

CHITTENDEN SOLID WASTE DISTRICT

Audited Financial Statements and Other Financial Information

June 30, 2014 and 2013



CHITTENDEN SOLID WASTE DISTRICT
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CHITTENDEN SOLID WASTE DISTRICT
AUDIT REPORT AND FINANCIAL STATEMENTS
JUNE 30, 2014 AND JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Chittenden Solid Waste District
Williston, Vermont:

Report on the Financial Statements

We have audited the accompanying financial statements of the Chittenden Solid Waste District ("the District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2014, and the 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.

Prior Period Financial Statements

The financial statements of the District as of June 30, 2013 were audited by other auditors whose report dated October 11, 2013 expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the table of contents, be presented to supplement the 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 financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedules of revenues, expenditures, and changes in fund balance, facilities improvement reserve designated funds are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of revenues, expenditures, and changes in fund balance, facilities improvement reserve designated funds 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2014 on our consideration of the District's internal control over financial reporting and on 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 District's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 1, 2014

**CHITTENDEN SOLID WASTE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

This Management's Discussion and Analysis (MD&A) provides a general overview and serves as an introduction to the basic financial statements of the Chittenden Solid Waste District (the District) for the fiscal year ending June 30, 2014. The basic financial statements are comprised of the Balance Sheet (Exhibit I), the Statement of Revenues, Expenses and Changes in Net Position (Exhibit II), and the Statement of Cash Flows (Exhibit III), as well as the Notes to Financial Statements which provide additional information that is essential to a full understanding of the data provided in the statements.

This MD&A presents the District's financial position as of June 30, 2014 as compared with its financial position as of June 30, 2013 and June 30, 2012, and any financial developments during fiscal years 2014 and 2013, for all programs combined.

Reporting the District as a Whole

One of the most important questions one might ask about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The three statements presented as Exhibits I, II, and III report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These three statements report the District's net position and corresponding changes, along with the analysis of cash flows. The amount of the District's net position – the difference between assets and liabilities – is one way to measure the District's financial health, or financial position. Over time, increases or decreases in net position are one indicator of whether the District's financial health is improving or deteriorating. The reader will also need to consider other non-financial factors to assess the overall health of the District.

Governmental accounting standards prescribe that 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 District is accounted for utilizing enterprise fund accounting.

**CHITTENDEN SOLID WASTE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

Financial Highlights

Balance Sheet (Exhibit I)

	2014	2013	2012	2014 Net Change	2013 Net Change
Current and other assets	\$ 6,938,110	\$ 7,877,575	\$ 8,664,673	\$ (939,465)	\$ (787,098)
Capital assets, net	13,309,132	11,731,033	11,904,751	1,578,099	(173,718)
Total assets	<u>\$ 20,247,242</u>	<u>\$ 19,608,608</u>	<u>\$ 20,569,424</u>	<u>\$ 638,634</u>	<u>\$ (960,816)</u>
Long-term liabilities	\$ 1,540,708	\$ 1,522,037	\$ 1,952,697	\$ 18,671	\$ (430,660)
Other liabilities	712,863	895,224	1,284,924	(182,361)	(389,700)
Total liabilities	<u>2,253,571</u>	<u>2,417,261</u>	<u>3,237,621</u>	<u>(163,690)</u>	<u>(820,360)</u>
Net position:					
Net investment in capital assets	12,893,044	11,373,345	11,428,446	1,519,699	(55,101)
Restricted	-	65,002	128,586	(65,002)	(63,584)
Unrestricted	5,100,627	5,753,000	5,774,771	(652,373)	(21,771)
Total net position	<u>17,993,671</u>	<u>17,191,347</u>	<u>17,331,803</u>	<u>802,324</u>	<u>(140,456)</u>
Total liabilities and net position	<u>\$ 20,247,242</u>	<u>\$ 19,608,608</u>	<u>\$ 20,569,424</u>	<u>\$ 638,634</u>	<u>\$ (960,816)</u>

The District's total net position, defined as the amount by which the assets exceeded the liabilities, was \$17,993,671 and \$17,191,347 at June 30, 2014 and 2013, respectively – representing an increase during Fiscal Year 2014 of \$802,324 and a decrease in Fiscal Year 2013 of \$140,456. In FY14, net investment in capital assets increased by \$1,519,699 primarily associated with a major upgrade of equipment at the Materials Recovery Facility, and unrestricted net position decreased by \$652,373 as cash resources were used to finance certain capital acquisitions. The FY13 decrease is attributable to small decreases in each of the three components of Net Position – namely, Net Investment in Capital Assets, Restricted, and Unrestricted.

Summary of Revenues, Expenses, and Changes in Net Position (Exhibit II)

	2014	2013	2012	2014 Net Change	2013 Net Change
Operating revenues:					
Tipping fees	\$ 3,253,035	\$ 2,939,803	\$ 2,766,428	\$ 313,232	\$ 173,375
Solid waste management fees	3,235,727	2,705,345	2,908,979	530,382	(203,634)
Material sales and other	2,569,475	2,584,027	3,720,543	(14,552)	(1,136,516)
Total operating revenues	<u>9,058,237</u>	<u>8,229,175</u>	<u>9,395,950</u>	<u>829,062</u>	<u>(1,166,775)</u>
Operating expenses	8,661,170	8,610,416	9,255,677	50,754	(645,261)
Income (loss) from operations	<u>397,067</u>	<u>(381,241)</u>	<u>140,273</u>	<u>778,308</u>	<u>(521,514)</u>
Nonoperating revenues (expenses)	403,007	240,785	227,577	162,222	13,208
Capital contributions	2,250	-	72,300	2,250	(72,300)
Increase (decrease) in net position	<u>\$ 802,324</u>	<u>\$ (140,456)</u>	<u>\$ 440,150</u>	<u>\$ 942,780</u>	<u>\$ (580,606)</u>

**CHITTENDEN SOLID WASTE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

Operating revenues. The District's total operating revenues increased by \$829,062 (10%) and decreased by \$1,166,775 (12%) for the 2014 and 2013 fiscal years, respectively, as compared to the respective prior periods. Key factors include:

- *Tipping fees.* The \$313,232 increase in tipping fee revenues for FY14 over FY13 was caused by two primary factors, as follows: (1) \$189,606 of the increase was associated with Drop-Off Center rate increases effective 7/1/14, and (2) an additional \$93,438 of the FY14 increase was due to a change in the tipping fee rates charged at the Materials Recovery Facility (MRF). Effective 10/1/12 (end of Q1, FY13), the MRF rates were increased from (\$10) per ton (a \$10 per ton rebate) for in-district materials and \$0 per ton out-of-district to \$0 per ton for in-district and \$10 per ton out-of-district. For FY13, the \$173,375 tipping fee revenue increase over the prior year is associated with this same 10/1/12 MRF rate increase, which generated \$228,837 more revenue over the previous year, and was partially offset by decreases in tipping fee revenues at other facilities.
- *Solid Waste Management Fees.* The Solid Waste Management Fee (SWMF) revenue increased by \$530,382 (19.6%) for FY14 over the FY13 fees, as the District increased the rate from \$22.06 per ton to \$27.00 per ton effective September 1, 2013 – early in FY14. Additionally, there was a small (1%) increase in tons of material subject to the fee in FY14 over FY13, with total FY14 tons of 124,000. The SWMF revenue decreased by \$203,634 (7.0%) in FY13 as compared with FY12, due to decreased tonnage of materials disposed (122,790 tons in FY13 vs. 131,866 tons in FY12).
- *Material sales and other.* This revenue stream was relatively unchanged in FY14 compared to the prior year. The \$1,136,516 decrease in material sales revenues for FY13 compared to FY12 is due to (1) \$813,000 (29%) drop in revenues at the MRF due to lower commodity prices for recyclables, and (2) \$336,500 (60%) drop in sales revenue at the Green Mountain Compost (GMC) facility, as the District suspended sales for the year due to the discovery of persistent herbicides in GMC product in late FY12.

Operating expenses. The District's operating expenses increased by \$50,754 (0.6%) for FY14, and decreased by \$645,261 (7.0%) for FY13, as compared with the respective prior year's expenses.

Primary components in the increased expenses for FY14 vs. FY13 were:

- An increase of \$111,000 (6.4%) in expenses for the Drop-Off Centers, due to higher staffing and trash disposal costs because of higher disposal fee rates.
- An increase of \$84,400 (7.3%) in Biosolids Program expenses, associated with major repairs completed during the year on all trailers, as well as increased staff hours for administering the program.
- Lower operating expenses (\$166,400 reduction) at Green Mountain Compost, as operational outlays were largely devoted to rebuilding product inventories in order to resume sales, on a limited basis, in late FY14.

**CHITTENDEN SOLID WASTE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

Primary components in the decreased expenses for FY13 vs. FY12 were:

- A decrease of \$404,000 in operational expenses at the Green Mountain Compost facility, as the District suspended product sales and cut associated costs during its investigation and response to the discovery of herbicides in the compost.
- A decrease of \$331,000 in landfill post-closure expenses due to revised estimates of future costs.
- A decrease of \$264,000 in the persistent herbicide expenses line item, as the primary financial impact of this took place in the 2012 Fiscal Year.
- The above decreases were partially offset by an increase of \$240,000 in MRF operating expenses, contractually tied to the higher tipping fees.

Significant Changes in Specific Line Items

- Current and Other Assets – The decrease of \$939,465 in current and other assets during FY14 was primarily associated with the cash paid for capital acquisitions and improvements – most notably, the MRF equipment upgrades. The major reason for the \$787,098 decrease in this item during FY13 was related to paying down current and long-term liability balances.
- Capital Assets – During FY14, the net carrying value of capital assets increased by \$1,578,099. Approximately \$2.25 million was expended on capital improvements and asset acquisitions (of this, \$1.65 million was related to the MRF equipment upgrades), while depreciation charged on existing assets amounted to approximately \$668,000. During FY13, the net carrying value of capital assets decreased by \$173,718, as depreciation charged on existing assets (\$709,153) exceeded the capital outlays for the year (\$535,435).
- Long-Term Liabilities – The \$18,671 net increase in long-term liabilities in FY14 is primarily associated with the change in capital lease obligations outstanding (net increase of \$58,400), offset by a reduction in the long-term landfill post-closure obligation for the year. For FY13, the net decrease in long-term liabilities amounted to \$430,660, of which \$325,406 pertained to the reduction in the accrued landfill post-closure obligation due to a significant repair project that was completed during the year, as well as a revision in the estimate for future costs.
- Net Position, Restricted – This component of net position relates to proceeds of lease-purchase financing transactions held in escrow, the use of which was restricted to acquisition of certain equipment assets, under provisions of those financing agreements. The final piece of this equipment was received during FY14, and the account balance was reduced to zero as of June 30, 2014.

**CHITTENDEN SOLID WASTE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

- Net Position, Unrestricted – Net position (assets in excess of liabilities) that is not restricted by external parties are reported as Unrestricted. Some of this balance has been designated for capital improvements and for other purposes through action by the Board. The designated accounts are:
 - The Facilities Improvement Reserves, designated for future capital improvements or acquisitions, having a total balance of \$2,958,600 and \$4,244,353 as of June 30, 2014 and 2013, respectively.
 - The remaining other designated accounts include the Excess Landfill Post-Closure Reserve, the Facilities Closure Reserve, the Community Cleanup Fund, the Drop-Off Center Rate Stabilization Reserve, and the Managers' Deferred Compensation Reserve. The total designated balances in these reserve accounts were \$653,486 and \$552,623 as of June 30, 2014 and 2013, respectively.

Any action involving these reserve accounts is conducted only under the direct authorization of the Board of Commissioners.

Additional Analytics

	FY14	FY13	FY12
Ratio of total liabilities to total assets	11%	12%	16%
Bond principal balance outstanding	\$ -	\$ -	\$ -
Annual debt service	\$ -	\$ -	\$ 363,074
Debt service divided by operating expenses	0%	0%	4%
Undesignated net position at end of year	\$ 1,488,541	\$ 956,024	\$ 911,741
Undesignated net position divided by operating expenses	17.2%	11.1%	9.9%

Economic Factors and Next Year's Budget and Rates

- The solid waste management fee (SWMF) remains unchanged for FY15 at \$27.00 per ton, the rate that was enacted effective 9/1/13. The District's FY15 budget anticipates a 1.7% reduction in trash subject to the SWMF from the FY14 budgeted level - 112,000 tons in FY15 vs. 114,000 budgeted in FY14 – as increasing amounts of construction and demolition material are being recycled.
- Tipping fee rates at the Materials Recovery Facility (MRF) were increased effective 7/1/14 (start of FY15) from the FY14 per-ton rates of \$0 for In-District materials and \$10 for Out-Of-District, to \$6 per ton In-District, and \$11 per ton Out-Of-District. The District adjusts these fees as needed to offset fluctuations in market values of recyclable materials processed through the facility, to maintain an overall break-even position over time.

**CHITTENDEN SOLID WASTE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

- The Green Mountain Compost (GMC) facility increased prices on many of its products for sale, effective 7/1/14, in order to better recover the costs of production. Product sales during early FY15 have lagged behind typical averages for late summer and fall, and additional marketing efforts will be undertaken to regain market share lost during the persistent herbicide hiatus.
- The FY15 capital budget totals approximately \$1.3 million, primarily for replacement of various items of equipment and rolling stock reaching the end of useful life, for technology/computer system upgrades, and other general improvements to facilities.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with an understanding of the District's finances and to demonstrate the District's accountability for the financial resources it receives and disburses. If you have questions about this report or need additional financial information, contact the Finance Manager, 1021 Redmond Road, Williston, VT 05495, or at finance@cswd.net.

**CHITTENDEN SOLID WASTE DISTRICT
BALANCE SHEET
AS OF JUNE 30, 2014 AND 2013**

EXHIBIT I

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,854,631	\$ 3,362,112
Investments	1,800,674	3,348,303
Accounts receivables, net	961,723	933,443
Inventories	284,765	85,942
Prepaid expenses	36,317	82,773
Total current assets	6,938,110	7,812,573
Noncurrent assets:		
Restricted cash and cash equivalents	-	65,002
Capital assets:		
Land	5,290,801	5,290,801
Construction in progress	1,696,264	23,462
Other capital assets, net of depreciation	6,322,067	6,416,770
Total capital assets, net of depreciation	13,309,132	11,731,033
Total noncurrent assets	13,309,132	11,796,035
Total assets	\$ 20,247,242	\$ 19,608,608
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 628,463	\$ 819,095
Accrued salaries and wages	58,291	47,145
Unearned revenue	12,275	13,325
Security deposit payable	7,700	7,700
Accrued interest payable	6,134	7,959
Long-term liabilities, portion due within one year:		
Capital leases payable	147,246	114,760
Accrued post-closure costs	98,829	107,061
Total current liabilities	958,938	1,117,045
Noncurrent liabilities (due after one year):		
Accrued compensated absences	187,082	182,919
Capital leases payable	268,842	242,928
Accrued post-closure costs	838,709	874,369
Total noncurrent liabilities	1,294,633	1,300,216
Total liabilities	2,253,571	2,417,261
Net position:		
Net investment in capital assets	12,893,044	11,373,345
Restricted	-	65,002
Unrestricted	5,100,627	5,753,000
Total net position	17,993,671	17,191,347
Total liabilities and net position	\$ 20,247,242	\$ 19,608,608

See accompanying independent auditors' report and notes to the financial statements.

**CHITTENDEN SOLID WASTE DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Tipping fees	\$ 3,253,035	\$ 2,939,803
Solid waste management fees	3,235,727	2,705,345
Sale of materials	2,520,650	2,546,752
License fees	13,410	8,830
Miscellaneous	35,415	28,445
Total operating revenues	<u>9,058,237</u>	<u>8,229,175</u>
Operating expenses:		
Materials recovery facility	1,918,970	1,881,672
Waste reduction program	290,901	293,588
Green Mountain Compost facility	526,286	692,685
Special waste facility	345,983	377,729
Drop-off centers	1,844,271	1,733,249
Hazardous waste program	752,776	726,158
Biosolids program	1,246,289	1,161,877
Special projects	145,522	241,326
Future project development	51,171	38,373
Finance	79,525	77,583
Administration and Safety	176,932	189,062
Marketing and communication	255,580	232,818
Enforcement	65,634	58,887
Property management	101,145	72,677
Expenses for persistent herbicide, compost facility	103,762	128,368
Small sitework and building construction/repair	64,161	50,846
Change in estimated future landfill post-closure costs	24,673	(55,635)
Depreciation	667,589	709,153
Total operating expenses	<u>8,661,170</u>	<u>8,610,416</u>
Income (loss) from operations	<u>397,067</u>	<u>(381,241)</u>
Nonoperating revenues (expenses):		
Rental income	92,424	90,850
Interest income, net	21,086	45,574
Interest expense	(6,362)	(8,367)
Grant income	106,067	75,728
Gain on disposal of equipment	189,792	37,000
Total nonoperating revenues (expenses)	<u>403,007</u>	<u>240,785</u>
Capital contributions	<u>2,250</u>	<u>-</u>
Increase (decrease) in net position	802,324	(140,456)
Net position - beginning of year	<u>17,191,347</u>	<u>17,331,803</u>
Net position - end of year	<u>\$ 17,993,671</u>	<u>\$ 17,191,347</u>

See accompanying independent auditors' report and notes to the financial statements.

**CHITTENDEN SOLID WASTE DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 9,028,907	\$ 8,140,283
Payments to suppliers	(5,394,781)	(5,812,845)
Payments for wages and benefits	(2,970,382)	(2,875,609)
Net cash provided (used) by operating activities	<u>663,744</u>	<u>(548,171)</u>
Cash flows from noncapital financing activities:		
Operating grants	106,067	75,728
Rental income	92,424	90,850
Net cash provided by noncapital financing activities	<u>198,491</u>	<u>166,578</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,248,674)	(535,435)
Proceeds from sale of capital assets	192,778	37,000
Proceeds of capital contributions	2,250	-
Proceeds from capital lease obligations	203,769	-
Principal paid on capital lease payable	(145,369)	(118,617)
Interest paid on capital lease payable	(8,187)	(4,329)
Net cash used by capital and related financing activities	<u>(2,003,433)</u>	<u>(621,381)</u>
Cash flows from investing activities:		
Receipt of interest and dividends on investments	28,083	34,315
Purchases of investments	(929,524)	(1,262,219)
Redemptions of investments	2,470,156	1,154,237
Net cash provided (used) by investing activities	<u>1,568,715</u>	<u>(73,667)</u>
Net increase (decrease) in cash and cash equivalents	427,517	(1,076,641)
Cash and cash equivalents - beginning of year	3,427,114	4,503,755
Cash and cash equivalents - end of year	<u>\$ 3,854,631</u>	<u>\$ 3,427,114</u>
Reported as:		
Cash and cash equivalents - current	\$ 3,854,631	\$ 3,362,112
Cash and cash equivalents - noncurrent, restricted	-	65,002
Total cash and cash equivalents	<u>\$ 3,854,631</u>	<u>\$ 3,427,114</u>
Adjustments to reconcile operating income (loss) to cash flows from operating activities:		
Income (loss) from operations	\$ 397,067	\$ (381,241)
Depreciation	667,589	709,153
Changes In:		
Receivables	(28,280)	(95,187)
Inventories	(198,823)	1,294
Prepaid expenses	46,456	(76,409)
Accounts payable	(190,632)	(386,091)
Accrued salaries and wages	11,146	(13,942)
Unearned revenue	(1,050)	4,895
Security deposit payable	-	1,400
Accrued post-closure costs	(43,892)	(325,406)
Accrued compensated absences	4,163	13,363
Net cash provided (used) by operating activities	<u>\$ 663,744</u>	<u>\$ (548,171)</u>

Non-cash supplemental information:

Machinery and equipment with a cost of \$213,438 and accumulated depreciation of \$210,452 were disposed and/or traded in during the year ended June 30, 2014.

Machinery and equipment with a cost and accumulated depreciation of \$192,186 were disposed and/or traded in during the year ended June 30, 2013.

See accompanying independent auditors' report and notes to the financial statements.

CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Chittenden Solid Waste District (the "District") is a union municipal district in Chittenden County, Vermont, chartered under the laws of the State of Vermont. The District, which had its inception March 6, 1987, was created for the purpose of providing for the efficient, economical and environmentally sound management of solid waste generated by member municipalities and their residents.

The District's governing board (the "Board") is comprised of one representative appointed by the elected governing body of each of the 18 member municipalities. The Board meets monthly to set policy and make major decisions for the District.

The accounting policies adopted by the District conform to generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the standard-setting body for accounting and financial reporting principles for governmental units. The following is a summary of the more significant accounting policies employed in the preparation of these financial statements.

Reporting Entity

The criteria of oversight responsibility, special financing relationships and scope of public service were used in determining the agencies or entities which comprise the District for financial reporting purposes. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations and accountability for fiscal matters. Based on these criteria, there are no other agencies or entities which should be combined with the financial statements of the District. Likewise, the district is not considered a component unit of any other government's reporting entity.

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 District is accounted for utilizing enterprise fund accounting.

Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise fund financial statements are reported using the economic resources measurement focus; as such, all assets and liabilities associated with the operation of these funds (whether current or noncurrent) are included on the balance sheet.

CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund equity (i.e., total net position) is segregated into net investment in capital assets, restricted net position, and unrestricted net position. Operating statements present increases (revenues) and decreases (expenses) in total net position.

Basis of Accounting

Basis of accounting refers to the timing for recognition of revenues and expenses, regardless of the measurement focus applied. These 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, regardless of the timing of cash payment or receipt related to those transactions.

Implementation of New GASB Standards

There were no new GASB standards implemented by the District in Fiscal 2014. For Fiscal 2013, the District implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*," and Statement No. 65, "*Items Previously Reported as Assets and Liabilities*" concurrent with issuance of these financial statements. Other than the change in terminology – "Net Position" vs. "Net Assets," there were no reclassifications or restatements resulting from this implementation.

Operating and Nonoperating Revenues/Expenses

Operating revenues are defined as income received from tipping fees, solid waste management fees, license fees and sale of materials. Nonoperating revenues are defined as income received from sources other than that defined above, and include investment income, rental income, grants, capital contributions, and income from the sale of equipment. Operating expenses are defined as the ordinary costs and expenses of the District for operations, maintenance and repairs. Operating expenses include the cost of operating the solid waste programs as well as administrative and general expenses and depreciation and amortization. Nonoperating expenses include interest on bonds and other obligations, and amortization of bond issuance costs.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of these statements, cash and cash equivalents include cash on hand, demand and time deposits, and all highly liquid investments with a maturity of three months or less when purchased.

Investments

The District invests in various types of securities in accordance with policies approved by the Board. Investments with readily determinable fair values are reported at their fair values on the balance sheet. Unrealized gains and losses are included in interest revenue.

Receivables

Receivables are shown net of any allowance for estimated uncollectible accounts, as needed. The estimated losses are based on the judgment of management and a review of the current status of existing receivables.

Inventories

Inventory quantities are determined by physical count and are valued at the lower of cost or market, using the FIFO method. Inventories consist of compost products and recyclable materials held for resale.

Prepaid Expenses

Prepaid expenses are primarily associated with insurance premiums and equipment service contracts paid in advance of the covered period.

Restricted Cash and Cash Equivalents

Certain assets are reported as Restricted Cash and Cash Equivalents due to restrictions imposed through covenants with external parties – namely, restrictions under capital lease financing agreements requiring that lease proceeds be held in escrow pending delivery of the leased equipment.

Capital Assets

Capital assets are recorded at cost. The District's capitalization policy specifies that assets will be capitalized when:

1. The total cost to put an item into service amounts to more than \$5,000, and
2. The estimated useful life of the item is greater than one (1) year.

CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The costs associated with projects under construction as of yearend are reported as Construction in Progress; these costs are transferred to applicable depreciable asset categories when the associated project is complete and placed into service.

The District follows the policy of charging periodic depreciation expense, thereby allocating the cost of capital assets over their estimated useful lives. The District employs the straight-line method for determining the periodic amount for depreciation expense.

The depreciable lives of capital assets are as follows:

<u>Asset Category</u>	<u>Depreciable Lives</u>
Land	N/A
Site improvements	5-20 years
Buildings and improvements	15-30 years
Machinery, equipment and vehicles	5-20 years

Unearned Revenue

Unearned revenue reported is comprised of proceeds from grants and permit fee revenues received in advance of eligible expenditures.

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and compensatory time, up to specified limits established in the policy. The District records a liability for the total value of these vested accumulated leave hours, based on current pay rates.

Accrued Post-closure Costs

The District owns one landfill, which closed and stopped accepting waste in 1995. State and federal laws and regulations require the District to perform certain maintenance and monitoring functions at the closed landfill site for thirty (30) years after closure, until the year 2025. In accordance with GASB standards, the District has recorded a liability for the estimated post-closure maintenance costs expected over the remaining years of this requirement.

Capital Contributions

Capital contributions reported in the 2014 Fiscal Year are associated with an amount received as contribution toward the cost of a new piece of equipment at the Materials Recovery Facility, from the District's partnering company in operating that facility.

CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity

Net Position is classified in three separate categories, as follows:

Net Investment in Capital Assets – Represents amounts invested in property, plant and equipment, net of debt remaining outstanding used to finance the acquisition or construction of those assets.

Restricted Net Position – Represents amounts that cannot be appropriated or are legally reserved for a specific purpose by a grant, contract, or other binding agreement.

Unrestricted Net Position – Indicates that portion of net position that is available for expenditure in future periods.

Budgets and Budgetary Accounting

The District follows these procedures in establishing its budget:

The General Manager submits a proposed preliminary operating budget each December for the fiscal year commencing the following July 1 to the Board, for the purpose of determining whether member town assessments will be levied. The operating budget includes proposed expenditures and the means of financing them.

In the period of January through April District staff, together with the Board's Finance Committee, prepares a detailed operating and capital budget for the coming fiscal year. The Board then reviews the operating budget and adopts it with or without change, giving approval to submit the budget to member legislative bodies for their approval.

Legislative bodies for each of the member municipalities then have 45 days in which to act on the budget. The budget is automatically adopted unless a majority of the legislative bodies reject the budget within the 45-day period.

Once the budget has been adopted by the Board for the fiscal year, the General Manager has the authority to modify line items within the approved budget, but may not change the overall total approved budget amount.

The budget of the District is generally prepared and approved on the accrual basis – that is, revenue is budgeted when it is expected to be earned and expenses are budgeted when expected to be incurred – except that changes in inventories, depreciation, and gains/losses on the disposal of assets are not budgeted, and changes in noncurrent assets and liabilities (for example, acquisition of capital assets and payments on long-term obligations) are budgeted as expenditures or revenues.

CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents, and Investments as of June 30, 2014 and 2013 consist of the following:

	2014	2013
Deposits with Financial Institutions	\$ 1,057,099	\$ 1,406,584
Certificates of Deposit	1,797,211	3,343,054
Cash on Hand	2,300	2,200
Money Market Deposits with Investment Institutions	2,795,232	2,018,330
Accrued Interest on CDs	3,463	5,249
Total cash and cash equivalents and investments	\$ 5,655,305	\$ 6,775,417
Reported as:		
Current assets - cash and cash equivalents	\$ 3,854,631	\$ 3,362,112
Current assets - investments	1,800,674	3,348,303
Restricted assets - cash and cash equivalents	-	65,002
Total cash and cash equivalents and investments	\$ 5,655,305	\$ 6,775,417

Investment Policy

The District's investment policy is as follows:

The principal investment objectives are as follows:

1. Provide the required liquidity
2. Obtain a higher rate of return
3. Provide some growth

Types of Permitted Investments

"Permitted Investments" means any of the following securities, if and to the extent the same are at the time legal for investment of District funds:

1. Investments in any of the following obligations provided such obligations are backed by the full faith and credit of the United States:
 - (a) direct obligations or fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States, (b) debentures of the Federal Housing Administration, (c) guaranteed mortgage backed bonds of the Government National Mortgage Association, (d) certificates of beneficial interest of the Farmers Home Administration, (e) obligations of the Federal Financing Bank or (f) project notes and local authority bonds of the Department of Housing and Urban Development.

CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

2. Investments in (a) senior obligations of the Federal Home Loan Bank System, (b) participation certificates or senior debt obligations of the Federal Home Loan Mortgage Corporation, (c) mortgage-backed securities and senior debt obligations (excluding stripped mortgage securities that are valued greater than par on the portion of unpaid principal) of the Federal National Mortgage Association or (d) senior obligations of the Student Loan Marketing Association.
3. SEC-registered money market mutual funds conforming to Rule 2a-7 that invest primarily in direct obligations issued by the United States Treasury and repurchase agreements backed by those obligations rated in the highest category by Standard & Poor's Corporation and Moody's Investors Service.
4. Certificates of deposit of any bank trust company or savings and loan association which certificates are fully insured by the Federal Deposit Insurance Corporation or any other similar United States governmental deposit insurance program.
5. Commercial paper rated, at the time of purchase, P-1 or better by Moody's Investors Service and A-1+ or better by Standard & Poor's Corporation.
6. Equity Securities
 - a. Diversification: The equity portfolio should be well diversified to avoid undue exposure to any single economic sector, industry group, or individual security. No more than 10% of the entire District investment portfolio shall be invested in equities securities.
 - b. Quality and Marketability. The equity portion of the portfolio shall be invested in well diversified Mutual Funds or Managed Accounts with an investment record of at least 5 years.
 - c. Concentration by Issuer:
 - (1) No more than 5% of the equity portfolio, at cost, shall be invested in the securities of any one issuing corporation at the time of purchase.
 - (2) Investments in any corporation may not exceed 5% of the outstanding shares of the corporation.

CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

7. Corporate Fixed Income Securities:
 - a. Purchase of investments in this category shall be limited to those securities that are classified in one of the top four rating categories by Standard & Poor's or Moody's Investor's Services. No purchases shall be made which would cause holdings of any one issue to exceed 5% on a cost basis or 7½ % on a market value basis of the total funds under management.
8. The District may invest any funds that are held and pledged to secure outstanding bonds or similar debt instruments of the District in accordance with the bond resolution or similar approving documents that authorized and established the terms for the issuance of such bonds or debt obligations.

Prohibitions

The District is prohibited from investing in commodities, private placements, letter stock, and real estate or engaging in short sales. The Investment Committee may, from time to time, further direct that the Investment Manager not invest in any securities or investments of specific companies or issuers where the investment presents the potential for a conflict of interest (or apparent conflict of interest), or where the company or issuer engages in business practices or activities that are inconsistent with the goals and purpose of the District.

Review

The portfolio will be reviewed at least three times per year.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, those investments with longer maturities have greater sensitivity of their fair value to changes in market interest rates. The District's policy does not limit its exposure to interest rate risk.

CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity. Mutual funds, where present, are shown at their weighted average maturity, and the corporate bonds, government bonds, and certificates of deposits are shown at their actual maturity.

	<u>As of 6/30/14</u>	<u>As of 6/30/13</u>
CDs maturing in:		
Less than 1 year	\$ 1,426,418	\$ 2,470,156
1 to 2 years	-	872,898
2 to 3 years	163,273	-
More than 3 years	207,520	-
	<u>\$ 1,797,211</u>	<u>\$ 3,343,054</u>

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating organization. There were no rated investments in the District's investment portfolio as of June 30, 2014 or 2013. The certificates of deposit are not rated. Mutual funds are open-ended and are therefore excluded from the credit risk analysis.

Concentration of Credit Risk

The District's investment policy limits the concentration of credit risk for equity securities to 5% of the total portfolio; however, since there were no equity securities in the portfolio at June 30, 2014 or 2013, this provision does not apply.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counter-party (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in possession of another party. The agreement with the District's depository bank requires minimum collateralization of daily balances at 105% of deposited balances.

CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The table below shows the custodial credit risk associated with the District's demand deposits and time deposit (certificates of deposit) accounts:

<u>June 30, 2014</u>	<u>Book</u>	<u>Bank</u>
Insured by federal depository insurance	\$ 1,926,580	\$ 1,924,663
Uninsured - collateralized	927,730	1,261,329
Total	<u>\$ 2,854,310</u>	<u>\$ 3,185,992</u>
<u>June 30, 2013</u>	<u>Book</u>	<u>Bank</u>
Insured by federal depository insurance	\$ 3,406,230	\$ 3,399,916
Uninsured - collateralized	1,343,408	1,328,108
Total	<u>\$ 4,749,638</u>	<u>\$ 4,728,024</u>

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts due from customers, haulers, and other service partners as of the end of the fiscal year. As of June 30, 2014 and 2013, the allowance for uncollectible accounts is set at zero, as all accounts are deemed to be collectible.

NOTE 4 – INVENTORIES

Inventories on hand as of June 30 consist of materials held for sale as follows:

	<u>As of 6/30/2014</u>	<u>As of 6/30/2013</u>
Materials Recovery Facility - recyclables	\$ 33,827	\$ 40,735
Green Mountain Compost - compost material	240,400	41,900
Composting bins and pails for resale	10,538	3,307
Total Inventories	<u>\$ 284,765</u>	<u>\$ 85,942</u>

**CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 5 – CAPITAL ASSETS

The following is a summary of capital assets activity for the years ended June 30, 2014 and 2013:

	Year ended June 30, 2014				Ending Balance
	Beginning Balance	Increases	Decreases	Transfers	
Capital Assets, Not Being Depreciated:					
Land	\$ 5,290,801	\$ -	\$ -	\$ -	\$ 5,290,801
Construction in Progress	23,462	1,787,942	-	(115,140)	1,696,264
Total Capital Assets, Not Being Depreciated	5,314,263	1,787,942	-	(115,140)	6,987,065
Capital Assets, Being Depreciated:					
Site Improvements	2,917,585	32,908	-	102,641	3,053,134
Buildings and Improvements	6,412,636	7,900	-	12,499	6,433,035
Machinery, Equipment and Vehicles	5,014,985	419,924	(213,438)	-	5,221,471
Total Capital Assets, Being Depreciated	14,345,206	460,732	(213,438)	115,140	14,707,640
Less Accumulated Depreciation for:					
Site Improvements	(1,607,468)	(82,961)	-	-	(1,690,429)
Buildings and Improvements	(3,127,422)	(240,990)	-	-	(3,368,412)
Machinery, Equipment and Vehicles	(3,193,546)	(343,638)	210,452	-	(3,326,732)
Total Accumulated Depreciation	(7,928,436)	(667,589)	210,452	-	(8,385,573)
Total Capital Assets, Being Depreciated, Net	6,416,770	(206,857)	(2,986)	115,140	6,322,067
Capital Assets, Net	<u>\$ 11,731,033</u>	<u>\$ 1,581,085</u>	<u>\$ (2,986)</u>	<u>\$ -</u>	<u>\$ 13,309,132</u>

	Year ended June 30, 2013				Ending Balance
	Beginning Balance	Increases	Decreases	Transfers	
Capital Assets, Not Being Depreciated:					
Land	\$ 5,290,801	\$ -	\$ -	\$ -	\$ 5,290,801
Construction in Progress	304,040	39,927	-	(320,505)	23,462
Total Capital Assets, Not Being Depreciated	5,594,841	39,927	-	(320,505)	5,314,263
Capital Assets, Being Depreciated:					
Site Improvements	2,807,500	87,480	-	22,605	2,917,585
Buildings and Improvements	6,047,335	67,401	-	297,900	6,412,636
Machinery, Equipment and Vehicles	4,866,544	340,627	(192,186)	-	5,014,985
Total Capital Assets, Being Depreciated	13,721,379	495,508	(192,186)	320,505	14,345,206
Less Accumulated Depreciation for:					
Site Improvements	(1,524,526)	(82,942)	-	-	(1,607,468)
Buildings and Improvements	(2,872,211)	(255,211)	-	-	(3,127,422)
Machinery, Equipment and Vehicles	(3,014,732)	(371,000)	192,186	-	(3,193,546)
Total Accumulated Depreciation	(7,411,469)	(709,153)	192,186	-	(7,928,436)
Total Capital Assets, Being Depreciated, Net	6,309,910	(213,645)	-	320,505	6,416,770
Capital Assets, Net	<u>\$ 11,904,751</u>	<u>\$ (173,718)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,731,033</u>

CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 6 – LONG-TERM LIABILITIES

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

	Fiscal Year 2014				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Capital Lease Payable	\$ 357,688	\$ 203,769	\$ 145,369	\$ 416,088	\$147,246
Accrued Compensated Absences	182,919	167,347	163,184	187,082	-
Accrued Post-Closure Costs	981,430	20,944	64,836	937,538	98,829
Totals	<u>\$ 1,522,037</u>	<u>\$ 392,060</u>	<u>\$ 373,389</u>	<u>\$ 1,540,708</u>	<u>\$246,075</u>
	Fiscal Year 2013				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Capital Lease Payable	\$ 476,305	\$ -	\$ 118,617	\$ 357,688	\$114,760
Accrued Compensated Absences	169,556	161,232	147,869	182,919	-
Accrued Post-Closure Costs	1,306,836	-	325,406	981,430	107,061
Totals	<u>\$ 1,952,697</u>	<u>\$ 161,232</u>	<u>\$ 591,892</u>	<u>\$ 1,522,037</u>	<u>\$221,821</u>

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CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 6 – LONG TERM LIABILITIES (Continued)

Capital leases payable related to acquisition of certain District equipment assets are detailed as follows:

	<u>6/30/2014</u>	<u>6/30/2013</u>
First Niagara Leasing, interest at 3.39%, annual payments of \$29,543 due each July 15 through 2014.	\$ 28,574	\$ 56,212
SunTrust Leasing, interest at 2.00%, annual payments of \$75,452 due each July 15 through 2015.	146,494	217,594
SunTrust Leasing, interest at 2.30%, annual payments of \$17,952 due each July 15 through 2017.	67,860	83,882
SunTrust Leasing, interest at 2.21%, annual payments of \$30,609 due each July 15 through 2019.	173,160	-
Total Capital Leases Payable	<u>\$ 416,088</u>	<u>\$ 357,688</u>
Current portion	\$ 147,246	\$ 114,760
Noncurrent portion	<u>268,842</u>	<u>242,928</u>
Total Capital Leases Payable	<u>\$ 416,088</u>	<u>\$ 357,688</u>

Amortization on assets acquired through capital leases is included with depreciation expense. The gross amount of capital assets recorded under capital leases is \$857,315, and accumulated depreciation on those assets was \$157,766 and \$93,271, as of June 30, 2014 and 2013, respectively.

Future payments for the capital leases are as follows:

Year Ending June 30,	<u>Payments</u>
2015	\$ 153,556
2016	124,013
2017	48,561
2018	48,561
2019	30,609
2020	30,609
	<u>\$ 435,909</u>
Less: Imputed interest	<u>(19,821)</u>
Net present value of future capital lease payments	<u>\$ 416,088</u>

CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 7 - ACCRUED POST-CLOSURE COSTS

State and federal laws and regulations required the District to place a final cover on the closed Phase I, II and III landfill sites and to perform certain maintenance and monitoring functions at each site for thirty years after closure. Phase I and II were closed subsequent to the District's opening of Phase III on December 22, 1992. Phase III stopped accepting waste on August 19, 1995. As of June 30, 2014, the District estimated that it will cost \$1,090,091 for the remaining post-closure costs of the Phase I, II and III landfills, through the year 2025, which is the end of the required 30-year period. The District has expended \$1,969,868 in closure and post-closure costs for the fiscal years ended June 30, 1996 through June 30, 2014. The \$937,538 and \$981,430 reported as accrued post-closure costs liability at June 30, 2014 and 2013, respectively, represent the present value of the estimate.

These amounts are based on actual costs to date and engineering estimates of what it will cost to perform all post-closure maintenance for the required period. The District's engineer reviews and updates the projected estimates no less frequently than annually. Actual costs may vary due to changes in cost of living, changes in technology, changes in regulations, or variances between actual and estimated costs.

The District expects that future inflation costs will be paid from interest earnings on funds set aside for this purpose. However, if interest earnings are inadequate or additional post-closure requirements are determined (due to changes in technology or applicable laws or regulations, for example) these costs may need to be covered through deposits from future District revenues.

The District provides an annual update to the State of Vermont on both the historical and prospective costs to maintain the closed Phase I, II and III landfills, in compliance with State regulations. The District also maintains a separate cash reserve designated for the purpose of meeting the current and future obligations associated with long term post-closure costs.

The post-closure cost estimates and the balances in the designated Landfill Post-closure Reserve account as of June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Total post-closure costs estimated for the 30-year period ending in 2025 (including projection for inflation)	\$ 3,059,959	\$ 3,045,972
Total of actual post-closure costs paid through June 30	<u>(1,969,868)</u>	<u>(1,905,032)</u>
Remaining balance of post-closure costs expected to be incurred through 2025, including 2.5% inflation factor	<u>\$ 1,090,091</u>	<u>\$ 1,140,940</u>
Present value of estimate, discounted at 2.5%	\$ 937,538	\$ 981,430
Cash balance in designated reserve account at June 30	<u>\$ 916,879</u>	<u>\$ 926,972</u>
Deficit in reserve balance as of June 30	<u>\$ (20,659)</u>	<u>\$ (54,458)</u>

The District is eliminating the deficit in the cash reserve over the three years ending June 30, 2015, through deposits from general District revenues.

CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 8 - NET POSITION

The following schedule provides details of Restricted and Unrestricted Net Position as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Restricted - Escrow for Leased Equipment Acquisition	\$ -	\$ 65,002
Total Restricted Net Position	<u>\$ -</u>	<u>\$ 65,002</u>
Unrestricted:		
Designated - Facilities Improvement Reserve (FIR):		
Materials Recovery Facility (MRF)	\$ 991,151	\$ 2,419,318
Special Waste Facility	288,114	307,071
Drop-Off Centers	901,190	753,661
Environmental Depot	230,526	242,581
Biosolids Program	151,004	226,888
Property Management / Admin Facilities	387,311	294,834
Compost Facility	9,304	-
Total Designated for Capital Items (FIR)	<u>2,958,600</u>	<u>4,244,353</u>
Designated for Other Purposes:		
Facilities Closure Reserve	489,191	484,263
Community Cleanup Fund	56,829	60,764
Drop-Off Center Rate Stabilization Reserve	99,784	-
Managers' Deferred Compensation Reserve	7,682	7,596
Total Designated for Other Purposes	<u>653,486</u>	<u>552,623</u>
Undesignated	<u>1,488,541</u>	<u>956,024</u>
Total Unrestricted Net Position	<u>\$ 5,100,627</u>	<u>\$ 5,753,000</u>

NOTE 9 - CONTINGENT LIABILITIES

The District negotiated a Memorandum of Understanding (MOU) with the State of Vermont regarding a grant for biosolids processing facilities. The MOU obligates the District to refund 40% of revenues derived from the sale of equipment or facilities purchased under the Biosolids grant agreements. Based on this requirement, during fiscal years 1998 through 2014, the District refunded a total of \$153,707 to the State. Under subsection K of the MOU, once a definitive decision is reached to sell the facility or to use the facility for a purpose not related to solid waste management, the District then would be under obligation to pay the State the grant percentage of the fair market value of the facility at that time as determined by the State. The District has no current plans to change the usage of the facility to a purpose other than solid waste management.

CHITTENDEN SOLID WASTE DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014 AND 2013

NOTE 10 - DEFERRED COMPENSATION PLANS

The District maintains a defined contribution retirement plan under Internal Revenue Code Section 457 for employees, through International City Manager's Association's Retirement Corporation. To be eligible to participate, the employee must be at least twenty-one (21) years of age, work at least a regular 30-hour per week schedule (0.75 FTE), and have at least one (1) year of service. The District contributes 6% of each eligible employee's base wages to the plan. In addition, employees are permitted to defer a portion of their wages on a tax-sheltered basis until future years, up to IRS-mandated limits. Deferred compensation is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. The District has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. All of the investments are self-directed by each employee. Total salaries for the years ended June 30, 2014, 2013, and 2012 were \$2,222,963, \$2,130,466, and \$1,996,784, while covered salaries for the retirement plan were \$1,803,281, \$1,652,300, and \$1,560,117, respectively. Contributions of \$108,197, \$99,138, and \$93,607 were paid by the District for the years ended June 30, 2014, 2013, and 2012, respectively.

In addition to the above-described plan, the District has established a Deferred Compensation Plan under Internal Revenue Code Section 409A. Under this Plan, agreements have been entered into with several management-level employees to provide compensation to be received at future vesting dates, provided that the employee remains employed with the District until the specified vesting dates. The total of unpaid vested and unvested future benefits under this Plan is fully funded in a separate designated reserve account of the District.

The vested and unvested balances as of fiscal yearend 2014 and 2013 are shown in the following table:

<u>Managers' Deferred Compensation Plan</u>	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Vested balances not yet paid out (reported as liability on balance sheets)	\$ 4,616	\$ 18,601
Unvested:		
Vesting on 7/1/15	<u>7,500</u>	<u>7,500</u>
Total vested obligation and potential future benefits under existing agreements	<u>\$ 12,116</u>	<u>\$ 26,101</u>

CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 11 - RISK MANAGEMENT

The Chittenden Solid Waste District 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 District maintains insurance coverage through the Vermont League of Cities and Towns Property and Casualty Inter-municipal Fund, Inc. covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this coverage in any of the past three fiscal years. The District must remain a member for a minimum of one year and may withdraw from the Fund after that time by giving sixty days' notice. Fund underwriting and rate setting policies have been established after consultation with actuaries. Fund members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Fund were to be exhausted, members would be responsible for the Fund's liabilities.

The District provides health insurance and other employee insurance benefits to eligible employees by purchasing private coverage through various providers.

NOTE 12 – CONCENTRATION

Accounts receivable from one customer accounted for approximately 51% and 43% of the total accounts receivable balance reported as of June 30, 2014 and 2013, respectively.

NOTE 13 – PERSISTENT HERBICIDE EXPENSES

In June 2012 (end of FY12), the District began receiving reports from local gardeners that pointed to the possible presence of certain persistent herbicide chemicals in the compost products it had sold under its Green Mountain Compost (GMC) brand. Sales of GMC products were voluntarily suspended immediately; the District notified appropriate state agencies and began lab testing product samples to determine the presence of the specific herbicides suspected. Lab results received in July 2012 confirmed the presence of certain persistent herbicide compounds in concentrations that were very low but still sufficient to negatively impact the growth of certain types of garden plants.

In late July 2012, the District Board of Commissioners approved a plan for compensating affected GMC customers. Highlights of this plan included: (a) retrieval of all unsold bagged product from GMC resellers/wholesalers and refunding the associated purchase costs; (b) for GMC retail customers whose gardens were confirmed to display the negative impacts of persistent herbicides, a refund of purchase costs of product used, plus compensation up to certain limits for lost seeds, plants, materials, labor, and produce; (c) an appeals process for affected customers who were dissatisfied with the amount offered within the limits under (b).

CHITTENDEN SOLID WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 13 – PERSISTENT HERBICIDE EXPENSES, Continued

The operating statement for the fiscal year ended June 30, 2012, reported \$392,800 “Expenses for persistent herbicide,” representing management’s best estimate at that time of expected total costs for payments for retrieved unsold product, compensation to affected gardeners, and devaluation of product inventory on hand at June 30, 2012. During FY13, substantially all claims eligible under the compensation plan were paid to gardeners and other affected parties. The additional expenses incurred during FY14 and FY13, reported in the Persistent Herbicide expense line-item include legal fees; chemical and bioassay testing; labor, mileage, supplies for garden visits to verify claims eligibility (during FY13); and marketing, education, and communication related to the herbicide situation.

Throughout FY13, compost product sales remained suspended as GMC removed all of its existing inventory of compost from the production pipeline, and began fresh with a modified production process which includes extensive product testing. The facility constructed a greenhouse on-site, and all product is currently subject to growth testing to assure that GMC product sold in the future will not be affected by these persistent herbicides. Sales resumed late in FY14, on a limited basis.

The District is seeking recovery of the persistent herbicide-related costs from its general liability insurer, the Vermont League of Cities and Towns Property and Casualty Inter-municipal Fund (VLCT/PACIF). VLCT/PACIF has denied coverage under the existing insurance policy, and the District has filed an action in Vermont Superior Court seeking payment from the insurance fund for losses relating to the sale of product affected by persistent herbicide.

OTHER SUPPLEMENTARY INFORMATION

The supplementary information contained in this section is presented for purposes of additional analysis and information, and is not a required part of the basic financial statements under standards established by the Governmental Accounting Standards Board. The schedules are prepared using a non-GAAP budgetary basis.

Schedule 1 – Schedule of Revenues, Expenditures, Transfers, and Changes in Fund Balance, Facilities Improvement Reserve Designated Funds – FY14

Schedule 2 - Schedule of Revenues, Expenditures, Transfers, and Changes in Fund Balance, Facilities Improvement Reserve Designated Funds – FY13

CHITTENDEN SOLID WASTE DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Facilities Improvement Reserve Designated Funds
for the Year Ended June 30, 2014

RESERVES	FACILITIES IMPROVEMENT RESERVES (FIR)							FIR Total
	MRF	Special Waste Facilities	Drop-Off Centers	Environmental Depot	Biosolids Program	Property Mgmt & Admin	Compost Program Facilities	
Revenues:								
Interest Revenue Realized	\$ 7,859	\$ 997	\$ 2,448	\$ 788	\$ 737	\$ 958	\$ -	\$ 13,787
Unrealized Loss On Investments At Yearend	(2,441)	(310)	(760)	(245)	(229)	(297)	-	\$ (4,282)
Sale and Trade-In of Equipment	7,500	35,500	34,905	-	2,401	-	-	80,306
Grants and Capital Contributions	2,250	-	-	-	-	-	2,470	4,720
Sale of Easements - VT Gas Systems	-	-	-	-	-	155,003	-	155,003
Total Revenue	<u>15,168</u>	<u>36,187</u>	<u>36,593</u>	<u>543</u>	<u>2,909</u>	<u>155,664</u>	<u>2,470</u>	<u>249,534</u>
Expenditures:								
Design and Permitting	12,334	-	-	-	-	5,944	-	18,278
Sitework	-	32,908	887	-	-	118,238	8,698	160,731
Buildings	16,060	-	2,085	13,932	-	17,995	-	50,072
Equipment	1,625,379	266,741	29,306	19,655	63,787	-	42,283	2,047,151
Rolling Stock	45,110	-	12,274	-	-	-	-	57,384
Total Expenditures	<u>1,698,883</u>	<u>299,649</u>	<u>44,552</u>	<u>33,587</u>	<u>63,787</u>	<u>142,177</u>	<u>50,981</u>	<u>2,333,616</u>
Net Revenues (Expenditures)	<u>(1,683,715)</u>	<u>(263,462)</u>	<u>(7,959)</u>	<u>(33,044)</u>	<u>(60,878)</u>	<u>13,487</u>	<u>(48,511)</u>	<u>(2,084,082)</u>
Transfers And Other Receipts (Disbursements):								
Budgeted Transfers From (To) Operating Funds	248,480	-	85,000	-	20,300	(41,010)	57,815	370,585
Yearend Surplus / Deficit Transfers From (To) Operating Funds	7,068	40,736	70,488	20,989	(99,038)	120,000	-	160,243
Capital Lease Proceeds	-	203,769	-	-	63,732	-	-	267,501
Total Transfers and Other Receipts (Disbursements)	<u>255,548</u>	<u>244,505</u>	<u>155,488</u>	<u>20,989</u>	<u>(15,006)</u>	<u>78,990</u>	<u>57,815</u>	<u>798,329</u>
Net Change in Fund Balance	(1,428,167)	(18,957)	147,529	(12,055)	(75,884)	92,477	9,304	(1,285,753)
Fund Balance - 7/1/2013	2,419,318	307,071	753,661	242,581	226,888	294,834	-	4,244,353
Fund Balance - 6/30/14	<u>\$ 991,151</u>	<u>\$ 288,114</u>	<u>\$ 901,190</u>	<u>\$ 230,526</u>	<u>\$ 151,004</u>	<u>\$ 387,311</u>	<u>\$ 9,304</u>	<u>\$ 2,958,600</u>

See accompanying independent auditors' report and notes to the financial statements.

CHITTENDEN SOLID WASTE DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Facilities Improvement Reserve Designated Funds
for the Year Ended June 30, 2013

RESERVES	FACILITIES IMPROVEMENT RESERVES (FIR)							FIR Total
	MRF	Special Waste Facilities	Drop-Off Centers	Environmental Depot	Biosolids Program	Property Mgmt & Admin	Compost Program Facilities	
Revenues:								
Interest Revenue Realized	\$ 9,796	\$ 1,183	\$ 3,393	\$ 1,152	\$ 903	\$ 1,379	\$ -	\$ 17,806
Unrealized Gain On Investments At Yearend	1,921	232	665	226	177	270	-	3,491
Sale and Trade-In of Equipment	25,000	-	12,000	-	-	-	-	37,000
Miscellaneous Revenue	-	-	-	-	-	-	1,354	1,354
Total Revenue	36,717	1,415	16,058	1,378	1,080	1,649	1,354	59,651
Expenditures:								
Design and Permitting	21,847	-	-	330	-	4,598	1,460	28,235
Sitework	13,277	4,569	1,119	-	-	52,890	30,700	102,555
Buildings	-	-	2,439	12,319	-	17,618	53,547	85,923
Equipment	4,093	-	75,557	4,500	-	3,634	16,621	104,405
Rolling Stock	158,844	-	100,598	-	-	-	-	259,442
Other	-	-	4,479	1,242	-	-	-	5,721
Total Expenditures	198,061	4,569	184,192	18,391	-	78,740	102,328	586,281
Net Revenues (Expenditures)	(161,344)	(3,154)	(168,134)	(17,013)	1,080	(77,091)	(100,974)	(526,630)
Transfers And Other Receipts (Disbursements):								
Transfers From Undesignated Operating Funds	164,931	4,173	160,616	1,519	(7,665)	15,173	-	338,747
Transfers To Undesignated Operating Funds	(17,544)	-	(180,000)	(40,000)	-	-	-	(237,544)
Transfer for Compost Facility Capital Outlays	(100,974)	-	-	-	-	-	100,974	-
Capital Lease Proceeds	-	-	63,557	-	-	-	-	63,557
Total Transfers and Other Receipts (Disbursements)	46,413	4,173	44,173	(38,481)	(7,665)	15,173	100,974	164,760
Net Change in Fund Balance	(114,931)	1,019	(123,961)	(55,494)	(6,585)	(61,918)	-	(361,870)
Fund Balance - 7/1/2012	2,239,249	306,052	877,622	298,075	233,473	356,752	-	4,311,223
Reverse the effect of pending withdrawal for estimated compost herbicide-related expenses	295,000	-	-	-	-	-	-	295,000
Fund Balance - 6/30/13	\$ 2,419,318	\$ 307,071	\$ 753,661	\$ 242,581	\$ 226,888	\$ 294,834	\$ -	\$ 4,244,353

See accompanying independent auditors' report and notes to the financial statements.

**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***

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Chittenden Solid Waste District
Williston, Vermont:

We have audited, in accordance with the 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 the Chittenden Solid Waste District (the "District") as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the District's financial statements and have issued our report thereon dated December 1, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 over 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 District'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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 1, 2014