

City of Calais, Maine

**REPORT ON FINANCIAL STATEMENTS**  
**(with required and other supplementary information)**

For the Year Ended June 30, 2012

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## Independent Auditor's Report

City Council  
City of Calais, Maine

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Calais, Maine as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Calais, Maine's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Calais, Maine, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2013, on our consideration of the City of Calais, Maine'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 6 through 13 and 44 through 45 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 consists 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 sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Calais, Maine's financial statements as a whole. The other supplementary information presented in Schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Schedules 1 through 8 and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Randall Mitchell & Associates*

Bangor, Maine  
January 31, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)**

June 30, 2012

The Management Discussion and Analysis ("MD&A") is a report of the City of Calais's fiscal activity for the year ending June 30, 2012. The report is presented in a manner that fairly represents the City's present financial position in respect to all funds and accounts. Included is all the information to accurately understand the City's financial position, and the data is correct to the best of our knowledge and belief.

The report includes funds and accounts that the City of Calais is required, either by legal or fiduciary duty, to maintain in the operation of all services. The use of the additional financial statements is encouraged to more fully understand the report.

The financial information of the City includes all City departments. All City departments include municipal departments (Public Works, Police, Fire, Ambulance, Administration, Library, Recreation, Sewer and Water) and the school department. The school department and all other municipal departments combined are what comprise the City. So the financial statements and assets include the municipal and school departments as one total. The combination of these gives the true financial status of the City of Calais.

### **THE COMMUNITY**

The City of Calais is a border community located on the St. Croix River in Washington County, Maine, the sixth busiest port on the U.S.-Canada border. The government of the City of Calais consists of a six-member City Council and Mayor, elected at large, and a Manager system governed by a City Charter. The City was incorporated in 1851.

Calais has physical boundaries with the municipalities of Robbinston and the unorganized plantation of Baring, as well as strong physical and economic connections with St. Stephen, N.B. over the international bridge. After the opening of the new international bridge located at the City's Industrial Park in November 2009, truck traffic in the downtown has decreased significantly.

The City of Calais has a wealth of historic and archaeological resources as a result of its location at the head of the tide of the St. Croix River. The City is investing in the Waterfront Park as part of its downtown revitalization efforts. The Waterfront Walkway is part of the East Coast Greenway stretching from Key West, Florida to Calais, Maine. For continuing efforts for economic development in our downtown in 2012 by the Calais in Motion Committee and the Downtown Revitalization Coalition, the City received the Maine Downtown Network Designation.

Calais has a wide variety of facilities and services provided by the public and private sectors. This is the heritage of a once much larger City as well as a strong spirit of volunteerism and cooperation among citizens. It is also the result of prudent investments that will continue with the priorities the City has set and in the capital improvement plan.

### **FINANCIAL INFORMATION**

The City Administration is responsible for the accounting structure of the community. This structure includes the establishment of financial controls that protect the City from loss and misuse. All accounting information is maintained and reported using generally accepted accounting principles (GAAP). Further, the administration performs constant review of all services to promote and assure optimum utilization of resources to provide the services requested by the community. The internal control structure is designed to provide reasonable, but not absolute, assurances that these objectives are attained. The concept of reasonable assurance recognizes that: (1) the cost of any control should not exceed the benefit likely to be derived; (2) the valuation of cost and benefits requires judgments by management.

## FINANCIAL HIGHLIGHTS

The following is a summary of the financial highlights of the City for the fiscal year:

- The balance of the City's cash assets as of June 30, 2012 was \$900,507.
- The City's debt increased by \$28,482 for a balance of \$10,585,876.
- The City's net assets increased by a total of \$1,073,210.
- The fund balance as reported in the City's financial statements decreased by \$467,226 to a total of \$3,899,750.
- On a budget basis balance the City's expenditures exceeded its revenues by \$505,496. The City had budgeted a deficiency of \$868,883. This is a positive budget variance of \$363,387 and increases the budget-basis fund balance which can be used to fund future expenditures.

## OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is an introduction to the City's basic financial statements. The basic financial statements are prepared and are part of the City's annual audit. The MD&A serves as a subjective explanation by the City of the data contained in the audit. The three areas that the financial statements are broken into include: 1. Government-Wide statements, 2. Fund Financial statements, and 3. Notes to the financial statements. Subjective analyses of the statements are also made and other supplementary information to better explain the statements.

### Government-Wide Financial Statements

The government-wide statements are a total overview of the City's financial status. They include all assets, liabilities, and activities in a manner similar to private sector accounting. The purpose is to show City finance's in a format that is familiar to the common person.

The statement of net assets is used to express the financial data required for the government-wide financials. This shows the total assets which now include land, buildings, inventory, and other capital assets. These are then reduced by the liabilities which now include total bonds and leases due over their entire lives. The result is the net assets of the City.

Government-wide statements distinguish business-type activities from governmental activities. Business-type activities are those that are funded through use fees or user based revenue, no tax dollars being the key separation from governmental activities. It then follows that governmental activities are those that are primarily funded through taxes and governmental fees. The business-type activities in Calais include ambulance, sewer and water department operations.

### Fund Financial Statements

The City segregates accounts into three basic funds. Each fund is determined to separate information in order to accurately report specific account activities. The determination of various funds is based upon accounting standards and legal requirements. The three funds for the City are General Fund (Primary Fund), Special Revenue Fund, and Other Governmental Funds (Permanent Funds and Capital Projects).

#### *General Fund*

The general fund covers essentially the same data as included in the government-wide statements. The difference is that fund financials focus on yearly inflows and outflows to determine a specific year's accessible resources. Capital assets and depreciation are not included because they do not exemplify a specific year's transactions.

A budgetary comparison exhibit is provided to show budgeted amounts as compared to the actual activity. This information is useful to determine future budgets and community planning.

### *Proprietary Funds*

The City maintains only one type of proprietary fund. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its ambulance, sewer, and water department operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

### *Fiduciary Funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statements because the City cannot use these funds to finance its operations. The basic fiduciary fund financial statements can be found on pages 23-24 of this report.

### *Other Governmental Funds*

Other Governmental Funds are comprised of permanent funds and capital reserve funds. These funds were each individually determined to be non-major and are required to be categorized and grouped into other governmental funds. A separate schedule is provided in the other supplemental information.

### Notes to Financial Statements

The notes to the financial statements are included in the audit to give specific comment to certain areas. These are a crucial part of the audit and are closely monitored by City administration. The reason they are monitored is that they provide additional insight into activities of the City. These can show areas of strength and weakness for continued success and improvement. The notes to the financial statements are included on pages 25-43.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning financial performance (budget and actual with budget to GAAP differences and budget and actual with variances). Required supplementary information can be found on pages 44-45.

The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information.

### **GOVERNMENT-WIDE ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$19,680,105 as of June 30, 2012.

A portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, and improvements, vehicles, and furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide service to citizens'; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be use to liquidate these liabilities.

The City's financial position is the product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. The positive fund balance for net assets invested in capital assets, net of related debt is the result of the completion of several projects during the current fiscal year.



## Net Assets for the Period Ending June 30, 2012

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$5,121,558	\$5,956,339	\$ 1,317,502	\$ 2,364,568	\$ 6,439,060	\$ 8,320,907
Capital assets	<u>5,032,519</u>	<u>5,174,814</u>	<u>20,521,847</u>	<u>19,062,927</u>	<u>25,554,366</u>	<u>24,237,741</u>
Total Assets	<u>10,154,077</u>	<u>11,131,153</u>	<u>21,839,349</u>	<u>21,427,495</u>	<u>31,993,426</u>	<u>32,558,648</u>
Current liabilities	1,009,353	1,396,995	1,392,910	2,683,153	2,402,263	4,080,148
Noncurrent liabilities	<u>670,514</u>	<u>825,576</u>	<u>9,240,544</u>	<u>9,046,029</u>	<u>9,911,058</u>	<u>9,871,605</u>
Total Liabilities	<u>1,679,867</u>	<u>2,222,571</u>	<u>10,633,454</u>	<u>11,729,182</u>	<u>12,313,321</u>	<u>13,951,753</u>
Net Assets (Accumulated Deficit)						
Investment in capital assets, net of debt	4,269,460	4,220,206	11,945,939	10,537,969	16,215,399	14,758,175
Restricted	2,026,447	2,633,517	-	-	2,026,447	2,633,517
Unrestricted	<u>2,178,303</u>	<u>2,054,859</u>	<u>(740,044)</u>	<u>(839,656)</u>	<u>1,438,259</u>	<u>1,215,203</u>
Total Net Assets	<u>\$ 8,474,210</u>	<u>\$ 8,908,582</u>	<u>\$11,205,895</u>	<u>\$ 9,698,313</u>	<u>\$19,680,105</u>	<u>\$18,606,895</u>

A portion of the City's net assets, 10.3%, represents resources that are restricted. Unrestricted net assets of \$1,438,259 may be used to meet the government's ongoing obligations to citizens and creditors.

As of June 30, 2012, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for its governmental activities. The City was only able to report positive balances in two of the three categories of its net assets for the business-type activities.

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2012.

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
<b>REVENUES</b>						
Charges for services and other	\$ 447,849	\$ 533,536	\$ 2,376,974	\$ 2,373,512	\$ 2,824,823	\$ 2,907,048
Operating grants and contributions	9,234,885	9,974,863	-	-	9,234,885	9,974,863
Capital grants and contributions	-	-	1,583,171	1,380,116	1,583,171	1,380,116
Property taxes	3,423,208	3,412,804	-	-	3,423,208	3,412,804
Excise and miscellaneous taxes	470,210	451,875	-	-	470,210	451,875
Grants and contributions not restricted to specific purpose	623,663	650,730	-	-	623,663	650,730
Unrestricted investment income	69,685	82,530	-	-	69,685	82,530
Special item – gain (loss) on disposal of assets	(8,229)	(10,241)	-	-	(8,229)	(10,241)
Total Revenues	<u>14,261,271</u>	<u>15,096,097</u>	<u>3,960,145</u>	<u>3,753,628</u>	<u>18,221,416</u>	<u>18,849,725</u>
<b>EXPENSES AND TRANSFERS</b>						
City council	15,797	15,683	-	-	15,797	15,683
Administration, finance and development	476,633	436,168	-	-	476,633	436,168
Library	217,863	209,769	-	-	217,863	209,769
Parks and recreation	161,137	202,489	-	-	161,137	202,489
Police department	675,166	647,138	-	-	675,166	647,138
Fire department	414,038	410,967	-	-	414,038	410,967
Public works	807,096	809,613	-	-	807,096	809,613
Insurance	47,990	42,385	-	-	47,990	42,385
County	246,914	210,741	-	-	246,914	210,741
Education	9,841,804	9,807,912	-	-	9,841,804	9,807,912

On-behalf payments -						
State of Maine	454,300	546,700	-	-	454,300	546,700
Program	837,444	616,724	-	-	837,444	616,724
Miscellaneous	290,104	249,425	-	-	290,104	249,425
Interest on long-term debt	35,636	18,074	-	-	35,636	18,074
Capital outlay	173,721	43,785	-	-	173,721	43,785
Business-type activities	-	-	2,452,563	2,442,674	2,452,563	2,442,674
Total Expenses	<u>14,695,643</u>	<u>14,267,573</u>	<u>2,452,563</u>	<u>2,442,674</u>	<u>17,148,206</u>	<u>16,510,247</u>
Change in net assets	(434,372)	828,524	1,507,582	1,310,954	1,073,210	2,139,478
Net assets, beginning of year	<u>8,908,582</u>	<u>8,080,058</u>	<u>9,698,313</u>	<u>8,387,359</u>	<u>18,606,895</u>	<u>16,467,417</u>
Net assets, end of year	<u>\$ 8,474,210</u>	<u>\$ 8,908,582</u>	<u>\$11,205,895</u>	<u>\$9,698,313</u>	<u>\$19,680,105</u>	<u>\$18,606,895</u>

## Analysis of the City's Operations

### *Governmental Activities*

Governmental activities decreased the net assets by \$434,372 of the total increase in net assets. Net assets invested in capital assets, net of related debt increased by \$1,457,224 or 9.9% due to infrastructure improvements, purchases of equipment and repayment of debt exceeding depreciation expense and loan proceeds. Unrestricted net assets increased by \$223,056.

Total revenues for governmental activities decreased from the prior year by \$834,826. Operating grants and contributions decreased \$739,978, or 7.4% over the prior year. Property tax revenues increased \$10,404, or .3%, from the prior fiscal year.

Expenses of governmental activities include depreciation expense of \$240,009, an increase of \$4,843 from the prior fiscal year. Depreciation expense has been allocated and is included in the various function/program expenses of the City.

### *Business-type Activities*

Net assets from business-type activities increased by \$1,507,582 from \$9,698,313 to \$11,205,895.

Charges for services increased \$3,462 or .2% from the prior year.

Depreciation expense increased \$56,626 from the prior year to \$695,754.

## Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements.

### *Governmental funds*

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. As the City completed the year, its governmental funds reported a combined fund balance of \$3,899,750, \$467,226 lower than the previous year. As analysis of transactions affecting the change in the combined fund balance of the City's governmental funds is as follows:

Revenues include property taxes totaling \$3,439,608. Excise taxes accounted for \$470,210 in total revenue. On behalf payments amounted to \$454,300 during year ended June 30, 2012. Additional information on these "on-behalf" payments can be found in the notes to the basic financial statements.

Total governmental fund expenditures for the year were \$14,783,750 and are broken down as follows:

	2012	2011
City council	\$ 15,797	\$ 15,683
Administration, finance and development	494,723	472,704
Library	201,516	202,034
Parks and recreation	148,997	197,653
Police department	661,919	641,547
Fire department	380,735	374,088
Public works	814,355	826,965
Insurance	47,990	42,385
County	246,914	210,741
Education	9,785,242	9,795,922
On-behalf payments – State of Maine	454,300	546,700
Program	837,444	616,724
Miscellaneous	290,104	249,425
Debt service		
Principal	194,357	158,562
Interest on long-term debt	35,636	18,238
Capital outlay	<u>173,721</u>	<u>85,215</u>
<b>Total Governmental Funds Expenditures</b>	<b><u>\$14,783,750</u></b>	<b><u>\$14,454,586</u></b>

The City paid \$173,721 in capital outlays during the year. In total, \$111,631 was capitalized for equipment and various other improvements.

*Proprietary funds*

Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer and water department operations.

Net assets of the proprietary fund reported a combined balance of \$11,205,895, \$1,507,582 higher than the previous year.

Total proprietary fund expenses for the year were \$2,347,056 and are broken down as follows:

Sewer fund	\$1,115,023
Ambulance fund	762,415
Water fund	<u>575,125</u>
<b>Total Proprietary Funds Expenses</b>	<b><u>\$2,452,563</u></b>

**Capital Asset and Debt Administration**

**Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$25,554,366, net of accumulated depreciation. The investment in capital assets includes, land, building and improvements, equipment and furniture, vehicles, infrastructure and construction in progress.

The following summarizes capital assets at year end:

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$3,089,305	\$3,064,369	\$ 75,896	\$ 75,896	\$ 3,165,201	\$ 3,140,265
Construction in progress	-	-	393,815	1,661,683	393,815	1,661,683
Infrastructure	-	-	17,885,064	14,600,422	17,885,064	14,600,422
Buildings and Improvements	1,662,364	1,658,639	8,204,057	8,204,057	9,866,421	9,862,696
Equipment and furniture	1,757,148	1,740,660	650,375	650,375	2,407,523	2,391,035
Vehicles	1,705,313	1,705,313	487,019	349,119	2,192,332	2,054,432
Total capital assets	8,214,130	8,168,981	27,696,226	25,541,552	35,910,356	33,710,533
Accumulated depreciation	(3,181,611)	(2,994,167)	(7,174,379)	(6,478,625)	(10,355,990)	(9,472,792)
Capital assets, net	<u>\$5,032,519</u>	<u>\$5,174,814</u>	<u>\$20,521,847</u>	<u>\$19,062,927</u>	<u>\$25,554,366</u>	<u>\$24,237,741</u>

The significant change in capital assets is related to the various construction projects for water and sewer funds. Additional information on the City's capital assets can be found in Note 3.

### Debt Administration

The City's debt consists of bonds, notes payable and several capital leases from various lending sources.

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Bonds payable	\$717,925	\$912,282	\$9,822,817	\$9,602,786	\$10,540,742	\$10,515,068
Capital lease Obligations	45,134	42,326	-	-	45,134	42,326
Totals	<u>\$763,059</u>	<u>\$954,608</u>	<u>\$9,822,817</u>	<u>\$9,602,786</u>	<u>\$10,585,876</u>	<u>\$10,557,394</u>

During the fiscal year, the City's total debt increased by \$28,482 or .3%.

A summary of the City's debt activity for the year ended June 30, 2012 is detailed in Note 4 on pages 35-39 of this report.

### REQUIRED SUPPLEMENTARY INFORMATION

#### General Fund Budgetary Highlights

The City recognizes revenues and expenditures on a budget basis that differs from how revenues and expenditures should be recognized under generally accepted accounting principals (GAAP).

Additional information about this difference can be found in the notes to the basic financial statements. The amount of the difference is disclosed on page 44 of the financial statements.

#### BUDGETARY HIGHLIGHTS

The following is a discussion of the budgetary highlights during the fiscal year ended June 30, 2012.

During the year, budgeted revenues exceeded actual revenues by \$5,482. Most of this variance resulted from over-anticipated education revenue.

Budgeted expenditures exceeded actual expenditures by \$345,748. Most of this variance resulted from over anticipated public works and education expenditures.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

In this coming fiscal year, the City's budget continues to be impacted by the slow down in economic growth. Sales prices of houses in the City continue to be steady, although we are seeing an increase in their marketing time. The homestead exemption remains the same this year, \$8900, for a savings on the tax bills.

Council continues to balance its goals with estimated incoming revenue. State Revenue Sharing was decreased again this year, but excise collections saw a bit of an increase. The City is committed to its replacement policy and is able to maintain upgrading its equipment and vehicles by utilization of reserve funds.

The fiscal year 2012-2013 budgeted revenues for sewer remain the same as 2011-2012, with no increase in fees to the sewer users.

## **REQUEST FOR INFORMATION**

The financial report is designed to provide our citizens and customers with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Finance Director, at P.O. Box 413, Calais, Maine 04619 or call (207) 454-2521, Ext. 12.

**City of Calais**  
**Statement of Net Assets**  
**June 30, 2012**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and equivalents	\$ 531,765	\$ 368,742	\$ 900,507
Investments	1,066,512	-	1,066,512
Taxes receivables	343,546	-	343,546
Accounts receivable, net of allowance of \$55,000	29,148	807,022	836,170
Internal balances	1,800,502	(1,840,502)	(40,000)
Loans receivable, net of allowance of \$44,038	400,961	-	400,961
Due from lender	-	1,936,636	1,936,636
Due from other governmental agencies	917,152	-	917,152
Inventories	31,972	45,604	77,576
Capital assets , not being depreciated	3,089,305	469,711	3,559,016
Capital assets, being depreciated, net of accumulated depreciation	1,943,214	20,052,136	21,995,350
Total assets	<u>10,154,077</u>	<u>21,839,349</u>	<u>31,993,426</u>
<b>LIABILITIES</b>			
Accrued wages	497,959	6,296	504,255
Accrued compensated absences	87,811	8,274	96,085
Accounts payable	7,162	58,083	65,245
Taxes paid in advance	154,014	-	154,014
Payroll withholdings payable	16,102	-	16,102
Interest accrued	-	42,984	42,984
Due to other governmental agencies	142,463	-	142,463
Deferred revenue	11,297	-	11,297
Bond anticipation notes	-	695,000	695,000
Long-term liabilities			
Due within one year			
Bonds and notes payable	82,294	582,273	664,567
Capital leases payable	10,251	-	10,251
Due in more than one year			
Bonds and notes payable	635,631	9,240,544	9,876,175
Capital leases payable	34,883	-	34,883
Total liabilities	<u>1,679,867</u>	<u>10,633,454</u>	<u>12,313,321</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	4,269,460	11,945,939	16,215,399
Restricted for			
Permanent fund	84,939	-	84,939
Endowments	486,143	-	486,143
Education	192,227	-	192,227
Education grants	144,534	-	144,534
Non-education grants	1,118,604	-	1,118,604
Unrestricted (deficit)	2,178,303	(740,044)	1,438,259
Total net assets	<u>\$ 8,474,210</u>	<u>\$ 11,205,895</u>	<u>\$ 19,680,105</u>

See accompanying notes to basic financial statements.

City of Calais  
Statement of Activities  
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
City council	\$ 15,797	\$ -	\$ -	\$ -	\$ (15,797)	\$ -	\$ (15,797)
Administration, finance and development	476,633	135,144	2,600	-	(338,889)	-	(338,889)
Library	217,863	14,242	-	-	(203,621)	-	(203,621)
Parks and recreation	161,137	52,895	-	-	(108,242)	-	(108,242)
Police department	675,166	2,314	-	-	(672,852)	-	(672,852)
Fire department	414,038	10	-	-	(414,028)	-	(414,028)
Public works	807,096	60,266	45,036	-	(701,794)	-	(701,794)
Insurance	47,990	-	-	-	(47,990)	-	(47,990)
County	246,914	-	-	-	(246,914)	-	(246,914)
Education	9,841,804	124,234	8,214,180	-	(1,503,390)	-	(1,503,390)
On-behalf payments - State of Maine	454,300	-	454,300	-	-	-	-
Program	837,444	18,344	518,769	-	(300,331)	-	(300,331)
Miscellaneous	290,104	40,400	-	-	(249,704)	-	(249,704)
Interest on long-term debt	35,636	-	-	-	(35,636)	-	(35,636)
Capital outlay	173,721	-	-	-	(173,721)	-	(173,721)
Total governmental activities	<u>14,695,643</u>	<u>447,849</u>	<u>9,234,885</u>	<u>-</u>	<u>(5,012,909)</u>	<u>-</u>	<u>(5,012,909)</u>
Business-type activities							
Sewer fund	1,115,023	1,000,264	-	1,445,271	-	1,330,512	1,330,512
Ambulance fund	762,415	716,312	-	137,900	-	91,797	91,797
Water fund	575,125	660,398	-	-	-	85,273	85,273
Total business-type activities	<u>2,452,563</u>	<u>2,376,974</u>	<u>-</u>	<u>1,583,171</u>	<u>-</u>	<u>1,507,582</u>	<u>1,507,582</u>
	<u>\$ 17,148,206</u>	<u>\$ 2,824,823</u>	<u>\$ 9,234,885</u>	<u>\$ 1,583,171</u>	<u>(5,012,909)</u>	<u>1,507,582</u>	<u>(3,505,327)</u>
General revenues and special item							
Taxes							
Property taxes, levied for general purposes					3,423,208	-	3,423,208
Excise and miscellaneous taxes					470,210	-	470,210
Grants and contributions not restricted to specific programs					623,663	-	623,663
Unrestricted investment earnings					69,685	-	69,685
Special item - loss on disposal of assets					(8,229)	-	(8,229)
Total general revenues and special item					<u>4,578,537</u>	<u>-</u>	<u>4,578,537</u>
Change in net assets					(434,372)	1,507,582	1,073,210
<b>NET ASSETS - BEGINNING</b>					<u>8,908,582</u>	<u>9,698,313</u>	<u>18,606,895</u>
<b>NET ASSETS - ENDING</b>					<u>\$ 8,474,210</u>	<u>\$ 11,205,895</u>	<u>\$ 19,680,105</u>

**City of Calais  
Balance Sheet -  
Governmental Funds  
June 30, 2012**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 208,651	\$ 73,774	\$ 249,340	\$ 531,765
Investments	-	626,363	440,149	1,066,512
Taxes receivable	343,546	-	-	343,546
Accounts receivable	27,029	2,119	-	29,148
Due from other funds	1,811,936	226,534	270,137	2,308,607
Loans receivable, net of allowance of \$44,038	-	400,961	-	400,961
Receivable from other governments	895,886	21,266	-	917,152
Inventories	21,790	10,182	-	31,972
<b>Total assets</b>	<b>\$ 3,308,838</b>	<b>\$ 1,361,199</b>	<b>\$ 959,626</b>	<b>\$ 5,629,663</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accrued wages	\$ 469,542	\$ 28,417	\$ -	\$ 497,959
Accrued compensated absences	87,811	-	-	87,811
Accounts payable	7,162	-	-	7,162
Taxes paid in advance	154,014	-	-	154,014
Payroll withholdings payable	16,102	-	-	16,102
Due to other funds	496,670	-	11,435	508,105
Payable to other governments	84,116	58,347	-	142,463
Deferred revenue	305,000	11,297	-	316,297
<b>Total liabilities</b>	<b>1,620,417</b>	<b>98,061</b>	<b>11,435</b>	<b>1,729,913</b>
<b>Fund balances</b>				
<b>Nonspendable for</b>				
Inventories	21,790	10,182	-	31,972
Lending programs	-	400,961	-	400,961
Endowments	-	-	486,143	486,143
<b>Restricted for</b>				
Education	2,059	-	-	2,059
Education - subsequent year's budget	190,168	-	-	190,168
Education grants	-	134,352	-	134,352
Non-education grants	-	717,643	-	717,643
Permanent fund	-	-	84,939	84,939
<b>Committed for</b>				
Equipment	-	-	99,561	99,561
Vocational Center	-	-	15,329	15,329
Capital projects	-	-	262,219	262,219
Unassigned	1,474,404	-	-	1,474,404
<b>Total fund balances</b>	<b>1,688,421</b>	<b>1,263,138</b>	<b>948,191</b>	<b>3,899,750</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,308,838</b>	<b>\$ 1,361,199</b>	<b>\$ 959,626</b>	<b>\$ 5,629,663</b>



**City of Calais**  
**Reconciliation of the Governmental Funds Balance**  
**Sheet to the Statement of Net Assets**  
**June 30, 2012**

Total fund balance, governmental funds	\$ 3,899,750
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	5,032,519
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	(763,059)
Some liabilities, (such as deferred property taxes), are not available to pay current period expenditures and therefore are deferred in the fund financial statement, but not in the governmental activities in the Statement of Net Assets.	<u>305,000</u>
Net Assets of Governmental Activities in the Statement of Net Assets	<u><u>\$ 8,474,210</u></u>

**City of Calais**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Governmental Funds**  
**For the Year Ended June 30, 2012**

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 3,439,608	\$ -	\$ -	\$ 3,439,608
Excise taxes	470,210	-	-	470,210
Intergovernmental education	6,960,055	1,254,125	-	8,214,180
Intergovernmental other	668,699	518,769	-	1,187,468
Charges for services and other	264,871	18,344	40,400	323,615
Principal contributions	-	-	2,600	2,600
Investment income	2,850	26,713	37,364	66,927
Realized gains on investments	-	691	426	1,117
Unrealized gains on investments	-	149	1,492	1,641
On-behalf payments - State of Maine	454,300	-	-	454,300
Charges for services - education	-	104,369	-	104,369
Other income - education	-	19,865	-	19,865
<b>Total revenues</b>	<b>12,260,593</b>	<b>1,943,025</b>	<b>82,282</b>	<b>14,285,900</b>
<b>EXPENDITURES</b>				
<b>Current</b>				
City council	15,797	-	-	15,797
Administration, finance and development	494,723	-	-	494,723
Library	154,324	-	47,192	201,516
Parks and recreation	148,932	-	65	148,997
Police department	661,133	-	786	661,919
Fire department	380,735	-	-	380,735
Public works - general	500,608	-	-	500,608
Public works - street lights	81,532	-	-	81,532
Public works - solid waste disposal	96,140	-	-	96,140
Public works - cemetery	82,311	-	-	82,311
Public buildings - North Street	53,764	-	-	53,764
Insurance	47,990	-	-	47,990
County	246,914	-	-	246,914
Education	8,675,351	1,109,891	-	9,785,242
On-behalf payments - State of Maine	454,300	-	-	454,300
Program	-	837,444	-	837,444
Miscellaneous	218,881	-	71,223	290,104
<b>Debt service</b>				
Principal	194,357	-	-	194,357
Interest and other charges	35,636	-	-	35,636
Capital outlay	122,758	-	50,963	173,721
<b>Total expenditures</b>	<b>12,666,186</b>	<b>1,947,335</b>	<b>170,229</b>	<b>14,783,750</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(405,593)</b>	<b>(4,310)</b>	<b>(87,947)</b>	<b>(497,850)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	19,619	19,603	142,205	181,427
Transfers out	(147,303)	(22,331)	(11,793)	(181,427)
<b>Total other financing sources (uses)</b>	<b>(127,684)</b>	<b>(2,728)</b>	<b>130,412</b>	<b>-</b>
<b>SPECIAL ITEM</b>				
Proceeds from sale of property	30,624	-	-	30,624
<b>Net change in fund balances</b>	<b>(502,653)</b>	<b>(7,038)</b>	<b>42,465</b>	<b>(467,226)</b>
<b>FUND BALANCE - BEGINNING</b>	<b>2,191,074</b>	<b>1,270,176</b>	<b>905,726</b>	<b>4,366,976</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 1,688,421</b>	<b>\$ 1,263,138</b>	<b>\$ 948,191</b>	<b>\$ 3,899,750</b>

See accompanying notes to basic financial statements.

**City of Calais**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of**  
**Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2012**

Net change in fund balances - total governmental funds: \$ (467,226)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Capital outlay	\$ 136,567	
Depreciation	<u>(240,009)</u>	(103,442)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.

Proceeds from disposition of assets	(30,624)	
Costs related to proceeds	<u>(8,229)</u>	(38,853)

Governmental funds recognize deferred revenue as an item that affects current financial resources. In contrast, the Statement of Activities recognizes all revenue that is receivable. (16,400)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds.

		<u>191,549</u>
Change in net assets of governmental activities		<u>\$ (434,372)</u>

**City of Calais**  
**Statement of Net Assets - Proprietary Funds**  
**June 30, 2012**

	<b>Enterprise Funds</b>			<b>Total</b>
	<b>Sewer Fund</b>	<b>Ambulance Fund</b>	<b>Water Fund*</b>	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 10,618	\$ 70,929	\$ 287,195	\$ 368,742
Accounts receivable, net of ambulance allowance of \$50,000 and water allowance of \$5,000	455,128	194,870	157,024	807,022
Due from lender	1,753,830	-	182,806	1,936,636
Inventories	-	-	45,604	45,604
Total current assets	<u>2,219,576</u>	<u>265,799</u>	<u>672,629</u>	<u>3,158,004</u>
Noncurrent assets				
Property, plant and equipment	18,954,514	487,019	8,254,693	27,696,226
Accumulated depreciation	<u>(5,135,455)</u>	<u>(303,141)</u>	<u>(1,735,783)</u>	<u>(7,174,379)</u>
Total noncurrent assets	<u>13,819,059</u>	<u>183,878</u>	<u>6,518,910</u>	<u>20,521,847</u>
Total assets	<u>16,038,635</u>	<u>449,677</u>	<u>7,191,539</u>	<u>23,679,851</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	27,623	3,344	27,116	58,083
Accrued wages	-	6,296	-	6,296
Accrued compensated absences	-	8,274	-	8,274
Accrued interest payable	39,371	319	3,294	42,984
Due to other funds	1,097,467	427,883	315,152	1,840,502
Bond anticipation notes	-	-	695,000	695,000
Bonds payable	<u>336,334</u>	<u>78,000</u>	<u>167,939</u>	<u>582,273</u>
Total current liabilities	1,500,795	524,116	1,208,501	3,233,412
Noncurrent liabilities				
Bonds payable	<u>5,842,760</u>	<u>78,000</u>	<u>3,319,784</u>	<u>9,240,544</u>
Total liabilities	<u>7,343,555</u>	<u>602,116</u>	<u>4,528,285</u>	<u>12,473,956</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	9,399,068	27,878	2,518,993	11,945,939
Restricted for capital projects	111,163	-	-	111,163
Restricted for vehicle replacement	-	134,730	-	134,730
Unrestricted (deficit)	<u>(815,151)</u>	<u>(315,047)</u>	<u>144,261</u>	<u>(985,937)</u>
Total net assets (deficit)	<u>\$ 8,695,080</u>	<u>\$ (152,439)</u>	<u>\$ 2,663,254</u>	<u>\$ 11,205,895</u>

\* Note - the Water Fund's balances are as of the end of its fiscal year which is December 31, 2011.

**City of Calais**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets -**  
**Proprietary Funds**  
**For the Year Ended June 30, 2012**

	<u>Enterprise Funds</u>			<u>Total</u>
	<u>Sewer Fund</u>	<u>Ambulance Fund</u>	<u>Water Fund*</u>	
<b>REVENUES</b>				
Charges for services	<u>\$ 986,656</u>	<u>\$ 716,312</u>	<u>\$ 659,361</u>	<u>\$ 2,362,329</u>
<b>OPERATING EXPENSES</b>				
Operations	552,191	648,902	411,367	1,612,460
Depreciation	<u>437,635</u>	<u>106,358</u>	<u>151,761</u>	<u>695,754</u>
Total operating expenses	<u>989,826</u>	<u>755,260</u>	<u>563,128</u>	<u>2,308,214</u>
Operating income (loss)	<u>(3,170)</u>	<u>(38,948)</u>	<u>96,233</u>	<u>54,115</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Grant contributions	1,445,271	137,900	-	1,583,171
Interest income	13,608	-	1,037	14,645
Interest expense	<u>(125,197)</u>	<u>(7,155)</u>	<u>(11,997)</u>	<u>(144,349)</u>
Total nonoperating revenue (expenses)	<u>1,333,682</u>	<u>130,745</u>	<u>(10,960)</u>	<u>1,453,467</u>
Change in net assets	1,330,512	91,797	85,273	1,507,582
<b>NET ASSETS - BEGINNING (DEFICIT)</b>	<u>7,364,568</u>	<u>(244,236)</u>	<u>2,577,981</u>	<u>9,698,313</u>
<b>NET ASSETS - ENDING (DEFICIT)</b>	<u>\$ 8,695,080</u>	<u>\$ (152,439)</u>	<u>\$ 2,663,254</u>	<u>\$ 11,205,895</u>

\* Note - the Water Fund's balances are as of the end of its fiscal year which is December 31, 2011.

**City of Calais**  
**Statement of Cash Flows -**  
**Proprietary Fund**  
**For the Year Ended June 30, 2012**

	<b>Enterprise Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Received from user charges	\$ 2,274,571
Payments for administrative services	(1,058,348)
Payments to suppliers for goods and services	<u>(535,474)</u>
Net cash provided by operating activities	<u>680,749</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(2,584,255)
Bonds and bond anticipation note drawdowns	1,170,729
Proceeds from debt	1,772,000
Interest paid on debt	(136,491)
Repayment of debt	(1,333,969)
Grant contributions	<u>450,271</u>
Net cash used by capital and related financing activities	<u>(661,715)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on cash	<u>14,645</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>33,679</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u><b>335,063</b></u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u><b>\$ 368,742</b></u>
<b>Supplemental information</b>	
Interest paid during the fiscal year	<u><b>\$ (136,491)</b></u>
<b>Non-cash flows from capital and related financing activities</b>	
Grant contributions were reduced by \$1,132,900 as the debt forgiveness of \$995,000 was recognized for reporting purposes and did not affect cash flows and the City received equipment valued at \$137,900 which did not affect cash flows.	
<b>Reconciliation of operating income to net cash used by operating activities</b>	
Operating income	\$ 54,115
Depreciation	695,754
Changes in assets and liabilities	
Decrease in inventories	1,351
Increase in accounts receivable	(87,758)
Decrease in operating accounts payable	(4,599)
Decrease in accrued wages	(603)
Increase in accrued compensated absences	2,218
Increase in operating due to other funds	<u>20,271</u>
Net cash provided by operating activities	<u><b>\$ 680,749</b></u>

**City of Calais**  
**Statement of Fiduciary Net Assets -**  
**Fiduciary Funds**  
**June 30, 2012**

	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 210,565
Investments	68,939	-
Total assets	<u>68,939</u>	<u>210,565</u>
<b>LIABILITIES</b>		
Due to other governmental agencies	-	98,059
Due to student groups	-	112,506
Total liabilities	<u>-</u>	<u>210,565</u>
<b>NET ASSETS</b>		
Reserved for scholarships	56,472	-
Unreserved	12,467	-
Total net assets	<u>\$ 68,939</u>	<u>\$ -</u>

**City of Calais**  
**Statement of Changes in Fiduciary Net Assets -**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2012**

	<u>Private Purpose Trust Fund</u>
<b>ADDITIONS</b>	
Investment income	\$ 1,199
Realized gains on investments	50
Unrealized gains on investments	<u>174</u>
Net investment earnings	<u>1,423</u>
<b>DEDUCTIONS</b>	
Scholarships	1,750
Administrative expenses	<u>373</u>
Total deductions	<u>2,123</u>
Change in net assets	(700)
<b>NET ASSETS - BEGINNING</b>	<u>69,639</u>
<b>NET ASSETS - ENDING</b>	<u><u>\$ 68,939</u></u>



**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

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

The City of Calais, Maine (the "City"), was incorporated as a city in 1851 under the laws of the State of Maine. The City operates under a council-manager form of government and provides the following services: general government services, public safety, public works, health and welfare, education, library and recreation.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board, when applicable. As allowed in section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

**A. FINANCIAL REPORTING ENTITY**

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

- the organization is legally separate (can sue and be sued in its own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

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

**B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS**

The government-wide financial statements report information of all activities of the City, except for fiduciary funds. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given program; and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS**

The City segregates transactions related to certain functions or activities in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental, proprietary and fiduciary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

**1. Governmental Funds**

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources.

The City has presented the following major governmental funds:

*General Fund*

The general fund is the primary operating fund of the City and is always classified as a major fund. This fund is used to account for all financial resources not accounted for in other funds.

*Special Revenue Fund*

The special revenue fund is used to account for the proceeds of specific revenue sources that are legally or contractually restricted to expenditures for specified purposes. This fund includes federal and state grants for specific purposes.

**2. Proprietary Funds**

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets.

The City has presented the following major proprietary funds:

*Enterprise Fund*

The Enterprise Fund is used to account for the operations of the sewer department, ambulance department and the water department. Activities of the fund include administration, operations and maintenance of each department and billing and collection activities. The fund also accounts for the accumulation of resources and the payment of long-term debt for each department. All costs are financed through user charges with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

All amounts applicable to the water department in the financial statements are for the year ended December 31, 2011.

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS (CONTINUED)**

**2. Proprietary Funds (Continued)**

*Enterprise Fund (Continued)*

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel, contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**3. Fiduciary Funds (not included in the government-wide statements)**

*Private Purpose Funds*

Private purpose funds are funds held by the City in a trustee capacity and are accounted for in essentially the same manner as a proprietary fund. Capital maintenance of private purpose funds is critical.

*Agency Funds*

Agency funds account for assets held by the City in a purely custodial capacity and includes student activities funds. Since agency funds are custodial in nature, they do not involve the measurement of results of operations.

**D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

Measurement focus refers to what is being measured; basis of accounting refers to when revenue and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary and fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities, whether current or non-current, are included on the statement of net assets and the operating statements present increases, revenues, and decreases, expenses, in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Agency funds are also presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end.

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING (CONTINUED)**

A one-year availability period is used for recognition of all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, intergovernmental revenues and charges for services. All other governmental fund revenues are recognized when received.

**E. BUDGETS AND BUDGETARY ACCOUNTING**

The City utilizes a formal budgetary accounting system to control revenues accounted for in the general fund. These budgets are established in accordance with the various laws which govern the City's operations.

In accordance with Governmental Accounting Standard Board Statement No. 24, *Accounting and Reporting for Certain Grants and Other Financial Assistance*, payments made by the State of Maine to the Maine Public Employees Retirement System for teachers and certain other school employees are reported as offsetting revenues and expenditures of the general fund in accordance with generally accepted accounting principles.

Generally, appropriations for the general fund lapse at year end, except for balances approved to be carried forward by City Council. In accordance with legal requirements of the State of Maine all education balances are continued.

Formal budgets are not adopted for the other funds. Grant procedures for many of the revenues included in the special revenue funds require submission of a budget. However, such budgets are not subject to formal adoption procedures and are normally prepared based upon the grant period which does not necessarily correspond with the City's fiscal year.

**F. FINANCIAL STATEMENT AMOUNTS**

**1. Deposits and Investments**

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments, except for money market mutual funds, with a maturity of three months or less to be cash equivalents. Additional information is presented in Note 2.

Investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Additional information is presented in Note 2.

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)**

**2. Inventories**

Inventories of gasoline in the general fund are valued at the lower of cost or market value using the first-in, first-out method.

Inventories of food and supplies in the school lunch program are valued at the lower of cost or market value using the first-in, first-out method.

Inventories of the water fund in the enterprise fund are valued at the lower of cost or market value using the first-in, first-out method. Adjustments are made to inventory for obsolete and slow moving inventory so as to state inventory at its net realizable value.

**3. Interfund Receivables and Payables**

Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances".

**4. Transactions Between Funds**

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of the governmental funds on the fund financial statements. For purposes of the government-wide statement of activities, all interfund transfers between individual funds within governmental activities have been eliminated.

**5. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized, not including infrastructure assets, have an original cost of \$3,000 or more and over one year of useful life. Infrastructure assets capitalized have an original cost of \$25,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	20-50 years
Infrastructure	50-100 years
Machinery and equipment	3-50 years
Vehicles	3-25 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)**

**6. Long-term Debt**

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in government-wide statements. The long-term debt consists primarily of notes or bonds payable and capital leases.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

**7. Compensated Absences**

The City's policies regarding vacation and sick time permit employees to accumulate earned but unused vacation and sick leave. The liability for these governmental compensated absences is recorded in both the government-wide and fund financials. The proprietary funds report the liability as it is incurred in both the government-wide and fund financials.

**8. Government-wide Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net assets are reported as unrestricted. For expenditures that qualify for either classification, amounts will be considered first spent from restricted net assets then from unrestricted net assets.

**9. Governmental Fund Balances**

The Governmental Accounting Standards Board (GASB) has issued Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance to be properly reported within one of the five fund balance categories listed below:

*Nonspendable*, such as fund balances associated with inventories or prepaid expenses. The nonspendable fund balance may also include amounts that are required to be maintained intact, such as the corpus of an endowment fund.

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)**

**9. Governmental Fund Balances (Continued)**

*Restricted* fund balance category includes amounts that can be used only for the specific purposes stipulated by constitution, grantors or through enabling legislation.

*Committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Unit's highest level of decision making authority, which is voter approval.

*Assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. The City Council is authorized to assign funds for a particular purpose, under authority granted by City Charter.

*Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The City has not formally adopted a fund balance policy, but has implemented GASB 54 based on the definitions above. For expenditures that qualify for multiple categories, amounts will be considered first spent from restricted fund balance, followed by committed fund balance, then assigned fund balance, and finally unassigned fund balance, except in the case of capital reserves, which are considered to be spent only after general fund appropriations are fully utilized or upon approval of the City Council.

**10. Recent Accounting Pronouncements**

In December, 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into the GASB literature the FASB and AICPA guidance issued before November 30, 1989 that does not conflict with or contradict GASB pronouncement and eliminates the option for business-type activities and enterprise funds to follow FASB pronouncements issued after November 30, 1989. This statement is effective for financial statements for periods beginning after December 15, 2011. The City does not believe the adoption of this statement will have a material effect on the City's financial position or results of operations.

In June 2011, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The intent of this statement is to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. The Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. The new Statement is effective for financial statement periods beginning after December 15, 2011. The Unit is currently assessing the impact of this Statement on its financial statements.

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)**

**11. Revenue Recognition - Property Taxes**

Property taxes were levied on assessed values of April 1, 2011, and were due on October 3, 2011. Interest was charged at a rate of 7 percent per annum on amounts not paid by the due date. Upon the expiration of eight months, and within one year from the date of the original commitment, a tax lien is recorded for all delinquent taxes on real estate. Liens were filed June 27, 2012.

Property taxes assessed and collected during the year ended June 30, 2012, and during the first sixty days of the following fiscal year are recognized as revenue in 2011. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue.

Assessed value	
Real estate	\$136,635,780
Personal property	<u>10,356,800</u>
	\$146,992,580
Tax rate (per \$1,000)	<u>23.30</u>
Commitment	\$ 3,424,927
Supplemental taxes assessed	<u>1,414</u>
	\$ 3,426,341
Less collections and abatements	<u>(3,218,496)</u>
Receivable at June 30, 2012	<u>\$ 207,845</u>
Collection rate	93.9%

**NOTE 2. DEPOSITS AND INVESTMENTS**

**Deposits**

*Custodial Credit Risk:* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2012, the City reported deposits of \$1,111,072 with bank balances of \$1,631,200. Of the City's total bank balance of \$1,631,200, \$0 was exposed to custodial credit risk as the \$1,631,200 bank balance was insured or collateralized by underlying securities held by the related bank, although the collateral of \$1,039,858 was not in the City's name.

Deposits have been reported as follows:

Reported in governmental funds	\$ 531,765
Reported in proprietary funds	<u>368,742</u>
Total reported on the Statement of Net Assets	900,507
Reported in agency funds	<u>210,565</u>
Total deposits	<u>\$1,111,072</u>



**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments**

Statutes authorize the City to invest in certificates of deposit, repurchase agreements, and other available bank investments. In addition, the City can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law. The trust and agency fund is also authorized to invest in various instruments in accordance with laws of the State of Maine.

*Custodial Credit Risk:* Custodial credit risk is the risk that in the event of failure of the counterparty, the City will not be able to recover the value of its investments. The City does not have an investment policy for custodial credit risk. The City's investments at June 30, 2012 of \$1,135,451, invested in U.S. Agency notes and certificates of deposit are exposed to custodial credit risk as the investments are not in the City's name.

*Concentration of Credit Risk:* The City does not have investments that meet the criteria to be classified as a concentration of credit risk investment. The City does not have a policy related to concentration of credit risk.

*Interest Rate Risk:* The City does not have a policy related to investment rate risk. The City is required to disclose the interest rate risk of its debt investments as follows:

	<b>Due in less than one year</b>	<b>Due in 1-5 years</b>	<b>Due in 6-10 years</b>	<b>Due in more than ten years</b>
U.S. Agency notes	\$ -	\$383,873	\$100,442	\$ -
Certificates of deposit	<u>75,787</u>	<u>473,749</u>	<u>101,600</u>	<u>-</u>
Total debt investments	<u>\$75,787</u>	<u>\$857,622</u>	<u>\$202,042</u>	<u>\$ -</u>

Investments of \$1,135,451 have been reported as follows:

Reported in governmental funds	\$1,066,512
<i>Investments not included in government-wide statements</i>	
Reported in fiduciary funds	<u>68,939</u>
Total investments	<u>\$1,135,451</u>

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 3. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012 is as follows:

	Balance 6/30/11	Additions/ Completion	Retire- ments	Balance 6/30/12
<b>Governmental Activities</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 3,064,369	\$ 24,936	\$ -	\$ 3,089,305
Total capital assets not being depreciated	<u>3,064,369</u>	<u>24,936</u>	<u>-</u>	<u>3,089,305</u>
<i>Capital assets being depreciated</i>				
Buildings and improvements	1,658,639	3,725	-	1,662,364
Equipment and furniture	1,740,660	107,906	(91,418)	1,757,148
Vehicles	1,705,313	-	-	1,705,313
Total capital assets being depreciated	<u>5,104,612</u>	<u>111,631</u>	<u>(91,418)</u>	<u>5,124,825</u>
<i>Less accumulated depreciation for</i>				
Buildings and improvements	(812,199)	(39,266)	-	(851,465)
Equipment and furniture	(1,105,994)	(115,325)	52,565	(1,168,754)
Vehicles	(1,075,974)	(85,418)	-	(1,161,392)
Total accumulated depreciation	<u>(2,994,167)</u>	<u>(240,009)</u>	<u>52,565</u>	<u>(3,181,611)</u>
Total capital assets, being depreciated net	<u>2,110,445</u>	<u>(128,378)</u>	<u>(38,853)</u>	<u>1,943,214</u>
Governmental activities capital assets, net	<u>\$ 5,174,814</u>	<u>\$ (103,442)</u>	<u>\$ (38,853)</u>	<u>\$ 5,032,519</u>
<b>Business-type activities</b>				
<i>Capital assets not being depreciated</i>				
Land and organizational costs	\$ 75,896	\$ -	\$ -	\$ 75,896
Construction in progress	1,661,683	1,458,664	(2,726,532)	393,815
Total capital assets not being depreciated	<u>1,737,579</u>	<u>1,458,664</u>	<u>(2,726,532)</u>	<u>469,711</u>
<i>Capital assets being depreciated</i>				
Infrastructure	14,600,422	3,284,642	-	17,885,064
Buildings and improvements	8,204,057	-	-	8,204,057
Equipment, furniture and vehicles	999,494	137,900	-	1,137,394
Total capital assets, being depreciated	<u>23,803,973</u>	<u>3,422,542</u>	<u>-</u>	<u>27,226,515</u>
<i>Less accumulated depreciation for</i>				
Infrastructure	(2,400,412)	(328,908)	-	(2,729,320)
Buildings and improvements	(3,326,028)	(249,174)	-	(3,575,202)
Equipment, furniture and vehicles	(752,185)	(117,672)	-	(869,857)
Total accumulated depreciation	<u>(6,478,625)</u>	<u>(695,754)</u>	<u>-</u>	<u>(7,174,379)</u>
Total capital assets, being depreciated net	<u>17,325,348</u>	<u>2,726,788</u>	<u>-</u>	<u>20,052,136</u>
Business-type activities capital assets, net	<u>\$19,062,927</u>	<u>\$4,185,452</u>	<u>\$(2,726,532)</u>	<u>\$20,521,847</u>

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 3. CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged as a direct expense to programs as follows:

<i>Governmental activities</i>	
Administration	\$ 9,758
Library	16,347
Parks and recreation	12,140
Police department	32,037
Fire department	37,028
Public works – general	62,481
Public works – solid waste	800
Public works – cemetery	2,656
Public buildings – North Street	13,008
Education	<u>53,754</u>
Total depreciation expense – Governmental activities	<u>\$240,009</u>
 <i>Business-type activities</i>	
Sewer fund	\$437,635
Ambulance fund	106,358
Water fund	<u>151,761</u>
Total depreciation expense – Business-type activities	<u>\$695,754</u>

**NOTE 4. LONG-TERM DEBT**

Long-term liability activity for the year ended June 30, 2012, is summarized as follows:

	Balance 6/30/11	Increase	Decrease	Balance 6/30/12	Due Within One Year
<i>Governmental activities</i>					
Notes payable	\$ 912,282	\$ -	\$(194,357)	\$ 717,925	\$ 82,294
Capital leases	<u>42,326</u>	<u>55,954</u>	<u>(53,146)</u>	<u>45,134</u>	<u>10,251</u>
Governmental activities long- term debt	<u>\$ 954,608</u>	<u>\$ 55,954</u>	<u>\$(247,503)</u>	<u>\$ 763,059</u>	<u>\$ 92,545</u>
 <i>Business-type activities</i>					
Bonds payable	\$ 9,335,767	\$1,772,000	\$(1,470,782)	\$ 9,636,985	\$500,976
Notes payable	<u>267,019</u>	<u>-</u>	<u>(81,187)</u>	<u>185,832</u>	<u>81,297</u>
Business-type activities long- term debt	<u>\$ 9,602,786</u>	<u>\$1,772,000</u>	<u>\$(1,551,969)</u>	<u>\$ 9,822,817</u>	<u>\$582,273</u>
Total	<u>\$10,557,394</u>	<u>\$1,827,954</u>	<u>\$(1,799,472)</u>	<u>\$10,585,876</u>	<u>\$674,818</u>

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 4. LONG-TERM DEBT (CONTINUED)**

**Obligations under capital leases**

The City is the lessee of capital leases expiring in 2017. The liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair market value of the asset acquired.

Minimum future lease payments under capital leases as of June 30, 2012 are:

2013	\$12,194
2014	12,194
2015	12,194
2016	12,194
2017	<u>1,386</u>
	50,162
Less amount representing interest	<u>5,028</u>
Present value of minimum lease payments	<u>\$45,134</u>

**General obligation and proprietary fund bonds and notes payable**

The following is a summary of general obligation and proprietary fund bonds and note payable transactions of the City for the year ended June 30, 2012:

	Original Amount	Principal Balance 6/30/11	Borrowed (Forgiven/ (Paid)	Principal Balance 6/30/12
<i>Governmental Debt</i>				
<b>General Obligation Notes Payable</b>				
<i>The First, N.A.</i>				
2008 Municipal Note with annual principal and interest payments. Interest at 3.000%.	\$ 89,158	\$ 36,770	\$ (36,770)	\$ -
2001 Municipal Note, due 2017, with annual principal and interest payments. Interest at 4.930%.	159,500	76,667	(11,424)	65,243
2010 Municipal Note, due 2020, with monthly principal and interest payments. Interest at 4.300%.	806,900	719,766	(67,084)	652,682
<i>Machias Savings Bank</i>				
2008 Municipal Note, with monthly principal and interest payments. Interest at 3.890%.	116,734	<u>79,079</u>	<u>(79,079)</u>	<u>-</u>
Total general obligation bonds payable		<u>912,282</u>	<u>(194,357)</u>	<u>717,925</u>

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 4. LONG-TERM DEBT (CONTINUED)**

**General obligation and proprietary fund bonds and notes payable (continued)**

	Original Amount	Principal Balance 6/30/11	Borrowed (Forgiven/ (Paid)	Principal Balance 6/30/12
<i>Business-type Debt</i>				
<b>Proprietary Fund Bonds and Notes Payable</b>				
<i>Camden National</i>				
2009 Ambulance – Note Payable due 2014, with annual principal and interest payments. Interest at 3.11%.	\$ 390,000	\$ 234,000	\$ (78,000)	\$ 156,000
2010 Water – Municipal Bond due 2021, with annual principal and interest payments. Interest at 3.13%. <i>Balance as of 12/31/11.</i>	171,754	171,754	(17,200)	154,554
<i>The First, N.A.</i>				
2004 Water – Note Payable due 2019, with annual principal and interest payments. Interest at 3.49%. <i>Balance as of 12/31/11.</i>	50,000	33,019	(3,187)	29,832
<i>Maine Municipal Bond Bank</i>				
2002 Sewer - Municipal Bond, due 2022, with annual principal and semi-annual interest payments. Interest at 2.355%.	2,350,000	1,404,392	(113,338)	1,291,054
2009 Sewer - Municipal Bond, due 2030, with annual principal and semi-annual interest payments. Interest at 1.000%.	978,822	934,369	(44,898)	889,471
2010 Sewer - Municipal Bond, due 2030, with annual principal and semi-annual interest payments. Interest at 1.000%.	943,371	900,528	(43,272)	857,256
2008 Water - Municipal Bond, due 2031, with annual principal payments. Interest at 0.000%. <i>Balance as of 12/31/11.</i>	1,963,998	1,718,489	(81,832)	1,636,657
2009 Water - Municipal Bond, due 2036, with annual principal payments. Interest at 0.000%. <i>Balance as of 12/31/11.</i>	1,450,000	849,179	(32,661)	816,518
2009 Water - Municipal Bond, due 2039, with annual principal payments. Interest at 0.000%. <i>Balance as of 12/31/11.</i>	44,500	42,276	(1,484)	40,792
2009 Water - Municipal Bond, due 2039, with annual principal payments. Interest at 0.000%. <i>Balance as of 12/31/11.</i>	261,000	136,373	(4,786)	131,587
2009 Water - Municipal Bond, due 2039, with annual principal payments. Interest at 0.000%. <i>Balance as of 12/31/11.</i>	835,000	565,017	(19,484)	545,533
2010 Sewer - Municipal Bond, due 2031, with annual principal and semi-annual interest payments. Interest at 1.000%.	2,263,000	1,243,000	(56,451)	1,186,549

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 4. LONG-TERM DEBT (CONTINUED)**

**General obligation and proprietary fund bonds and notes payable (continued)**

	Original Amount	Principal Balance 6/30/11	Borrowed (Forgiven/ (Paid)	Principal Balance 6/30/12
<i>Business-type Debt (Continued)</i>				
<b>Proprietary Fund Bonds and Notes Payable (Continued)</b>				
<i>Maine Municipal Bond Bank (Continued)</i>				
2011 Sewer - Municipal Bond, due 2031, with annual principal and semi-annual interest payments. Interest at 1.500%.	\$1,231,000	\$ 1,231,000	\$ (53,236)	\$ 1,177,764
<i>Rural Development</i>				
2012 Sewer - Municipal Bond, due 2040, with annual principal and semi-annual interest payments. Interest at 2.25%.	777,000	-	777,000	777,000
<i>Bar Harbor Bank and Trust</i>				
2005 General obligation water bond, due 2025, with annual principal and interest Payments. Interest at 3.99%. Balance as of 12/31/11.	170,000	139,390	(7,140)	132,250
Total proprietary fund bonds payable		<u>9,602,786</u>	<u>220,031</u>	<u>9,822,817</u>
Total general obligation and proprietary fund bonds and notes payable		<u>\$10,515,068</u>	<u>\$ 25,674</u>	<u>\$10,540,742</u>

Future maturities of general obligation and proprietary fund bonds and notes payable are as follows:

Year ended June 30	General Obligations		Proprietary Obligations		Total
	Principal	Interest	Principal	Interest	
2013	\$ 82,294	\$ 30,980	\$ 582,273	\$ 114,172	\$ 809,719
2014	85,863	27,411	588,149	105,369	806,792
2015	89,579	23,695	516,135	96,427	725,836
2016	93,456	19,819	522,236	89,777	725,288
2017	97,482	15,776	528,450	82,987	724,695
2018-2022	269,251	23,299	2,713,881	308,140	3,314,571
2023-2027	-	-	2,025,035	147,515	2,172,550
2028-2032	-	-	1,707,324	62,185	1,769,509
2033-2037	-	-	457,136	23,466	480,602
2038-2040	-	-	182,198	4,896	187,094
	<u>\$717,925</u>	<u>\$140,980</u>	<u>\$9,822,817</u>	<u>\$1,034,934</u>	<u>\$11,716,656</u>

In accordance with Maine law, no municipality shall incur debt for specific purposes in excess of certain percentages of State valuation of such municipality. At June 30, 2012, the City was in compliance with these limitations.

During the year ended June 30, 2012, the City was approved for a \$995,000 loan under the State Revolving Loan Fund Program, under which the entire loan was forgiven in accordance with certain provisions of the program.

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 4. LONG-TERM DEBT (CONTINUED)**

**Overlapping Debt**

The City is contingently responsible for a proportionate share of the overlapping debt of the City of Calais School District Trustees. At June 30, 2012, the Trustees had debt outstanding of \$5,162,020 of which the City's share was 100% for a total of \$5,162,020.

**NOTE 5. OPERATING LEASES**

**Obligations under operating leases**

The City is currently committed to operating lease payments of \$211,362 over the next five years for copiers, equipment and portable classroom leases. Future lease payment requirements are as follows:

2013	\$ 61,418
2014	59,707
2015	59,707
2016	30,433
2017	<u>97</u>
	<u>\$211,362</u>

Operating lease payments were \$72,688 for fiscal year 2012.

**NOTE 6. BOND ANTICIPATION NOTES**

The City entered into temporary financing agreements as follows for the year ended June 30, 2012:

	Purpose of Financing	Balance 7/1/11	Draws	Paid	Balance 6/30/12
The First, N.A. Maine Municipal Bond Bank	Cash flow-proprietary	\$ 708,672	\$68,328	\$(777,000)	\$ -
	Project-proprietary	<u>695,000</u>	<u>-</u>	<u>-</u>	<u>695,000</u>
		<u>\$1,403,672</u>	<u>\$68,328</u>	<u>\$(777,000)</u>	<u>\$695,000</u>

**NOTE 7. INTERFUND TRANSACTIONS**

During the course of normal operations the City has numerous transactions between funds including expenditures and transfers.

Individual fund interfund receivable and payables balances at June 30, 2012 arising from these transactions were as follows:

	Receivable	Payable	Transfers In	Transfers Out
General fund	\$1,811,936	\$ 496,670	\$ 19,619	\$147,303
Special revenue fund	226,534	-	19,603	22,331
Nonmajor governmental funds	270,137	11,435	142,205	11,793
Enterprise fund	<u>-</u>	<u>1,840,502</u>	<u>-</u>	<u>-</u>
	<u>\$2,308,607</u>	<u>\$2,348,607</u>	<u>\$181,427</u>	<u>\$181,427</u>

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 7. INTERFUND TRANSACTIONS (CONTINUED)**

The difference of \$40,000 between the interfund receivables and payables results from the water department being on a different fiscal year. As stated in Note 1, the water department information is presented as of December 31, 2011 and not June 30, 2012.

Transfers are used to (1) move revenues that are collected in accordance with the budget to the appropriate fund to expend and (2) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorization.

**NOTE 8. RESTRICTED NET ASSETS - ENDOWMENTS**

At June 30, 2012, restricted net assets for endowments were of the following:

	<u>Nonspendable - Principal</u>	<u>Accumulated Income</u>
Cemetery	\$310,903	\$28,914
Library	86,158	59,511
Poor	79,152	(6,445)
Pool	<u>9,930</u>	<u>2,959</u>
	<u>\$486,143</u>	<u>\$84,939</u>

**NOTE 9. RESTRICTED NET ASSETS - EDUCATION**

At June 30, 2012, the school's restricted net assets were comprised of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>
General education	\$ 629,236	\$ -
Accrued summer teacher pay - general	(437,009)	-
State grants	-	17,366
School lunch program	-	68,006
Local contributions	-	<u>59,162</u>
	<u>\$192,227</u>	<u>\$144,534</u>

**NOTE 10. RESTRICTED NET ASSETS -- NON-EDUCATION**

At June 30, 2012, the non-education restricted net assets of \$1,118,604 were comprised of the following:

	<u>Restricted - Lending programs</u>	<u>Restricted</u>
Banks walkway grant	\$ -	\$ 306
Dawson program income	-	13,798
Downtown community enterprise	-	(332)
Rental rehabilitation	-	272
UDAG and Uptown programs	<u>400,961</u>	<u>703,599</u>
	<u>\$400,961</u>	<u>\$717,643</u>



**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 11. COMMITTED - CAPITAL PROJECTS**

At June 30, 2012, the committed fund balance for capital projects is comprised of the following:

Animal control fees	\$ 1,773
Arts council donations	199
Concert donations	2,339
Firefighter training and other projects	2,873
Land disposition	990
Legal-Union negotiations	5,454
Library donations and projects	32,873
Maine Downtown Network	2,228
Meridian park	675
Police - DARE and other projects	9,925
Recreation	4,338
Skateboard park	55
Transfer station environmental monitor	5,000
Tree planting	500
Veteran's Memorial	2,182
WCPA purchase	<u>190,815</u>
	<u>\$262,219</u>

**NOTE 12. COMMITMENTS**

The City, through its school department, is committed to \$839,195 for the balance of its three year clinical assessment and treatment services contract, which ends in 2013. The City is committed to \$2,175,990 for engineering costs associated with various water and sewer projects for the City.

**NOTE 13. PENSION PLANS**

**Defined Benefit Pension Plans**

*Teachers and Other Qualified Educators*

All School teachers, plus other qualified educators, participate in the Maine Public Employees Retirement System's teacher group. The teacher's group is a multiple-employer defined benefit plan with a special funding situation established by the Maine State Legislature. The Maine Public Employees Retirement System (MainePERS) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the state legislature. The MainePERS issues a publicly available financial report that includes financial statements and required supplementary information for the teacher's group. That report may be obtained by calling 1-800-451-9800

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 13. PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plans (Continued)**

*Teachers and Other Qualified Educators (Continued)*

Plan members are required to contribute 7.65% of their compensation to the retirement system. The School Department's payroll for employees covered by this group, for the fiscal year ended June 30, 2012, was \$3,172,716. The State of Maine Department of Education is required, by state statute, to contribute the employer contribution which amounts to \$454,300 (14.32%) of compensation for the year ended June 30, 2012. There is no contribution required by the School Department except for federally funded teachers for which the School Department contributes 14.32% of their compensation. This cost amounted to \$44,671 for the year ended June 30, 2012, and is chargeable to the applicable grant.

*All Other Employees – Plan Description*

The City has contributed to the MainePERS Participating Local District Consolidated Retirement Plan, a cost-sharing multiple-employer defined benefit plan. The City's payroll for the year ended June 30, 2012 for employees covered by this plan was \$1,665,346.

All other full-time City employees are eligible to participate in the MainePERS. Benefits vest after five years of service. Beyond the five year period, the employee would receive a certain benefit upon attaining the age of sixty, this benefit would be computed at that time. Employees who retire at or after age 60 with 1 year credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2% of the average of their highest three year earnings. The MainePERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute. A copy of the most recent financial report for the plan may be obtained from the MainePERS by calling 1-800-451-9800.

*All Other Employees – Funding Status and Progress*

Participating City employees are required to contribute 6.5% of their annual salary to the Plan by State Statute. The City is required to pay contributions as determined on an annual basis by the Plan's actuaries.

	Year ended 6/30/12		Year ended 6/30/11		Year ended 6/30/10	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Employer	\$ 32,209	1.93%	\$ 9,762	0.63%	\$ -	0.00%
Employee	108,329	6.50	100,510	6.50	80,752	6.50

**Deferred Compensation Plan**

The City also provides two 457 Deferred Compensation Plans. One plan is administered by International City Manager Association (ICMA) Retirement Corporation. The second plan is administered by VALIC. Copies of the most recent financial reports may be obtained from the plan administrators.

The City matches up to 6.2% of eligible employees' salary to the plan that is administered by ICMA. The City contributed \$0 and the employees elected to defer \$0 for the year ended June 30, 2012. The City does not contribute to the plan that is administered by VALIC. Employees elected to defer \$1,060 under this plan.

**City of Calais, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**NOTE 14. PARTICIPATION IN PUBLIC ENTITY RISK POOL**

The City is also a member of the Maine Municipal Association - Unemployment Compensation Fund ("Fund"). The fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain lower costs for unemployment compensation coverage and develop a comprehensive loss control program. The City contributes to the fund based on the first \$12,000 of wages for unemployment compensation. Each member has its reserve, which is determined by the actuary. The annual rate set by the Fund's actuary is based on the member's reserve and on estimated future claims. Each member is responsible for its own excess of claims over reserve. As noted below, the School Department carries its own unemployment policy with Maine School Management Association.

The School Department is a member of the Maine School Management Association - Unemployment Compensation Trust Fund ("MSMA"). MSMA was created to formulate, develop and administer a program of modified self-funding for MSMA's membership, obtain lower costs for unemployment compensation coverage and develop a comprehensive loss control program. The School Department contributes to MSMA based on the first \$12,000 of wages for unemployment compensation. Each member has its reserve, which is determined by the actuary. If the reserve is higher than is determined by the actuary, excess contributions are returned to the member. The annual rate set by MSMA's actuary is based on the member's reserve and on estimated future claims. Each member is responsible for its own excess of claims over reserve.

**NOTE 15. CONTINGENCIES**

With regard to pending legal claims or any unasserted claims, it is not feasible at this time to predict or determine their outcome. Management believes, however, that settlement amounts, if any, will not have a material adverse effect on the City's financial position.

The City participates in various intergovernmental grant programs which may be subject to future program compliance audits by the grantors or their representatives. Accordingly, the City's compliance with applicable grant requirement may be established at some future date. The amount, if any, of any liabilities arising from the disallowance of expenditures or ineligibility of grant revenues cannot be determined at this time.

**City of Calais**  
**Budget and Actual (with Budget to GAAP Differences) - General Fund**  
**For the Year Ended June 30, 2012**

	Budgeted Amounts		Actual Amounts - Budgetary Basis	Budget to GAAP Differ- ences*	Actual Amounts - GAAP Basis
	Original	Final			
<b>REVENUES</b>					
Property taxes	\$ 3,424,927	\$ 3,424,927	\$ 3,439,608	\$ -	\$ 3,439,608
Excise taxes	428,000	428,000	470,210	-	470,210
Intergovernmental education	7,089,785	7,089,785	6,960,055	-	6,960,055
Intergovernmental other	639,467	639,467	668,699	-	668,699
Charges for services	227,596	227,596	264,871	-	264,871
On-behalf payments - State of Maine	-	-	-	454,300	454,300
Investment income	2,000	2,000	2,850	-	2,850
<b>Total revenues</b>	<b>11,811,775</b>	<b>11,811,775</b>	<b>11,806,293</b>	<b>454,300</b>	<b>12,260,593</b>
<b>EXPENDITURES</b>					
<b>Current</b>					
City council	15,666	15,666	15,797	-	15,797
Administration, finance and development	499,879	499,879	489,201	5,522	494,723
Library	156,155	156,155	154,675	(351)	154,324
Parks and recreation	164,075	164,075	144,246	4,686	148,932
Police department	675,693	675,693	661,384	(251)	661,133
Fire department	417,132	417,132	387,759	(7,024)	380,735
Public works - general	578,892	578,892	499,159	1,449	500,608
Public works - street lights	77,500	77,500	81,532	-	81,532
Public works - solid waste disposal	115,207	115,207	96,140	-	96,140
Public works - cemetery	94,648	94,648	81,542	769	82,311
Public buildings - North Street	52,000	52,000	53,620	144	53,764
Insurance	78,200	78,200	47,990	-	47,990
County	246,914	246,914	246,914	-	246,914
Education	8,807,140	8,807,140	8,683,138	(7,787)	8,675,351
On-behalf payments - State of Maine	-	-	-	454,300	454,300
Miscellaneous	228,637	228,637	218,881	-	218,881
<b>Debt service</b>					
Principal	203,995	203,995	194,357	-	194,357
Interest and other charges	11,122	11,122	35,636	-	35,636
Capital outlay	137,622	137,622	122,758	-	122,758
<b>Total expenditures</b>	<b>12,560,477</b>	<b>12,560,477</b>	<b>12,214,729</b>	<b>451,457</b>	<b>12,666,186</b>
Excess (deficiency) of revenues over expenditures	(748,702)	(748,702)	(408,436)	2,843	(405,593)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	15,619	15,619	19,619	-	19,619
Transfers out	(136,800)	(136,800)	(147,303)	-	(147,303)
<b>Total other financing sources (uses)</b>	<b>(121,181)</b>	<b>(121,181)</b>	<b>(127,684)</b>	<b>-</b>	<b>(127,684)</b>
<b>SPECIAL ITEM</b>					
Proceeds from sale of capital assets	1,000	1,000	30,624	-	30,624
<b>Net change in fund balances</b>	<b>(868,883)</b>	<b>(868,883)</b>	<b>(505,496)</b>	<b>2,843</b>	<b>(502,653)</b>
<b>FUND BALANCE - BEGINNING</b>	<b>2,191,074</b>	<b>2,191,074</b>	<b>2,191,074</b>	<b>-</b>	<b>2,191,074</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 1,322,191</b>	<b>\$ 1,322,191</b>	<b>\$ 1,685,578</b>	<b>\$ 2,843</b>	<b>\$ 1,688,421</b>

\* - Adjustments necessary to convert the general fund's net change in fund balances on the budget basis to a GAAP basis are provided below

Net change in fund balances - budget basis	\$ (505,496)
On behalf payments revenue	454,300
On behalf payments expenditures	(454,300)
Change in accrued wages and accrued compensated absences	2,843
<b>Net change in fund balances - GAAP basis</b>	<b>\$ (502,653)</b>

**City of Calais**  
**Budget and Actual (with Variances) - General Fund**  
**For the Year Ended June 30, 2012**

	Budgeted Amounts		Actual Amounts - Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$3,424,927	\$3,424,927	\$3,439,608	\$ 14,681
Excise taxes	428,000	428,000	470,210	42,210
Intergovernmental education	7,089,785	7,089,785	6,960,055	(129,730)
Intergovernmental other	639,467	639,467	668,699	29,232
Charges for services	227,596	227,596	264,871	37,275
Investment earnings	2,000	2,000	2,850	850
<b>Total revenues</b>	<b>11,811,775</b>	<b>11,811,775</b>	<b>11,806,293</b>	<b>(5,482)</b>
<b>EXPENDITURES</b>				
<b>Current</b>				
City council	15,666	15,666	15,797	(131)
Administration, finance and development	499,879	499,879	489,201	10,678
Library	156,155	156,155	154,675	1,480
Parks and recreation	164,075	164,075	144,246	19,829
Police department	675,693	675,693	661,384	14,309
Fire department	417,132	417,132	387,759	29,373
Public works - general	578,892	578,892	499,159	79,733
Public works - street lights	77,500	77,500	81,532	(4,032)
Public works - solid waste disposal	115,207	115,207	96,140	19,067
Public works - cemetery	94,648	94,648	81,542	13,106
Public buildings - North Street	52,000	52,000	53,620	(1,620)
Insurance	78,200	78,200	47,990	30,210
County	246,914	246,914	246,914	-
Education	8,807,140	8,807,140	8,683,138	124,002
Miscellaneous	228,637	228,637	218,881	9,756
<b>Debt service</b>				
Principal	203,995	203,995	194,357	9,638
Interest and other charges	11,122	11,122	35,636	(24,514)
<b>Capital outlay</b>				
	137,622	137,622	122,758	14,864
<b>Total expenditures</b>	<b>12,560,477</b>	<b>12,560,477</b>	<b>12,214,729</b>	<b>345,748</b>
Excess (deficiency) of revenues over expenditures	(748,702)	(748,702)	(408,436)	340,266
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	15,619	15,619	19,619	4,000
Transfers out	(136,800)	(136,800)	(147,303)	(10,503)
<b>Total other financing sources (uses)</b>	<b>(121,181)</b>	<b>(121,181)</b>	<b>(127,684)</b>	<b>(6,503)</b>
<b>SPECIAL ITEM</b>				
Proceeds from sale capital assets	1,000	1,000	30,624	29,624
<b>Net change in fund balances</b>	<b>(868,883)</b>	<b>(868,883)</b>	<b>(505,496)</b>	<b>\$ 363,387</b>
<b>FUND BALANCE - BEGINNING</b>	<b>2,191,074</b>	<b>2,191,074</b>	<b>2,191,074</b>	
<b>FUND BALANCE - ENDING</b>	<b>\$ 1,322,191</b>	<b>\$ 1,322,191</b>	<b>\$ 1,685,578</b>	

**City of Calais  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
June 30, 2012**

	<u>Capital Projects</u>	<u>Permanent Fund</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 106,972	\$ 142,368	\$ 249,340
Investments	-	440,149	440,149
Due from other funds	270,137	-	270,137
 Total assets	 <u>\$ 377,109</u>	 <u>\$ 582,517</u>	 <u>\$ 959,626</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Due to other funds	<u>\$ -</u>	<u>\$ 11,435</u>	<u>\$ 11,435</u>
Fund balances			
Nonspendable for			
Endowments	-	486,143	486,143
Restricted for			
Permanent fund		84,939	84,939
Committed for			
Equipment	99,561	-	99,561
Vocational Center	15,329	-	15,329
Capital projects	262,219	-	262,219
 Total fund balances	 <u>377,109</u>	 <u>571,082</u>	 <u>948,191</u>
 Total liabilities and fund balances	 <u>\$ 377,109</u>	 <u>\$ 582,517</u>	 <u>\$ 959,626</u>

**City of Calais**  
**Combining Statement of Revenues, Expenditures and Changes in**  
**Fund Balances - Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2012**

	<u>Capital Projects</u>	<u>Permanent Fund</u>	<u>Totals</u>
<b>REVENUES</b>			
Charges for services	\$ 19,241	\$ -	\$ 19,241
Principal contributions	-	2,600	2,600
Investment income	25,879	11,485	37,364
Realized gains on investments	-	426	426
Unrealized gains on investments	-	1,492	1,492
Other income	21,159	-	21,159
	<u>66,279</u>	<u>16,003</u>	<u>82,282</u>
<b>EXPENDITURES</b>			
Current			
Library	46,404	788	47,192
Parks and recreation	-	65	65
Police department	786	-	786
Miscellaneous	65,907	5,316	71,223
Capital outlay	50,963	-	50,963
	<u>164,060</u>	<u>6,169</u>	<u>170,229</u>
Excess (deficiency) of revenues over expenditures	<u>(97,781)</u>	<u>9,834</u>	<u>(87,947)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	142,205	-	142,205
Transfers out	(5,604)	(6,189)	(11,793)
	<u>136,601</u>	<u>(6,189)</u>	<u>130,412</u>
Net change in fund balances	38,820	3,645	42,465
<b>FUND BALANCES - BEGINNING</b>	<u>338,289</u>	<u>567,437</u>	<u>905,726</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 377,109</u>	<u>\$ 571,082</u>	<u>\$ 948,191</u>





**City of Calais, Maine**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balances - Permanent Trust Funds**  
**For the Year Ended June 30, 2012**

	Cemetery Trust Funds	Library Trust Funds	Poor Trust Funds	Beckett Pool Funds	Totals
<b>NONSPENDABLE</b>					
Revenues					
Additional principal	\$ 2,350	\$ 250	\$ -	\$ -	\$ 2,600
Realized capital gains	272	76	70	8	426
Unrealized capital gains	952	265	244	31	1,492
Increase in fund balance	3,574	591	314	39	4,518
<b>FUND BALANCE, BEGINNING *</b>	<u>307,329</u>	<u>85,567</u>	<u>78,838</u>	<u>9,891</u>	<u>481,625</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 310,903</u>	<u>\$ 86,158</u>	<u>\$ 79,152</u>	<u>\$ 9,930</u>	<u>\$ 486,143</u>
<b>RESTRICTED</b>					
Revenues					
Investment income	\$ 6,668	\$ 2,925	\$ 1,681	\$ 211	\$ 11,485
Expenses	(2,193)	(788)	(3,123)	(65)	(6,169)
Transfers					
Transfers out	(5,000)	(1,189)	-	-	(6,189)
Increase (decrease) in fund balance	(525)	948	(1,442)	146	(873)
<b>FUND BALANCE (DEFICIT), BEGINNING *</b>	<u>29,439</u>	<u>58,563</u>	<u>(5,003)</u>	<u>2,813</u>	<u>85,812</u>
<b>FUND BALANCE (DEFICIT), ENDING</b>	<u>\$ 28,914</u>	<u>\$ 59,511</u>	<u>\$ (6,445)</u>	<u>\$ 2,959</u>	<u>\$ 84,939</u>
<b>TOTAL NONEXPENDABLE AND</b>					
<b>RESTRICTED FUND BALANCE, ENDING</b>	<u>\$ 339,817</u>	<u>\$ 145,669</u>	<u>\$ 72,707</u>	<u>\$ 12,889</u>	<u>\$ 571,082</u>

\* Beginning Cemetery fund balances have been restated to reclassify fund balances in accordance with the basic financial statement presentation. Total fund balances have not changed.

**City of Calais, Maine**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balances - Poor Trust Funds**  
**For the Year Ended June 30, 2012**

	<u>Chase Poor</u>	<u>J. Lewis Saunders</u>	<u>Lucy Wentworth</u>	<u>Clapp</u>	<u>Total</u>
<b>NONSPENDABLE</b>					
Revenues					
Realized capital gains	\$ 53	\$ 15	\$ 1	\$ 1	\$ 70
Unrealized capital gains	<u>183</u>	<u>52</u>	<u>5</u>	<u>4</u>	<u>244</u>
Increase in fund balance	236	67	6	5	314
<b>FUND BALANCE, BEGINNING</b>	<u>59,167</u>	<u>16,869</u>	<u>1,507</u>	<u>1,295</u>	<u>78,838</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 59,403</u>	<u>\$ 16,936</u>	<u>\$ 1,513</u>	<u>\$ 1,300</u>	<u>\$ 79,152</u>
<b>RESTRICTED</b>					
Revenues					
Investment income	\$ 1,261	\$ 360	\$ 32	\$ 28	\$ 1,681
Expenses	<u>(392)</u>	<u>(112)</u>	<u>(10)</u>	<u>(2,609)</u>	<u>(3,123)</u>
Increase (decrease) in fund balance	869	248	22	(2,581)	(1,442)
<b>FUND BALANCE (DEFICIT), BEGINNING</b>	<u>2,866</u>	<u>807</u>	<u>83</u>	<u>(8,759)</u>	<u>(5,003)</u>
<b>FUND BALANCE (DEFICIT), ENDING</b>	<u>\$ 3,735</u>	<u>\$ 1,055</u>	<u>\$ 105</u>	<u>\$(11,340)</u>	<u>\$ (6,445)</u>

**City of Calais, Maine**  
**Taxes Receivable, Tax Liens and Tax Acquired Property - General Fund**  
**For the Year Ended June 30, 2012**

Taxes receivable	
2011	\$ 4,541
2010	213
2009	<u>427</u>
	<u>5,181</u>
Tax liens	
2011	203,304
2010	133,361
2008 and prior	<u>355</u>
	<u>337,020</u>
Tax acquired property	<u>1,345</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 343,546</u>

**City of Calais**  
**City of Calais School Department**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - School Department**  
**For the Year Ended June 30, 2012**

	Original Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Local assessments	\$ 1,128,087	\$ 1,128,087	\$ -
State subsidy	4,458,185	4,457,540	(645)
Intergovernmental	1,207,000	977,259	(229,741)
Tuition and fees	1,424,600	1,452,309	27,709
Other	-	72,947	72,947
	<u>8,217,872</u>	<u>8,088,142</u>	<u>(129,730)</u>
<b>EXPENDITURES</b>			
Regular instruction	2,925,590	2,912,353	13,237
Special education	1,858,109	2,003,219	(145,110)
Technical education	805,328	790,051	15,277
Other Instruction	158,626	153,858	4,768
Adult education	6,558	6,230	328
Student and staff support	333,675	323,134	10,541
System administration	334,884	243,554	91,330
School administration	443,006	428,803	14,203
Transportation and buses	355,659	343,727	11,932
Facilities maintenance	973,203	857,920	115,283
Other commitments	612,502	612,502	-
	<u>8,807,140</u>	<u>8,675,351</u>	<u>131,789</u>
Excess (deficiency) of revenues over expenditures	<u>(589,268)</u>	<u>(587,209)</u>	<u>2,059</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer out	(23,200)	(23,200)	-
Utilization of prior year fund balance	612,468	-	(612,468)
	<u>589,268</u>	<u>(23,200)</u>	<u>(612,468)</u>
Excess of revenues and other sources over expenditures and other uses	-	(610,409)	<u>\$ (610,409)</u>
<b>FUND BALANCE - BEGINNING</b>	<u>802,636</u>	<u>802,636</u>	
<b>FUND BALANCE - ENDING</b>	<u>\$ 802,636</u>	<u>\$ 192,227</u>	

**City of Calais**  
**City of Calais School Department**  
**Combining Schedule of Special Revenue Fund Activity**  
**For the Year Ended June 30, 2012**

	June 30, 2011			June 30, 2012
	Balance	Revenues	Expenditures	Balance
<i>Federal grants</i>				
Title 1A Disadvantaged	\$ -	\$ 211,444	\$ 211,444	\$ -
Local Entitlement	-	226,547	226,547	-
Preschool handicapped	-	6,469	6,469	-
Title VI - Reap	-	23,334	23,334	-
Title IIA - Teacher Quality	-	24,755	24,755	-
Carl Perkins	-	29,696	29,696	-
Guidance Grant	-	389,524	389,524	-
	<u>-</u>	<u>911,769</u>	<u>911,769</u>	<u>-</u>
<i>State grants</i>				
Tobacco Free Maine	1,362	70,000	71,362	-
Regional Support Unit	2,108	-	-	2,108
IT-V	2,628	6,483	5,685	3,426
HIV Prevention	134	-	-	134
HRSA Grant - School Based Health	-	38,205	38,205	-
DHHS Teen & Youth	10,464	60,633	59,511	11,586
Dental	112	427	427	112
	<u>16,808</u>	<u>175,748</u>	<u>175,190</u>	<u>17,366</u>
<i>Local grants</i>				
Kellogg Grant	520	-	-	520
Maine Dairy	28	-	-	28
Perloff	23	-	23	-
Alcohol Abuse Reduction Grant	14	-	120	(106)
Suicide Prevention Grant	5,288	500	-	5,788
Tootsie Roll Grant	2,839	527	609	2,757
Recommissioned Computer Revenue	2,086	-	-	2,086
Maine Indian Education - Afterschool	3,550	-	-	3,550
Anatomy of Leadership	(119)	-	-	(119)
T.A.G.	3,046	-	-	3,046
Underwater Robotics	5	-	-	5
Music Grant	-	4,946	428	4,518
W.O.W.	21,858	-	21,752	106
EPGY	5,624	-	-	5,624
Private Dormant Grants	31,359	-	-	31,359
	<u>76,121</u>	<u>5,973</u>	<u>22,932</u>	<u>59,162</u>
Total federal, state and local grants	92,929	1,093,490	1,109,891	76,528
School Hot Lunch Program	57,393	302,869	292,256	68,006
<b>Totals</b>	<u>\$ 150,322</u>	<u>\$ 1,396,359</u>	<u>\$ 1,402,147</u>	<u>\$ 144,534</u>

**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards***

City Council  
City of Calais, Maine

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Calais, Maine as of and for the year ended June 30, 2012, which collectively comprise the City of Calais, Maine's basic financial statements and have issued our report thereon dated January 31, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the City of Calais, Maine is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Calais, Maine's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Calais, Maine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Calais, Maine's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of finding and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 City of Calais, Maine's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as item #2012-1 in the accompanying schedule of findings and questioned costs to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Calais, Maine'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*.

We noted certain other matters that we have reported to management of the City of Calais, Maine, in a separate letter dated January 31, 2013.

The City of Calais, Maine's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Calais, Maine's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the City Council, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Randall M. Miodini & Associates*

Bangor, Maine  
January 31, 2013

**Independent Auditor's Report on Compliance With Requirements That Could  
Have a Direct and Material Effect on Each Major Program and on Internal Control  
Over Compliance in Accordance With OMB Circular A-133**

City Council  
City of Calais, Maine

**Compliance**

We have audited the City of Calais, Maine's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Calais, Maine's major federal programs for the year ended June 30, 2012. The City of Calais, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Calais, Maine's management. Our responsibility is to express an opinion on the City of Calais, Maine's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Calais, Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Calais, Maine's compliance with those requirements.

In our opinion, the City of Calais, Maine complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.



### Internal Control Over Compliance

Management of the City of Calais, Maine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Calais, Maine's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Calais, Maine's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there that is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

*A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #2012-2 to be a significant deficiency.

The City of Calais, Maine's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Calais, Maine's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the City Council, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Bradford Thibodeau & Associates*

Bangor, Maine  
January 31, 2013

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Email: bta@btacpa.com

**Report on Compliance  
With the Requirements of the  
Maine School Finance Act**

City Council  
City of Calais, Maine

We audited the financial statements of the City of Calais, Maine as of and for the year ended June 30, 2012, and have issued our report thereon dated January 31, 2013.

The management of the City of Calais, Maine is responsible for the City's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the City's compliance with laws and regulations, noncompliance with which could have a material effect on the financial statements of the City of Calais, Maine.

Title 20-A Sec 6051 requires certain written assurances with respect to school audits. Our audit of compliance with laws and regulations consisted of, at a minimum, the following:

1. The audit has been conducted in accordance with applicable state and federal laws relating to financial and compliance audits as indicated in federal Office of Management and Budget circulars.
2. Budgetary controls were in place.
3. A determination of whether or not the annual financial data submitted to the department is correct.
4. A determination of whether or not the City has exceeded its authority to expend funds as provided by the total budget summary article.
5. The City has complied with applicable provisions of the Essential Services and Program Funding Act.
6. A determination of whether the City has complied with the applicable provisions of the unexpended balances requirements established under section 15004.
7. The City has complied with transfer limitations between budget cost centers pursuant to section 1485, subsection 4.
8. The City has complied with budget content requirements pursuant to section 15693, subsection 1 and cost center summary budget format requirements pursuant to sections 1305C, 1485, 1701C and 2307.

The results of our tests indicate that, for the items tested, the City of Calais, Maine complied with those provisions of Maine laws and regulations. Nothing came to our attention that caused us to believe that, for the items not tested, the City of Calais, Maine was not in compliance with Maine laws and regulations.

*Brantner, Thibodeau & Associates*

Bangor, Maine  
January 31, 2013

**City of Calais School Department  
 Audit Adjustments to MEDMS Financial System  
 For the Year Ended June 30, 2012**

	General Fund	Special Revenue Funds	Capital Projects Fund	Totals
<i>June 30 balance as per MEDMS Financial System</i>	\$ 573,274	\$ 162,252	\$ -	\$ 735,526
<b>Fund Balance Adjustments</b>				
Beginning balance adjustment - general fund	(305,415)	-	-	(305,415)
Beginning balance adjustment - special revenue	-	(18,839)	10,129	(8,710)
Reclass beginning fund balance - school hot lunch	(57,393)	57,393	-	-
<b>Revenue Adjustments</b>				
Revenue adjustments	(18,648)	(559)	-	(19,207)
Reclassify revenues	-	(528,887)	5,200	(523,687)
Correct accounts receivable and deferred revenue	-	-	-	-
Record school lunch program revenues	(302,869)	302,869	-	-
<b>Expenditure Adjustments</b>				
Record transfer out of local entitlement funds	-	(103,027)	-	(103,027)
Expense adjustments	20,092	556,518	-	576,610
Record school lunch program expenditures	283,186	(283,186)	-	-
<b>Audit GAAP Basis Fund Balance</b>	<u>\$ 192,227</u>	<u>\$ 144,534</u>	<u>\$ 15,329</u>	<u>\$ 352,090</u>

City of Calais, Maine  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended June 30, 2012

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disburse- ments/ Expenditures
<i>U.S. Housing and Urban Development</i>			
Passed through State Department of Economic and Community Development			
EMDC passthrough	14.228	200709260000006144	\$ 45,000
Housing Assistance Program	14.228	015-19A-0587-012-6331	<u>208,757</u>
Total Department of Housing and Urban Development			<u>253,757</u>
<i>U.S. Department of Justice</i>			
Direct			
Office of Justice Programs - 2009DJBX0902	16.738	N/A	829
Office of Justice Programs - 2010DJBX0126	16.738	N/A	5,829
Office of Justice Programs - 2011DJBX2420	16.738	N/A	13,535
ARRA - Office of Justice Programs - 2009SBB92263	16.804	N/A	<u>14,852</u>
Total Department of Justice			<u>35,045</u>
<i>U.S. Department of Environmental Protection</i>			
Passed through State Department of Health and Human Services			
Safe Drinking Water State Revolving Loan Fund Program	66.468	Not known	491,314 *
Safe Drinking Water State Revolving Loan Fund Program	66.468	Not known	<u>147,013 *</u>
Total Department of Environmental Protection			<u>638,327</u>
<i>U.S. Department of Homeland Security</i>			
Direct			
2009 Homeland Security Grant Program	97.067	N/A	53,732
Passed through State Department of Emergency Management			
Public Assistance Program - FEMA1953DRME	97.036	Not known	<u>176,235</u>
Total Department of Homeland Security			<u>229,967</u>
<i>U.S. Department of Education</i>			
Direct			
Elementary and Secondary School Counseling Demon Prog	84.215E	N/A	389,524
Passed through State Department of Education			
<i>Title 1, Part A Cluster</i>			
Title I Grants to Local Educational Agencies	84.010	013-05A-3057-13	211,444
Improving Teacher Quality Grant	84.367	013-05A-3042-11	24,755
<i>Special Education Cluster</i>			
Special Education - Grants to States	84.027	013-05A-3046-12	226,547
Special Education - Preschool Grant	84.173	013-05A-6241-23	6,469
Title I-C Basic Grant (Carl Perkins)	84.048	013-05A-3030-08	29,696
Rural Education Achievement Program	84.358	013-05A-3005-03	<u>23,334</u>
Total Department of Education			<u>911,769</u>
<i>U.S. Department of Agriculture</i>			
Direct			
Waste and waste disposal systems for rural communities	10.760	N/A	5,996
Waste and waste disposal systems for rural communities	10.760	N/A	37,829
Waste and waste disposal systems for rural communities	10.781	N/A	<u>401,211</u>
			<u>445,036</u>
Passed through State Department of Education			
Fresh Fruit and Vegetable Program	10.582	013-05A-3028-05	13,900
<i>Cluster</i>			
School Lunch Program	10.555	013-05A-3024-05	117,762
School Lunch Program - Donated Commodities	10.555	013-05A-3024-05	7,520
School Breakfast Program	10.553	013-05A-3014-05	<u>30,938</u>
			<u>170,120</u>
Total Department of Agriculture			<u>615,156</u>
Total federal assistance			<u>\$ 2,684,021</u>

\* Grants recorded in the water fund are reported on the water fund's fiscal year which is December 31, 2011.

**City of Calais, Maine**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2012**

**PURPOSE OF THE SCHEDULE**

Office of Management and Budget (OMB) Circular A-133, requires a Schedule of Expenditures of Federal Awards showing total expenditures for each federal award program as identified in the catalog of Federal Domestic Assistance (CFDA).

**SIGNIFICANT ACCOUNTING POLICIES**

**1. REPORTING ENTITY**

The accompanying schedule includes all federal award programs of the City of Calais, Maine for the fiscal year ended June 30, 2012. The reporting entity is defined in the Notes to the Financial Statements of the City of Calais, Maine. All amounts applicable to the water fund in the financial statements are for the year ended December 31, 2011.

**2. BASIS OF PRESENTATION**

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

- a. Pursuant to OMB Circular A-133, federal financial assistance is defined as assistance provided by federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations.
- b. OMB Circular A-133 establishes the level of expenditures to be used in defining major federal financial award programs. Major programs for the City have been identified in the Schedule of Findings and Questioned Costs.

**3. BASIS OF ACCOUNTING**

The information presented in the Schedule of Expenditures of Federal Awards is presented on a basis consistent with the City's general purpose financial statements. The grants included are all accounted for on a modified accrual basis of accounting which is described in the notes to the general purpose financial statements.

**4. NONCASH AWARDS**

The amount reported on the schedule is the value of commodities received by the City during the current year and priced as prescribed by USDA and is included in the National School Lunch Program total.

**City of Calais, Maine  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2012**

**Section I — Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued - Government-wide  
Financial Statements - *Unqualified opinion*

Internal control over financial reporting

- Material weakness(es) identified? -  X  yes       no
- Significant deficiency(ies) identified that are not  
considered to be material weakness(es)? -       yes  X  no
- Noncompliance material to financial statements noted? -       yes  X  no

**Federal Awards**

Internal control over major programs

- Material weakness(es) identified? -       yes  X  no
- Significant deficiency(ies) identified that are not  
considered to be material weakness(es)? -  X  yes       no

Type of auditor's report issued on compliance  
for major programs - *Unqualified opinion*

Any audit findings disclosed that are required  
to be reported in accordance with Section .510(a)  
of Circular A-133? -       yes  X  no

Identification of major programs

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
66.468	Safe Drinking Water State Revolving Loan Fund Program
10.760 and 10.781	Wastewater and Waste Disposal Systems for Rural Communities Cluster
84.215	Elementary and Secondary School Counseling Demonstration Program

Dollar threshold used to distinguish between  
Type A and Type B programs - \$300,000

Auditee qualified as low-risk auditee? -       yes  X  no

**City of Calais, Maine**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2012**

**Section II — Financial Statement Findings**

	#2012-1
<i>Criteria or specific requirement</i>	Internal control over financial reporting
<i>Condition</i>	Management does not control the preparation of the financial statements and school department reporting which also results in significant audit adjustments to several funds. Inappropriate reviews of accounting entries or system inputs lead to significant accounting services.
<i>Context</i>	Management has relied on its auditors to prepare the financial statements and footnote disclosures for them to review and approve as well as some components of supporting schedules.
<i>Effect</i>	As a result of the inclusion of the City's School Department and the related required reporting, management may not be able to identify an error or misstatement in the financial statements.
<i>Cause</i>	Lack of knowledge, training and turnover has affected the City's control over financial reporting
<i>Recommendation</i>	Management should obtain the training necessary to address this finding and consider implementing cross-training of all functions to minimize the impact of turnover of personnel.
<i>Management's response</i>	Management will continue to work with the School Department toward having the School Department also use auditor financial schedules to assist in the preparation of the audit report. Until then, management will use school data available at the time that the City prepares the financial schedules for the audit. Management will continue to work with the School Department to ensure that the information required to be reported by the School Department will be provided at audit. Management is making sure that finance personnel attend adequate training. Management will consider the feasibility of implementing cross-training of all functions.

**City of Calais, Maine**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2012**

**Section III — Federal Award Findings and Questioned Costs**

	<b>#2012-2 (REPEAT)</b>
<i>Information on the federal program</i>	CFDA #84.215 - Elementary and Secondary School Counseling Demonstration Program
<i>Pass-through entity</i>	State of Maine, Department of Education
<i>Finding type</i>	Significant non-compliance, significant deficiency
<i>Criteria or specific requirement (including statutory, regulatory, or other citation)</i>	Internal control over reporting. OMB Circular A-133, Subpart C. 300 (a), (b) and (d), and Subpart C. 320. The auditee shall identify, in its accounts, all federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. The auditee must also establish a system of accurate and timely reporting of federal grant information as required by the grantor.
<i>Condition</i>	Management does not control the preparation of federal grant reporting, including the schedule of expenditures of federal awards or monitor compliance with program requirements.
<i>Questioned costs</i>	None.
<i>Context</i>	Management has relied on its auditors to assist with the year-end adjustments and the preparation of the schedule of expenditures of federal awards.
<i>Cause and effect</i>	Lack of training, staffing levels and oversight of the City's School Department's grant reporting could result in unreliable reporting.
<i>Recommendation</i>	The City's School Department should implement the appropriate processes to alleviate its reliance on its auditor to perform these functions and consider cross-training personnel to minimize the impact of turnover of personnel.
<i>Management's response</i>	The City's School Department was working toward resolving this situation when it experienced turnover of personnel which impacted its ability to address this finding. The City's School Department will continue its efforts to resolve this finding.



**City of Calais, Maine**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2012**

	<b>#2011-1</b>
<i>Condition</i>	Management does not control the preparation of the financial statements and project reporting which also results in significant audit adjustments to several funds and restatements to the financial statements. Inappropriate reviews of accounting entries or system inputs lead to significant accounting services.
<i>Status</i>	This situation has improved some and this finding has been modified and reported as #2012-1.
	<b>#2011-2</b>
<i>Condition</i>	Personnel costs paid with federal grant funds were not properly supported by proper documentation as the certifications were authorized at the end of the school year.
<i>Status</i>	The City's School Department has implemented the necessary procedures to ensure compliance. This finding is considered to be resolved.
	<b>#2011-3</b>
<i>Condition</i>	The City's School Department does not control the reporting of its grants on the Schedule of Expenditures of Federal Awards.
<i>Status</i>	The City's School Department experienced turnover which affects its ability to address this finding and therefore it is repeated as #2012-2.
	<b>#2011-4</b>
<i>Condition</i>	The School Department does not have adequate procedures in place to monitor cash balances of federal funds to minimize the time between receipt and disbursement of funds.
<i>Status</i>	The City's School Department is following the Department of Education's new procedures. This finding is considered to be resolved.