,694	2,950,080	170,007	177,464	3,121,701	3,127,544
Increase/(Decrease) in Net Position	\$ 132,323	\$ 341,140	\$ (11,634)	\$ 84,140	\$ 120,689	\$ 425,280

Financial Analysis of Major Governmental Funds

The General Fund

The General Fund balance decreased \$261,336 from \$389,178 at the end of fiscal year 2015 to \$127,842 at the end of fiscal year 2016.

A budget deficit of \$54,537 was generated in the General Fund during fiscal year 2016. The Selectboard anticipated applying \$203,140 of the surplus from the prior year cumulative fund balance to meet expenses, which would have resulted in a planned deficit of \$203,140. However, the resulting deficit of \$257,677 meant that a budget deficit of \$54,537 was generated during FY16.

The total revenues budgeted were \$3,256,285. The actual revenues collected were \$2,770,374, which was \$485,911 less than budgeted. A large portion of this was the Bridge Grant (\$370,625) and Transfer from Highway Reserves (\$84,375). Grant revenue of \$179,904 was actually received, but this was credited directly into the Highway Capital Reserve Fund (which was created at Town Meeting, 2015) rather than the General Fund, as shown in Schedule 9 on page 55. The state also donated \$28,256 towards the Seguin Bridge reconstruction project during the year, as shown in Exhibit E on page 13. The budgeted transfer of \$84,375 from Highway Reserves into the General Fund was not needed, so the transfer did not occur. Property taxes and Thompson's Point Rent also came in under budget. *Explanation?*

A total of \$3,459,425 was budgeted for expenses, of which \$3,028,051 was actually spent. The line item that appears to be underspent the most was Bridge Reconstruction (\$455,000).

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Schedule 9 on page 55 shows that \$278,819 was spent from the Highway Capital Reserve Fund for bridge reconstruction, rather than the General Fund. \$276,871 of this was spent on the Carpenter Road Bridge (B30) and \$1,230 was spent on the Seguin Covered Bridge (CB28).

The Selectboard's Legal Expense was one of the line items that were overspent (by \$40,362). The two individual items that contributed the most to this expense were the Charlotte Solar landscaping enforcement (for which the Selectboard hopes to recoup some of the cost) and the Peck Electric solar project on Route 7 within the direct view of Mount Philo; these cost \$25,982 and \$9,084, respectively.

In the highway expense budget a total of \$865,438 was spent, \$37,812 less than the budget of \$903,250. Some line items were underspent and some were overspent. Brush & Tree Removal was over by \$69,424, and Retreatment (paving) was over by \$30,068. Winter Plowing & Sanding was under by \$46,286, Gravel Road Maintenance was under by \$47,799, and Ditching was under by \$46,510. \$195,119 of Class II Highway State Aid was received during the year, helping to offset the road maintenance expenses.

The Highway Reserve Fund

The Highway Reserve Fund ended fiscal year 2016 with a cumulative surplus of \$201,696. The prior year cumulative surplus was \$135,115 resulting in a current year increase of \$66,581.

Other Funds

The Town has the following reserve funds at June 30, 2016:

Highway Reserve Fund	\$ 201,696
Conservation Fund	553,020
Fire & Rescue Capital Fund	171,640
Non-Major Government Funds	<u>295,023</u>
Total Other Funds	<u>\$1,221,379</u>

Restricted Net Position and Reserved Fund Balances

The restricted net position was \$289,982 on June 30, 2016. These funds are reserved for specific future expenses, such as highway maintenance, trails and other purposes determined by trust or grant agreements.

The unassigned fund balance of the Governmental Funds was \$123,971 on June 30, 2016. These funds are available to address planned or unexpected expenses in the General Fund.

Capital Assets

Governmental Capital Assets increased \$239,226 net of accumulated depreciation to a total of \$7,028,164 as of June 30, 2016. Among the items that contributed to this increase were the completion of Carpenter Road Bridge project (\$316,363), the paving of north Greenbush Road (\$125,214) and the completion of the Library roof (\$93,058).

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Long-term Debt

At the end of the current year, the Town had total long-term debt outstanding of \$260,000. This amount represents bonded debt backed by the full faith and credit of the Town.

Table 3
Outstanding Debt at Year-End

	Governmental Activities	
	<u>FY2016</u>	<u>FY2015</u>
Bonds Payable	\$ <u>260,000</u>	\$ <u>300,000</u>

The Town's total debt decreased by \$40,000 during the year, reflecting repayments of principal.

Bonds are issued through the Vermont Municipal Bond Bank. The Town issues no bonded debt on its own behalf and does not maintain its own credit rating.

Additional information on the Town's long-term debt can be found in Note IV. G. in the notes to financial statements.

Economic Factors and Next Year's Budget and Rates

The following factors were considered in the development of budgets for FY17:

The Town approved a general fund budget for fiscal year 2017 in the amount of \$3,013,563. This represents a decrease of \$445,863 (12.9%) from the approved budget for the prior fiscal year.

The following factors will influence budgets in future fiscal year:

The Selectboard will be attempting to keep the municipal budget flat in the coming fiscal year.

This financial report is designed to provide a general overview of the Town of Charlotte, Vermont's financial condition. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Town Administrator or the Town Treasurer, P.O. Box 119, Charlotte, Vermont 05445.