

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

**FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

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MELANSON HEATH & COMPANY, PC  
CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

INDEPENDENT AUDITORS' REPORT

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Wastewater Enterprise Fund of the City of Burlington Vermont, as of and for the years ended June 30, 2013 and 2012, as listed in the Table of Contents.

**Management's Responsibility for the Financial Statements**

The City of Burlington, Vermont'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.

**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. 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 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 opinions.

As discussed in Note 1, the financial statements present only the Wastewater Enterprise Fund and do not purport to, and do not, present fairly the financial position of the City of Burlington, Vermont as of June 30, 2013 and 2012, 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 Wastewater Enterprise Fund of the City of Burlington, Vermont, as of June 30, 2013 and 2012, 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.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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 + Company P.C.*

Nashua, New Hampshire  
February 13, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Burlington Wastewater Enterprise Fund annual financial report, management provides a narrative discussion and analysis of the financial activities for the year ended June 30, 2013. 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, 2013, it shows our net position of \$14,269,095, a change of \$1,148,918 in comparison to the prior year. In addition to total net position increasing, the unrestricted deficit decreased from the prior year by \$1,528,758. Similarly, the cash deficit, amount payable to general fund reported as advances from other funds/due to other funds, decreased by \$1,264,542 from the prior year primarily because the rates were set at a level to support the full cost of operations, including debt service.

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, 2013 was \$1,148,918.

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 2013.

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, 2013 and 2012.

### Statement of Net Position

	<u>2013</u>	<u>2012</u>
Current assets	\$ 1,519,805	\$ 1,429,639
Non-current assets	30,223,288	31,660,619
Total assets	31,743,093	33,090,258
Current liabilities	15,035,477	1,588,256
Noncurrent liabilities	2,438,521	18,381,825
Total liabilities	17,473,998	19,970,081
Net position:		
Net investment in capital assets	13,120,817	13,500,657
Unrestricted	1,148,278	(380,480)
Total net position	14,269,095	13,120,177
Total Liabilities and Net Position	\$ 31,743,093	\$ 33,090,258

### Statement of Changes in Net Position

	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 7,751,070	\$ 7,588,128
Operating expenses	6,582,145	6,749,692
Operating Income	1,168,925	838,436
Nonoperating Revenues (Expenses)		
Interest expense	(66,458)	(113,552)
Other	-	2,825
Total Nonoperating Revenues (Expenses)	(66,458)	(110,727)
Transfers and capital contributions	46,451	(30,072)
Change in Net Position	1,148,918	697,637
Beginning Net Position	13,120,177	12,422,540
Ending Net Position	\$ 14,269,095	\$ 13,120,177

#### **Financial Highlights:**

The fund reported operating income of \$1,168,925 and \$838,436 for fiscal years 2013 and 2012, respectively. During fiscal year 2013, wastewater rates were increased which provided sufficient

cash flow to pay debt service (principle and interest) without borrowing from the City's general fund as in the prior year. See the four year trend of cash position below:

	Due to / advances from other funds <u>(Wastewater's cash position)</u>
2013	\$ (54,078)
2012	(1,318,620)
2011	(2,531,914)
2010	1,637,826

**Capital Assets:**

Capital Assets - Net capital assets decreased by \$1,437,329 in 2013. This change equals the difference between current year additions of \$166,536 and annual depreciation expense of \$1,603,865.

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 bonded debt outstanding was \$17,023,084, all of which was backed by the full faith and credit of the government. Included in the outstanding debt is the \$14,570,622 revenue bond payable January 1, 2014, which the City refinanced on January 7, 2014 with new principal balance of \$14,645,620, maturity date of December 1, 2033 with annual principal payments and semi-annual interest payments at a net interest cost of 3.853%.

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 City of Burlington's Wastewater Enterprise 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  
STATEMENT OF NET POSITION  
JUNE 30, 2013 AND 2012

	2013	2012
<b><u>ASSETS</u></b>		
Current:		
Cash and cash equivalents	\$ 200	\$ 200
Receivables, net of allowance for uncollectibles:		
User fees	815,677	695,681
Estimated unbilled revenues	544,079	580,633
Inventory	156,986	149,577
Prepaid expenses	2,863	3,548
Total current assets	1,519,805	1,429,639
Noncurrent:		
Capital assets:		
Land and construction in progress	847,952	847,952
Capital assets, net of accumulated depreciation	29,375,336	30,812,667
Total noncurrent assets	30,223,288	31,660,619
<b>TOTAL ASSETS</b>	<b>31,743,093</b>	<b>33,090,258</b>
<b><u>LIABILITIES</u></b>		
Current:		
Accounts payable	220,062	297,644
Accrued payroll and benefits payable	18,722	17,425
Due to other funds	54,078	50,858
Current portion of long-term liabilities:		
Revenue bonds payable (see note 12)	14,717,625	1,179,738
Capital leases payable	24,990	42,591
Total current liabilities	15,035,477	1,588,256
Noncurrent:		
Advances from other funds	-	1,318,620
Revenue bonds payable	2,305,460	16,904,695
Capital leases payable	7,947	32,937
Compensated absences payable	87,097	96,817
Net OPEB obligation	38,017	28,756
Total noncurrent liabilities	2,438,521	18,381,825
<b>TOTAL LIABILITIES</b>	<b>17,473,998</b>	<b>19,970,081</b>
<b><u>NET POSITION</u></b>		
Net investment in capital assets	13,120,817	13,500,657
Unrestricted (deficit)	1,148,278	(380,480)
<b>TOTAL NET POSITION</b>	<b>\$ 14,269,095</b>	<b>\$ 13,120,177</b>

The accompanying notes are an integral part of this financial statement.

CITY OF BURLINGTON, VERMONT  
WASTEWATER ENTERPRISE FUND  
STATEMENT OF REVENUE, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Charges for Services	\$ <u>7,751,070</u>	\$ <u>7,588,128</u>
Total Operating Revenues	<u>7,751,070</u>	<u>7,588,128</u>
Operating Expenses:		
Personnel	1,348,924	1,303,452
Non-personnel	2,788,050	3,001,989
Depreciation	1,603,865	1,592,649
Payments in Lieu of Taxes	<u>841,306</u>	<u>851,602</u>
Total Operating Expenses	<u>6,582,145</u>	<u>6,749,692</u>
Operating Income	1,168,925	838,436
Nonoperating Revenues/(Expenses):		
Interest Income	-	1,775
Interest Expense	(66,458)	(113,552)
Other Income	<u>-</u>	<u>1,050</u>
Total Nonoperating Revenues/(Expenses)	<u>(66,458)</u>	<u>(110,727)</u>
Income Before Transfers and Capital Contributions	1,102,467	727,709
Transfers Out	-	(30,072)
Capital Contributions	<u>46,451</u>	<u>-</u>
Change in Net Position	1,148,918	697,637
Net Position - Beginning	<u>13,120,177</u>	<u>12,422,540</u>
Net Position - Ending	<u>\$ <u>14,269,095</u></u>	<u>\$ <u>13,120,177</u></u>

The accompanying notes are an integral part of this financial statement.

CITY OF BURLINGTON, VERMONT  
WASTEWATER ENTERPRISE FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Receipts from users and customers	\$ 7,667,628	\$ 7,463,719
Payments to suppliers	(2,872,355)	(2,808,851)
Payments for wages and benefits	(1,348,086)	(1,278,408)
Payment in lieu of taxes	<u>(841,306)</u>	<u>(851,602)</u>
Net cash provided by operating activities	<u>2,605,881</u>	<u>2,524,858</u>
Cash flows from noncapital financing activities:		
Net change in cash deposited with city treasurer	(1,315,400)	(1,213,294)
Other income, net	-	9,050
Proceeds of revenue anticipation note	-	1,000,000
Payment of revenue anticipation note	-	(1,000,000)
Transfer out	-	(30,072)
Interest paid on cash deficit to general fund	<u>-</u>	<u>(56,129)</u>
Net cash used by noncapital financing activities	<u>(1,315,400)</u>	<u>(1,290,445)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(166,534)	(198,096)
Capital grants/contributions	46,451	-
Principal paid on:		
Revenue bonds	(1,061,348)	(915,098)
Capital lease obligations	(42,591)	(65,572)
Interest paid on:		
Revenue bonds, including other charges	(64,693)	(53,734)
Capital lease obligations	<u>(1,766)</u>	<u>(3,689)</u>
Net cash used by capital and related financing activities	<u>(1,290,481)</u>	<u>(1,236,189)</u>

(continued)

CITY OF BURLINGTON, VERMONT  
WASTEWATER ENTERPRISE FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

(continued)

	<u>2013</u>	<u>2012</u>
Cash flows from investing activities:		
Interest received on restricted investments	-	1,776
Net cash provided by investing activities	<u>-</u>	<u>1,776</u>
Net change in cash	-	-
Cash - Beginning	<u>200</u>	<u>200</u>
Cash - Ending	<u>\$ 200</u>	<u>\$ 200</u>
Adjustments to reconcile operating income to net cash provided from operating activities:		
Operating income	\$ 1,168,925	\$ 838,436
Depreciation	1,603,865	1,592,649
Changes in:		
Accounts receivable	(119,996)	(29,530)
Unbilled revenues	36,554	(94,879)
Inventories	(7,409)	(20,917)
Accounts payable	(77,581)	214,401
Accrued salaries and wages	1,297	8,641
Accrued compensated absences	(9,720)	7,642
Post-employment benefits	9,261	8,761
Other operating assets/liabilities	<u>685</u>	<u>(346)</u>
Net cash provided by operating activities	<u>\$ 2,605,881</u>	<u>\$ 2,524,858</u>

The accompanying notes are an integral part of this financial statement.

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 Wastewater Fund) is a municipally owned utility organized in 1865 to provide maintenance and treatment of wastewater to the residents of Burlington, Vermont.

The Wastewater 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 Wastewater 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 - 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 Wastewater 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.

*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 Wastewater Department consist of construction materials, meters, and chemicals.

*I. Capital Assets*

Property, Plant, and Equipment is recorded at cost including equipment acquired under capital leases that transfer substantially all risk of ownership to the Wastewater Fund. Contributed assets are recorded at their estimated fair 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 Wastewater 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 \$1,000, and
2. The unit estimated life is greater than one (1) year.

Interest incurred during the construction phase for enterprise fund 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 Wastewater 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 Wastewater 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	N/A
Filter plant	20-50 Years
Reservoirs	50-100 Years
Mains, meters and distribution plant	50-100 Years
Vehicles	5-20 Years
Equipment	10-20 Years

*J. Interfund Balances (Due From/Advances from Other Funds)*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (the current portion of interfund loans) or advances to/from other funds (the non-current

portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

*K. Compensated Absences Payables*

It is the City’s policy to permit employees to accumulate earned but unused vacation and comp time pay and vested unpaid sick time. The accrual for unused compensated absences time, based on current pay rates, is recorded in the financial statements.

*L. Net Other Post-Employment Benefits Obligation*

The City has a liability for their actuarially determined costs for post-employment benefits. These costs relate to subsidized healthcare and life insurance.

**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 Wastewater Fund is placed in the custody of the City Treasurer. Cash recorded by the Wastewater Fund is combined with cash of the City in determining amounts covered by Federal Depository Insurance or by collateral held by the City’s bank. Excess cash withdrawals are shown as Advances From Other Funds. As of June 30, 2013 and 2012, the majority of these amounts were either insured or secured by an irrevocable standby letter of credit issued by the Federal Home Loan Bank of Pittsburgh or collateralized by U.S. Government Securities held in the bank’s name for the benefit of the City.

**3. RECEIVABLES**

Receivables consist of the following:

	<u>2013</u>	<u>2012</u>
Wastewater Sales	\$ <u>818,677</u>	\$ <u>698,681</u>
Total	818,677	698,681
Less: Allowance for Doubtful Accounts	<u>(3,000)</u>	<u>(3,000)</u>
Net Accounts Receivable	<u>\$ 815,677</u>	<u>\$ 695,681</u>

**4. DUE TO OTHER FUNDS/ADVANCES FROM OTHER FUNDS**

Although the Wastewater Fund operates as an enterprise of the City of Burlington, most transactions flow through the City's general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. At June 30, 2013 and 2012, the Wastewater Fund owed the City's general fund \$54,078 and \$1,318,620, respectively.

**5. INVENTORY**

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

	<u>2013</u>	<u>2012</u>
Fuel Stock	\$ 15,774	\$ 16,478
Chemicals	41,899	36,968
Miscellaneous	<u>99,313</u>	<u>96,131</u>
Total	<u>\$ 156,986</u>	<u>\$ 149,577</u>

**6. PROPERTY, PLANT AND EQUIPMENT**

The following is a summary of the changes in property, plant and equipment:

	2013			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 847,952	\$ -	\$ -	\$ 847,952
Total Capital Assets, Not Being Depreciated	<u>847,952</u>	<u>-</u>	<u>-</u>	<u>847,952</u>
Capital Assets, Being Depreciated:				
Land improvements	29,919,035	-	-	29,919,035
Vehicles, machinery, equipment and furniture	11,906,511	17,501	(10,839)	11,913,173
Distribution and collection systems	<u>17,540,634</u>	<u>149,035</u>	<u>-</u>	<u>17,689,669</u>
Total Capital Assets, Being Depreciated	<u>59,366,180</u>	<u>166,536</u>	<u>(10,839)</u>	<u>59,521,877</u>
Less Accumulated Depreciation for:				
Land improvements	(13,365,691)	(732,302)	-	(14,097,993)
Vehicles, machinery, equipment and furniture	(8,721,072)	(504,258)	10,839	(9,214,491)
Distribution and collection systems	<u>(6,466,752)</u>	<u>(367,305)</u>	<u>-</u>	<u>(6,834,057)</u>
Totals	<u>(28,553,515)</u>	<u>(1,603,865)</u>	<u>10,839</u>	<u>(30,146,541)</u>
Total Capital Assets, Being Depreciated	<u>30,812,665</u>	<u>(1,437,329)</u>	<u>-</u>	<u>29,375,336</u>
Capital Assets - Net	<u>\$ 31,660,617</u>	<u>\$ (1,437,329)</u>	<u>\$ -</u>	<u>\$ 30,223,288</u>

	2012			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 847,952	\$ -	\$ -	\$ 847,952
Total Capital Assets, Not Being Depreciated	847,952	-	-	847,952
Capital Assets, Being Depreciated:				
Land improvements	29,919,035	-	-	29,919,035
Vehicles, machinery, equipment and furniture	11,831,244	183,042	(107,775)	11,906,511
Distribution and collection systems	17,525,583	15,051	-	17,540,634
Total Capital Assets, Being Depreciated	59,275,862	198,093	(107,775)	59,366,180
Less Accumulated Depreciation for:				
Land improvements	(12,720,067)	(645,624)	-	(13,365,691)
Vehicles, machinery, equipment and furniture	(8,325,553)	(495,294)	99,775	(8,721,072)
Distribution and collection systems	(6,015,021)	(451,731)	-	(6,466,752)
Totals	(27,060,641)	(1,592,649)	99,775	(28,553,515)
Total Capital Assets, Being Depreciated	32,215,221	(1,394,556)	(8,000)	30,812,665
Capital Assets - Net	\$ 33,063,173	\$ (1,394,556)	\$ (8,000)	\$ 31,660,617

## 7. CAPITAL LEASE OBLIGATIONS

The Wastewater Fund enters into lease agreements as the lessee for the purpose of financing the acquisition of major pieces of equipment. These lease agreements qualify as capital lease obligations for accounting purposes (even though they include clauses that allow for cancellation of the lease in the event the City does not appropriate funds in future years) and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date of the leases.

The Wastewater Fund had the following leases outstanding:

	<u>2013</u>	<u>2012</u>
Capital lease for Capital lease payable via the City's general master lease program for Wastewater Fund tank truck. The rental payments are to be made in equal monthly installments of \$2,352.21 including interest at 3.33% annually, maturing on October 29, 2013.	\$ 27,299	\$ 37,635
Capital lease for Capital lease payable via the City's general master lease program for Wastewater Fund equipment. The rental payments are to be made in equal semi-annual installments of \$8,065.42 including interest at 3.10% annually, maturing on December 25, 2014.	15,302	40,327
Total lease payments	42,601	77,962
Less: amount that represents interest	(9,664)	(2,434)
Total lease obligation	32,937	75,528
Less: amount due within one year	(24,990)	(42,591)
Capital lease obligation, net of current portion	\$ 7,947	\$ 32,937

Future minimum lease payments consisted of the following as of June 30, 2013:

	Fiscal <u>Year</u>	
	2014	\$ 25,540
	2015	<u>8,066</u>
Total minimum lease payments		33,606
Less amount representing interest		<u>(669)</u>
Present value of minimum lease payments		<u>\$ 32,937</u>

Capital Assets acquired with Leases include:

Machinery, vehicles and equipment	\$ 332,097
Less: accumulated depreciation	<u>(93,985)</u>
Equipment under capital leases, net	<u>\$ 238,112</u>

#### 8. LONG-TERM DEBT

*Revenue Bonds* - The Wastewater Fund issues bonds where the City pledges income to pay the debt service.

Long-term debt consists of the following:

	Original Issue <u>Amount</u>	Serial Maturities <u>Through</u>	Interest Rate(s)	Amount Outstanding as of <u>6/30/13</u>
State of VT-EPA 1991 Series 1	\$ 19,403,807	1/1/2014	0.00%	\$ 14,570,622
State of VT-EPA 2006 Series 1 (Siphon)	1,650,000	2/1/2027	2.00%	1,137,043
State of VT-EPA 2009 Series I (Turbo)	120,000	10/1/2031	2.00%	46,451
State of VT-EPA 2001 Series 1 (Digester)	2,500,000	8/1/2027	2.00%	<u>1,268,968</u>
Total				<u>\$ 17,023,084</u>

	Original Issue Amount	Serial Maturities Through	Interest Rate(s)	Amount Outstanding as of 6/30/12
State of VT-EPA 1991 Series 1	\$ 19,403,807	1/1/2014	0.00%	\$ 15,443,791
State of VT-EPA 2006 Series 1 (Siphon)	1,650,000	2/1/2027	2.00%	1,206,829
State of VT-EPA 2009 Series I (Turbo)	120,000	10/1/2031	2.00%	92,903
State of VT-EPA 2001 Series 1 (Digester)	2,500,000	8/1/2027	2.00%	1,340,909
Total				<u>\$ 18,084,432</u>

Maturities are as follows:

Fiscal Year	Principal	Interest	Total
2014	\$ 14,717,625	\$ 48,120	\$ 14,765,745
2015	149,896	45,229	195,125
2016	152,845	42,280	195,125
2017	155,853	39,272	195,125
2018	158,922	36,204	195,126
2019 - 2023	842,818	132,806	975,624
2024 - 2028	835,345	46,357	881,702
2029 - 2032	9,780	-	9,780
	<u>\$ 17,023,084</u>	<u>\$ 390,268</u>	<u>\$ 17,413,352</u>

(1) See note 12.

Changes in Long-term Debt are as follows:

	2013					
	Total Balance 7/1/12	Additions	Reduction	Total Balance 6/30/13	Less Current Portion	Equal Long Term Portion
Revenue bonds payable	\$ 18,084,433	\$ -	\$ (1,061,348)	\$ 17,023,085	\$ (14,717,625)	\$ 2,305,460
Subtotal	18,084,433	-	(1,061,348)	17,023,085	(14,717,625)	2,305,460
Obligations under capital leases	75,528	-	(42,591)	32,937	(24,990)	7,947
Compensated absences	96,817	-	(9,720)	87,097	-	87,097
Net OPEB obligation	28,756	9,261	-	38,017	-	38,017
Total	<u>\$ 18,285,534</u>	<u>\$ 9,261</u>	<u>\$ (1,113,659)</u>	<u>\$ 17,181,136</u>	<u>\$ (14,742,615)</u>	<u>\$ 2,438,521</u>

	Total Balance 7/1/11	Additions	Reduction	Total Balance 6/30/12	Less Current Portion	Equal Long Term Portion
Revenue bonds payable	\$ 18,999,530	\$ -	\$ (915,097)	\$ 18,084,433	\$ (1,179,738)	\$ 16,904,695
Subtotal	18,999,530	-	(915,097)	18,084,433	(1,179,738)	16,904,695
Obligations under capital leases	141,100	-	(65,572)	75,528	(42,591)	32,937
Compensated absences	89,175	7,642	-	96,817	-	96,817
Net OPEB obligation	19,995	8,761	-	28,756	-	28,756
Total	\$ 19,249,800	\$ 16,403	\$ (980,669)	\$ 18,285,534	\$ (1,222,329)	\$ 17,063,205

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 Wastewater Fund must take timely corrective action. The Wastewater Fund did meet the coverage ratio for 2013 and 2012.

## 9. RETIREMENT BENEFITS

The Wastewater Fund has two primary retirement plans: a single employer defined benefit plan and a deferred compensation plan through the City.

### Defined Benefit Plan

All full-time employees of the Department participate in the City of Burlington Employees' Retirement System (the Plan), a single employer cost sharing defined benefit plan. The City requires a 3% contribution of base salary from each Class B employee. It is the policy of the City of Burlington to fund by actuarially determined periodic contributions the normal cost of the Plan plus a provision for amortization of past service costs. For the years ended June 30, 2013 and 2012, pension costs for the Wastewater Fund amounted to \$125,960 and \$109,421, respectively. These contributions were based on 12.24% and 13.62% of base wages for 2013 and 2012, respectively.

Financial statements and further disclosures about the Plan are included in the City of Burlington, Vermont's financial statements. The Wastewater Fund expects to implement GASB No. 68 in fiscal year 2015 and is evaluating the standard to determine if implementation will have a material impact on pension cost. Also, see Note 13.

### 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.

#### Post-Employment Health Benefits

Beginning in fiscal year 2008, the City was required to implement Governmental Accounting Standards Board (GASB) Statement No. 45 for other post-employment benefits (OPEB) including healthcare, life insurance, and other non-pension benefits offered to retirees. This standard addresses how the City should account for and report its costs related to post-employment healthcare and other non-pension benefits, such as the City’s implicit subsidy of retiree health insurance and the School Department’s direct subsidy of retiree health insurance. Historically, the City’s subsidy was reported on a pay-as-you-go basis. GASB Statement No. 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 City has adopted this standard prospectively.

The City allows certain retired employees to purchase health insurance through the City at the City’s group rates. GASB No. 45 recognizes this as an implied subsidy and requires accrual of this liability.

#### Funding Policy

The City funds the benefits on a pay-as-you-go basis.

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

### **10. RELATED PARTY TRANSACTIONS**

The Wastewater Fund charges other City Departments for services performed. For the years ended 2013 and 2012, the Wastewater Fund charged other departments \$108,685 and \$101,537, respectively.

The Department of Public Works allocates its administrative costs to the different divisions which it operates. The costs allocated to the Wastewater Fund were \$76,888 and \$74,802 in 2013 and 2012, respectively.

The Wastewater Fund, from time to time, utilizes employees from other funds to perform services. The amount paid by the Wastewater Fund to the other funds for services for the years ended 2013 and 2012 were \$166,839 and \$202,380, respectively.

It is the City's policy to charge or pay interest based on outstanding balances advanced to or borrowed from the municipal funds of the City. The interest rate for positive balances is based on the average interest rate which would have been earned in the City's sweep account. The interest rate for negative cash balances is based on the interest rate the City is charged on their tax anticipation notes. Total interfund interest paid during 2013 was \$13,739 and received in 2012 was \$1,775.

The Wastewater Fund paid \$30,072 to the Telecom Fund for data, internet, and phone usage during the year ended June 30, 2012.

Pursuant to an ordinance adopted by the City of Burlington, effective July 1, 1990, the Wastewater 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, 2013 and 2012 was \$260,720 and \$248,077, respectively.

The Wastewater 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, 2013 and 2012 was \$841,306 and \$851,602, respectively.

The City's General Fund also charges the Wastewater 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, 2013 and 2012 was \$8,274 and \$7,548, respectively. The excavation fees charged for the years ending June 30, 2013 and 2012 were \$56,308 and \$58,848, respectively. The equipment maintenance charges for the years ending June 30, 2013 and 2012 were \$38,513 and \$34,944, respectively. The engineering charges for the years ending June 30, 2013 and 2012 were \$23,179 and \$20,645, respectively.

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, 2013 and 2012, administrative and risk management fees paid to the City General Fund were \$139,588 and \$171,912, respectively.

## **11. RISK MANAGEMENT**

The Wastewater Fund is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Wastewater Fund manages these risks 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 \$25,000, \$10,000, and \$20,000, respectively.

For Worker’s Compensation, Health and Dental insurance, the City self-insures with appropriate stop-loss coverage in place to cover large claims. The stop-loss limits are as follows:

Worker’s Compensation	\$350,000 per occurrence and \$2,758,800 in the aggregate
Health insurance	\$130,000 per occurrence with no aggregate stop loss coverage
Dental insurance	The benefit from this coverage cannot exceed \$1,500 per participant

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 liability recorded at June 30, 2013 and 2012 is based on the ultimate liability as determined by the City’s actuaries. Claims liabilities are established based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Settled claims for the self-insurance programs have not exceeded coverage for the past three fiscal years.

The costs associated with these self-insurance plans are budgeted in the City’s General Fund and allocated to the Wastewater Fund based on the following:

<u>Type</u>	<u>Allocation Method</u>
Worker's compensation	50% Experience and 50% exposure
Health	Premium equivalent for applicable level of coverage
Dental	Premium equivalent for single coverage
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. No liabilities have been accrued as the City is not able to make an estimate as to any future costs. The City paid \$126,208 and \$105,333, respectively, in unemployment claims during fiscal year 2013 and 2012. The amount attributable to Wastewater Fund is unknown as the City bills the Wastewater Fund indirectly through its risk management fees.

**12. SUBSEQUENT EVENTS**

The City refinanced the \$14,570,622 revenue bond payable to the State of Vermont EPA on January 7, 2014. The new terms for the principal balance of \$14,645,620 maturing on December 1, 2033 include annual principal payments and semi-annual interest payments at a net interest cost of 3.853%.

**13. IMPLEMENTATION OF NEW GASB STANDARDS**

The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact of the Wastewater Fund's basic financial statements by recognizing as a liability and expense, the Wastewater Fund's applicable portion of the City of Burlington Retirement System's Actuarially Accrued Liability.