

City of Calais, Maine

ANNUAL FINANCIAL STATEMENTS
(with required and other supplementary information)

For the Year Ended June 30, 2013

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Independent Auditor's Report

City Council
City of Calais, Maine

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Change in Accounting Principles

As described in Note 1 to the financial statements, the City adopted the provisions of GASB Statement 61, *The Financial Reporting Entity: Omnibus and Amendment of GASB Statements No. 14 and No. 34* and GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The opinion is not modified as a result of this matter.

Other Matters

Required Supplementary Information

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 7 through 14 and 45 through 46 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Calais, Maine's basic financial statements. Schedules 1 through 8, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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 basic financial statements.

Schedules 1 through 8, as listed in the table of contents, and the schedule of expenditures of federal awards are the responsibility of management and are derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1 through 8 and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Other Legal and Regulatory Requirements*

The audit adjustments to the MEDEMS financial system is presented as required by the laws of the State of Maine and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We have applied certain limited procedures, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries. We have also issued a report dated January 15, 2014, on our consideration of the City of Calais, Maine's compliance with the Maine School Finance Act. The purpose of that report is to describe the City of Calais, Maine's compliance with requirements established under the laws of the State of Maine.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2014, 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* in considering the City of Calais, Maine's internal control over financial reporting and compliance.

Branter Whibodeau & Associates

Bangor, Maine
January 15, 2014

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

June 30, 2013

The Management Discussion and Analysis ("MD&A") is a report of the City of Calais's fiscal activity for the year ending June 30, 2013. 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, 2013 was \$849,178.
- The City's debt increased by \$35,991 for a balance of \$10,621,867.
- The City's net position increased by a total of \$1,564,453.
- The fund balance as reported in the City's financial statements decreased by \$504,588 to a total of \$3,395,162.
- On a budget basis balance the City's expenditures exceeded its revenues by \$659,075. The City had budgeted a deficiency of \$449,288. This is a negative budget variance of \$209,787.

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 position 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 position 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 21-23 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 24-25 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 26-44.

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 45-46.

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

GOVERNMENT-WIDE ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$21,244,558 as of June 30, 2013.

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 Position for the Period Ending June 30, 2013

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 5,067,922	\$5,121,558	\$ 410,471	\$ 1,317,502	\$ 5,478,393	\$ 6,439,060
Capital assets	<u>5,227,216</u>	<u>5,032,519</u>	<u>23,235,195</u>	<u>20,521,847</u>	<u>28,462,411</u>	<u>25,554,366</u>
Total Assets	<u>10,295,138</u>	<u>10,154,077</u>	<u>23,645,666</u>	<u>21,839,349</u>	<u>33,940,804</u>	<u>31,993,426</u>
Current liabilities	1,514,448	1,009,353	1,313,803	1,392,910	2,828,251	2,402,263
Noncurrent liabilities	<u>779,225</u>	<u>670,514</u>	<u>9,088,770</u>	<u>9,240,544</u>	<u>9,867,995</u>	<u>9,911,058</u>
Total Liabilities	<u>2,293,673</u>	<u>1,679,867</u>	<u>10,402,573</u>	<u>10,633,454</u>	<u>12,696,246</u>	<u>12,313,321</u>
Net Position (Accumulated Deficit)						
Investment in capital assets, net of debt	4,296,203	4,269,460	14,039,259	11,945,939	18,335,462	16,215,399
Restricted	1,356,670	2,026,447	334,793	-	1,691,463	2,026,447
Unrestricted	<u>2,348,592</u>	<u>2,178,303</u>	<u>(1,130,959)</u>	<u>(740,044)</u>	<u>1,217,633</u>	<u>1,438,259</u>
Total Net Position	<u>\$ 8,001,465</u>	<u>\$ 8,474,210</u>	<u>\$13,243,093</u>	<u>\$11,205,895</u>	<u>\$21,244,558</u>	<u>\$19,680,105</u>

A portion of the City's net position, 8.0%, represents resources that are restricted. Unrestricted net position of \$1,217,633 may be used to meet the government's ongoing obligations to citizens and creditors.

As of June 30, 2013, the City is able to report positive balances in all three categories of net position 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 position for the business-type activities.

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2013.

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
REVENUES						
Charges for services and other	\$ 529,806	\$ 47,849	\$ 2,323,656	\$ 2,376,974	\$ 2,853,462	\$ 2,824,823
Operating grants and contributions	8,667,724	9,234,885	-	-	8,667,724	9,234,885
Capital grants and contributions	-	-	2,241,218	1,583,171	2,241,218	1,583,171
Property taxes	3,404,144	3,423,208	-	-	3,404,144	3,423,208
Excise and miscellaneous taxes	483,233	470,210	-	-	483,233	470,210
Grants and contributions not restricted to specific purpose	591,420	623,663	-	-	591,420	623,663
Unrestricted investment income	48,060	69,685	-	-	48,060	69,685
Special item – gain (loss) on disposal of assets	<u>23,213</u>	<u>(8,229)</u>	<u>-</u>	<u>-</u>	<u>23,213</u>	<u>(8,229)</u>
Total Revenues	<u>13,747,600</u>	<u>14,261,271</u>	<u>4,564,874</u>	<u>3,960,145</u>	<u>18,312,474</u>	<u>18,221,416</u>
EXPENSES AND TRANSFERS						
City council	15,863	15,797	-	-	15,863	15,797
Administration, finance and development	479,288	476,633	-	-	479,288	476,633
Library	221,844	217,863	-	-	221,844	217,863
Parks and recreation	170,056	161,137	-	-	170,056	161,137
Police department	703,973	675,166	-	-	703,973	675,166
Fire department	455,117	414,038	-	-	455,117	414,038
Public works	591,006	807,096	-	-	591,006	807,096
Insurance	50,704	47,990	-	-	50,704	47,990
County	254,197	246,914	-	-	254,197	246,914
Education	9,393,779	9,841,804	-	-	9,393,779	9,841,804

On-behalf payments -						
State of Maine	435,600	454,300	-	-	435,600	454,300
Program	698,659	837,444	-	-	698,659	837,444
Miscellaneous	247,918	290,104	-	-	247,918	290,104
Interest on long-term debt	34,858	35,636	-	-	34,858	35,636
Capital outlay	467,483	173,721	-	-	467,483	173,721
Business-type activities	-	-	<u>2,527,676</u>	<u>2,452,563</u>	<u>2,527,676</u>	<u>2,452,563</u>
Total Expenses	<u>14,220,345</u>	<u>14,695,643</u>	<u>2,527,676</u>	<u>2,452,563</u>	<u>16,748,021</u>	<u>17,148,206</u>
Change in net position	(472,745)	(434,372)	2,037,198	1,507,582	1,564,453	1,073,210
Net position, beginning 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>
Net position, end of year	<u>\$ 8,001,465</u>	<u>\$ 8,474,210</u>	<u>\$13,243,093</u>	<u>\$11,205,895</u>	<u>\$21,244,558</u>	<u>\$19,680,105</u>

Analysis of the City's Operations

Governmental Activities

Governmental activities decreased the net position by \$472,745 of the total increase in net position. Invested in capital assets, net of related debt increased by \$26,743 or .6% due to purchases of equipment and vehicles and repayment of debt exceeding depreciation expense and loan proceeds. Unrestricted net position increased by \$170,289.

Total revenues for governmental activities decreased from the prior year by \$513,671. Operating grants and contributions decreased \$567,161, or 6.1% over the prior year. Property tax revenues decreased \$19,064 or .6%, from the prior fiscal year.

Expenses of governmental activities include depreciation expense of \$251,382, an increase of \$11,373 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 position from business-type activities increased by \$2,037,198 from \$11,205,895 to \$13,243,093. Invested in capital assets, net of related debt increased by \$2,093,320 primarily due to ongoing sewer and water projects.

Charges for services decreased \$53,318 or 2.2% from the prior year.

Depreciation expense increased \$40,824 from the prior year to \$736,578.

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 \$3,395,162, \$504,588 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 \$3,399,044. Excise taxes accounted for \$483,233 in total revenue. On behalf payments amounted to \$435,600 during year ended June 30, 2013. 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 \$15,161,177 and are broken down as follows:

	2013	2012
City council	\$ 15,863	\$ 15,797
Administration, finance and development	491,881	494,723
Library	207,734	201,516
Parks and recreation	163,127	148,997
Police department	698,174	661,919
Fire department	418,089	380,735
Public works	801,134	814,355
Insurance	50,704	47,990
County	254,197	246,914
Education	9,467,777	9,785,242
On-behalf payments – State of Maine	435,600	454,300
Program	698,659	837,444
Miscellaneous	247,918	290,104
Debt service		
Principal	717,925	194,357
Interest on long-term debt	34,858	35,636
Capital outlay	<u>467,483</u>	<u>173,721</u>
Total Governmental Funds Expenditures	<u>\$15,171,123</u>	<u>\$14,783,750</u>

The City paid \$467,483 in capital outlays during the year. In total, \$386,653 was capitalized for equipment, vehicles 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 position of the proprietary fund reported a combined balance of \$13,243,093, \$2,037,198 higher than the previous year.

Total proprietary fund expenses for the year were \$2,527,676 and are broken down as follows:

Sewer fund	\$1,191,701
Ambulance fund	801,880
Water fund	<u>534,095</u>
Total Proprietary Funds Expenses	<u>\$2,527,676</u>

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, 2013, amounts to \$28,462,411, 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	
	2013	2012	2013	2012	2013	2012
Land	\$3,089,305	\$3,089,305	\$ 75,896	\$ 75,896	\$ 3,165,201	\$ 3,165,201
Construction in progress	87,331	-	347,131	393,815	434,462	393,815
Infrastructure	-	-	21,134,741	17,885,064	21,134,741	17,885,064
Buildings and Improvements	1,671,331	1,662,364	8,432,021	8,204,057	10,103,352	9,866,421
Equipment and furniture	1,879,487	1,757,148	669,524	650,375	2,549,011	2,407,523
Vehicles	<u>1,833,314</u>	<u>1,705,313</u>	<u>487,019</u>	<u>487,019</u>	<u>2,320,333</u>	<u>2,192,332</u>
Total capital assets	8,560,768	8,214,130	31,146,332	27,696,226	39,707,100	35,910,356
Accumulated depreciation	<u>(3,333,552)</u>	<u>(3,181,611)</u>	<u>(7,911,137)</u>	<u>(7,174,379)</u>	<u>(11,244,689)</u>	<u>(10,355,990)</u>
Capital assets, net	<u>\$5,227,216</u>	<u>\$5,032,519</u>	<u>\$23,235,195</u>	<u>\$20,521,847</u>	<u>\$28,462,411</u>	<u>\$25,554,366</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 on pages 35-36 of this report.

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	
	2013	2012	2013	2012	2013	2012
Bonds and notes payable	\$886,184	\$717,925	\$9,690,854	\$9,822,817	\$10,577,038	\$10,540,742
Capital lease Obligations	<u>44,829</u>	<u>45,134</u>	-	-	<u>44,829</u>	<u>45,134</u>
Totals	<u>\$931,013</u>	<u>\$763,059</u>	<u>\$9,690,854</u>	<u>\$9,822,817</u>	<u>\$10,621,867</u>	<u>\$10,585,876</u>

During the fiscal year, the City's total debt increased by \$35,991 or .3%.

A summary of the City's debt activity for the year ended June 30, 2013 is detailed in Note 4 on pages 36-40 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 45 of the financial statements.

BUDGETARY HIGHLIGHTS

The following is a discussion of the budgetary highlights during the fiscal year ended June 30, 2013.

During the year, budgeted revenues exceeded actual revenues by \$394,698. Most of this variance resulted from over-anticipated education revenue.

Budgeted expenditures exceeded actual expenditures by \$195,173. 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 slowdown 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 for the upcoming year is \$9,600, an increase of \$700 over last year, for a savings on the tax bills. In the past year, the City refinanced the sidewalk/library loan for an interest savings over \$75,000 over the life of the loan; an annual savings of \$7,000 to the budget.

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 2013-2014 budgeted revenues for sewer remain the same as 2012-2013, with no increase in fees to the sewer users. This past year the City refinanced a sewer loan for a savings of almost \$7,000 in interest over the life of the loan; an annual savings of \$1,200 to the sewer budget.

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 Position
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and equivalents	\$ 540,368	\$ 308,810	\$ 849,178
Investments	1,034,703	-	1,034,703
Taxes receivables	348,243	-	348,243
Accounts receivable, net of allowance of \$55,000	62,102	824,660	886,762
Internal balances	1,863,894	(1,863,894)	-
Loans receivable, net of allowance of \$45,542	432,110	-	432,110
Due from lender	-	799,917	799,917
Due from other governmental agencies	760,905	295,918	1,056,823
Inventories	25,597	45,060	70,657
Capital assets, not being depreciated	3,176,636	423,027	3,599,663
Capital assets, being depreciated, net of accumulated depreciation	2,050,580	22,812,168	24,862,748
Total assets	<u>10,295,138</u>	<u>23,645,666</u>	<u>33,940,804</u>
LIABILITIES			
Accrued wages	510,407	8,227	518,634
Accrued compensated absences	85,341	8,621	93,962
Accounts payable	97,235	351,387	448,622
Taxes paid in advance	135,565	-	135,565
Payroll withholdings payable	17,404	-	17,404
Interest accrued	-	38,484	38,484
Due to other governmental agencies	5,403	-	5,403
Line of credit	500,000	-	500,000
Deferred revenue	11,305	-	11,305
Bond anticipation notes	-	305,000	305,000
Long-term liabilities			
Due within one year			
Bonds and notes payable	139,432	602,084	741,516
Capital leases payable	12,356	-	12,356
Due in more than one year			
Bonds and notes payable	746,752	9,088,770	9,835,522
Capital leases payable	32,473	-	32,473
Total liabilities	<u>2,293,673</u>	<u>10,402,573</u>	<u>12,696,246</u>
NET POSITION			
Invested in capital assets, net of related debt	4,296,203	14,039,259	18,335,462
Restricted for			
Permanent fund	82,886	-	82,886
Endowments	489,052	-	489,052
Education	(456,991)	-	(456,991)
Education grants	125,783	-	125,783
Non-education grants	1,115,940	-	1,115,940
Capital projects	-	158,790	158,790
Vehicle replacement	-	176,003	176,003
Unrestricted (deficit)	2,348,592	(1,130,959)	1,217,633
Total net position	<u>\$ 8,001,465</u>	<u>\$ 13,243,093</u>	<u>\$ 21,244,558</u>

See accompanying notes to basic financial statements.

City of Calais
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
City council	\$ 15,863	\$ -	\$ -	\$ -	\$ (15,863)	\$ -	\$ (15,863)
Administration, finance and development	479,288	165,384	11,700	-	(302,204)	-	(302,204)
Library	221,844	7,322	-	-	(214,522)	-	(214,522)
Parks and recreation	170,056	57,876	-	-	(112,180)	-	(112,180)
Police department	703,973	49,751	-	-	(654,222)	-	(654,222)
Fire department	455,117	30	-	-	(455,087)	-	(455,087)
Public works	591,006	56,592	56,900	-	(477,514)	-	(477,514)
Insurance	50,704	-	-	-	(50,704)	-	(50,704)
County	254,197	-	-	-	(254,197)	-	(254,197)
Education	9,393,779	108,148	7,840,716	-	(1,444,915)	-	(1,444,915)
On-behalf payments - State of Maine	435,600	-	435,600	-	-	-	-
Program	698,659	43,150	322,808	-	(332,701)	-	(332,701)
Miscellaneous	247,918	41,553	-	-	(206,365)	-	(206,365)
Interest on long-term debt	34,858	-	-	-	(34,858)	-	(34,858)
Capital outlay	467,483	-	-	-	(467,483)	-	(467,483)
Total governmental activities	14,220,345	529,806	8,667,724	-	(5,022,815)	-	(5,022,815)
Business-type activities							
Sewer fund	1,191,701	938,530	-	1,928,468	-	1,675,297	1,675,297
Ambulance fund	801,880	732,010	-	-	-	(69,870)	(69,870)
Water fund	534,095	653,116	-	312,750	-	431,771	431,771
Total business-type activities	2,527,676	2,323,656	-	2,241,218	-	2,037,198	2,037,198
	<u>\$ 16,748,021</u>	<u>\$ 2,853,462</u>	<u>\$ 8,667,724</u>	<u>\$ 2,241,218</u>	<u>(5,022,815)</u>	<u>2,037,198</u>	<u>(2,985,617)</u>
General revenues							
Taxes							
Property taxes, levied for general purposes					3,404,144	-	3,404,144
Excise and miscellaneous taxes					483,233	-	483,233
Grants and contributions not restricted to specific programs					591,420	-	591,420
Unrestricted investment earnings					48,060	-	48,060
Special item - loss on disposal of assets					23,213	-	23,213
Total general revenues and special item					4,550,070	-	4,550,070
Change in net position					(472,745)	2,037,198	1,564,453
NET POSITION - BEGINNING					8,474,210	11,205,895	19,680,105
NET POSITION - ENDING					<u>\$ 8,001,465</u>	<u>\$ 13,243,093</u>	<u>\$ 21,244,558</u>

**City of Calais
Balance Sheet -
Governmental Funds
June 30, 2013**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 82,744	\$ 129,921	\$ 327,703	\$ 540,368
Investments	-	513,470	521,233	1,034,703
Taxes receivable	348,243	-	-	348,243
Accounts receivable	49,885	12,217	-	62,102
Due from other funds	1,872,678	92,222	298,535	2,263,435
Loans receivable, net of allowance of \$45,542	-	432,110	-	432,110
Receivable from other governments	654,711	106,194	-	760,905
Inventories	16,162	9,435	-	25,597
	<u>\$ 3,024,423</u>	<u>\$ 1,295,569</u>	<u>\$ 1,147,471</u>	<u>\$ 5,467,463</u>
Total assets				
LIABILITIES AND FUND BALANCES				
Liabilities				
Accrued wages	\$ 486,605	\$ 23,802	\$ -	\$ 510,407
Accrued compensated absences	85,341	-	-	85,341
Accounts payable	78,496	18,739	-	97,235
Taxes paid in advance	135,565	-	-	135,565
Payroll withholdings payable	17,404	-	-	17,404
Due to other funds	390,756	-	8,785	399,541
Payable to other governments	5,403	-	-	5,403
Line of credit	500,000	-	-	500,000
Deferred revenue	310,100	11,305	-	321,405
	<u>2,009,670</u>	<u>53,846</u>	<u>8,785</u>	<u>2,072,301</u>
Total liabilities				
Fund balances				
Nonspendable for				
Inventories	16,162	9,435	-	25,597
Lending programs	-	432,110	-	432,110
Endowments	-	-	489,052	489,052
Restricted for				
Education	(456,991)	-	-	(456,991)
Education grants	-	116,348	-	116,348
Non-education grants	-	683,830	-	683,830
Permanent fund	-	-	82,886	82,886
Committed for				
Equipment	-	-	268,213	268,213
Vocational Center	-	-	17,661	17,661
Capital projects	-	-	280,874	280,874
Unassigned	1,455,582	-	-	1,455,582
	<u>1,014,753</u>	<u>1,241,723</u>	<u>1,138,686</u>	<u>3,395,162</u>
Total fund balances				
Total liabilities and fund balances	<u>\$ 3,024,423</u>	<u>\$ 1,295,569</u>	<u>\$ 1,147,471</u>	<u>\$ 5,467,463</u>

City of Calais
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Position
June 30, 2013

Total fund balance, governmental funds	\$ 3,395,162
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.	5,227,216
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.	(931,013)
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>310,100</u>
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 8,001,465</u>

City of Calais
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2013

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 3,399,044	\$ -	\$ -	\$ 3,399,044
Excise taxes	483,233	-	-	483,233
Intergovernmental education	6,904,537	936,179	-	7,840,716
Intergovernmental other	690,320	322,808	-	1,013,128
Charges for services and other	294,955	43,150	41,553	379,658
Principal contributions	-	-	11,700	11,700
Investment income	1,419	22,713	37,525	61,657
Realized gains (losses) on investments	-	(144)	(176)	(320)
Unrealized gains (losses) on investments	-	(4,662)	(8,615)	(13,277)
On-behalf payments - State of Maine	435,600	-	-	435,600
Charges for services - education	-	96,224	-	96,224
Other income - education	-	11,924	-	11,924
Total revenues	12,209,108	1,428,192	81,987	13,719,287
EXPENDITURES				
Current				
City council	15,863	-	-	15,863
Administration, finance and development	491,881	-	-	491,881
Library	163,466	-	44,268	207,734
Parks and recreation	162,799	-	328	163,127
Police department	698,012	-	162	698,174
Fire department	418,089	-	-	418,089
Public works - general	491,259	-	-	491,259
Public works - street lights	83,951	-	-	83,951
Public works - solid waste disposal	93,405	-	-	93,405
Public works - cemetery	82,607	-	-	82,607
Public buildings - North Street	49,912	-	-	49,912
Insurance	50,704	-	-	50,704
County	254,197	-	-	254,197
Education	8,705,391	759,518	2,868	9,467,777
On-behalf payments - State of Maine	435,600	-	-	435,600
Program	-	698,659	-	698,659
Miscellaneous	224,709	-	23,209	247,918
Debt service				
Principal	717,925	-	-	717,925
Interest and other charges	34,858	-	-	34,858
Capital outlay	40,827	-	426,656	467,483
Total expenditures	13,215,455	1,458,177	497,491	15,171,123
Excess (deficiency) of revenues over expenditures	(1,006,347)	(29,985)	(415,504)	(1,451,836)
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt, net	638,905	-	247,279	886,184
Proceeds from capital leases	9,946	-	-	9,946
Transfers in	16,430	18,000	324,385	358,815
Transfers out	(340,085)	(9,430)	(9,300)	(358,815)
Total other financing sources (uses)	325,196	8,570	562,364	896,130
SPECIAL ITEM				
Proceeds from sale of property	7,483	-	43,635	51,118
Net change in fund balances	(673,668)	(21,415)	190,495	(504,588)
FUND BALANCE - BEGINNING	1,688,421	1,263,138	948,191	3,899,750
FUND BALANCE - ENDING	\$ 1,014,753	\$ 1,241,723	\$ 1,138,686	\$ 3,395,162

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, 2013

Net change in fund balances - total governmental funds: \$ (504,588)

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	\$ 473,984	
Depreciation	<u>(251,382)</u>	222,602

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	(51,118)	
Costs related to proceeds	<u>23,213</u>	(27,905)

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.

5,100

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 proceeds exceeded repayments.

(167,954)

Change in net assets of governmental activities

\$ (472,745)

City of Calais
Statement of Net Position - Proprietary Funds
June 30, 2013

	Enterprise Funds			Total
	Sewer Fund	Ambulance Fund	Water Fund*	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 8,932	\$ 12,252	\$ 287,626	\$ 308,810
Accounts receivable, net of ambulance allowance of \$50,000 and water allowance of \$5,000	397,476	281,344	145,840	824,660
Receivables from other governments	295,918	-	-	295,918
Due from lender	358,262	-	441,655	799,917
Inventories	-	-	45,060	45,060
Total current assets	<u>1,060,588</u>	<u>293,596</u>	<u>920,181</u>	<u>2,274,365</u>
Noncurrent assets				
Property, plant and equipment	22,295,550	495,245	8,355,537	31,146,332
Accumulated depreciation	<u>(5,611,890)</u>	<u>(409,319)</u>	<u>(1,889,928)</u>	<u>(7,911,137)</u>
Total noncurrent assets	<u>16,683,660</u>	<u>85,926</u>	<u>6,465,609</u>	<u>23,235,195</u>
Total assets	<u>17,744,248</u>	<u>379,522</u>	<u>7,385,790</u>	<u>25,509,560</u>
LIABILITIES				
Current liabilities				
Accounts payable	328,326	4,871	18,190	351,387
Accrued wages	-	8,227	-	8,227
Accrued compensated absences	-	8,621	-	8,621
Accrued interest payable	34,498	826	3,160	38,484
Due to other funds	1,168,287	420,455	275,152	1,863,894
Bond anticipation notes	-	-	305,000	305,000
Bonds payable	<u>341,792</u>	<u>79,193</u>	<u>181,099</u>	<u>602,084</u>
Total current liabilities	1,872,903	522,193	782,601	3,177,697
Noncurrent liabilities				
Bonds payable	<u>5,500,968</u>	<u>79,638</u>	<u>3,508,164</u>	<u>9,088,770</u>
Total liabilities	<u>7,373,871</u>	<u>601,831</u>	<u>4,290,765</u>	<u>12,266,467</u>
NET POSITION				
Invested in capital assets, net of related debt	11,199,162	(72,905)	2,913,002	14,039,259
Restricted for capital projects	158,790	-	-	158,790
Restricted for vehicle replacement	-	176,003	-	176,003
Unrestricted (deficit)	<u>(987,575)</u>	<u>(325,407)</u>	<u>182,023</u>	<u>(1,130,959)</u>
Total net position (deficit)	<u>\$ 10,370,377</u>	<u>\$ (222,309)</u>	<u>\$ 3,095,025</u>	<u>\$ 13,243,093</u>

* Note - the Water Fund's balances are as of the end of its fiscal year which is December 31, 2012.

City of Calais
Statement of Revenues, Expenses and Changes in Fund Net Position -
Proprietary Funds
For the Year Ended June 30, 2013

	<u>Enterprise Funds</u>			<u>Total</u>
	<u>Sewer Fund</u>	<u>Ambulance Fund</u>	<u>Water Fund*</u>	
REVENUES				
Charges for services	\$ 922,310	\$ 732,010	\$ 651,984	\$ 2,306,304
OPERATING EXPENSES				
Operations	597,762	692,365	368,876	1,659,003
Depreciation	476,435	106,178	154,145	736,758
Total operating expenses	1,074,197	798,543	523,021	2,395,761
Operating income (loss)	(151,887)	(66,533)	128,963	(89,457)
NONOPERATING REVENUES (EXPENSES)				
Grant contributions	1,928,468	-	-	1,928,468
Interest income	16,220	-	1,132	17,352
Forgiveness of debt - Maine Municipal Bond Bank	-	-	312,750	312,750
Interest expense	(117,504)	(3,337)	(11,074)	(131,915)
Total nonoperating revenue (expenses)	1,827,184	(3,337)	302,808	2,126,655
Change in net position	1,675,297	(69,870)	431,771	2,037,198
NET POSITION - BEGINNING (DEFICIT)	8,695,080	(152,439)	2,663,254	11,205,895
NET POSITION - ENDING (DEFICIT)	<u>\$10,370,377</u>	<u>\$ (222,309)</u>	<u>\$3,095,025</u>	<u>\$ 13,243,093</u>

* Note - the Water Fund's balances are as of the end of its fiscal year which is December 31, 2012.

City of Calais
Statement of Cash Flows -
Proprietary Fund
For the Year Ended June 30, 2013

	Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 2,288,666
Payments for administrative services	(1,057,693)
Payments to suppliers for goods and services	<u>(540,370)</u>
Net cash provided by operating activities	<u>690,603</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(3,504,446)
Bonds and bond anticipation note drawdowns	1,754,637
Proceeds from debt	853,831
Interest paid on debt	(136,415)
Repayment of debt	(1,368,044)
Grant contributions	<u>1,632,550</u>
Net cash used by capital and related financing activities	<u>(767,887)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on cash	<u>17,352</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(59,932)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>368,742</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 308,810</u>
Supplemental information	
Interest paid during the fiscal year	<u>\$ (136,415)</u>
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	\$ (89,457)
Depreciation	736,758
Changes in assets and liabilities	
Decrease in inventories	544
Increase in accounts receivable	(17,638)
Increase in operating accounts payable	(9,753)
Increase in accrued wages	1,931
Increase in accrued compensated absences	347
Increase in operating due to other funds	<u>67,871</u>
Net cash provided by operating activities	<u>\$ 690,603</u>

City of Calais
Statement of Fiduciary Net Position -
Fiduciary Funds
June 30, 2013

	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 207,048
Investments	65,946	-
	<u>65,946</u>	<u>-</u>
Total assets	<u>65,946</u>	<u>207,048</u>
LIABILITIES		
Due to other governmental agencies	-	83,861
Due to student groups	-	123,187
	<u>-</u>	<u>123,187</u>
Total liabilities	<u>-</u>	<u>207,048</u>
NET POSITION		
Reserved for scholarships	55,451	-
Unreserved	10,495	-
	<u>65,946</u>	<u>-</u>
Total net position	<u>\$ 65,946</u>	<u>\$ -</u>

City of Calais
Statement of Changes in Fiduciary Net Position -
Fiduciary Funds
For the Year Ended June 30, 2013

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Investment income	\$ 916
Realized gains (losses) on investments	(21)
Unrealized gains (losses) on investments	<u>(1,001)</u>
Net investment earnings	<u>(106)</u>
DEDUCTIONS	
Scholarships	2,500
Administrative expenses	<u>387</u>
Total deductions	<u>2,887</u>
Change in net assets	(2,993)
NET POSITION - BEGINNING	<u>68,939</u>
NET POSITION - ENDING	<u><u>\$ 65,946</u></u>

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

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. 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, 2013

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, 2012.

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.

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 position and the operating statements present increases, revenues, and decreases, expenses, in net total position. 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. 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.

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.

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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".

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

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 \$5,000 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.

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 is reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

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. Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements as well as the proprietary and fiduciary fund financial statements. Net position 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 position is reported as restricted when there are limitations imposed on its 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. The remaining net position is reported as unrestricted. For expenditures that qualify for either classification, amounts will be first spent from restricted net position then from unrestricted net position.

9. Governmental Fund Balances

Fund balance represents the difference between assets and liabilities in the governmental fund financial statements. Fund balance must 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.

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 City'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.

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

9. Governmental Fund Balances (Continued)

The City has adopted a minimum fund balance policy and policy addressing the order of the use of funds. 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. New Governmental Accounting Standard

During the fiscal year ended June 30, 2013, the City implemented Governmental Accounting Standards Board (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.

11. Recent Accounting Pronouncements

In March, 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement is effective for periods beginning after December 15, 2012.

The City does not believe the adoption of this statement will have a material effect on the Unit's financial statements.

In March, 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 66, *Technical Corrections – 2012*. This statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting by amending GASB Statement No. 10 Accounting and Financial Reporting for Risk Financing and Related Insurance Issues and GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

The statement is effective for periods beginning after December 15, 2012. The City does not believe the adoption of this statement will have a material effect on the Unit's financial statements.

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

12. Revenue Recognition - Property Taxes

Property taxes were levied on assessed values of April 1, 2012, and were due on October 1, 2012. 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 28, 2013.

Property taxes assessed and collected during the year ended June 30, 2013, 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	\$137,931,140
Personal property	<u>9,223,000</u>
	\$147,154,140
Tax rate (per \$1,000)	<u>23.30</u>
Commitment	\$ 3,428,691
Supplemental taxes assessed	<u>426</u>
	\$ 3,429,117
Less collections and abatements	<u>(3,183,111)</u>
	\$ 246,006
Receivable at June 30, 2013	<u>\$ 246,006</u>
Collection rate	92.8%

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, 2013, the City reported deposits of \$1,056,226 with bank balances of \$1,647,390. Of the City's total bank balance of \$1,647,390, \$0 was exposed to custodial credit risk as the \$1,647,390 bank balance was insured or collateralized by underlying securities held by the related bank, although the collateral of \$805,563 was not in the City's name.

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

Deposits have been reported as follows:

Reported in governmental funds	\$ 540,368
Reported in proprietary funds	<u>308,810</u>
Total reported on the Statement of Net Position	849,178
Reported in agency funds	<u>207,048</u>
 Total deposits	 <u>\$1,056,226</u>

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, 2013 of \$1,100,649, 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:

	<u>Due in less than one year</u>	<u>Due in 1-5 years</u>	<u>Due in 6-10 years</u>	<u>Due in more than ten years</u>
U.S. Agency notes	\$ 50,182	\$263,364	\$172,154	\$ -
Certificates of deposit	<u>215,651</u>	<u>298,399</u>	<u>100,899</u>	<u>-</u>
 Total debt investments	 <u>\$265,833</u>	 <u>\$561,763</u>	 <u>\$273,053</u>	 <u>\$ -</u>

Investments of \$1,100,649 have been reported as follows:

Reported in governmental funds	\$1,034,703
<i>Investments not included in government-wide statements</i>	
Reported in fiduciary funds	<u>65,946</u>
 Total investments	 <u>\$1,100,649</u>

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 is as follows:

	Balance 6/30/12	Additions/ Completion	Retire- ments	Balance 6/30/13
Governmental Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 3,089,305	\$ -	\$ -	\$ 3,089,305
Construction in progress	-	87,331	-	87,331
Total capital assets not being depreciated	<u>3,089,305</u>	<u>87,331</u>	<u>-</u>	<u>3,176,636</u>
<i>Capital assets being depreciated</i>				
Buildings and improvements	1,662,364	8,967	-	1,671,331
Equipment and furniture	1,757,148	180,139	(57,800)	1,879,487
Vehicles	1,705,313	197,547	(69,546)	1,833,314
Total capital assets being depreciated	<u>5,124,825</u>	<u>386,653</u>	<u>(127,346)</u>	<u>5,384,132</u>
<i>Less accumulated depreciation for</i>				
Buildings and improvements	(851,465)	(39,010)	-	(890,475)
Equipment and furniture	(1,168,754)	(117,067)	57,800	(1,228,021)
Vehicles	(1,161,392)	(95,305)	41,641	(1,215,056)
Total accumulated depreciation	<u>(3,181,611)</u>	<u>(251,382)</u>	<u>99,441</u>	<u>(3,333,552)</u>
Total capital assets, being depreciated net	<u>1,943,214</u>	<u>135,271</u>	<u>(27,905)</u>	<u>2,050,580</u>
Governmental activities capital assets, net	<u>\$ 5,032,519</u>	<u>\$ 222,602</u>	<u>\$ (27,905)</u>	<u>\$ 5,227,216</u>
Business-type activities				
<i>Capital assets not being depreciated</i>				
Land and organizational costs	\$ 75,896	\$ -	\$ -	\$ 75,896
Construction in progress	393,815	3,370,118	(3,416,802)	347,131
Total capital assets not being depreciated	<u>469,711</u>	<u>3,370,118</u>	<u>(3,416,802)</u>	<u>423,027</u>
<i>Capital assets being depreciated</i>				
Infrastructure	17,885,064	3,249,677	-	21,134,741
Buildings and improvements	8,204,057	227,964	-	8,432,021
Equipment, furniture and vehicles	1,137,394	19,149	-	1,156,543
Total capital assets, being depreciated	<u>27,226,515</u>	<u>3,496,790</u>	<u>-</u>	<u>30,723,305</u>
<i>Less accumulated depreciation for</i>				
Infrastructure	(2,729,320)	(366,762)	-	(3,096,082)
Buildings and improvements	(3,575,202)	(252,213)	-	(3,827,415)
Equipment, furniture and vehicles	(869,857)	(117,783)	-	(987,640)
Total accumulated depreciation	<u>(7,174,379)</u>	<u>(736,758)</u>	<u>-</u>	<u>(7,911,137)</u>
Total capital assets, being depreciated net	<u>20,052,136</u>	<u>2,760,032</u>	<u>-</u>	<u>22,812,168</u>
Business-type activities capital assets, net	<u>\$20,521,847</u>	<u>\$6,130,150</u>	<u>\$(3,416,802)</u>	<u>\$23,235,195</u>

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 3. CAPITAL ASSETS (CONTINUED)

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

<i>Governmental activities</i>	
Administration	\$ 10,338
Library	14,110
Parks and recreation	12,262
Police department	35,758
Fire department	37,028
Public works – general	73,169
Public works – solid waste	800
Public works – cemetery	2,775
Public buildings – North Street	13,008
Education	<u>52,134</u>
Total depreciation expense – Governmental activities	<u>\$251,382</u>
<i>Business-type activities</i>	
Sewer fund	\$476,435
Ambulance fund	106,178
Water fund	<u>154,145</u>
Total depreciation expense – Business-type activities	<u>\$736,578</u>

NOTE 4. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2013, is summarized as follows:

	Balance 6/30/12	Increase	Decrease	Balance 6/30/13	Due Within One Year
<i>Governmental activities</i>					
Notes payable	\$ 717,925	\$ 886,184	\$(717,925)	\$ 886,184	\$139,432
Capital leases	<u>45,134</u>	<u>9,946</u>	<u>(10,251)</u>	<u>44,829</u>	<u>12,356</u>
Governmental activities long- term debt	<u>\$ 763,059</u>	<u>\$ 896,130</u>	<u>\$(728,176)</u>	<u>\$ 931,013</u>	<u>\$151,788</u>
<i>Business-type activities</i>					
Bonds payable	\$ 9,636,985	\$ 382,250	\$ (513,747)	\$ 9,505,488	\$519,481
Notes payable	<u>185,832</u>	<u>158,831</u>	<u>(159,297)</u>	<u>185,366</u>	<u>82,603</u>
Business-type activities long- term debt	<u>\$ 9,822,817</u>	<u>\$ 541,081</u>	<u>\$(673,044)</u>	<u>\$ 9,690,854</u>	<u>\$602,084</u>
Total	<u>\$10,585,876</u>	<u>\$1,437,211</u>	<u>\$(1,401,220)</u>	<u>\$10,621,867</u>	<u>\$753,872</u>

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 4. LONG-TERM DEBT (CONTINUED)

Obligations under capital leases

The City is the lessee of capital leases expiring in 2019. 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, 2013 are:

2014	\$14,414
2015	14,414
2016	14,414
2017	3,606
2018	2,220
2019	<u>555</u>
	49,623
Less amount representing interest	<u>4,794</u>
Present value of minimum lease payments	<u><u>\$44,829</u></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, 2013:

	Original Amount	Principal Balance 6/30/12	Borrowed (Forgiven/ (Paid)	Principal Balance 6/30/13
<i>Governmental Debt</i>				
General Obligation Notes Payable				
<i>The First, N.A.</i>				
2001 Municipal Note, due 2017, with annual principal and interest payments. Interest at 4.93%.	\$159,500	\$ 65,243	\$ (65,243)	\$ -
2010 Municipal Note, due 2020, with monthly principal and interest payments. Interest at 4.30%.	806,900	652,682	(652,682)	-
2013 Municipal Note, due 2017, with annual principal and interest payments. Interest at 1.35%.	53,913	-	53,913	53,913
2013 Municipal Note, due 2018, with annual principal and interest payments. Interest at 1.40%	247,279	-	247,279	247,279
<i>Machias Savings Bank</i>				
2013 Municipal Note, due 2020, with annual principal and interest payments. Interest at 2.20%	584,992	-	584,992	584,992
Total general obligation notes payable		<u>717,925</u>	<u>168,259</u>	<u>886,184</u>

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 4. LONG-TERM DEBT (CONTINUED)

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

	Original Amount	Principal Balance 6/30/12	Borrowed (Forgiven/ (Paid)	Principal Balance 6/30/13
<i>Business-type Debt</i>				
Proprietary Fund Bonds and Notes Payable				
<i>Camden National</i>				
2009 Ambulance – Note Payable due 2014, with annual principal and interest payments. Interest at 3.11%.	\$ 390,000	\$ 156,000	\$(156,000)	\$ -
2010 Water – Municipal Bond due 2021, with annual principal and interest payments. Interest at 3.13%. <i>Balance as of 12/31/12.</i>	171,754	154,554	(17,200)	137,354
<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 12/31/12.</i>	50,000	29,832	(3,297)	26,535
<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	1,291,054	(116,006)	1,175,048
2013 Ambulance – Note Payable due 2015, With annual principal and interest payments. Interest at 1.15%	158,831	-	158,831	158,831
2009 Sewer - Municipal Bond, due 2030, with annual principal and semi-annual interest payments. Interest at 1.000%.	978,822	889,471	(45,347)	844,124
2010 Sewer - Municipal Bond, due 2030, with annual principal and semi-annual interest payments. Interest at 1.000%.	943,371	857,256	(43,705)	813,551
2008 Water - Municipal Bond, due 2031, with annual principal payments. Interest at 0.000%. <i>Balance as of 12/31/12.</i>	1,963,998	1,636,657	(81,833)	1,554,824
2009 Water - Municipal Bond, due 2036, with annual principal payments. Interest at 0.000%. <i>Balance as of 12/31/12.</i>	1,450,000	816,518	(32,661)	783,857
2009 Water - Municipal Bond, due 2039, with annual principal payments. Interest at 0.000%. <i>Balance as of 12/31/12.</i>	44,500	40,792	(1,484)	39,308
2009 Water - Municipal Bond, due 2039, with annual principal payments. Interest at 0.000%. <i>Balance as of 12/31/12.</i>	261,000	131,587	(4,785)	126,802
2009 Water - Municipal Bond, due 2039, with annual principal payments. Interest at 0.000%. <i>Balance as of 12/31/12.</i>	835,000	545,533	(19,482)	526,051
2012 Water – Municipal Bond, due 2042, with annual principal payments. Interest at 0.000%. <i>Balance as of 12/31/12.</i>	382,250	-	369,508	369,508
2010 Sewer - Municipal Bond, due 2031, with annual principal and semi-annual interest payments. Interest at 1.000%.	2,263,000	1,186,549	(57,016)	1,129,533

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 4. LONG-TERM DEBT (CONTINUED)

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

	Original Amount	Principal Balance 6/30/12	Borrowed (Forgiven/ (Paid)	Principal Balance 6/30/13
<i>Business-type Debt (Continued)</i>				
Proprietary Fund Bonds and Notes Payable (Continued)				
<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	\$ 1,177,764	\$ (54,034)	\$ 1,123,730
<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	(20,226)	756,774
<i>Bar Harbor Bank and Trust</i>				
2005 General obligation water bond, due 2025, with annual principal and interest Payments. Interest at 3.99%. <i>Balance as of 12/31/12.</i>	170,000	<u>132,250</u>	<u>(7,226)</u>	<u>125,024</u>
Total proprietary fund bonds payable		<u>9,822,817</u>	<u>(131,963)</u>	<u>9,690,854</u>
Total general obligation and proprie- tary fund bonds and notes payable		<u>\$10,540,742</u>	<u>\$ 36,296</u>	<u>\$10,577,038</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	
2014	\$139,432	\$17,232	\$ 602,084	\$104,304	\$ 863,052
2015	142,018	14,645	608,515	97,342	862,520
2016	144,663	12,000	534,978	89,777	781,418
2017	147,335	9,328	541,191	82,988	780,842
2018	136,221	6,553	547,551	76,057	766,382
2019-2023	176,515	5,928	2,643,068	268,819	3,094,330
2024-2028	-	-	2,094,045	129,618	2,223,663
2029-2033	-	-	1,455,387	49,490	1,504,877
2034-2038	-	-	491,897	19,752	511,649
2039-2042	-	-	<u>172,138</u>	<u>2,465</u>	<u>174,603</u>
	<u>\$886,184</u>	<u>\$65,686</u>	<u>\$9,690,854</u>	<u>\$920,612</u>	<u>\$11,563,336</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, 2013, the City was in compliance with these limitations.

During the year ended June 30, 2013, the City was approved under the State *Drinking Water Revolving Loan Fund*. Under this program a total of \$312,750, which represents 45% of the original loan amount, was forgiven by the Maine Municipal Bond Bank.

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

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, 2013, the Trustees had debt outstanding of \$4,716,936 of which the City's share was 100% for a total of \$4,716,936.

NOTE 5. OPERATING LEASES

Obligations under operating leases

The City is currently committed to operating lease payments of \$151,486 over the next four years for copiers and portable classroom leases. Future lease payment requirements are as follows:

2014	\$ 60,207
2015	60,207
2016	30,934
2017	138
	<u>\$151,486</u>

Operating lease payments were \$62,195 for fiscal year 2013.

NOTE 6. BOND ANTICIPATION NOTES AND LINE OF CREDIT

The City entered into temporary financing agreements as follows for the year ended June 30, 2013:

	Purpose of Financing	Balance 7/1/12	Draws	Paid	Balance 6/30/13
The First, N.A.	Cash Flow - general	\$ -	\$500,000	\$ -	\$500,000
Maine Municipal Bond Bank	Project-proprietary	<u>695,000</u>	<u>305,000</u>	<u>(695,000)</u>	<u>305,000</u>
		<u>\$695,000</u>	<u>\$805,000</u>	<u>\$(695,000)</u>	<u>\$805,000</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, 2013 arising from these transactions were as follows:

	Receivable	Payable	Transfers In	Transfers Out
General fund	\$1,872,678	\$ 390,756	\$ 16,430	\$340,085
Special revenue fund	92,221	-	18,000	9,430
Nonmajor governmental funds	298,535	8,785	324,385	9,300
Enterprise fund	-	1,863,894	-	-
	<u>\$2,263,435</u>	<u>\$2,263,435</u>	<u>\$358,815</u>	<u>\$358,815</u>

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 7. INTERFUND TRANSACTIONS (CONTINUED)

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, 2013, restricted net assets for endowments were of the following:

	Nonspendable - Principal	Accumulated Income
Cemetery	\$316,731	\$29,827
Library	84,850	58,061
Poor	77,721	(8,054)
Pool	9,750	3,052
	<u>\$489,052</u>	<u>\$82,886</u>

NOTE 9. RESTRICTED NET ASSETS - EDUCATION

At June 30, 2013, the school's restricted net assets were comprised of the following:

	General Fund	Special Revenue Fund
General education	\$ (3,064)	\$ -
Accrued summer teacher pay - general	(453,927)	-
State and federal grants	-	34,126
School lunch program	-	37,009
Local contributions	-	54,648
	<u>\$(456,991)</u>	<u>\$125,783</u>

NOTE 10. RESTRICTED NET ASSETS -- NON-EDUCATION

At June 30, 2013, the non-education restricted net assets of \$1,115,940 were comprised of the following:

	Restricted - Lending programs	Restricted
Banks walkway grant	\$ -	\$ 306
Dawson program income	-	11,184
Downtown community enterprise	-	7,297
Pet smart grant	-	18,326
Rental rehabilitation	-	272
UDAG and Uptown programs	432,110	646,445
	<u>\$432,110</u>	<u>\$683,830</u>

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 11. COMMITTED - CAPITAL PROJECTS

At June 30, 2013, the committed fund balance for capital projects is comprised of the following:

Animal control fees	\$ 1,631
Arts council donations	199
Assessing	867
Concert donations	3,525
Firefighter training and other projects	2,873
Land disposition	990
Library donations and projects	28,708
Maine Downtown Network	1,289
Meridian park	825
Nursing home	120
Police - DARE and other projects	9,763
Recreation	3,992
Skateboard park	216
Transfer station	3,072
Public works	13,500
Veteran's Memorial	852
WCPA purchase	<u>208,452</u>
	<u>\$280,874</u>

NOTE 12. COMMITMENTS

At June 30, 2013, the City, through its school department, is committed to \$1,301,407 for the balance of the five year transportation contract which ends in 2017. The City, through its school department is also committed to \$68,622 for the balance of its three year clinical assessment and treatment services contract, which ends in 2014. The City is committed to \$1,124,236 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 cost-sharing, 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.

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, 2013, was \$3,145,080.

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 13. PENSION PLANS (CONTINUED)

Defined Benefit Pension Plans (Continued)

Teachers and Other Qualified Educators (Continued)

The State of Maine Department of Education is required, by state statute, to contribute the employer contribution which amounts to \$435,600 (13.85%) of compensation for the year ended June 30, 2013. The School Department is required to contribute 14.32% of compensation for federally funded teachers. This cost amounted to \$27,505 for the year ended June 30, 2013, and is chargeable to the applicable grant.

Starting July 1, 2013, the School Department is required to contribute 2.65% of compensation to cover the normal costs for all teachers.

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, 2013 for employees covered by this plan was \$1,666,786.

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 6/30/13		Year ended 6/30/12		Year ended 6/30/11	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Employer	\$ 51,892	3.11%	\$ 32,209	1.93%	\$ 9,762	0.63%
Employee	108,340	6.50	108,329	6.50	100,510	6.50

Deferred Compensation Plan

The City also provides a 457 Deferred Compensation Plan administered by International City Manager Association (ICMA) Retirement Corporation. A copy of the most recent financial report may be obtained from the plan administrator. The City does not contribute to the plan. Employees elected to defer \$830 under this plan.

City of Calais, Maine
Notes to Basic Financial Statements
June 30, 2013

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, 2013

	Budgeted Amounts		Actual	Budget to	Actual
	Original	Final	Amounts - Budgetary Basis	GAAP Differ- ences*	Amounts - GAAP Basis
REVENUES					
Property taxes	\$ 3,428,691	\$ 3,428,691	\$ 3,399,044	\$ -	\$ 3,399,044
Excise taxes	448,000	448,000	483,233	-	483,233
Intergovernmental education	7,400,860	7,400,860	6,904,537	-	6,904,537
Intergovernmental other	624,160	624,160	690,320	-	690,320
Charges for services	264,495	264,495	294,955	-	294,955
On-behalf payments - State of Maine	-	-	-	435,600	435,600
Investment income	2,000	2,000	1,419	-	1,419
Total revenues	12,168,206	12,168,206	11,773,508	435,600	12,209,108
EXPENDITURES					
Current					
City council	16,041	16,041	15,863	-	15,863
Administration, finance and development	511,108	511,108	492,741	(860)	491,881
Library	157,929	157,929	169,065	(5,599)	163,466
Parks and recreation	178,019	178,019	164,210	(1,411)	162,799
Police department	700,082	700,082	697,631	481	698,012
Fire department	415,432	415,432	411,945	6,144	418,089
Public works - general	562,268	562,268	492,055	(796)	491,259
Public works - street lights	83,500	83,500	83,951	-	83,951
Public works - solid waste disposal	111,137	111,137	93,297	108	93,405
Public works - cemetery	93,935	93,935	82,854	(247)	82,607
Public buildings - North Street	53,650	53,650	50,057	(145)	49,912
Insurance	52,700	52,700	50,704	-	50,704
County	254,197	254,197	254,197	-	254,197
Education	8,732,718	8,732,718	8,678,527	26,864	8,705,391
On-behalf payments - State of Maine	-	-	-	435,600	435,600
Miscellaneous	229,172	229,172	224,709	-	224,709
Debt service					
Principal	82,295	82,295	79,020	638,905	717,925
Interest and other charges	30,981	30,981	34,858	-	34,858
Capital outlay	28,136	46,430	40,827	-	40,827
Total expenditures	12,293,290	12,311,584	12,116,411	1,099,044	13,215,455
Excess (deficiency) of revenues over expenditures	<u>(125,084)</u>	<u>(143,378)</u>	<u>(342,903)</u>	<u>(663,444)</u>	<u>(1,006,347)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from long-term debt	-	-	-	638,905	638,905
Proceeds from capital lease	-	-	-	9,946	9,946
Transfers in	16,430	16,430	16,430	-	16,430
Transfers out	(324,340)	(324,340)	(340,085)	-	(340,085)
Total other financing sources (uses)	(307,910)	(307,910)	(323,655)	648,851	325,196
SPECIAL ITEM					
Proceeds from sale of capital assets	2,000	2,000	7,483	-	7,483
Net change in fund balances	(430,994)	(449,288)	(659,075)	(14,593)	(673,668)
FUND BALANCE - BEGINNING	1,688,421	1,688,421	1,688,421	-	1,688,421
FUND BALANCE - ENDING	\$ 1,257,427	\$ 1,239,133	\$ 1,029,346	\$ (14,593)	\$ 1,014,753

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

Net change in fund balances - budget basis	\$ (659,075)
On behalf payments revenue	435,600
On behalf payments expenditures	(435,600)
Debt service refinancing	638,905
Debt service expenditures	(638,905)
Capital lease proceeds	9,946
Capital lease purchase	(9,946)
Change in accrued wages and accrued compensated absences	(14,593)
Net change in fund balances - GAAP basis	\$ (673,668)

City of Calais
Budget and Actual (with Variances) - General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts - Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 3,428,691	\$ 3,428,691	\$ 3,399,044	\$ (29,647)
Excise taxes	448,000	448,000	483,233	35,233
Intergovernmental education	7,400,860	7,400,860	6,904,537	(496,323)
Intergovernmental other	624,160	624,160	690,320	66,160
Charges for services	264,495	264,495	294,955	30,460
Investment earnings	2,000	2,000	1,419	(581)
Total revenues	12,168,206	12,168,206	11,773,508	(394,698)
EXPENDITURES				
Current				
City council	16,041	16,041	15,863	178
Administration, finance and development	511,108	511,108	492,741	18,367
Library	157,929	157,929	169,065	(11,136)
Parks and recreation	178,019	178,019	164,210	13,809
Police department	700,082	700,082	697,531	2,551
Fire department	415,432	415,432	411,945	3,487
Public works - general	562,258	562,258	492,055	70,203
Public works - street lights	83,500	83,500	83,951	(451)
Public works - solid waste disposal	111,137	111,137	93,297	17,840
Public works - cemetery	93,935	93,935	82,854	11,081
Public buildings - North Street	53,650	53,650	50,057	3,593
Insurance	52,700	52,700	50,704	1,996
County	254,197	254,197	254,197	-
Education	8,732,718	8,732,718	8,678,527	54,191
Miscellaneous	229,172	229,172	224,709	4,463
Debt service				
Principal	82,295	82,295	79,020	3,275
Interest and other charges	30,981	30,981	34,858	(3,877)
Capital outlay				
	28,136	46,430	40,827	5,603
Total expenditures	12,293,290	12,311,584	12,116,411	195,173
Excess (deficiency) of revenues over expenditures	(125,084)	(143,378)	(342,903)	(199,525)
OTHER FINANCING SOURCES (USES)				
Transfers in	16,430	16,430	16,430	-
Transfers out	(324,340)	(324,340)	(340,085)	(15,745)
Total other financing sources (uses)	(307,910)	(307,910)	(323,655)	(15,745)
SPECIAL ITEM				
Proceeds from sale capital assets	2,000	2,000	7,483	5,483
Net change in fund balances	(430,994)	(449,288)	(659,075)	\$ (209,787)
FUND BALANCE - BEGINNING	1,688,421	1,688,421	1,688,421	
FUND BALANCE - ENDING	\$ 1,257,427	\$ 1,239,133	\$ 1,029,346	

City of Calais
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2013

	<u>Capital Projects</u>	<u>Permanent Fund</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 268,213	\$ 59,490	\$ 327,703
Investments	-	521,233	521,233
Due from other funds	298,535	-	298,535
	<u>\$ 566,748</u>	<u>\$ 580,723</u>	<u>\$ 1,147,471</u>
LIABILITIES AND FUND BALANCES			
Due to other funds	<u>\$ -</u>	<u>\$ 8,785</u>	<u>\$ 8,785</u>
Fund balances			
Nonspendable for			
Endowments	-	489,052	489,052
Restricted for			
Permanent fund	-	82,886	82,886
Committed for			
Equipment	268,213	-	268,213
Vocational Center	17,661	-	17,661
Capital projects	280,874	-	280,874
	<u>566,748</u>	<u>571,938</u>	<u>1,138,686</u>
Total fund balances	<u>566,748</u>	<u>571,938</u>	<u>1,138,686</u>
Total liabilities and fund balances	<u>\$ 566,748</u>	<u>\$ 580,723</u>	<u>\$ 1,147,471</u>

City of Calais
Combining Statement of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	<u>Capital Projects</u>	<u>Permanent Fund</u>	<u>Totals</u>
REVENUES			
Charges for services	\$ 17,637	\$ -	\$ 17,637
Principal contributions	-	11,700	11,700
Investment income	29,224	8,301	37,525
Realized gains (losses) on investments	-	(176)	(176)
Unrealized gains (losses) on investments	-	(8,615)	(8,615)
Other income	23,916	-	23,916
	<u>70,777</u>	<u>11,210</u>	<u>81,987</u>
EXPENDITURES			
Current			
Library	43,344	924	44,268
Parks and recreation	260	68	328
Police department	162	-	162
Education	2,868	-	2,868
Miscellaneous	18,147	5,062	23,209
Capital outlay	426,656	-	426,656
	<u>491,437</u>	<u>6,054</u>	<u>497,491</u>
Excess (deficiency) of revenues over expenditures	<u>(420,660)</u>	<u>5,156</u>	<u>(415,504)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from long-term debt, net	247,279	-	247,279
Transfers in	324,385	-	324,385
Transfers out	(5,000)	(4,300)	(9,300)
	<u>566,664</u>	<u>(4,300)</u>	<u>562,364</u>
SPECIAL ITEM			
Proceeds from sale of property	43,635	-	43,635
Net change in fund balances	189,639	856	190,495
FUND BALANCES - BEGINNING	<u>377,109</u>	<u>571,082</u>	<u>948,191</u>
FUND BALANCES - ENDING	<u>\$ 566,748</u>	<u>\$ 571,938</u>	<u>\$ 1,138,686</u>

City of Calais, Maine
 Combining Statement of Revenues, Expenditures and Changes
 in Fund Balance - Special Revenue Funds
 For the Year Ended June 30, 2013

	REVENUES					EXPENDITURES			Excess of Revenues Over (Under) Expenditures	Transfers In/(Out)	Net Change in Fund Balance	FUND BALANCE	
	Inter-governmental	Investment Income	Realized Gains/(Losses)	Unrealized Gains/(Losses)	Charges for Services	Other Income	Total Revenues	Program				Educa-tion	Total Expend-itures
Non-Education Grants													
Banks walkway grant	-	-	-	-	-	19,240	-	12,924	-	-	6,316	-	306
Dawson program income	-	-	-	-	-	41,243	-	41,243	-	-	-	-	13,798
CDBG housing grant	41,243	-	-	-	-	-	-	-	-	-	-	-	-
Downtown community enterprise	150,000	-	-	-	-	150,000	-	149,371	629	7,000	7,629	(332)	7,287
Pet smart grant	-	-	-	-	-	23,760	23,760	5,434	18,326	-	18,326	-	18,326
Police small JAG grant	891	-	-	-	23,760	891	891	891	-	-	-	-	-
Police stone garden grant	53,360	-	-	-	-	53,360	53,360	53,360	-	-	-	-	-
Police 2010 JAG grant	870	-	-	-	-	870	870	870	-	-	-	-	-
Police 2011 JAG grant	976	-	-	-	-	976	976	976	-	-	-	-	-
Police 2011 JAG grant	7,550	-	-	-	-	7,550	7,550	7,550	-	-	-	-	-
Rental rehabilitation	-	4	-	(2)	-	2	2	2	-	-	-	-	-
Summer food program	1,991	-	-	-	-	1,991	1,991	1,991	-	-	-	-	-
FEMA rain disaster grant	28,634	-	-	-	-	28,634	28,634	28,634	-	-	-	-	-
Technical assistance grant	37,293	-	-	-	-	37,293	37,293	37,293	-	-	-	-	-
Urban development action grant	-	20,387	(137)	(4,434)	-	15,841	34,840	34,840	(18,999)	(7,500)	(26,499)	1,020,837	994,338
Uptown loan	-	2,322	(7)	(226)	125	2,214	1,720	1,720	494	-	494	83,723	84,217
Total non-education grants	322,808	22,713	(144)	(4,662)	19,240	363,865	377,099	377,099	6,766	(9,430)	(2,664)	1,118,604	1,115,940
Education Grants	936,179	-	-	-	96,224	1,044,327	321,560	759,518	(36,751)	18,000	(18,751)	144,534	125,783
Total special revenue	\$ 1,258,987	\$ 22,713	\$ (144)	\$ (4,662)	\$ 115,464	\$ 1,428,192	\$ 698,659	\$ 759,518	\$ (29,985)	\$ 8,570	\$ (21,415)	\$ 1,263,138	\$ 1,241,723

City of Calais, Maine
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Permanent Trust Funds
For the Year Ended June 30, 2013

	Cemetery Trust Funds	Library Trust Funds	Poor Trust Funds	Beckett Pool Funds	Totals
PRINCIPAL					
Revenues					
Additional principal	\$ 11,450	\$ 250	\$ -	\$ -	\$ 11,700
Realized capital gains (losses)	(113)	(31)	(28)	(4)	(176)
Unrealized capital gains (losses)	(5,509)	(1,527)	(1,403)	(176)	(8,615)
Increase (decrease) in fund balance	5,828	(1,308)	(1,431)	(180)	2,909
FUND BALANCE, BEGINNING	<u>310,903</u>	<u>86,158</u>	<u>79,152</u>	<u>9,930</u>	<u>486,143</u>
FUND BALANCE, ENDING	<u>\$ 316,731</u>	<u>\$ 84,850</u>	<u>\$ 77,721</u>	<u>\$ 9,750</u>	<u>\$ 489,052</u>
UNDESIGNATED					
Revenues					
Investment income	\$ 5,082	\$ 1,774	\$ 1,284	\$ 161	\$ 8,301
Expenses	(2,169)	(924)	(2,893)	(68)	(6,054)
Transfers out	(2,000)	(2,300)	-	-	(4,300)
Increase (decrease) in fund balance	913	(1,450)	(1,609)	93	(2,053)
FUND BALANCE (DEFICIT), BEGINNING	<u>28,914</u>	<u>59,511</u>	<u>(6,445)</u>	<u>2,959</u>	<u>84,939</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 29,827</u>	<u>\$ 58,061</u>	<u>\$ (8,054)</u>	<u>\$ 3,052</u>	<u>\$ 82,886</u>
TOTAL PRINCIPAL AND UNDESIGNATED FUND BALANCE, ENDING	<u>\$ 346,558</u>	<u>\$ 142,911</u>	<u>\$ 69,667</u>	<u>\$ 12,802</u>	<u>\$ 571,938</u>

City of Calais, Maine
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Poor Trust Funds
For the Year Ended June 30, 2013

	Chase Poor	J. Lewis Saunders	Lucy Wentworth	Clapp	Total
PRINCIPAL					
Revenues					
Realized capital gains (losses)	\$ (22)	\$ (6)	\$ -	\$ -	\$ (28)
Unrealized capital gains (losses)	(1,053)	(300)	(27)	(23)	(1,403)
Increase (decrease) in fund balance	(1,075)	(306)	(27)	(23)	(1,431)
FUND BALANCE, BEGINNING	<u>59,403</u>	<u>16,936</u>	<u>1,513</u>	<u>1,300</u>	<u>79,152</u>
FUND BALANCE, ENDING	<u>\$ 58,328</u>	<u>\$ 16,630</u>	<u>\$ 1,486</u>	<u>\$ 1,277</u>	<u>\$ 77,721</u>
UNDESIGNATED					
Revenues					
Investment income	\$ 963	\$ 275	\$ 25	\$ 21	\$ 1,284
Expenses	(4,408)	(1,116)	(10)	2,641	(2,893)
Increase (decrease) in fund balance	(3,445)	(841)	15	2,662	(1,609)
FUND BALANCE (DEFICIT), BEGINNING	<u>3,735</u>	<u>1,055</u>	<u>105</u>	<u>(11,340)</u>	<u>(6,445)</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 290</u>	<u>\$ 214</u>	<u>\$ 120</u>	<u>\$ (8,678)</u>	<u>\$ (8,054)</u>

City of Calais, Maine
Taxes Receivable and Tax Liens - General Fund
For the Year Ended June 30, 2013

Taxes receivable	
2012	\$ 6,762
2010	<u>213</u>
	<u>6,975</u>
Tax liens	
2012	239,244
2011	101,842
2010	<u>182</u>
	<u>341,268</u>
Total taxes receivable and tax liens	<u>\$ 348,243</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, 2013

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Local assessments	\$ 1,164,890	\$ 1,164,890	\$ -
State subsidy	4,254,664	4,077,657	(177,007)
Intergovernmental	1,714,925	1,261,573	(453,352)
Tuition and fees	1,338,371	1,509,504	171,133
Other	92,900	55,803	(37,097)
Total revenues	<u>8,565,750</u>	<u>8,069,427</u>	<u>(496,323)</u>
EXPENDITURES			
Regular instruction	2,773,313	2,827,090	(53,777)
Special education	1,990,639	2,101,882	(111,243)
Technical education	795,162	774,673	20,489
Other Instruction	156,106	140,757	15,349
Adult education	-	913	(913)
Student and staff support	396,843	305,726	91,117
System administration	252,416	279,290	(26,874)
School administration	449,305	412,102	37,203
Transportation and buses	361,464	377,595	(16,131)
Facilities maintenance	970,913	898,806	72,107
Debt service and other commitments	586,557	586,557	-
Total expenditures	<u>8,732,718</u>	<u>8,705,391</u>	<u>27,327</u>
Excess (deficiency) of revenues over expenditures	<u>(166,968)</u>	<u>(635,964)</u>	<u>(468,996)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from capital lease	-	9,946	9,946
Transfer out	(23,200)	(23,200)	
Utilization of prior year fund balance	190,168	-	(190,168)
Total other financing sources (uses)	<u>166,968</u>	<u>(13,254)</u>	<u>(180,222)</u>
Excess of revenues and other sources over expenditures and other uses	-	(649,218)	<u>\$ (649,218)</u>
FUND BALANCE - BEGINNING	<u>192,227</u>	<u>192,227</u>	
FUND BALANCE - ENDING	<u>\$ 192,227</u>	<u>\$ (456,991)</u>	

City of Calais
City of Calais School Department
Combining Schedule of Special Revenue Fund Activity
For the Year Ended June 30, 2013

	June 30, 2012				June 30, 2013
	Balance	Revenues	Transfers	Expenditures	Balance
<i>Federal grants</i>					
Title 1A Disadvantaged	\$ -	\$ 243,426	\$ 33,579	\$ 274,774	\$ 2,231
Local Entitlement	-	283,429	-	282,889	540
Preschool handicapped	-	9,107	-	9,627	(520)
Title VI - Reap	-	10,477	-	10,477	-
Title IIA - Teacher Quality	-	69,683	(33,579)	33,209	2,895
Carl Perkins	-	35,174	-	35,174	-
Education Jobs Fund	-	797	-	797	-
HRSA Grant - School Based Health	-	52,156	-	49,126	3,030
Guidance Grant	-	6,982	-	6,982	-
	<u>-</u>	<u>711,231</u>	<u>-</u>	<u>703,055</u>	<u>8,176</u>
<i>State grants</i>					
Regional Support Unit	2,108	-	-	-	2,108
IT-V	3,426	5,785	-	3,098	6,113
HIV Prevention	134	-	-	-	134
DHHS Teen & Youth	11,586	53,662	-	47,765	17,483
Dental	112	400	-	400	112
	<u>17,366</u>	<u>59,847</u>	<u>-</u>	<u>51,263</u>	<u>25,950</u>
<i>Local grants</i>					
Kellogg Grant	520	-	-	-	520
Maine Dairy	28	-	-	-	28
Alcohol Abuse Reduction Grant	(106)	-	-	-	(106)
Suicide Prevention Grant	5,788	-	-	-	5,788
Tootsie Roll Grant	2,757	686	-	557	2,886
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	4,518	-	-	4,537	(19)
W.O.W.	106	-	-	106	-
EPGY	5,624	-	-	-	5,624
Private Dormant Grants	31,359	-	-	-	31,359
	<u>59,162</u>	<u>686</u>	<u>-</u>	<u>5,200</u>	<u>54,648</u>
Total federal, state and local grants	76,528	771,764	-	759,518	88,774
School Hot Lunch Program	68,006	274,325	18,000	320,638	39,693
Totals	<u>\$ 144,534</u>	<u>\$ 1,046,089</u>	<u>\$ 18,000</u>	<u>\$ 1,080,156</u>	<u>\$ 128,467</u>



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**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, 2013, and have issued our report thereon dated January 15, 2014.

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 did not comply with its authority to expend funds. However, the City complied with the remaining 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 15, 2014

**City of Calais School Department
Audit Adjustments to MEDMS Financial System
For the Year Ended June 30, 2013**

	General Fund	Special Revenue Fund	Capital Projects Fund	Totals
<i>June 30, 2013 balance per MEDMS Financial System</i>	\$(423,156)	\$ 195,429	\$ -	\$(227,727)
Fund Balance Adjustments				
Record Adult Education fund balance	7,701	-	-	7,701
Record Local Entitlement transfer fund balance	-	(102,487)	-	(102,487)
Record Food Service fund balance	-	50,580	-	50,580
Record Perloff grant fund balance	-	5	-	5
Record Music grant fund balance	-	(19)	-	(19)
Record Guidance grant fund balance	-	(283)	-	(283)
Reclass Capital Projects fund balance	-	(17,661)	17,661	-
Reclass Food Service fund balance	11,901	(11,901)	-	-
Reclass MaineCare fund balance	(19,496)	19,496	-	-
Reclass E-rate fund balance	5,990	(5,990)	-	-
Closed fund balance	<u>(417,060)</u>	<u>127,169</u>	<u>17,661</u>	<u>(272,230)</u>
Revenue Adjustments	-	-	-	-
Expenditure Adjustments				
Reclassify expenditures	(283)	283	-	-
Accounts payable adjustments	(39,836)	(922)	-	-
Adjust school lunch inventory	-	(747)	-	-
Adjust accrued summer teacher pay	188	-	-	188
Audit GAAP Basis Fund Balance	<u>\$(456,991)</u>	<u>\$ 125,783</u>	<u>\$ 17,661</u>	<u>\$(313,547)</u>

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

City Council
City of Calais, Maine

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of 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, 2013, and the related notes to the financial statements, which collectively comprise the City of Calais, Maine's basic financial statements and have issued our report thereon dated January 15, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item #2013-1, as a significant deficiency.

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 15, 2014.

City of Calais, Maine's Response to Findings

The City of Calais, Maine's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Calais, Maine's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Shantree Chibodan & Associates

Bangor, Maine
January 15, 2014

**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**

City Council
City of Calais, Maine

Report on Compliance for Each Major Federal Program

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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Calais, Maine's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Calais, Maine's compliance.

Opinion on Each Major Federal Program

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, 2013.

Report on Internal Control Over Compliance

Management of the City of Calais, Maine is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Calais, Maine's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Arthur Thibodeau & Associates

Bangor, Maine
January 15, 2014

City of Calais, Maine
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2013

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	\$ 37,293
Community Development Block Grant	14.228	201210170000001616	229,298
Community Enterprise Program	14.228	015-19A-0587-012-6331	150,000
Housing Assistance Program	14.228	015-19A-0587-012-6331	<u>41,243</u>
Total Department of Housing and Urban Development			<u>457,834</u>
<i>U.S. Department of Justice</i>			
Direct			
Office of Justice Programs - 2009DJBX0902	16.738	N/A	891
Office of Justice Programs - 2010DJBX0126	16.738	N/A	870
Office of Justice Programs - 2011DJBX2420	16.738	N/A	976
Office of Justice Programs - 2012DJBX0451	16.738	N/A	<u>7,550</u>
Total Department of Justice			<u>10,287</u>
<i>U.S. Department of Environmental Protection</i>			
Passed through State Department of Health and Human Services			
Clean Water State Revolving Loan Fund Program	66.458	Not known	668,749
Drinking Water State Revolving Loan Fund Program	66.468	Not known	<u>46,150 *</u>
Total Department of Environmental Protection			<u>714,899</u>
<i>U.S. Department of Homeland Security</i>			
Direct			
2009 Homeland Security Grant Program	97.067	N/A	53,360
Passed through State Department of Emergency Management			
Public Assistance Program - FEMA1953DRME	97.036	Not known	<u>28,634</u>
Total Department of Homeland Security			<u>81,994</u>
<i>U.S. Department of Education</i>			
Direct			
Elementary and Secondary School Counseling Demon Prog	84.215E	N/A	6,982
Passed through State Department of Education			
Title I Grants to Local Educational Agencies	84.010	013-05A-3057-13	274,774 **
Improving Teacher Quality Grant	84.367	013-05A-3042-11	33,209 **
<i>Special Education Cluster</i>			
Special Education - Grants to States	84.027	013-05A-3046-12	282,889
Special Education - Preschool Grant	84.173	013-05A-6241-23	9,627
Title I-C Basic Grant (Carl Perkins)	84.048	013-05A-3030-08	35,174
Rural Education Achievement Program	84.358	013-05A-3005-03	10,477
Education Jobs Fund	84.410	013-05A-3099-10	<u>797</u>
Total Department of Education			<u>653,929</u>
<i>U.S. Department of Health and Human Services</i>			
Direct			
School Based Health	93.501	N/A	<u>87,331</u>
<i>U.S. Department of Agriculture</i>			
Direct			
Waste and waste disposal systems for rural communities	10.760	N/A	90,535
Waste and waste disposal systems for rural communities	10.760	N/A	148,430
ARRA-Waste and waste disposal systems for rural communities	10.781	N/A	<u>1,409,625</u>
			<u>1,648,590</u>
Passed through State Department of Education			
Fresh Fruit and Vegetable Program	10.582	013-05A-3028-05	14,354
<i>Cluster</i>			
School Lunch Program	10.555	013-05A-3024-05	116,706
School Lunch Program - Donated Commodities	10.555	013-05A-3024-05	12,754
School Breakfast Program	10.553	013-05A-3014-05	30,233
Summer Food Service Program for Children	10.559	Not known	<u>1,991</u>
			<u>176,038</u>
Total Department of Agriculture			<u>1,824,628</u>
Total federal assistance			<u>\$ 3,830,902</u>

* Grants recorded in the water fund are reported on the water fund's fiscal year which is December 31, 2012.

** The following transfers were made between grants:

Disadvantaged IASA	\$ 33,579
Title II - Teacher Quality	(33,579)

City of Calais, Maine
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

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, 2013. 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, 2012.

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, 2013**

Section I — Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting

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

Federal Awards

Internal control over major programs

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

Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants
66.458	Clean Water State Revolving Loan Fund Program
10.760 and 10.781	Wastewater and Waste Disposal Systems for Rural Communities Cluster

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

Auditee qualified as low-risk auditee? - yes no

City of Calais, Maine
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2013

Section II — Financial Statement Findings

	#2013-1
<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>	The School Department has started to use auditor financial schedules to assist in the preparation of the audit. The entries to include the School Department into the financial statements still require some assistance from the auditor. Management and the School Department continue to need some assistance when analyzing equity of the various funds, but will continue its efforts to minimize auditor assistance. Management is making sure that finance personnel attend adequate training. Management will consider the feasibility of implementing cross-training of all functions.

Section III — Federal Award Findings and Questioned Costs

	None
<i>Criteria or specific requirement</i>	
<i>Condition</i>	
<i>Context</i>	
<i>Effect</i>	
<i>Cause</i>	
<i>Recommendation</i>	
<i>Management's response</i>	

City of Calais, Maine
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2013

#2012-1

Condition 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.

Status This situation has improved some and this finding has been modified and reported as #2013-1.

#2012-2

Condition The City's School Department does not control the reporting of its grants on the Schedule of Expenditures of Federal Awards.

Status The City's School Department has implemented the necessary procedures to ensure compliance. This finding is considered to be resolved.