

December 13, 2017

To the City Council
City of Calais, Maine

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Calais, Maine for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our meeting with the Mayor on June 1, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards*, and the Uniform Guidance

As stated in our engagement letter dated May 31, 2017, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City of Calais, Maine's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

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 grants. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the City of Calais, Maine's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Calais, Maine's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Calais, Maine's compliance with those requirements.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Calais, Maine are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the City of Calais, Maine during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management's estimate of depreciation expense, which is based on estimated useful lives of assets and the net pension liability, which is based on actuarial reports. We evaluated the key factors and assumptions used to develop depreciation expense and the net pension liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, some of which were material to the financial statements. See attached adjusting journal entries.

The attached report entitled "Passed Adjusting Journal Entries" lists the uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated December 13, 2017, which was signed by management.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Calais, Maine's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Calais, Maine's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, the schedule of the City's proportionate share of the net pension liability, and the schedule of City contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund financial statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the City Council, School Committee, and management of the City of Calais, Maine and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Remyon Hursten Ouellette". The signature is written in a cursive style with a large initial 'R'.

City of Calais
Adjusting Journal Entries - City
6/30/2017

| | | | <u>Debit</u> | <u>Credit</u> |
|-----------|---|----------------------------------|--------------|---------------|
| 1 | 7-7700-00 | Grant Revenue | 227,537.10 | |
| | 7-7206-00 | Sewer AR MMBB 340k | | 227,537.10 |
| | <i>To move CY MMBB grant draws against revenue as receivable was recorded in PY.</i> | | | |
| 2 | 8-8220-00 | Ambulance Fees Current | | 40,443.01 |
| | 8-8225-00 | Ambulance Fees Past Due | | 30,718.30 |
| | 8-8275-00 | Ambulance Allowance for Bad Debt | | 35,423.55 |
| | 8-8500-00 | Uncollectible Allowance | 35,423.55 | |
| | 8-8500-00 | Ambulance Revenue Commercial | 71,161.31 | |
| | <i>To adjust AR to actual and allowance to a properly calculated amount.</i> | | | |
| 3 | 6-8500-00 | Ambulance Contractual Allowance | | 1,696.24 |
| | 6-8220-00 | Ambulance Fees Current | 7,205.53 | |
| | 6-8225-00 | Ambulance Fees Past Due | | 5,509.29 |
| | <i>To adjust AR to actual.</i> | | | |
| 4 | E0670-4512 | Additional local appropriation | 50,000.00 | |
| | 1-1220-00 | A/R School - Due City | | 50,000.00 |
| | <i>To adjust due to School to include CIP appropriation not paid as of June 30, 2017.</i> | | | |
| 5 | 7-7320-00 | Sewer Construction in Progress | 18,482.77 | |
| | 7-7700-00 | Grant Revenue | | 18,482.77 |
| | <i>To recognize draw that was not added to CIP.</i> | | | |
| 6 | 7-7468-00 | Sewer BP Manning Street | | 25,845.25 |
| | 7-7320-00 | Sewer Constructino In Progress | 25,845.25 | |
| | <i>To move current CIP out of the bond payable account for Manning Street.</i> | | | |
| 7 | 7-7320-00 | Sewer Constrcution in Progress | 22,693.00 | |
| | 7-7625-00 | Invested in Fixed Assets | | 22,693.00 |
| | <i>To move CIP for Poole Street out of fund balance.</i> | | | |
| 8 | 7-7320-00 | Sewer Constrcution in Progress | 11,773.43 | |
| | 7-7625-00 | Invested in Fixed Assets | | 11,773.43 |
| | <i>To move CIP for Temperance street out of fund balance.</i> | | | |
| 9 | 4-1110-00 | Revolving Loan Investments | 226.01 | |
| | 4-1210-00 | Loans Receivable RLF | | 6,560.61 |
| | 4-1215-00 | Allowance for Bad Debt RLF | | 8,414.92 |
| | 4-2050-01 | Due to/from General Fund | 5,895.84 | |
| | 4-7000-00 | Fund Balance | 8,853.68 | |
| | <i>To adjust Uptown Loan Fund to actual.</i> | | | |
| 10 | 3-1110-00 | Econ Dev Loan Investments | 9,208.25 | |
| | 3-1210-00 | Loans Receivable UDAG | | 42,775.81 |
| | 3-1215-00 | Allowance for Bad Debt EDLF | 28,874.15 | |
| | 3-2000-00 | Accounts Payable EDLF | 8,668.15 | |
| | 3-2050-01 | Due to/from General Fund | | 1,924.92 |
| | 3-7000-00 | Fund Balance | | 2,049.82 |

To adjust Economic Development Loan Fund to actual.

| | | | | |
|-----------|--|--------------------------------|--------------|--------------|
| 11 | 2-0420-00 | DTOF-GF Poor | | 1,875.00 |
| | 2-0435-00 | Interest Poor | 1,875.00 | |
| | <i>To move expenditures recorded in account 1-4745-00 to trust fund.</i> | | | |
| 12 | 1-2310-00 | MMA Health Insurance | | 60,281.93 |
| | 0160-5202 | HLTH/DENT/IP | 2,652.42 | |
| | 0130-5202 | HLTH/DENT/IP | 1,181.53 | |
| | 0140-5202 | HLTH/DENT/IP | 2,652.40 | |
| | 0210-5202 | HLTH/DENT/IP | 1,181.53 | |
| | 0220-5202 | HLTH/DENT/IP | 2,652.40 | |
| | 0310-5202 | HLTH/DENT/IP | 11,067.76 | |
| | 0320-5202 | HLTH/DENT/IP | 11,031.59 | |
| | 0410-5202 | HLTH/DENT/IP | 14,142.14 | |
| | 8000-5202 | HLTH/DENT/IP | 11,067.76 | |
| | 0230-5202 | HLTH/DENT/IP | 2,652.40 | |
| | <i>To bring health insurance liability to actual as of 6/30/2017.</i> | | | |
| 13 | R-0100-0316 | Miscellaneous Income | 5,389.66 | |
| | 1830-00 | Special Gas Account | | 5,389.66 |
| | <i>To flush old receivable balances out of inventory.</i> | | | |
| 14 | 8-8610-00 | Ambulance Invested in Capital | 32,586.25 | |
| | 8-8320-00 | Accumulated Depreciation | | 32,586.25 |
| | <i>To bring ambulance accumulated depreciation to actual.</i> | | | |
| 15 | 7-7312-00 | Sewer Infrastructure | 87,036.65 | |
| | 7-7320-00 | Sewer Construction in Progress | | 87,036.65 |
| | <i>To align PY CIP and infrastructure with 2017 audited amounts.</i> | | | |
| 16 | 7-7312-00 | Sewer Infrastructure | 1,646,219.00 | |
| | 7-7320-00 | Sewer Construction in Progress | | 1,646,219.00 |
| | <i>To close completed projects out of CIP for FY 2017.</i> | | | |
| 17 | 7-7350-00 | Sewer-Plant Accum Dep | | 566,710.00 |
| | 7-7625-00 | Invested in Fixed Assets | 566,710.00 | |
| | <i>To recognize current depreciation in sewer fund.</i> | | | |
| 18 | 7-4780-00 | WWTP Upgrade (Sewer Fund) | | 2,850.00 |
| | 7-4794-00 | New Cemetary Lots | 2,850.00 | |
| | <i>To correct closing entry that was posted to the wrong line.</i> | | | |
| 19 | R0100-0216 | 2016 Taxes | 54,900.00 | |
| | 1-2910-00 | Deferred property taxes | | 54,900.00 |
| | <i>To adjust deferred property taxes to actual.</i> | | | |

City of Calais
Adjusting Journal Entries - School Department
6/30/2017

| | | | <u>Debit</u> | <u>Credit</u> |
|--------------------------|---|--------------------------------------|--------------|---------------|
| 1 | 1000-0000-0000-10110-000 | Cash--Cash Receipts/Transfers (City) | 50,000.00 | |
| | 1000-0000-0000-12100-000 | Accounts Receivable | | 50,000.00 |
| | <i>To move amount owed from City out of A/R and to the Due from City account.</i> | | | |
| 2 | 1000-0000-0000-20100-000 | Accounts Payable | 15,000.00 | |
| | 1000-0000-0000-25600-000 | DTF | | 15,000.00 |
| | 6000-0000-0000-25100-000 | DTF | 15,000.00 | |
| | 6000-0000-0000-12200-000 | Accounts Receivable - Due from State | | 15,000.00 |
| | <i>To remove receivable and payable booked between general fund and school lunch fund.</i> | | | |
| 3 | 1000-0000-0000-21900-000 | FEDFUNDHI | 9.49 | |
| | 1000-0000-0000-22400-000 | MSRS Retirement | 11,277.34 | |
| | 1000-0000-0000-22410-000 | MSRS Basic | | 1,327.99 |
| | 1000-0000-0000-22420-000 | MSRS Supplemental | | 613.49 |
| | 1000-0000-0000-22430-000 | MSRS Dependent | | 122.68 |
| | 1000-0000-0000-22450-000 | MSRS Federally Funded | | 5,684.89 |
| | 1000-0000-0000-23100-000 | Federal Withholding | | 39.16 |
| | 1000-0000-0000-23110-000 | Social Security | | 451.68 |
| | 1000-0000-0000-23120-000 | Medicare | 3,661.00 | |
| | 1000-0000-0000-23130-000 | State Withholding | 61.46 | |
| | 1000-0000-0000-23131-000 | Treasurer, State of Maine | | 1,146.00 |
| | 1000-0000-0000-23210-000 | State Unemployment | | 14,584.16 |
| | 1000-0000-0000-23430-000 | Department of Human Services | 1,146.00 | |
| | 1000-0000-0000-23450-000 | Calais Education Association | | 50.00 |
| | 1000-0000-0000-23460-000 | Capital Guardian Trust | | 100.00 |
| | 1000-0000-0000-23470-000 | Northeast Delta Dental | | 25.31 |
| | 1000-0000-0000-23560-000 | Allegiant Care | | 102.51 |
| | 1000-0000-0000-23565-000 | Lincoln Investment Planning | 100.00 | |
| | 1000-0000-0000-23570-000 | 403b ASP | 100.00 | |
| | 1000-0000-0000-25990-000 | Payroll Adjustment | | 216.49 |
| 1000-1200-1000-52010-300 | Teacher benefits | 8,109.07 | | |
| | <i>To remove payroll liability accounts that have been on balance sheet for many years.</i> | | | |
| 4 | 2190-0000-0000-20100-000 | Accounts payable dormant private | 5,825.26 | |
| | 2190-0000-0000-25100-000 | DTF | | 5,825.26 |
| | 1000-0000-0000-25219-000 | DTF | 5,825.26 | |
| | 1000-0000-0000-20100-000 | Accounts payable | | 5,825.26 |
| | <i>To move payables to correct fund.</i> | | | |
| 5 | 6000-0000-0000-11710-000 | Inventory | 3,673.81 | |
| | 6000-0000-3100-56300-900 | School Lunch Fund | | 3,673.81 |
| | <i>To adjust school lunch inventory to actual.</i> | | | |
| 6 | 1000-0000-0000-30100-000 | Undesignated fund balance | 7,884.02 | |
| | 1000-0000-0000-29000-000 | Accrued payroll | | 7,884.02 |
| | 2300-0000-0000-29000-000 | Accrued payroll | 1,023.29 | |
| | 2300-0000-0000-30100-000 | Undesignated fund balance | | 1,023.29 |
| | <i>To adjust teacher summer salary accrual to actual for general fund and Title IA.</i> | | | |

City of Calais
Passed Adjusting Journal Entries
6/30/2017

| | | Debit | Credit |
|------------|---|--------------|---------------|
| 101 | N/A (no account number) Accrued Interest | | 7,119.28 |
| | N/A (no account number) Net Position - Entity Wide | 7,119.28 | |
| | <i>To bring accrued interest to actual as of 6/30/2017.</i> | | |

December 13, 2017

Runyon Kersteen Ouellette
20 Long Creek Drive
South Portland, Maine 04106

This representation letter is provided in connection with your audit of the financial statements of the City of Calais, Maine, which comprise the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of December 13, 2017, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 31, 2017, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for 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.

An Equal Opportunity Employer and Provider

The City of Calais is an Equal Opportunity Employer and Provider. The City of Calais is prohibited from discriminating on the basis of race, color, national origin, sex, age, or disability. (not all prohibited bases apply to all programs). To file a complaint of discrimination, write to: U.S. District Court, Office of Civil Rights, Room 326 W. White House Building, 110 Maryland Avenue, NW Washington, DC 20540-9410 or call 1-800-775-7242 (voice) or 202-720-6382 (TDD). EEO/AA is an equal opportunity provider and employer.

- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and questioned costs.
- 8) We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the accounts
- 9) The effects of the uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as whole for each opinion unit. A list of uncorrected misstatements is attached to the representation letter.
- 10) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 11) Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 12) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of the City Council and School Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 13) All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.

- 14) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 15) We have no knowledge of any fraud or suspected fraud that affects the City and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 16) We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, regulators, or others.
- 17) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 18) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 19) We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions of which we are aware.

Government - specific

- 20) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 21) We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.
- 22) We have a process to track the status of audit findings and recommendations.
- 23) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 24) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 25) The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 26) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and legal and contractual provisions for reporting specific activities in separate funds.

- 27) We have identified and disclosed to you all instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 28) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 29) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 30) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 31) As part of your audit, you assisted with preparation of the financial statements and related notes and schedule of expenditures of federal awards. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and the schedule of expenditures of federal awards.
- 32) The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 33) The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 34) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 35) The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.


- 36) All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 37) Components of net position (net investment in capital assets; restricted; and unrestricted), and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 38) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 39) Provisions for uncollectible receivables have been properly identified and recorded.
- 40) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 41) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 42) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 43) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 44) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 45) We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 46) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 47) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

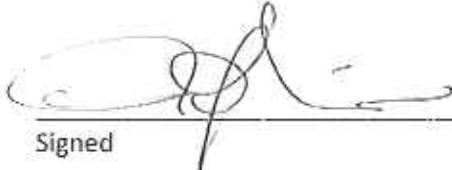
- 48) With respect to the schedule of expenditures of federal awards, combining and individual fund financial statements and statistical section:
- a) We acknowledge our responsibility for presenting the schedule of expenditures of federal awards, combining and individual fund financial statements and statistical section in accordance with accounting principles generally accepted in the United States of America, and we believe the schedule of expenditures of federal awards, combining and individual fund financial statements and statistical section, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the schedule of expenditures of federal awards, combining and individual fund financial statements and statistical section have not changed from those used in prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b) If the schedule of expenditures of federal awards, combining and individual fund financial statements and statistical section are not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
- 49) With respect to federal award programs:
- a) We are responsible for understanding and complying with and have complied with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards.
 - b) We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) and related notes in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
 - c) If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.

- d) We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and have included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e) We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program.
- f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- g) We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- h) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i) We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards or confirm that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal awards.
- j) We have disclosed any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

- k) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- l) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR part 200, subpart E) and OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, if applicable.
- m) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n) We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- q) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditor's report.
- r) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- t) We have charged costs to federal awards in accordance with applicable cost principles.

- u) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- v) We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
- w) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- x) We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.

Signed  _____

 _____
Signed

December 13, 2017

To the Management of the City of
Calais, Maine, and Calais
School Department:

In planning and performing our audit of 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, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Calais, Maine's internal control over financial reporting (internal control) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies in internal control (2017-001 through 2017-004) to be significant deficiencies.

During our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The attached schedule summarizes our comments and suggestions regarding these matters. They have been identified in the schedule of comments and responses.

We wish to express our appreciation for the cooperation and assistance we received from the officials and employees of the City of Calais, Maine during the course of our audit.

We will review the status of these comments during our next audit engagement. We have already discussed them with various City and School personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

The City of Calais, Maine's responses to the significant deficiencies and other comments identified in our audit are described in the accompanying schedule of comments and responses. The City of Calais, Maine's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the City Council, School Committee, and others within the City of Calais, Maine, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Remyon Keston Ouellette". The signature is written in a cursive style with a large initial 'R'.

CITY OF CALAIS, MAINE
Schedule of Comments and Responses
June 30, 2017

SIGNIFICANT DEFICIENCIES

2017-001 – Preparation of Financial Statements (City)

Auditing standards require external auditors to determine whether or not client personnel designated as having responsibility over the financial reporting process possess the expertise to identify all financial reporting matters in compliance with generally accepted accounting principles without the reliance on external auditors. This means that these individuals would need to have the knowledge of all the various financial statement disclosure requirements in addition to an understanding of fund financial statements and government-wide financial statements. From a practical standpoint, the costs of maintaining the expertise in-house to meet these requirements often exceed the benefit. As a result, it is common practice for governmental entities to rely on assistance from their auditing firm to assist in the preparation of the financial statements and the related disclosures. When the auditing firm prepares the financial statements, the City must assign a competent management level individual to oversee this service. Additionally, management must review, approve, and accept responsibility for the financial statements and related notes.

Unfortunately, when this approach is taken, the City is considered to have a control deficiency in the design of internal controls over the preparation of the financial statements in accordance with generally accepted accounting principles, and as a result, we are required to report this as such in this letter.

Management's response/corrective action plan: The City continues to use auditor financial schedules to assist in the preparation of the audit, as it is not cost effective to have this expertise in-house. 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 also consider the feasibility of implementing cross-training of all functions amongst the limited number of admin staff.

2017-002 – Material Audit Adjusting Journal Entries (City)

The general ledger includes activity and balances of the City's asset, liability, revenue, and expenditure/expense accounts. Many of these accounts required audit adjustments at year-end, including ambulance receivables, capital assets, and various revenue and expenditure/expense accounts. Both individually and in the aggregate, these entries were material to the financial statements. Whenever the auditor is required to propose a material amount of entries, the risk of material misstatement due to fraud or error increases significantly.

In order to maintain an accurate accounting of all accounts on the general ledger and provide accurate financial reports during the year, we recommend that City employees reconcile the ending balances of each general ledger account on a monthly basis. We suggest that management establish a checklist of required monthly and year-end adjustments to ensure that general ledger accounts are being reconciled in a timely manner. Additionally, we suggest that the proprietary funds be maintained on a full accrual basis as required by generally accepted accounting principles.

CITY OF CALAIS, MAINE
Schedule of Comments and Responses, Continued
June 30, 2017

SIGNIFICANT DEFICIENCIES

We believe that the following procedures should be performed on a monthly basis:

- Reconciliation of the detailed listing of ambulance accounts receivable to the general ledger balances
- Review of direct fund balance posts and properly classify these entries out of fund balance.

Management's response/corrective action plan: Management, in conjunction with City finance staff, has created a checklist of the various general ledger accounts that require reconciliation on a monthly and/or annual basis as well as a checklist for the journal entries required annually. Currently, the number of accounts on the General Ledger are numerous and time-consuming to be reconcile monthly. Finance staff will attempt to reconcile the accounts at least quarterly. Management will continue to send finance staff to appropriate trainings as necessary and promote cross-training where needed.

2017-003 – Account Structure of the City General Ledger (City)

The current account structure that is being utilized within the City's accounting system is not reflective of the reporting objectives of management. Currently, nearly all of the individual nonmajor governmental funds (special revenue and capital project funds), which ideally should be reported separately, are recorded as single account lines in the general fund assets and liabilities. The effect of utilizing single lines for account purposes is that there are no revenue or expenditure accounts for any of the nonmajor governmental funds. This makes financial reporting for individual funds difficult, as all of the activity within these funds needs to be manually adjusted for financial statement preparation. We believe that management should update its account structure so that every fund that either is required to be reported separately, or that management wishes to report separately, has its own unique fund number within the accounting system.

Additionally, within the proprietary funds (Ambulance and Sewer), revenues are reported as liability and fund balance accounts rather than revenue accounts. These accounts will not close to fund balance without a manual adjusting journal entry posted at the end of the year. We suggest that all revenues recorded within the liability and fund balance accounts be reclassified as revenue accounts so the accounting system can properly close at year-end.

Management's response/corrective action plan: Management has considered the feasibility and efficiency of implementing a revised account structure that would reflect each fund separately with its own unique fund number. Management, with the assistance of finance staff, has revised the account structure effective July 1, 2017 to move revenues off of the Balance Sheet for the proprietary funds. New funds or accounts will be set up as a unique fund so that going forward, these types of accounts are easier to track and report on.

2017-004 – Budget Errors (City)

As part of the budget process, the City is required to pass a balanced budget that assesses to taxpayers the total appropriations less any non-property tax revenues. During the fiscal year 2017, we discovered that the City did not take into account the School Department's use of fund balance, a non-property tax revenue, and subsequently overstated the School Department net appropriation by \$226,143. We suggest that management take care in preparation of future budgets to avoid over stating the yearly property tax commitment.

Management's response/corrective action plan: The budget error was brought to the attention of Management during the audit of the FY16 financial statements. The budget for FY17 was already completed and a similar error had been made. The budget for FY18 has omitted the use of fund balance by the School.

CITY OF CALAIS, MAINE
Schedule of Comments and Responses, Continued
June 30, 2017

OTHER COMMENTS

Segregation of Duties (City)

Segregation of duties involves the assignment of responsibilities in such a way that different employees handle different parts of the same transaction. Anyone who records transactions or has access to assets ordinarily is in a position to perpetrate errors or irregularities. Appropriate segregation of duties helps to detect errors in a timely manner and deter improper activities. For example, having an employee with no cash receipts or disbursements responsibility perform the bank reconciliation is considerably more effective in meeting the applicable specific internal accounting control objectives than having the reconciliation performed by an employee with such responsibility. Similarly, internal accounting control is enhanced when the employee who handles the accounting for an asset, such as cash, is denied access to the asset.

During the audit process, we noted that the City Finance Director has signing authority on the City's bank accounts. We would recommend that signing authority for bank accounts be limited to individuals who do not perform bank reconciliations or have access to the general ledger.

Management's response/corrective action plan: Appropriate segregation of duties is impossible due to the limited number of employees on staff. Bank reconciliations will be reviewed by the City Manager. In practice, the Finance Director never signs City General Fund or Payroll checks unless the other two signors are out of town.

Journal Entries (City and School)

During our review of journal entries, we noted a lack of an approval process. The City and the School Department should consider implementing a system in which journal entries are prepared, and posted by different individuals, or else have approvals documented by a signature of an approving officer. In addition, journal entries over a certain dollar amount, including interfund transfers, should be approved by the City Manager (City) or Superintendent (School) and documented by a signature.

Management's response/corrective action plan: Management now reviews and signs off on all journal entries recommended by the Finance Director. Journal entries are also available for inspection by any member of the City Council at any time.

Activity Funds – High School and Middle School Receipts

During our review of the cash receipting process for the High School and Middle School Activity Funds, we noted that in four of the forty receipts tested, the deposit was not made within ten days of collecting the funds. Whenever cash is held on hand for extended periods of time it becomes more susceptible to theft or misuse. Additionally, we discovered one instance where a copy of the deposit slip was not retained. We recommended that the School Department establish a policy regarding the timing of deposits for the activity funds and ensure that copies of deposit slips are retained for every deposit.

Management's response/corrective action plan: The Superintendent will meet with the building administrator to review management response. The building administrator will meet with the high/middle school bookkeeper and review the internal system write up to assure the procedures are followed. It will also be noted that all deposits are to be made within 10 days.

CITY OF CALAIS, MAINE
Schedule of Comments and Responses, Continued
June 30, 2017

Activity Funds – St Croix Regional Tech Center (SRTC) Receipts

During our review of the cash receipting process for the SRTC Activity Fund, we noted that in three of the twelve receipts tested, the required deposit worksheet was not completed. Since the worksheet was not completed, we were unable to determine if funds were posted to the proper activity fund. Additionally, we found one instance where management held a deposit for longer than ten days. We suggest that management review the activity fund receipting policies with the activity fund director and ensure that the deposit summary form is completed for each deposit and that deposits are made within ten days of receiving the funds.

Management's response/corrective action plan: The Superintendent will meet with the SRTC administrator to review management response. The SRTC administrator will meet with SRTC school bookkeeper and review the internal system write up to assure the procedures are followed. It will also be noted that all deposits are to be made within 10 days.

School Lunch Receipts

During our review of the controls over the school lunch program's cash receipts, we found that the School Department does not have a process to track daily sales. The School Department relies on the deposit information provided by the school lunch director and is unable to reconcile deposits to actual sales transactions. By not tracking individual cash sales, management is increasing the risk of funds being lost or stolen without detection by the control system. We believe that controls can be improved by implementing a point of sale system or by using electronic cash registers. Either of these systems will improve controls as management will be able to reconcile receipts reported by the school lunch director to the original source documentation, such as a register tape.

Management's response/corrective action plan: The school department will look at the cost of implementing either a point of sale system or electronic cash register.

CITY OF CALAIS, MAINE

Annual Financial Report

For the Year Ended June 30, 2017

CITY OF CALAIS, MAINE
Annual Financial Report
For the year ended June 30, 2017

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CITY OF CALAIS, MAINE
Annual Financial Report
For the year ended June 30, 2017

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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, 2017, and the related notes to the financial statements, which collectively comprise the City of Calais, Maine'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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of City's proportionate share of the net pension liability, and schedule of City contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with 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. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017 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 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.

A handwritten signature in black ink, reading "Remya Kristen Ouellette". The signature is written in a cursive style with a large initial 'R'.

December 13, 2017
South Portland, Maine

CITY OF CALAIS, MAINE
Management's Discussion and Analysis
June 30, 2017

The Management's Discussion and Analysis ("MD&A") is a narrative of the City of Calais's fiscal activity for the year ending June 30, 2017. The financial statements are 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. The financial statements and notes 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 area 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. In 2012, the City received the Maine Downtown Network Designation from the Downtown Revitalization Coalition for continuing efforts for economic development in our downtown.

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 with 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.

CITY OF CALAIS, MAINE
Management's Discussion and Analysis, Continued

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 and investment assets as of June 30, 2017 was \$2,254,626 (combined governmental activities and business-type activities).
- The City's long-term debt increased by \$26,221, for a balance of \$8,933,496 (combined governmental activities and business-type activities).
- The City's net position increased by a total of \$796,233 (combined governmental activities and business-type activities).
- Fund balance as reported in the City's fund financial statements increased by \$140,430 to a total of \$4,309,951.
- On a budgetary basis, the City's and School Department's revenues and other financing sources exceeded its expenditures and other financing uses by \$90,304 and \$138,416, respectively.

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 financial statements, 2. fund financial statements, and 3. notes to the basic 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 financial statements are a total overview of the City's financial status. They include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 include land, buildings, inventory, and other capital assets, and deferred outflows of resources. These are then reduced by the liabilities, which include total bonds and leases due over their entire lives, and deferred inflows of resources. 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 user fees or user-based revenue; no tax dollars being the key distinction 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 funds, which are presented in the fund financial statements. Each fund is presented separately in order to accurately report specific account activities. The determination of funds is based upon accounting standards and legal requirements. The City presents two major funds: the General Fund (City only) and the School Department Operations (School General Fund). All other governmental funds (special revenue, capital project, and permanent funds) are presented together in the aggregate.

CITY OF CALAIS, MAINE
Management's Discussion and Analysis, Continued

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 statement 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 by the City in a trustee capacity or agent on behalf of others. 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 special revenue funds, permanent funds, and capital project funds. These funds were each individually determined to be non-major and are required to be categorized and grouped into other governmental funds. Separate schedules are provided in the other supplemental information.

Notes to Basic Financial Statements

The notes to the basic 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 basic 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 the City's proportionate share of the net pension liability. Required supplementary information can be found on pages 45-47.

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

CITY OF CALAIS, MAINE
Management's Discussion and Analysis, Continued

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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$23,869,744 as of June 30, 2017.

A portion of the City's net position 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 is 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 used 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.

Net Position at June 30, 2017

| | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------|-------------------------|---------------------|--------------------------|-------------------|-------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Current & other assets | \$ 5,810,312 | \$ 5,810,014 | (1,286,955) | (956,227) | 4,523,357 | 4,853,787 |
| Capital assets, net | 5,340,998 | 5,222,837 | 25,918,420 | 24,405,775 | 31,259,418 | 29,628,612 |
| Total assets | 11,151,310 | 11,032,851 | 24,631,465 | 23,449,548 | 35,782,775 | 34,482,399 |
| Deferred outflows | 777,349 | 353,205 | - | - | 777,349 | 353,205 |
| Current liabilities | 1,099,364 | 1,267,478 | 794,702 | 375,757 | 1,894,066 | 1,643,235 |
| Noncurrent liabilities | 2,335,402 | 1,673,753 | 8,368,193 | 8,292,531 | 10,703,595 | 9,966,284 |
| Total liabilities | 3,434,766 | 2,941,231 | 9,162,895 | 8,668,288 | 12,597,661 | 11,609,519 |
| Deferred inflows | 92,719 | 152,574 | - | - | 92,719 | 152,574 |
| Net investment in | | | | | | |
| capital assets | 4,775,695 | 4,608,093 | 16,988,908 | 16,026,463 | 21,764,603 | 20,634,556 |
| Restricted | 2,051,181 | 1,845,172 | 25,769 | 253,306 | 2,076,950 | 2,098,478 |
| Unrestricted | 1,574,298 | 1,838,986 | (1,546,107) | (1,498,509) | 28,191 | 340,477 |
| Total net position | \$ 8,401,174 | \$ 8,292,251 | 15,468,570 | 14,781,260 | 23,869,744 | 23,073,511 |

A portion of the City's net position, 8.7%, represents resources that are restricted. Unrestricted net position of \$28,191 may be used to meet the government's ongoing obligations to citizens and creditors.

As of June 30, 2017, 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.

CITY OF CALAIS, MAINE
Management's Discussion and Analysis, Continued

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2017.

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| REVENUES | | | | | | |
| Charges for services | \$ 2,064,826 | 2,058,864 | 2,619,691 | 2,555,120 | 4,684,517 | 4,613,984 |
| Operating grants and contributions | 6,897,745 | 6,834,271 | - | - | 6,897,745 | 6,834,271 |
| Capital grants and contributions | 43,566 | 176,100 | 835,158 | 21,752 | 878,724 | 197,852 |
| Property taxes | 3,853,510 | 3,981,257 | - | - | 3,853,510 | 3,981,257 |
| Excise and misc. taxes | 579,003 | 566,637 | - | - | 579,003 | 566,637 |
| Grants and contributions not restricted to specific purpose | 387,698 | 366,215 | - | - | 387,698 | 366,215 |
| Unrestricted investment earnings (loss) | (7,629) | 48,322 | 2,361 | 3,626 | (5,268) | 51,948 |
| Miscellaneous revenues | 42,772 | 33,392 | - | 65,515 | 42,772 | 98,907 |
| Loss on disposal of assets | - | (1,931) | - | - | - | (1,931) |
| Total revenues | 13,861,491 | 14,063,127 | 3,457,210 | 2,646,013 | 17,318,701 | 16,709,140 |
| EXPENSES | | | | | | |
| General government | 803,594 | 784,664 | - | - | 803,594 | 784,664 |
| City services | 424,942 | 375,394 | - | - | 424,942 | 375,394 |
| Public safety | 1,108,560 | 1,030,547 | - | - | 1,108,560 | 1,030,547 |
| Public works | 843,587 | 874,142 | - | - | 843,587 | 874,142 |
| County tax | 272,695 | 261,762 | - | - | 272,695 | 261,762 |
| Unclassified | 288,499 | 288,046 | - | - | 288,499 | 288,046 |
| Education | 10,080,918 | 9,894,243 | - | - | 10,080,918 | 9,894,243 |
| Interest on debt service | 9,151 | 11,627 | - | - | 9,151 | 11,627 |
| Capital maintenance | 36,433 | 118,329 | - | - | 36,433 | 118,329 |
| Sewer | - | - | 1,144,285 | 1,253,527 | 1,144,285 | 1,253,527 |
| Ambulance | - | - | 970,526 | 963,584 | 970,526 | 963,584 |
| Water | - | - | 539,278 | 544,454 | 539,278 | 544,454 |
| Total expenses | 13,868,379 | 13,638,754 | 2,654,089 | 2,761,565 | 16,522,468 | 16,400,319 |
| Excess (deficiency) before transfers | (6,888) | 424,373 | 803,121 | (115,552) | 796,233 | 308,821 |
| Transfers | 115,811 | 118,090 | (115,811) | (118,090) | - | - |
| Change in net position | 108,923 | 542,463 | 687,310 | (233,642) | 796,233 | 308,821 |
| Net position, beginning of year | 8,292,251 | 7,749,788 | 14,781,260 | 15,014,902 | 23,073,511 | 22,764,690 |
| Net position, end of year | \$ 8,401,174 | 8,292,251 | 15,468,570 | 14,781,260 | 23,869,744 | 23,073,511 |

CITY OF CALAIS, MAINE
Management's Discussion and Analysis, Continued

Analysis of the City's Operations

Governmental Activities

Governmental activities increased net position by \$108,923. Net investment in capital assets increased by \$167,602, or 3.6%, due to purchases of capital assets and repayment of debt principal exceeding depreciation expense. Unrestricted net position decreased by \$312,286.

Total revenues for governmental activities decreased from the prior year by \$203,915. Property tax revenues decreased \$127,747 or 3.2%, from the prior fiscal year primarily due to the increase in the Homestead Exemption amount.

Expenses of governmental activities, including depreciation expense of \$253,124, increased \$229,625 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 \$687,310 from \$14,781,260 to \$15,468,570. Net investment in capital assets increased by \$962,445, primarily due to ongoing sewer and water projects, most of which were funded with grant revenues.

Charges for services increased \$64,571 or 2.5% from the prior year.

Depreciation expense increased \$53,989 from the prior year to \$798,327.

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 \$4,309,951, \$140,430 higher 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 \$3,798,610. Excise taxes accounted for \$579,003 in total revenue.

CITY OF CALAIS, MAINE
Management's Discussion and Analysis, Continued

Total governmental fund expenditures for the year were \$13,904,737 and are broken down as follows:

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------------|-----------------------------|
| General government | \$ 675,949 | \$ 667,591 |
| City services | 392,771 | 347,621 |
| Public safety | 1,091,039 | 980,718 |
| Public works | 854,933 | 791,126 |
| County tax | 272,695 | 261,762 |
| Unclassified | 287,999 | 288,046 |
| Education | 9,331,489 | 9,817,795 |
| Debt service | 669,477 | 142,784 |
| Capital outlay | 328,385 | 458,155 |
| Total governmental fund expenditures | <u>\$ 13,904,737</u> | <u>\$ 13,755,598</u> |

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, ambulance, and water department operations.

Net position of the proprietary fund reported a combined balance of \$15,468,570, \$687,310 higher than the previous year.

Total proprietary fund operating expenses for the year were \$2,606,450 and are broken down as follows:

| | |
|--|---------------------------|
| Sewer fund | \$1,059,201 |
| Ambulance fund | 968,587 |
| Water fund | <u>578,662</u> |
| Total Proprietary Fund Expenses | <u>\$2,606,450</u> |

CITY OF CALAIS, MAINE
Management's Discussion and Analysis, Continued

Capital Asset and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2017 amount to \$31,259,418, 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:

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|-----------------------------------|--------------------------------|---------------------|---------------------------------|-------------------|-------------------|-------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Land | \$ 3,111,905 | 3,111,905 | 75,896 | 75,896 | 3,187,801 | 3,187,801 |
| Construction in progress | 49,386 | - | 48,539 | 299,134 | 97,925 | 299,134 |
| Buildings and improvements | 1,867,044 | 1,953,994 | 8,446,521 | 8,446,521 | 10,313,565 | 10,400,515 |
| Furniture, equipment and vehicles | 3,428,685 | 3,333,708 | 1,416,317 | 1,345,039 | 4,845,002 | 4,678,747 |
| Infrastructure | 450,081 | 238,660 | 26,692,526 | 24,258,959 | 27,142,607 | 24,497,619 |
| Total capital assets | 8,907,101 | 8,638,267 | 36,679,799 | 34,425,549 | 45,586,900 | 43,063,816 |
| Accumulated depreciation | (3,566,103) | (3,415,430) | (10,761,379) | (10,019,774) | (14,327,482) | (13,435,204) |
| Capital assets, net | \$ 5,340,998 | \$ 5,222,837 | 25,918,420 | 24,405,775 | 31,259,418 | 29,628,612 |

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 the Notes to Basic Financial Statements on pages 34-35 of this report.

Debt Administration

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

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|---------------------------|--------------------------------|----------------|---------------------------------|------------------|------------------|------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Bonds and notes payable | \$ 447,653 | 581,286 | 8,368,193 | 8,292,531 | 8,815,846 | 8,873,817 |
| Capital lease obligations | 117,650 | 33,458 | - | - | 117,650 | 33,458 |
| Totals | \$ 565,303 | 614,744 | 8,368,193 | 8,292,531 | 8,933,496 | 8,907,275 |

During the fiscal year, the City's total debt increased by \$26,221 or 0.2%.

A summary of the City's debt activity for the year ended June 30, 2017 is detailed in the Notes to Basic Financial Statements on pages 36-39 of this report.

CITY OF CALAIS, MAINE
Management's Discussion and Analysis, Continued

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 principles (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 32 of the financial statements.

The following is a discussion of the budgetary highlights for the fiscal year ended June 30, 2017.

During the year, budgeted revenues exceeded actual revenues by \$58,224. Most of this variance resulted from over-anticipated education revenue.

Budgeted expenditures exceeded actual expenditures by \$496,650. Most of this variance resulted from over anticipated public safety, 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 \$20,000, which is \$5,000 higher than the 2016-2017 fiscal year.

Council continues to balance its goals with estimated incoming revenue. State Revenue Sharing was increased this year and excise collections continue to see 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 2017-2018 budgeted revenues for sewer remain the same as 2016-2017, with no increase in fees to the sewer users.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens and customers with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Finance Director, at P.O. Box 413, Calais, Maine 04619 or call (207) 454-2521, Ext. 1003.

BASIC FINANCIAL STATEMENTS

CITY OF CALAIS, MAINE
Statement of Net Position
June 30, 2017

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,702,019 | 295,825 | 1,997,844 |
| Investments | 256,782 | - | 256,782 |
| Receivables: | | | |
| Taxes | 627,401 | - | 627,401 |
| Due from other governments | 482,026 | 25,769 | 507,795 |
| Accounts, net | 2,097 | 775,952 | 778,049 |
| Loans, net | 354,922 | - | 354,922 |
| Cash held in escrow | - | 11,520 | 11,520 |
| Internal balances | 2,338,533 | (2,437,370) | (98,837) * |
| Prepaid expenses | 27,176 | - | 27,176 |
| Inventory | 19,356 | 41,349 | 60,705 |
| Capital assets, not being depreciated | 3,161,291 | 124,435 | 3,285,726 |
| Capital assets, net of accumulated depreciation | 2,179,707 | 25,793,985 | 27,973,692 |
| Total assets | 11,151,310 | 24,631,465 | 35,782,775 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows of resources related to pensions | 777,349 | - | 777,349 |
| Total deferred outflows of resources | 777,349 | - | 777,349 |
| LIABILITIES | | | |
| Accounts payable and other current liabilities | 168,440 | 169,576 | 338,016 |
| Accrued payroll and benefits | 629,276 | 10,568 | 639,844 |
| Taxes paid in advance | 121,445 | - | 121,445 |
| Compensated absences payable | 180,203 | 10,731 | 190,934 |
| Accrued interest | - | 30,988 | 30,988 |
| Bond anticipation note payable | - | 572,839 | 572,839 |
| Noncurrent liabilities: | | | |
| Due within one year | 167,639 | 596,962 | 764,601 |
| Due in more than one year | 2,167,763 | 7,771,231 | 9,938,994 |
| Total liabilities | 3,434,766 | 9,162,895 | 12,597,661 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources related to pensions | 92,719 | - | 92,719 |
| Total deferred inflows of resources | 92,719 | - | 92,719 |
| NET POSITION | | | |
| Net investment in capital assets | 4,775,695 | 16,988,908 | 21,764,603 |
| Restricted for: | | | |
| Permanent funds - nonexpendable principal | 502,662 | - | 502,662 |
| Permanent funds - expendable | 77,967 | - | 77,967 |
| Education | 390,750 | - | 390,750 |
| Grants and restricted programs | 1,079,802 | 25,769 | 1,105,571 |
| Unrestricted | 1,574,298 | (1,546,107) | 28,191 |
| Total net position | \$ 8,401,174 | 15,468,570 | 23,869,744 |

See accompanying notes to basic financial statements.

* Due to Water Fund being presented as of December 31, 2016.

CITY OF CALAIS, MAINE
Statement of Activities
For the year ended June 30, 2017

| Functions/programs | Expenses | Program Revenues | | | Net (expense) revenue and changes in net position | | |
|---|----------------------|-------------------------|--|--|--|-----------------------------|--------------------|
| | | Charges for services | Operating grants and contributions | Capital grants and contributions | Primary Government | | Total |
| | | | | | Governmental activities | Business-type activities | |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 803,594 | 96,500 | 138,560 | - | (568,534) | - | (568,534) |
| City services | 424,942 | 78,774 | 36,657 | - | (309,511) | - | (309,511) |
| Public safety | 1,108,560 | - | 13,563 | - | (1,094,997) | - | (1,094,997) |
| Public works | 843,587 | 43,563 | 61,959 | - | (738,065) | - | (738,065) |
| County tax | 272,695 | - | - | - | (272,695) | - | (272,695) |
| Unclassified | 287,999 | - | - | - | (287,999) | - | (287,999) |
| Education | 10,081,418 | 1,845,989 | 6,647,006 | - | (1,588,423) | - | (1,588,423) |
| Interest on debt service | 9,151 | - | - | - | (9,151) | - | (9,151) |
| Capital maintenance | 36,433 | - | - | 43,566 | 7,133 | - | 7,133 |
| Total governmental activities | 13,868,379 | 2,064,826 | 6,897,745 | 43,566 | (4,862,242) | - | (4,862,242) |
| Business-type activities: | | | | | | | |
| Sewer | 1,144,285 | 895,527 | - | 817,791 | - | 569,033 | 569,033 |
| Ambulance | 970,526 | 1,094,728 | - | - | - | 124,202 | 124,202 |
| Water | 539,278 | 629,436 | - | 17,367 | - | 107,525 | 107,525 |
| Total business-type activities | 2,654,089 | 2,619,691 | - | 835,158 | - | 800,760 | 800,760 |
| Total primary government | \$ 16,522,468 | 4,684,517 | 6,897,745 | 878,724 | (4,862,242) | 800,760 | (4,061,482) |
| General revenues: | | | | | | | |
| Property taxes | | | | | \$ 3,853,510 | - | 3,853,510 |
| Motor vehicle excise taxes | | | | | 579,003 | - | 579,003 |
| Grants and contributions not restricted to specific programs: | | | | | | | |
| State revenue sharing | | | | | 225,441 | - | 225,441 |
| Homestead and BETE exemptions | | | | | 133,158 | - | 133,158 |
| Other | | | | | 29,099 | - | 29,099 |
| Unrestricted investment earnings (loss) | | | | | (7,629) | 2,361 | (5,268) |
| Miscellaneous revenues | | | | | 42,772 | - | 42,772 |
| Transfers | | | | | 115,811 | (115,811) | - |
| Total general revenues and transfers | | | | | 4,971,165 | (113,450) | 4,857,715 |
| Change in net position | | | | | 108,923 | 687,310 | 796,233 |
| Net position - beginning | | | | | 8,292,251 | 14,781,260 | 23,073,511 |
| Net position - ending | | | | | \$ 8,401,174 | 15,468,570 | 23,869,744 |

See accompanying notes to basic financial statements.

CITY OF CALAIS, MAINE
Balance Sheet
Governmental Funds
June 30, 2017

| | General | School Department Operations | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|------------------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 462,877 | 270,162 | 968,980 | 1,702,019 |
| Investments | - | - | 256,782 | 256,782 |
| Receivables: | | | | |
| Taxes | 627,401 | - | - | 627,401 |
| Due from other governments | 31,663 | 298,541 | 151,822 | 482,026 |
| Accounts | 2,097 | - | - | 2,097 |
| Loans, net | - | - | 354,922 | 354,922 |
| Interfund loans receivable | 2,356,421 | 330,897 | 528,633 | 3,215,951 |
| Prepaid expenditures | 27,176 | - | - | 27,176 |
| Inventory | 6,794 | - | 12,562 | 19,356 |
| Total assets | \$ 3,514,429 | 899,600 | 2,273,701 | 6,687,730 |
| LIABILITIES | | | | |
| Accounts payable | 75,810 | 67,722 | 4,024 | 147,556 |
| Accrued payroll and benefits | 36,476 | 568,217 | 24,583 | 629,276 |
| Payroll withholdings payable | 13,352 | - | - | 13,352 |
| Payable to other governments | 7,532 | - | - | 7,532 |
| Interfund loans payable | 728,273 | - | 149,145 | 877,418 |
| Taxes paid in advance | 121,445 | - | - | 121,445 |
| Total liabilities | 982,888 | 635,939 | 177,752 | 1,796,579 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue - property taxes | 581,200 | - | - | 581,200 |
| Total deferred inflows of resources | 581,200 | - | - | 581,200 |
| FUND BALANCES | | | | |
| Nonspendable | 33,970 | - | 515,224 | 549,194 |
| Restricted | - | 263,661 | 1,272,296 | 1,535,957 |
| Committed | - | - | 395,886 | 395,886 |
| Unassigned | 1,916,371 | - | (87,457) | 1,828,914 |
| Total fund balances | 1,950,341 | 263,661 | 2,095,949 | 4,309,951 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 3,514,429 | 899,600 | 2,273,701 | |

Amounts reported for governmental activities in the statement of net position are different because:

| | |
|--|-------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 5,340,998 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 581,200 |
| Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds: | |
| Accrued compensated absences | (180,203) |
| Capital leases | (117,650) |
| Bonds payable | (447,653) |
| Net pension liability with associated deferred inflows and outflows | (1,085,469) |

| | |
|--|---------------------|
| Net position of governmental activities | \$ 8,401,174 |
|--|---------------------|

See accompanying notes to basic financial statements.

CITY OF CALAIS, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2017

| | General | School Department Operations | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|------------------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Taxes | \$ 4,377,613 | - | - | 4,377,613 |
| Intergovernmental | 433,722 | 5,617,820 | 944,786 | 6,996,328 |
| Charges for services | 218,837 | 1,734,044 | 111,945 | 2,064,826 |
| Investment earnings | 2,075 | - | (9,704) | (7,629) |
| Unclassified | 65,678 | 143,639 | 166,136 | 375,453 |
| Total revenues | 5,097,925 | 7,495,503 | 1,213,163 | 13,806,591 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 552,527 | - | 123,422 | 675,949 |
| City services | 362,161 | - | 30,610 | 392,771 |
| Public safety | 1,076,734 | - | 14,305 | 1,091,039 |
| Public works | 849,536 | - | 5,397 | 854,933 |
| County tax | 272,695 | - | - | 272,695 |
| Unclassified | 287,922 | - | 77 | 287,999 |
| Education | - | 8,350,915 | 980,574 | 9,331,489 |
| Debt service | 142,784 | 526,693 | - | 669,477 |
| Capital outlay | 48,536 | 122,765 | 157,084 | 328,385 |
| Total expenditures | 3,592,895 | 9,000,373 | 1,311,469 | 13,904,737 |
| Excess (deficiency) of revenues over (under) expenditures | 1,505,030 | (1,504,870) | (98,306) | (98,146) |
| Other financing sources (uses): | | | | |
| Capital lease proceeds | - | 122,765 | - | 122,765 |
| Transfers from other funds | 123,311 | 1,527,637 | 17,900 | 1,668,848 |
| Transfers to other funds | (1,538,037) | (15,000) | - | (1,553,037) |
| Total other financing sources (uses) | (1,414,726) | 1,635,402 | 17,900 | 238,576 |
| Net change in fund balances | 90,304 | 130,532 | (80,406) | 140,430 |
| Fund balances, beginning of year, as restated | 1,860,037 | 133,129 | 2,176,355 | 4,169,521 |
| Fund balances, end of year | \$ 1,950,341 | 263,661 | 2,095,949 | 4,309,951 |

See accompanying notes to basic financial statements.

CITY OF CALAIS, MAINE
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, 2017

| | | |
|---|----|-------------------|
| Net change in fund balances - total governmental funds (from Statement 4) | \$ | 140,430 |
| <p>Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:</p> | | |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$430,922) exceeded depreciation expense (\$253,124) and loss on disposal (\$59,637).</p> | | |
| | | 118,161 |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | |
| | | 54,900 |
| <p>Change in accruals are recorded on the statement of net position, but not on the governmental fund balance sheet - increase in accrued compensated absences (\$26,918) and increase in the net pension liability with associated deferred outflows and deferred inflows (\$227,091).</p> | | |
| | | (254,009) |
| <p>Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which bond principal repayments (\$133,633) and capital lease principal repayments (\$38,573) exceeded lease proceeds (\$122,765).</p> | | |
| | | 49,441 |
| Change in net position of governmental activities (see Statement 2) | | \$ 108,923 |

See accompanying notes to basic financial statements.

CITY OF CALAIS, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the year ended June 30, 2017

| | City General Fund | | | | School Department Operations | | | |
|---|-------------------|-------------|------------------|--|------------------------------|-------------|----------------|--|
| | Budgeted amounts | | Actual | Variance with final budget positive (negative) | Budgeted amounts | | Actual | Variance with final budget positive (negative) |
| | Original | Final | | | Original | Final | | |
| Revenues: | | | | | | | | |
| Taxes | \$ 4,450,373 | 4,450,373 | 4,377,613 | (72,760) | - | - | - | - |
| Intergovernmental | 423,069 | 423,069 | 433,722 | 10,653 | 5,239,698 | 5,239,698 | 5,236,655 | (3,043) |
| Charges for services | 218,198 | 218,198 | 218,837 | 639 | 1,801,562 | 1,801,562 | 1,734,044 | (67,518) |
| Interest earned | 2,000 | 2,000 | 2,075 | 75 | - | - | - | - |
| Unclassified | 26,245 | 26,245 | 65,678 | 39,433 | 109,342 | 109,342 | 143,639 | 34,297 |
| Total revenues | 5,119,885 | 5,119,885 | 5,097,925 | (21,960) | 7,150,602 | 7,150,602 | 7,114,338 | (36,264) |
| Expenditures: | | | | | | | | |
| Current: | | | | | | | | |
| General government | 570,192 | 578,770 | 553,227 | 25,543 | - | - | - | - |
| City services | 370,248 | 373,330 | 362,161 | 11,169 | - | - | - | - |
| Public safety | 1,052,872 | 1,101,201 | 1,077,734 | 23,467 | - | - | - | - |
| Public works | 836,536 | 939,431 | 858,236 | 81,195 | - | - | - | - |
| County tax | 272,695 | 272,695 | 272,695 | - | - | - | - | - |
| Unclassified | 293,527 | 293,527 | 287,922 | 5,605 | - | - | - | - |
| Education | - | - | - | - | 8,314,258 | 8,314,258 | 7,961,866 | 352,392 |
| Debt service | 142,776 | 142,776 | 142,784 | (8) | 523,980 | 523,980 | 526,693 | (2,713) |
| Capital outlay | 40,500 | 48,536 | 48,536 | - | - | - | - | - |
| Total expenditures | 3,579,346 | 3,750,266 | 3,603,295 | 146,971 | 8,838,238 | 8,838,238 | 8,488,559 | 349,679 |
| Excess (deficiency) of revenues over (under) expenditures | 1,540,539 | 1,369,619 | 1,494,630 | 125,011 | (1,687,636) | (1,687,636) | (1,374,221) | 313,415 |
| Other financing sources (uses): | | | | | | | | |
| Transfers from other funds | 119,972 | 119,972 | 123,311 | 3,339 | 1,476,493 | 1,476,493 | 1,527,637 | 51,144 |
| Transfers to other funds | (1,476,493) | (1,476,493) | (1,527,637) | (51,144) | (15,000) | (15,000) | (15,000) | - |
| Use of surplus | 50,000 | 220,920 | - | (220,920) | 226,143 | 226,143 | - | (226,143) |
| Total other financing sources (uses) | (1,306,521) | (1,135,601) | (1,404,326) | (268,725) | 1,687,636 | 1,687,636 | 1,512,637 | (174,999) |
| Net change in fund balance - budgetary basis | 234,018 | 234,018 | 90,304 | (143,714) | - | - | 138,416 | 138,416 |
| Reconciliation to GAAP basis: | | | | | | | | |
| Change in teacher summer salaries | | | - | | | | (7,884) | |
| Net change in fund balance - GAAP basis | | | 90,304 | | | | 130,532 | |
| Fund balance, beginning of year, as restated | | | 1,860,037 | | | | 133,129 | |
| Fund balance, end of year | \$ | | 1,950,341 | | | | 263,661 | |

See accompanying notes to basic financial statements.

CITY OF CALAIS, MAINE
Statement of Net Position
Proprietary Funds
June 30, 2017
(Water Fund presented as of December 31, 2016)

| | Business-type Activities - Enterprise Funds | | | |
|------------------------------------|---|-------------------|---------------|--------------|
| | Sewer Fund | Ambulance Fund | Water Fund | Totals |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 27,932 | 213,906 | 53,987 | 295,825 |
| Accounts receivable, net | 382,706 | 191,025 | 202,221 | 775,952 |
| Due from other governments | 25,769 | - | - | 25,769 |
| Cash held in escrow | - | - | 11,520 | 11,520 |
| Inventory | - | - | 41,349 | 41,349 |
| Total current assets | 436,407 | 404,931 | 309,077 | 1,150,415 |
| Noncurrent assets: | | | | |
| Property, plant, and equipment: | | | | |
| Land | - | - | 75,896 | 75,896 |
| Construction in progress | 48,539 | - | - | 48,539 |
| Buildings and improvements | 8,348,925 | - | 97,596 | 8,446,521 |
| Equipment, furniture, and vehicles | 234,461 | 567,427 | 614,429 | 1,416,317 |
| Infrastructure | 16,848,346 | - | 9,844,180 | 26,692,526 |
| Less accumulated depreciation | (7,971,115) | (268,901) | (2,521,363) | (10,761,379) |
| Total noncurrent assets | 17,509,156 | 298,526 | 8,110,738 | 25,918,420 |
| Total assets | 17,945,563 | 703,457 | 8,419,815 | 27,068,835 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 89,478 | 51,345 | 28,753 | 169,576 |
| Accrued payroll and benefits | - | 10,568 | - | 10,568 |
| Compensated absences payable | - | 10,731 | - | 10,731 |
| Accrued interest | 27,376 | - | 3,612 | 30,988 |
| Interfund loans payable | 1,791,387 | 552,144 | 93,839 | 2,437,370 |
| Bond anticipation note payable | - | - | 572,839 | 572,839 |
| Current portion of bonds payable | 379,424 | 19,251 | 198,287 | 596,962 |
| Total current liabilities | 2,287,665 | 644,039 | 897,330 | 3,829,034 |
| Noncurrent liabilities: | | | | |
| Bonds payable | 4,562,396 | 53,719 | 3,155,116 | 7,771,231 |
| Total noncurrent liabilities | 4,562,396 | 53,719 | 3,155,116 | 7,771,231 |
| Total liabilities | 6,850,061 | 697,758 | 4,052,446 | 11,600,265 |
| NET POSITION | | | | |
| Net investment in capital assets | 12,567,336 | 225,556 | 4,196,016 | 16,988,908 |
| Restricted | 25,769 | - | - | 25,769 |
| Unrestricted | (1,497,603) | (219,857) | 171,353 | (1,546,107) |
| Total net position | \$ 11,095,502 | 5,699 | 4,367,369 | 15,468,570 |

See accompanying notes to basic financial statements.

CITY OF CALAIS, MAINE
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the year ended June 30, 2017
(Water Fund presented for the year ended December 31, 2016)

| | Business-type Activities - Enterprise Funds | | | |
|--|--|---------------------------|-----------------------|-------------------|
| | Sewer Fund | Ambulance Fund | Water Fund | Totals |
| Operating revenues: | | | | |
| Charges for services | \$ 855,478 | 1,094,728 | 629,085 | 2,579,291 |
| Interest and lien fees | 18,911 | - | - | 18,911 |
| Miscellaneous | 21,138 | - | 351 | 21,489 |
| Total operating revenues | 895,527 | 1,094,728 | 629,436 | 2,619,691 |
| Operating expenses: | | | | |
| Personnel services | 195,343 | 741,702 | 259,847 | 1,196,892 |
| Contractual services | 118,011 | 82,611 | 58,284 | 258,906 |
| Utilities | 84,482 | 4,136 | 20,667 | 109,285 |
| Repairs and maintenance | 21,391 | 18,226 | 7,668 | 47,285 |
| Materials and supplies | 63,123 | 38,573 | 59,600 | 161,296 |
| Miscellaneous | 10,141 | 14,520 | 9,516 | 34,177 |
| Bad debt expense | - | - | 282 | 282 |
| Depreciation | 566,710 | 68,819 | 162,798 | 798,327 |
| Total operating expenses | 1,059,201 | 968,587 | 578,662 | 2,606,450 |
| Operating income (loss) | (163,674) | 126,141 | 50,774 | 13,241 |
| Nonoperating revenue (expense): | | | | |
| Interest income | - | 2,003 | 358 | 2,361 |
| Capital grants and contributions | 817,791 | - | 17,367 | 835,158 |
| Interest expense | (85,084) | (1,939) | (10,447) | (97,470) |
| Total nonoperating revenue (expense) | 732,707 | 64 | 7,278 | 740,049 |
| Net income before transfers | 569,033 | 126,205 | 58,052 | 753,290 |
| Transfers: | | | | |
| Transfer to other funds | (65,980) | - | - | (65,980) |
| Total transfers | (65,980) | - | - | (65,980) |
| Change in net position | 503,053 | 126,205 | 58,052 | 687,310 |
| Total net position, beginning of year | 10,592,449 | (120,506) | 4,309,317 | 14,781,260 |
| Total net position, end of year | \$ 11,095,502 | 5,699 | 4,367,369 | 15,468,570 |

See accompanying notes to basic financial statements.

CITY OF CALAIS, MAINE
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2017
(Water Fund presented for the year ended December 31, 2016)

| | Business-type Activities - Enterprise Funds | | | |
|--|--|---------------------------|-----------------------|----------------|
| | Sewer Fund | Ambulance Fund | Water Fund | Totals |
| Cash flows from operating activities: | | | | |
| Receipts from customers and users | \$ 913,833 | 1,081,335 | 649,222 | 2,644,390 |
| Payments to suppliers | (332,696) | (146,411) | (156,903) | (636,010) |
| Payments to employees/employee services | (195,343) | (733,105) | (259,847) | (1,188,295) |
| Net cash provided by operating activities | 385,794 | 201,819 | 232,472 | 820,085 |
| Cash flows from non-capital financing activities: | | | | |
| Transfers to other funds | (65,980) | - | - | (65,980) |
| (Increase) decrease in interfund loans | 118,325 | (37,482) | 53,200 | 134,043 |
| Net cash provided by (used in) non-capital financing activities | 52,345 | (37,482) | 53,200 | 68,063 |
| Cash flows from capital and related financing activities: | | | | |
| Purchase of capital assets | (1,417,376) | (128,000) | (813,493) | (2,358,869) |
| Capital grants and contributions | 1,045,328 | - | 17,367 | 1,062,695 |
| Proceeds from bond anticipation note | 413,219 | - | 572,839 | 986,058 |
| Repayment of bond anticipation note | (500,000) | - | - | (500,000) |
| Proceeds from issuance of debt | 500,000 | - | 144,954 | 644,954 |
| Principal payments on debt | (372,486) | (18,846) | (189,480) | (580,812) |
| Interest paid on debt | (85,084) | (1,939) | (11,158) | (98,181) |
| Net cash used in capital and related financing activities | (416,399) | (148,785) | (278,971) | (844,155) |
| Cash flows from investing activities: | | | | |
| Interest income | - | 2,003 | 358 | 2,361 |
| Net cash provided by investing activities | - | 2,003 | 358 | 2,361 |
| Increase in cash and cash equivalents | 21,740 | 17,555 | 7,059 | 46,354 |
| Cash and cash equivalents, beginning of year | 6,192 | 196,351 | 46,928 | 249,471 |
| Cash and cash equivalents, end of year | \$ 27,932 | 213,906 | 53,987 | 295,825 |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | | |
| Operating income (loss) | \$ (163,674) | 126,141 | 50,774 | 13,241 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | |
| Depreciation | 566,710 | 68,819 | 162,798 | 798,327 |
| (Increase) decrease in operating assets: | | | | |
| Accounts receivable, net | 18,306 | (13,393) | 19,786 | 24,699 |
| Inventory | - | - | 2,323 | 2,323 |
| Increase (decrease) in operating liabilities: | | | | |
| Accounts payable | (35,548) | 11,655 | (3,209) | (27,102) |
| Accrued wages and benefits | - | 2,793 | - | 2,793 |
| Accrued compensated absences | - | 5,804 | - | 5,804 |
| Net cash provided by operating activities | 385,794 | 201,819 | 232,472 | 820,085 |

See accompanying notes to basic financial statements.

CITY OF CALAIS, MAINE
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

| | | Private- purpose Trust Funds | Student Activities | Other Agency Funds |
|---------------------------|----|---------------------------------------|-----------------------|--------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ | - | 121,788 | 87,117 |
| Investments | | 66,550 | - | - |
| Total assets | | 66,550 | 121,788 | 87,117 |
| LIABILITIES | | | | |
| Due to others | | - | 121,788 | 87,117 |
| Total liabilities | | - | 121,788 | 87,117 |
| NET POSITION | | | | |
| Held in trust | \$ | 66,550 | - | - |

See accompanying notes to basic financial statements.

CITY OF CALAIS, MAINE
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the year ended June 30, 2017

| | | Private- purpose Trust Funds |
|----------------------------------|-----------|---|
| <hr/> | | |
| Additions: | | |
| Investment income (loss) | \$ | (101) |
| <hr/> | | |
| Total additions | | (101) |
| <hr/> | | |
| Deductions: | | |
| Scholarships and other | | 437 |
| <hr/> | | |
| Total deductions | | 437 |
| <hr/> | | |
| Change in net position | | (538) |
| | | |
| Net position, beginning of year | | 67,088 |
| <hr/> | | |
| Net position, end of year | \$ | 66,550 |

See accompanying notes to basic financial statements.

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures of the City of Calais, Maine conform to generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City of Calais, Maine was incorporated under the laws of the State of Maine in 1851 and operates under a council/manager form of government. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City of Calais, Maine (the primary government) and its component units. The decision to include a potential component unit was made by applying the criteria set forth in accounting principles generally accepted in the United States of America, which defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability of the primary government to impose its will on the component unit, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Application of this criterion and determination of type of presentation involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. Based upon the application of these criteria, there were no potential component units required to be included in this report.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. 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 function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City has elected not to allocate indirect costs among the programs, functions and segments. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers tax revenues to be available in the fund financial statements if they are collected within 60 days of the end of the current fiscal period. A one-year period is used for revenue recognition for all other governmental fund revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as certain compensated absences and claims and judgments, are recorded only when the payment is due.

Those revenues susceptible to accrual are property taxes, intergovernmental revenue, interest revenue, and charges for services. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The School Department Operations Fund is the School Department's primary operating fund. It accounts for all financial resources of the School Department, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation of the City's sewer department.

The Ambulance Fund accounts for the operation of the City's ambulance services.

The Water Fund accounts for the operation of the City's water department.

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. As such, fiduciary funds are not reported in the government-wide statements. The City's fiduciary funds include the following:

Private-purpose trust funds account for resources where funds are legally restricted by a formal trust agreement and may be used for purposes that benefit individuals, private organizations, or other governments. These include scholarship funds.

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. The agency funds are used to account for assets that the government holds for others in an agency capacity and include student activity funds, and funds held on behalf of the Calais School Department Trustees and the Calais Fire Department Association.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's general and enterprise funds and other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services; operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Deferred Outflows and Inflows of Resources, Liabilities, and Equity

1. Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

Investments are stated at fair value. For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

2. Interfund Receivables/Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund loans or as interfund advances (i.e. the noncurrent portion of interfund loans). Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are generally recorded as expenditures when consumed rather than when purchased.

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The threshold for capitalizing assets, not including infrastructure assets, is \$5,000. The threshold for capitalizing infrastructure assets is \$10,000. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

| | |
|----------------------------|--------------|
| Buildings and improvements | 20-50 years |
| Equipment and furniture | 3-50 years |
| Vehicles | 3-25 years |
| Infrastructure | 50-100 years |

5. Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the statement of net position and balance sheet will sometimes report separate sections for deferred outflows of resources and deferred inflows of resources. These separate financial statement elements, deferred outflows of resources and deferred inflows of resources, represent a consumption or acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) or inflow of resources (revenue) until that time. The governmental funds report one type of deferred inflows of resources, unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The governmental activities have deferred outflows and inflows that relate to the net pension liability, which include the City's contributions subsequent to the measurement date, which is recognized as a reduction of the net pension liability in the subsequent year. They include changes in assumptions, differences between expected and actual experience, and changes in proportion and differences between City contributions and proportionate share of contributions, which are deferred and amortized over the average expected remaining service lives of active and inactive members in the plan. They also include the net difference between projected and actual earnings on pension plan investments, which is deferred and amortized over a five-year period.

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

6. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Accrued vacation and sick leave are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts if material to the basic financial statements are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Maine Public Employees Retirement System Consolidated Plan for Participating Local Districts (PLD Plan) and the Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. All other interfund transfers are reported as transfers.

10. Use of Estimates

Preparation of the City's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

11. Fund Equity

Governmental Fund fund balance is reported in five classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which those funds can be spent. The five classifications of fund balance for the Governmental Funds are as follows:

- *Nonspendable* – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.
- *Restricted* – resources with constraints placed on the use of resources which are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or; b) imposed by law through constitutional provisions or enabling legislation.
- *Committed* – resources which are subject to limitations the City imposes on itself at its highest level of decision making authority, and that remain binding unless removed in the same manner.
- *Assigned* – resources that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed.
- *Unassigned* – resources which have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

The City has formally adopted a minimum fund balance policy which requires that an amount between 12% and 16% of the City’s current fiscal year budgeted expenditures be maintained as unassigned fund balance. In the event that the balance drops below the established minimum level, the City Council will develop a written plan to replenish the fund balance to the established minimum level within three fiscal years.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, and unassigned resources are available for use, it is the City’s policy to use committed or assigned resources first, and then unassigned resources as they are needed. In the case of capital reserves, funds can be spent only after General Fund appropriations are fully utilized or upon approval of the City Council.

The City Council has the responsibility for committing fund balance amounts and likewise would be required to modify or rescind those commitments. Likewise, the City Council, School Committee, or a body or official delegated by the City Council or School Committee may assign unspent budgeted amounts to specific purposes in the General Fund at year end based on department requests.

12. Comparative Data

Comparative data for the prior year have been presented only for certain funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year’s presentation.

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

The City utilizes a formal budgetary accounting system to control revenues and expenditures accounted for in the General Fund. The budget is established in accordance with the various laws which govern the City's operations. The budget is prepared substantially in accordance with accounting principles generally accepted (GAAP) in the United States of America, except for certain payroll expenditures, including teachers' summer salaries, which are budgeted on a cash basis, and revenues and expenditures related to "on-behalf payments" made by the State of Maine to the Maine Public Employees Retirement System for teachers and other school employees are not budgeted.

All unexpended appropriations lapse at year end, except for balances approved to be carried forward by the City Council. In accordance with legal requirements of the State of Maine, all educational balances are carried forward to the next fiscal year.

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2017, expenditures exceeded appropriations in the following areas:

| | | | |
|--------------------|----------|----------------------------------|--------|
| Finance department | \$ 5,611 | Debt service – City | 8 |
| Library | 1,873 | Regular instruction | 29,163 |
| Transfer station | 3,245 | Debt service – School Department | 2,713 |

C. Deficit Fund Balances

At June 30, 2017, the following funds had deficit fund balances over \$1,000:

| | | | |
|--------------------------|----------|--------------------------------|--------|
| Shore and Harbor Grant | \$ 4,871 | Momentum | 4,526 |
| Safe routes to school | 1,110 | Nash's lake dam | 2,502 |
| Scholarship account | 1,750 | Recreation pool donations | 56,962 |
| All other - City | 2,521 | CIP transfer station | 1,537 |
| Title IA - disadvantaged | 6,355 | Title IA – program improvement | 5,411 |

These deficits will be funded by future grant revenue, charges for services, or transfers.

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM - ON BEHALF PAYMENTS

As required by accounting principles generally accepted in the United States of America, the City has recorded a revenue and an expenditure for Maine Public Employees Retirement contributions made by the State of Maine on behalf of the School Department. These amounts have not been budgeted in the General Fund and result in a difference in reporting on a budgetary basis of accounting versus reporting under accounting principles generally accepted in the United States of America of \$381,165.

These amounts have been included as an intergovernmental revenue and as an education expense/expenditure on Statement 2 and 4 (GAAP basis). There is no effect on the net position/fund balance at the end of the year.

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

DEPOSITS AND INVESTMENTS

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of June 30, 2017, the City had the following investments:

| | <u>Fair value</u> | <u>Weighted average maturity (years)</u> | <u>Level 1 input</u> |
|----------------------------------|-------------------|--|----------------------|
| Federal Home Loan Bank | \$ 44,429 | 5.75 | yes |
| Federal Farm Credit Bank | 74,133 | 3.04 | yes |
| Federal Home Loan Mortgage Corp. | 24,917 | 2.72 | yes |
| Federal National Mortgage Assoc. | 179,853 | 1.87 | yes |

Custodial credit risk- deposits – In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City currently does not have a deposit policy for custodial credit risk. As of June 30, 2017, 100% of the City’s bank balance of \$1,634,339 was covered by FDIC insurance, fully insured, or collateralized.

Credit risk – Maine statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and certificates of deposit. As of June 30, 2017, all of the City’s investments were rated, at a minimum, AA+ by Standard & Poor’s. The City currently does not have a policy for credit risk.

Interest rate risk – The City does not have a policy related to interest rate risk.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

As of June 30, 2017, the City had the following accounts and loans receivable with allowance for uncollectible account balances:

| | <u>Ambulance Fund</u> | <u>UDAG Loan Fund</u> | <u>Uptown Loan Fund</u> |
|--|--------------------------|-----------------------|-------------------------|
| Accounts receivable | \$ 275,471 | - | - |
| Loans receivable | - | 440,917 | 54,421 |
| <u>Allowance for uncollectible accounts</u> | <u>(84,446)</u> | <u>(103,000)</u> | <u>(37,416)</u> |
| <u>Accounts and loans receivable, net</u> | <u>\$ 191,025</u> | <u>337,917</u> | <u>17,005</u> |

PROPERTY TAX

Property taxes for the current year were committed on August 5, 2016, on the assessed value listed as of the prior April 1 for all real and personal property located in the City. Assessed values were established by the City’s Assessor at 100% of assumed market value.

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

PROPERTY TAX, CONTINUED

The City is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$57,875 for the year ended June 30, 2017.

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.

Property taxes levied during the year were recorded as receivables at the time the levy was made. The receivables collected during the year and in the first sixty days following the end of the fiscal year have been recorded as revenues. The remaining receivables have been recorded as unavailable revenues.

The following summarizes the levy:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|-------------------|-----------------|
| Assessed value | \$ 150,726,200 | 153,610,520 |
| Tax rate (per \$1,000) | 25.30 | 25.30 |
| Commitment | 3,813,373 | 3,886,346 |
| Supplemental taxes assessed | 25,245 | 15,350 |
| | 3,838,618 | 3,901,696 |
| Less: | | |
| Abatements | 5,652 | 16,722 |
| Collections | 3,493,265 | 3,545,246 |
| | \$ 339,701 | 339,728 |
| Due date - current year | October 3, 2016 | October 1, 2015 |
| Interest rate on delinquent taxes | 7.00% | 7.00% |
| Collection rate | 91.1% | 91.3% |

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

| | Balance June 30, <u>2016</u> | <u>Increases</u> | <u>Decreases</u> | Balance June 30, <u>2017</u> |
|--|------------------------------------|------------------|------------------|------------------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Construction in progress | \$ - | 49,386 | - | 49,386 |
| Land | 3,111,905 | - | - | 3,111,905 |
| Total capital assets not being depreciated | 3,111,905 | 49,386 | - | 3,161,291 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 1,953,994 | - | 86,950 | 1,867,044 |
| Furniture and equipment | 1,638,918 | 135,415 | 75,138 | 1,699,195 |
| Vehicles | 1,694,790 | 34,700 | - | 1,729,490 |
| Infrastructure | 238,660 | 211,421 | - | 450,081 |
| Total capital assets being depreciated | 5,526,362 | 381,536 | 162,088 | 5,745,810 |

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

CAPITAL ASSETS, CONTINUED

| | Balance June 30, <u>2016</u> | <u>Increases</u> | <u>Decreases</u> | Balance June 30, <u>2017</u> |
|---|------------------------------------|------------------|------------------|------------------------------------|
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 1,015,544 | 44,980 | 48,692 | 1,011,832 |
| Furniture and equipment | 1,160,147 | 100,936 | 53,759 | 1,207,324 |
| Vehicles | 1,211,487 | 85,585 | - | 1,297,072 |
| Infrastructure | 28,252 | 21,623 | - | 49,875 |
| Total accumulated depreciation | 3,415,430 | 253,124 | 102,451 | 3,566,103 |
| Total capital assets being depreciated, net | 2,110,932 | 128,412 | 59,637 | 2,179,707 |
| Governmental activities capital assets, net | \$ 5,222,837 | 177,798 | 59,637 | 5,340,998 |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 75,896 | - | - | 75,896 |
| Construction in progress | 299,134 | 2,155,855 | 2,406,450 | 48,539 |
| Total capital assets not being depreciated | 375,030 | 2,155,855 | 2,406,450 | 124,435 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 8,446,521 | - | - | 8,446,521 |
| Equipment, furniture, and vehicles | 1,345,039 | 128,000 | 56,722 | 1,416,317 |
| Infrastructure | 24,258,959 | 2,433,567 | - | 26,692,526 |
| Total capital assets being depreciated | 34,050,519 | 2,561,567 | 56,722 | 36,555,364 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 4,603,840 | 258,874 | - | 4,862,714 |
| Equipment, furniture, and vehicles | 1,024,760 | 79,114 | 56,722 | 1,047,152 |
| Infrastructure | 4,391,174 | 460,339 | - | 4,851,513 |
| Total accumulated depreciation | 10,019,774 | 798,327 | 56,722 | 10,761,379 |
| Total capital assets being depreciated, net | 24,030,745 | 1,763,240 | - | 25,793,985 |
| Business-type activities capital assets, net | \$ 24,405,775 | 3,919,095 | 2,406,450 | 25,918,420 |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|---|-------------------|
| Governmental activities: | |
| General government | \$ 21,946 |
| City services | 31,853 |
| Public safety | 52,428 |
| Public works | 90,832 |
| Education | 56,065 |
| Total depreciation expense – governmental activities | \$ 253,124 |

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

CAPITAL ASSETS, CONTINUED

| | |
|--|-------------------|
| Business-type activities: | |
| Sewer fund | \$ 566,710 |
| Ambulance fund | 68,819 |
| Water fund | 162,798 |
| Total depreciation expense – business-type activities | \$ 798,327 |

LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2017 was as follows:

| | Beginning <u>balance</u> | <u>Additions</u> | <u>Reductions</u> | Ending <u>balance</u> | Due within <u>one year</u> |
|---|-----------------------------|------------------|-------------------|--------------------------|-------------------------------|
| Governmental activities: | | | | | |
| Notes payable | \$ 581,286 | - | 133,633 | 447,653 | 147,178 |
| Capital leases | 33,458 | 122,765 | 38,573 | 117,650 | 20,461 |
| Compensated absences | 153,285 | 26,918 | - | 180,203 | - |
| Net pension liability | 1,059,009 | 711,090 | - | 1,770,099 | - |
| Governmental activities long-term liabilities | \$ 1,827,038 | 860,773 | 172,206 | 2,515,605 | 167,639 |
| Business-type activities: | | | | | |
| Bonds and notes payable | \$ 8,292,531 | 695,593 | 619,931 | 8,368,193 | 596,962 |
| Compensated absences | 4,927 | 5,804 | - | 10,731 | - |
| Business-type activities long-term liabilities | \$ 8,297,458 | 701,397 | 619,931 | 8,378,924 | 596,962 |

CAPITAL LEASES

The City has entered into lease agreements as lessee for financing the acquisition of equipment. This lease qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of future minimum lease payments as of the date of its inception.

The following is a schedule of future minimum lease payments under the capital lease at June 30, 2017:

| | |
|--|-------------------|
| 2018 | \$ 20,461 |
| 2019 | 20,461 |
| 2020 | 20,461 |
| 2021 | 20,461 |
| 2022 | 20,461 |
| 2023 | 15,345 |
| Total future minimum lease payments | \$ 117,650 |

Amounts capitalized under leases are \$122,765 for governmental activities. Accumulated depreciation for the capital leases that have been capitalized is \$3,410.

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

BONDS AND NOTES PAYABLE

Bonds and notes payable at June 30, 2017 are comprised of the following:

| | <u>Date of issue</u> | <u>Original amount issued</u> | <u>Date of maturity</u> | <u>Interest rate</u> | <u>Balance June 30, 2017</u> |
|---------------------------------------|--------------------------|---------------------------------------|-----------------------------|--------------------------|--------------------------------------|
| Governmental activities: | | | | | |
| Information center note | 6/20/16 | \$ 135,000 | 2027 | 2.50% | 135,000 |
| Equipment note | 10/25/12 | 247,279 | 2018 | 1.40% | 50,782 |
| Sidewalk/library note | 11/23/12 | 584,992 | 2020 | 2.20% | 261,871 |
| Total governmental activities | | | | | 447,653 |
| Business-type activities: | | | | | |
| 2016 ambulance note | 3/4/16 | \$ 98,000 | 2021 | 2.30% | 72,970 |
| 2009 sewer bond | 10/26/09 | 978,822 | 2030 | 1.00% | 658,156 |
| 2010-FS-CW | 12/22/10 | 2,263,000 | 2031 | 1.00% | 895,711 |
| 2010-SR-CW | 6/29/10 | 943,371 | 2030 | 1.00% | 634,318 |
| 2011-FR-CW | 3/28/11 | 1,231,000 | 2031 | 1.50% | 899,367 |
| 2012 Rural development | 12/2/11 | 777,000 | 2040 | 2.25% | 671,218 |
| 2016 Rural development | 12/22/16 | 500,000 | 2045 | 1.375% | 500,000 |
| 2002 sewer bond | 2/16/02 | 2,350,000 | 2022 | 2.36% | 683,050 |
| 2013 water note | 1/29/13 | 27,497 | 2020 | 2.03% | 12,184 * |
| 2013 water note | 1/29/13 | 138,000 | 2021 | 2.25% | 71,595 * |
| 2013 water note | 1/29/13 | 127,241 | 2026 | 2.75% | 102,002 * |
| 2008 water bond | 6/17/08 | 1,963,998 | 2031 | 0.00% | 1,227,492 * |
| 2009 water bond | 1/15/09 | 914,500 | 2036 | 0.00% | 653,214 * |
| 2009 water bond | 6/17/09 | 44,500 | 2039 | 0.00% | 33,375 * |
| 2009 water bond | 6/17/09 | 143,550 | 2039 | 0.00% | 107,663 * |
| 2009 water bond | 12/17/09 | 584,500 | 2039 | 0.00% | 448,117 * |
| 2012 water bond | 6/22/12 | 382,250 | 2042 | 0.00% | 318,542 * |
| 2014 water bond | 11/22/13 | 305,000 | 2044 | 1.00% | 222,745 * |
| 2016 water bond | 11/21/16 | 195,593 | 2037 | 1.00% | 156,474 * |
| Total business-type activities | | | | | 8,368,193 |
| Total bonds and notes payable | | | | | \$ 8,815,846 |

* All outstanding bonds and notes payable for the Water Fund are reported as of December 31, 2016.

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

BONDS AND NOTES PAYABLE, CONTINUED

The annual requirements to amortize all long-term debt outstanding as of June 30, 2017 are as follows:

| <u>June 30,</u> | <u>Governmental activities</u> | | | <u>Business-type activities</u> | | |
|-----------------|--------------------------------|-----------------|----------------|---------------------------------|-----------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2018 | \$ 147,178 | 11,119 | 158,297 | 596,962 | 86,468 | 683,430 |
| 2019 | 99,723 | 7,080 | 106,803 | 604,405 | 78,764 | 683,169 |
| 2020 | 101,962 | 4,818 | 106,780 | 611,980 | 71,158 | 683,138 |
| 2021 | 13,070 | 2,511 | 15,581 | 610,254 | 63,323 | 673,577 |
| 2022 | 13,408 | 2,173 | 15,581 | 583,214 | 55,751 | 638,965 |
| 2023-2027 | 72,312 | 5,208 | 77,520 | 2,256,716 | 187,887 | 2,444,603 |
| 2028-2032 | - | - | - | 1,937,860 | 92,883 | 2,030,743 |
| 2033-2037 | - | - | - | 695,897 | 43,984 | 739,881 |
| 2038-2042 | - | - | - | 390,606 | 15,671 | 406,277 |
| 2043-2044 | - | - | - | 80,299 | 2,019 | 82,318 |
| Total | \$ 447,653 | 32,909 | 480,562 | 8,368,193 | 697,908 | 9,066,101 |

The City is subject to a statutory limitation, by the State of Maine, of its general long-term debt equal to 15% of the State's valuation of the City. The City's outstanding general long-term debt of \$8,815,846 at June 30, 2017 was within the statutory limit.

In addition to the notes and bonds payable, the City is contingently responsible for the following overlapping debt as of June 30, 2017:

| <u>Entity</u> | <u>Net debt outstanding</u> | <u>Applicable to the City</u> | <u>City's share of debt</u> |
|----------------------------------|-----------------------------|-------------------------------|-----------------------------|
| Calais School District Trustees: | | | |
| 2004 bond payable - \$7,766,994 | \$ 3,106,800 | 100% | 3,106,800 |
| 2017 loan payable - \$375,000 | 369,731 | 100% | 369,731 |

LINES OF CREDIT

The City of Calais currently has a line of credit with the First, with a credit limit of \$900,000 and an interest rate of 1.03%. The Calais School Department also has a line of credit with the First, with a credit limit of \$800,000 and an interest rate of 1.44%. Interest is payable and due each month based on the outstanding balance. Line of credit activity for the year ended June 30, 2017 was as follows:

| | <u>Beginning balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending balance</u> | <u>Due within one year</u> |
|-------------------------------|--------------------------|------------------|-------------------|-----------------------|----------------------------|
| City | \$ 200,057 | 200,000 | 400,057 | - | - |
| School Department | - | 336,195 | 336,195 | - | - |
| Line of credit payable | \$ 200,057 | 536,195 | 736,252 | - | - |

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

SHORT-TERM DEBT

The City issued bond anticipation notes for interim financing until long-term bonds are issued. The bond anticipation notes were for the sewer fund: \$500,000 with an interest rate of 0.86% and due on October 31, 2017; and the water fund: \$687,000 with an interest rate of 1.00% and due on August 14, 2017. Bond anticipation note activity for the year ended June 30, 2017 was as follows:

| | <u>Beginning balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending balance</u> |
|--------------------------------------|------------------------------|-----------------------|-----------------------|---------------------------|
| <u>Bond anticipation note</u> | <u>\$ 86,781</u> | <u>986,058</u> | <u>500,000</u> | <u>572,839</u> |

INTERFUND BALANCES AND TRANSFERS

As of June 30, 2017, the balances of interfund loans receivable/payable and transfers were as follows:

| <u>Fund</u> | <u>Interfund loans receivable</u> | <u>Interfund loans payable</u> | <u>Transfers in (out)</u> |
|--------------------------------|---------------------------------------|------------------------------------|-------------------------------|
| General Fund | \$ 2,356,421 | 728,273 | (1,414,726) |
| School Department Operations | 330,897 | - | 1,512,637 |
| Proprietary Funds: | | | |
| Sewer Fund | - | 1,791,387 | (65,980) |
| Ambulance Fund | - | 552,144 | - |
| Water Fund * | - | 93,839 | (49,831) |
| Other Governmental Funds: | | | |
| City Special Revenue Funds | 96,693 | - | 500 |
| UDAG Economic Development Fund | 115,166 | - | (3,750) |
| Uptown Loan Fund | - | 110,646 | (3,750) |
| School Special Revenue Funds | - | 1,661 | - |
| School Lunch | - | 14,428 | 15,000 |
| Capital Projects Fund | 316,774 | - | 9,900 |
| Permanent Fund | - | 22,410 | - |
| <u>Totals</u> | <u>\$ 3,215,951</u> | <u>3,314,788</u> | <u>-</u> |

* Interfund loans receivable and payable do not equal due to the Water Department being reported as of December 31, 2016. Transfers for the Water Department are classified as operating expenses on the statement of revenues, expenses, and changes in net position (Statement 8).

CONTRACT COMMITMENTS

The Calais School Department has entered into a contract for school transportation services with First Student, Inc. The contract expires in June of 2022. Future payments under this contract are as follows:

| | |
|---------------------|----------------------------|
| 2018 | \$ 413,325 |
| 2019 | 426,491 |
| 2020 | 440,138 |
| 2021 | 454,223 |
| <u>2022</u> | <u>468,667</u> |
| <u>Total</u> | <u>\$ 2,202,844</u> |

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

NET POSITION

Net position represents the difference between assets, deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, and capital leases payable and adding back any unspent proceeds. The City's net investment in capital assets was calculated as follows at June 30, 2017:

| | Governmental activities | Business-type activities |
|---|----------------------------|-----------------------------|
| Capital assets | \$ 8,907,101 | 36,679,799 |
| Accumulated depreciation | (3,566,103) | (10,761,379) |
| Bond anticipation note | - | (572,839) |
| Bonds and notes payable | (447,653) | (8,368,193) |
| Unspent bond proceeds | - | 11,520 |
| Capital leases payable | (117,650) | - |
| Total net investment in capital assets | \$ 4,775,695 | 16,988,908 |

FUND BALANCE

As of June 30, 2017, fund balance components consisted of the following:

| | General Fund | School Department Operations | Other Governmental Funds | Total |
|------------------------------------|---------------------|------------------------------------|--------------------------------|------------------|
| Nonspendable: | | | | |
| Inventory and prepaid expenditures | \$ 33,970 | - | 12,562 | 46,532 |
| Principal for permanent funds | - | - | 502,662 | 502,662 |
| Total nonspendable | 33,970 | - | 515,224 | 549,194 |
| Restricted: | | | | |
| General government | - | - | 27,283 | 27,283 |
| City services | - | - | 43,002 | 43,002 |
| Public safety | - | - | 27,635 | 27,635 |
| Education | - | 263,661 | 114,527 | 378,188 |
| Loan funds | - | - | 981,882 | 981,882 |
| Permanent funds | - | - | 77,967 | 77,967 |
| Total restricted | - | 263,661 | 1,272,296 | 1,535,957 |
| Committed: | | | | |
| Education | - | - | 8,803 | 8,803 |
| Public works | - | - | 9,308 | 9,308 |
| Capital projects | - | - | 377,775 | 377,775 |
| Total committed | - | - | 395,886 | 395,886 |
| Unassigned | 1,916,371 | - | (87,457) | 1,828,914 |
| Total fund balance | \$ 1,950,341 | 263,661 | 2,095,949 | 4,309,951 |

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

RISK MANAGEMENT - CITY

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors, and omissions, and natural disasters for which the City either carries commercial insurance, or participates in public entity risk pools. The School Department is a member of the Maine School Management Association - Unemployment Compensation Trust Fund (MSMA). Based on the coverage provided by these pools, as well as certain coverage provided by commercial insurance purchased, the City is not aware of any material actual or potential claim liabilities which should be recorded at June 30, 2017.

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

General Information about the Pension Plan

Plan Description - Employees of the City are provided with pensions through the Maine Public Employees Retirement System Consolidated Plan for Local Participating Districts (PLD Plan) and teaching-certified employees of the City are provided with pensions through the Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan), cost-sharing multiple-employer defined benefit pension plans, administered by the Maine Public Employees Retirement System (MPERS). Benefit terms are established in Maine statute. MPERS issues a publicly available financial report that can be obtained at www.mainebers.org.

Benefits Provided - The PLD and SET Plans provide defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit. In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. For PLD members, normal retirement age is 60 (65 for new members to the PLD Plan on or after July 1, 2014). For SETP members, normal retirement age is 60, 62, or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. MPERS also provides disability and death benefits, which are established by contract under applicable statutory provisions (PLD Plan) or by statute (SET Plan).

Contributions - Employee contribution rates are defined by law or Board rule and depend on the terms of the plan under which an employee is covered. Employer contributions are determined by actuarial valuations. The contractually required contribution rates are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

PLD Plan - Employees are required to contribute 8.0% of their annual pay. The City's contractually required contribution rates for the year ended June 30, 2017 were 9.5% of annual payroll. Contributions to the pension plan from the City were \$147,217 for the year ended June 30, 2017.

SET Plan - Maine statute requires the State to contribute a portion of the City's contractually required contributions. Employees are required to contribute 7.65% of their annual pay. The City's contractually required contribution rate for the year ended June 30, 2017, was 13.38% of annual payroll of which 3.36% of payroll was required from the City and 10.02% was required from the State. Contributions to the pension plan from the City were \$100,975 for the year ended June 30, 2017.

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM, CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

The net pension liabilities were measured as of June 30, 2016, and the total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of that date. The City's proportion of the net pension liabilities were based on projections of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating local districts (PLD Plan) and of all participating School Administrative Units and the State (SET Plan), actuarially determined.

PLD Plan - At June 30, 2017, the City reported a liability of \$1,504,835 for its proportionate share of the net pension liability. At June 30, 2016, the City's proportion of the PLD Plan was 0.2832%.

SET Plan - At June 30, 2017, the City reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the City were as follows:

| | |
|--|---------------------|
| City's proportionate share of the net pension liability | \$ 265,264 |
| State's proportionate share of the net pension liability associated with the City | 4,460,648 |
| Total | \$ 4,725,912 |

At June 30, 2016, the City's proportion of the SET Plan was 0.0150%.

For the year ended June 30, 2017, the City recognized pension expense of \$251,504 for the PLD Plan and \$524,974 for the SET Plan with revenue of \$301,195 for support provided by the State. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ - | 73,919 |
| Changes of assumptions | 154,509 | - |
| Net difference between projected and actual earnings on pension plan investments | 374,648 | - |
| Changes in proportion and differences between City contributions and proportionate share of contributions | - | 18,800 |
| City contributions subsequent to the measurement date | 248,192 | - |
| Total | \$ 777,349 | 92,719 |

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM, CONTINUED

\$248,192 is reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liabilities in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended June 30:</u> | |
|----------------------------|-----------|
| 2018 | \$ 66,628 |
| 2019 | 52,423 |
| 2020 | 217,524 |
| 2021 | 99,863 |

Actuarial Assumptions - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | <u>PLD Plan</u> | <u>SET Plan</u> |
|---|-----------------|-----------------|
| Inflation | 2.75% | 2.75% |
| Salary Increases, per year | 2.75% to 9.0% | 2.75% to 14.5% |
| Investment return, per annum, compounded annually | 6.875% | 6.875% |
| Cost of living benefit increases, per annum | 2.20% | 2.20% |

Mortality rates were based on the RP2014 Total Dataset Healthy Annuity Mortality Table, for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| US equities | 20% | 5.7% |
| Non-US equities | 20% | 5.5% |
| Private equity | 10% | 7.6% |
| Real estate | 10% | 5.2% |
| Infrastructure | 10% | 5.3% |
| Hard assets | 5% | 5.0% |
| Fixed income | 25% | 2.9% |
| Total | 100% | |

CITY OF CALAIS, MAINE
Notes to Basic Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM, CONTINUED

Discount Rate - The discount rate used to measure the total pension liability was 6.875% for the PLD and the SET Plan. The projection of cash flows used to determine the discount rates assumed that employee contributions will be made at the current contribution rate and that contributions from participating local districts will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liabilities.

Sensitivity of the City's Proportionate Share of the Net Pension Liabilities to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.875% for the PLD the SET Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.875%) or 1 percentage-point higher (7.875%) than the current rate:

| <u>PLD Plan</u> | 1% Decrease <u>(5.875%)</u> | Current Discount Rate <u>(6.875%)</u> | 1% Increase <u>(7.875%)</u> |
|--|-----------------------------------|---|-----------------------------------|
| City's proportionate share of the net pension liability | \$ 2,497,755 | 1,504,835 | 570,036 |
| | | | |
| <u>SET Plan</u> | 1% Decrease <u>(5.875%)</u> | Current Discount Rate <u>(6.875%)</u> | 1% Increase <u>(7.875%)</u> |
| City's proportionate share of the net pension liability | \$ 424,755 | 265,264 | 132,330 |

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS financial report.

Payables to the Pension Plan - None as of June 30, 2017.

FUND RECLASSIFICATIONS

The City reclassified certain fund classifications for the year ended June 30, 2017. The reclassifications were as follows:

| | General <u>Fund</u> | School Department <u>Operations</u> | Special Revenue <u>Funds</u> | Capital Project <u>Funds</u> |
|--------------------------------------|----------------------------|---|------------------------------------|------------------------------------|
| Fund balance, as previously reported | \$ 1,993,166 | - | 1,110,693 | 478,127 |
| Reclassification of funds | <u>(133,129)</u> | <u>133,129</u> | <u>57,735</u> | <u>(57,735)</u> |
| Fund balance, as restated | <u>\$ 1,860,037</u> | <u>133,129</u> | <u>1,168,428</u> | <u>420,392</u> |

CITY OF CALAIS, MAINE
Required Supplementary Information

**Schedule of City's Proportionate Share of the Net Pension Liability
Maine Public Employees Retirement System Consolidated Plan (PLD)
and State Employee and Teacher Plan (SET)
Last 10 Fiscal Years***

| | <u>2017**</u> | <u>2016**</u> | <u>2015**</u> |
|--|----------------------------|-------------------------|-------------------------|
| <u>PLD Plan</u> | | | |
| City's proportion of the net pension liability | 0.2832% | 0.2737% | 0.3073% |
| City's proportionate share of the net pension liability | \$ 1,504,835 | 873,381 | 472,801 |
| City's covered payroll | 1,489,726 | 1,432,520 | 1,636,481 |
| City's proportion share of the net pension liability as a percentage of its covered payroll | 100.01% | 60.97% | 28.89% |
| Plan fiduciary net position as a percentage of of the total pension liability | 81.61% | 88.27% | 94.10% |
| <u>SET Plan</u> | | | |
| City's proportion of the net pension liability | 0.0150% | 0.0137% | 0.0162% |
| City's proportionate share of the net pension liability | 265,264 | 185,628 | 174,495 |
| State's proportionate share of the net pension liability associated with the City | 4,460,648 | 3,645,902 | 3,125,546 |
| <u>Total</u> | <u>\$ 4,725,912</u> | <u>3,831,530</u> | <u>3,300,041</u> |
| City's covered payroll | 3,161,879 | 3,236,834 | 3,426,161 |
| City's proportion share of the net pension liability as a percentage of its covered payroll | 8.39% | 5.73% | 5.09% |
| Plan fiduciary net position as a percentage of of the total pension liability | 76.21% | 81.18% | 83.91% |

* Only three years of information available.

** The amounts presented for each fiscal year were determined as of the prior fiscal year.

CITY OF CALAIS, MAINE
Required Supplementary Information, Continued

Schedule of City Contributions
Maine Public Employees Retirement System Consolidated Plan (PLD)
and State Employee and Teacher Plan (SET)
 Last 10 Fiscal Years*

| | 2017 | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|-------------|-------------|
| <u>PLD Plan</u> | | | | |
| Contractually required contribution | \$ 147,217 | 132,586 | 111,737 | 106,371 |
| Contributions in relation to the contractually required contribution | (147,217) | (132,586) | (111,737) | (106,371) |
| Contribution deficiency (excess) | \$ - | - | - | - |
| City's covered payroll | 1,549,657 | 1,489,726 | 1,432,520 | 1,636,481 |
| Contributions as a percentage of covered payroll | 9.50% | 8.90% | 7.80% | 6.50% |
| <u>SET Plan</u> | | | | |
| Contractually required contribution | \$ 100,975 | 106,239 | 85,776 | 90,793 |
| Contributions in relation to the contractually required contribution | (100,975) | (106,239) | (85,776) | (90,793) |
| Contribution deficiency (excess) | \$ - | - | - | - |
| City's covered payroll | 3,005,936 | 3,161,879 | 3,236,834 | 3,426,161 |
| Contributions as a percentage of covered payroll | 3.36% | 3.36% | 2.65% | 2.65% |

* Only four years of information available.

CITY OF CALAIS, MAINE
Notes to Required Supplementary Information

Changes of Benefit Terms - None

Changes of Assumptions - The following are changes in actuarial assumptions used in the most recent valuation:

| | <u>2017</u> | <u>2016</u> |
|--|----------------|---------------|
| Discount rate | 6.875% | 7.125% |
| Inflation rate | 2.75% | 3.5% |
| Salary increases – PLD Plan | 2.75% to 9.0% | 3.5% to 9.5% |
| Salary increases – SET Plan | 2.75% to 14.5% | 3.5% to 13.5% |
| Cost of living increase | 2.20% | 2.55% |
| Long-term expected real rate of return on assets: | | |
| US equities | 5.7% | 5.2% |
| Real estate | 5.2% | 3.7% |
| Infrastructure | 5.3% | 4.0% |
| Hard assets | 5.0% | 4.8% |
| Fixed income | 2.9% | 0.7% |

In addition, mortality rates were previously based on the RP2000 Combined Mortality Table projected forward to 2015 using Scale AA, which, in the most recent valuation, changed to mortality rates that were based on the RP2014 Total Data Set Healthy Annuity Mortality Table.

GENERAL FUND

CITY OF CALAIS, MAINE
General Fund
Comparative Balance Sheets
June 30, 2017 and 2016

| | 2017 | 2016 (Restated) |
|--|---------------------|----------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 462,877 | 617,037 |
| Taxes receivable | 627,401 | 552,251 |
| Due from other governments | 31,663 | 24,052 |
| Accounts receivable | 2,097 | 10,087 |
| Interfund loans receivable | 2,356,421 | 2,120,679 |
| Prepaid expenditures | 27,176 | - |
| Inventory | 6,794 | 3,748 |
| Total assets | \$ 3,514,429 | 3,327,854 |
| LIABILITIES | | |
| Accounts payable | 75,810 | 42,570 |
| Accrued payroll and benefits | 36,476 | 27,451 |
| Payroll withholdings payable | 13,352 | 21,881 |
| Payable to other governments | 7,532 | 8,731 |
| Interfund loans payable | 411,358 | 512,581 |
| Due to School Department | 316,915 | - |
| Taxes paid in advance | 121,445 | 128,246 |
| Line of credit | - | 200,057 |
| Total liabilities | 982,888 | 941,517 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable revenue - property taxes | 581,200 | 526,300 |
| Total deferred inflows of resources | 581,200 | 526,300 |
| FUND BALANCES | | |
| Nonspendable - inventory and prepaid | 33,970 | 3,748 |
| Unassigned | 1,916,371 | 1,856,289 |
| Total fund balances | 1,950,341 | 1,860,037 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 3,514,429 | 3,327,854 |

CITY OF CALAIS, MAINE
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the year ended June 30, 2017
(with comparative actual amounts for the year ended June 30, 2016)

| | 2017 | | | 2016 Actual (Restated) |
|--------------------------------------|--------------|-----------|------------------------------------|---------------------------|
| | Budget | Actual | Variance positive (negative) | |
| Revenues: | | | | |
| Taxes: | | | | |
| Property taxes | \$ 3,813,373 | 3,742,021 | (71,352) | 3,860,421 |
| Excise taxes | 563,000 | 579,003 | 16,003 | 566,637 |
| Payments in lieu of taxes | 29,000 | 27,488 | (1,512) | 32,451 |
| Interest on taxes | 45,000 | 29,101 | (15,899) | 53,085 |
| Total taxes | 4,450,373 | 4,377,613 | (72,760) | 4,512,594 |
| Intergovernmental: | | | | |
| State revenue sharing | 221,762 | 225,441 | 3,679 | 244,762 |
| Homestead exemption | 125,740 | 125,740 | - | 84,251 |
| Business equipment tax reimbursement | 6,783 | 7,418 | 635 | 7,500 |
| Veterans exemption | - | 3,853 | 3,853 | 3,844 |
| Tree growth reimbursement | 21,000 | 25,246 | 4,246 | 25,858 |
| Snowmobile reimbursement | 1,000 | 655 | (345) | 960 |
| General assistance | 6,500 | 5,289 | (1,211) | 6,299 |
| Urban rural initiative payment | 40,284 | 40,080 | (204) | 40,284 |
| Total intergovernmental | 423,069 | 433,722 | 10,653 | 413,758 |
| Charges for services: | | | | |
| Administration | 15,000 | 14,374 | (626) | 14,977 |
| Code enforcement | 4,000 | 2,135 | (1,865) | 4,415 |
| EMS administration | 72,136 | 70,797 | (1,339) | 71,992 |
| Motor vehicle agent fees | 5,500 | 5,932 | 432 | 5,730 |
| Building rentals | 3,562 | 3,262 | (300) | 3,562 |
| Library | 5,500 | 5,019 | (481) | 5,340 |
| Recreation | 72,500 | 73,755 | 1,255 | 68,888 |
| Transfer station | 40,000 | 43,563 | 3,563 | 43,107 |
| Total charges for services | 218,198 | 218,837 | 639 | 218,011 |
| Interest earned | 2,000 | 2,075 | 75 | 1,700 |
| Unclassified: | | | | |
| Sale of property | 2,500 | - | (2,500) | 2,811 |
| Police | 1,500 | 1,017 | (483) | 1,224 |
| Fire | - | 10 | 10 | 32 |
| Public works | 11,345 | 7,505 | (3,840) | 6,741 |
| Cemetery | 10,900 | 14,374 | 3,474 | 19,137 |
| Unclassified - City | - | 42,772 | 42,772 | 30,581 |
| Total unclassified | 26,245 | 65,678 | 39,433 | 60,526 |
| Total revenues | 5,119,885 | 5,097,925 | (21,960) | 5,206,589 |

CITY OF CALAIS, MAINE
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - General Fund, Continued

| | 2017 | | | 2016 Actual (Restated) |
|---------------------------|-----------|-----------|------------------------------------|---------------------------|
| | Budget | Actual | Variance positive (negative) | |
| Expenditures: | | | | |
| Current: | | | | |
| General government: | | | | |
| City council | \$ 15,241 | 15,241 | - | 15,212 |
| City manager | 120,605 | 120,121 | 484 | 108,967 |
| City clerk | 78,274 | 69,848 | 8,426 | 70,030 |
| Finance department | 135,242 | 140,853 | (5,611) | 145,125 |
| Legal services | 23,400 | 18,470 | 4,930 | 15,626 |
| Assessing | 85,629 | 84,540 | 1,089 | 77,934 |
| City building | 68,884 | 57,721 | 11,163 | 64,529 |
| St. Croix fire house | 2,430 | 1,604 | 826 | 1,084 |
| Public buildings - north | 49,065 | 44,829 | 4,236 | 44,810 |
| Total general government | 578,770 | 553,227 | 25,543 | 543,317 |
| City services: | | | | |
| Library | 161,243 | 163,116 | (1,873) | 153,942 |
| Recreation | 211,087 | 198,390 | 12,697 | 191,627 |
| Subsidies and donations | 1,000 | 655 | 345 | 960 |
| Total City services | 373,330 | 362,161 | 11,169 | 346,529 |
| Public safety: | | | | |
| Police | 553,850 | 541,362 | 12,488 | 475,296 |
| Fire | 461,185 | 450,516 | 10,669 | 414,724 |
| Street and traffic lights | 86,166 | 85,856 | 310 | 87,109 |
| Total public safety | 1,101,201 | 1,077,734 | 23,467 | 977,129 |
| Public works: | | | | |
| Public works | 721,685 | 658,350 | 63,335 | 611,075 |
| Transfer station | 93,490 | 96,735 | (3,245) | 89,593 |
| Cemetery | 124,256 | 103,151 | 21,105 | 93,717 |
| Total public works | 939,431 | 858,236 | 81,195 | 794,385 |
| County tax | 272,695 | 272,695 | - | 261,762 |
| Unclassified: | | | | |
| Miscellaneous | 227,882 | 227,115 | 767 | 226,791 |
| Insurance | 65,645 | 60,807 | 4,838 | 61,179 |
| Total unclassified | 293,527 | 287,922 | 5,605 | 287,970 |

CITY OF CALAIS, MAINE
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - General Fund, Continued

| | 2017 | | Variance positive (negative) | 2016 Actual (Restated) |
|--|-------------|------------------|------------------------------------|---------------------------|
| | Budget | Actual | | |
| Expenditures, continued: | | | | |
| Debt service | 142,776 | 142,784 | (8) | 142,784 |
| Capital projects | 48,536 | 48,536 | - | 62,600 |
| Total expenditures | 3,750,266 | 3,603,295 | 146,971 | 3,416,476 |
| Excess (deficiency) of revenues over (under) expenditures | 1,369,619 | 1,494,630 | 125,011 | 1,790,113 |
| Other financing sources (uses): | | | | |
| Use of surplus | 220,920 | - | (220,920) | - |
| Transfers from other funds | 119,972 | 123,311 | 3,339 | 133,590 |
| Transfer out - Education Local Appropriation | (1,476,493) | (1,476,493) | - | (1,495,589) |
| Transfers to other funds | - | (51,144) | (51,144) | (199,000) |
| Total other financing sources (uses) | (1,135,601) | (1,404,326) | (268,725) | (1,560,999) |
| Net change in fund balance | 234,018 | 90,304 | (143,714) | 229,114 |
| Fund balance, beginning of year, as restated | | 1,860,037 | | 1,630,923 |
| Fund balance, end of year | \$ | 1,950,341 | | 1,860,037 |

SCHOOL DEPARTMENT OPERATIONS

CITY OF CALAIS, MAINE
School Department Operations
Comparative Balance Sheets
June 30, 2017 and 2016

| | 2017 | 2016 (Restated) |
|--|-------------------|----------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 270,162 | 51,899 |
| Due from other governments | 298,541 | 357,902 |
| Due from City | 316,915 | - |
| Interfund loans receivable | 13,982 | 364,540 |
| Total assets | \$ 899,600 | 774,341 |
| LIABILITIES | | |
| Accounts payable | 67,722 | 80,879 |
| Accrued payroll and benefits | 568,217 | 560,333 |
| Total liabilities | 635,939 | 641,212 |
| FUND BALANCES | | |
| Restricted | 263,661 | 133,129 |
| Total fund balances | 263,661 | 133,129 |
| Total liabilities and fund balances | \$ 899,600 | 774,341 |

CITY OF CALAIS, MAINE
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - School Department Operations
For the year ended June 30, 2017
(with comparative actual amounts for the year ended June 30, 2016)

| | 2017 | | Variance positive (negative) | 2016 Actual (Restated) |
|---|--------------|----------------|------------------------------------|------------------------------|
| | Budget | Actual | | |
| Revenues: | | | | |
| Intergovernmental: | | | | |
| State subsidy | \$ 3,839,698 | 3,839,698 | - | 4,184,540 |
| MaineCare/Medicare | 1,070,000 | 973,999 | (96,001) | 867,342 |
| State agency clients | 330,000 | 422,958 | 92,958 | 351,859 |
| Charges for services: | | | | |
| Tuition - elementary | 212,486 | 212,245 | (241) | 224,407 |
| Tuition - secondary | 782,609 | 796,389 | 13,780 | 775,483 |
| Tuition - special | 206,467 | 204,784 | (1,683) | 153,910 |
| Tuition - day treatment | 600,000 | 520,626 | (79,374) | 587,784 |
| Other revenues | 109,342 | 143,639 | 34,297 | 132,960 |
| Total revenues | 7,150,602 | 7,114,338 | (36,264) | 7,278,285 |
| Expenditures: | | | | |
| Current: | | | | |
| Regular instruction | 2,525,733 | 2,554,896 | (29,163) | 2,626,382 |
| Special education | 2,561,250 | 2,401,703 | 159,547 | 2,373,303 |
| Career and technical education | 876,798 | 834,952 | 41,846 | 891,690 |
| Other instruction | 138,939 | 127,131 | 11,808 | 119,493 |
| Student and staff support | 317,841 | 269,237 | 48,604 | 307,546 |
| System administration | 363,975 | 353,901 | 10,074 | 334,311 |
| School administration | 280,136 | 254,729 | 25,407 | 264,713 |
| Transportation and buses | 386,219 | 368,832 | 17,387 | 366,715 |
| Facilities maintenance | 863,367 | 796,485 | 66,882 | 756,580 |
| Debt service assessments: | | | | |
| Principal | 386,350 | 388,350 | (2,000) | 388,350 |
| Interest | 137,630 | 138,343 | (713) | 154,578 |
| Total expenditures | 8,838,238 | 8,488,559 | 349,679 | 8,583,661 |
| Excess (deficiency) of revenues over (under) expenditures | (1,687,636) | (1,374,221) | 313,415 | (1,305,376) |
| Other financing sources (uses): | | | | |
| Transfer in - Local Appropriation | 1,476,493 | 1,476,493 | - | 1,495,589 |
| Transfers from other funds | - | 51,144 | 51,144 | - |
| Transfers to other funds | (15,000) | (15,000) | - | (191,236) |
| Use of surplus | 226,143 | - | (226,143) | - |
| Total other financing sources (uses) | 1,687,636 | 1,512,637 | (174,999) | 1,304,353 |
| Net change in fund balances - budgetary basis | - | 138,416 | 138,416 | (1,023) |
| Reconciliation to GAAP basis: | | | | |
| Change in teacher summer salaries | | (7,884) | | (21,316) |
| Net change in fund balance - GAAP basis | | 130,532 | | (22,339) |
| Fund balance, beginning of year, as restated | | 133,129 | | 155,468 |
| Fund balance, end of year | \$ | 263,661 | | 133,129 |

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

CAPITAL PROJECT FUNDS

Capital project funds are used to account for the purchase or construction of capital assets other than those accounted for in other funds.

PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

CITY OF CALAIS, MAINE
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

| | Special Revenue Funds | Capital Projects Funds | Permanent Funds | Total Nonmajor Governmental Funds |
|--|--------------------------------------|---------------------------------------|----------------------------|--|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 448,861 | - | 520,119 | 968,980 |
| Investments | 173,862 | - | 82,920 | 256,782 |
| Due from other governments | 151,822 | - | - | 151,822 |
| Loans receivable, net | 354,922 | - | - | 354,922 |
| Interfund loans receivable | 211,859 | 316,774 | - | 528,633 |
| Inventory | 12,562 | - | - | 12,562 |
| Total assets | \$ 1,353,888 | 316,774 | 603,039 | 2,273,701 |
| LIABILITIES | | | | |
| Accounts payable | 4,024 | - | - | 4,024 |
| Accrued payroll and benefits | 24,583 | - | - | 24,583 |
| Interfund loans payable | 126,735 | - | 22,410 | 149,145 |
| Total liabilities | 155,342 | - | 22,410 | 177,752 |
| FUND BALANCES | | | | |
| Nonspendable | 12,562 | - | 502,662 | 515,224 |
| Restricted | 1,194,329 | - | 77,967 | 1,272,296 |
| Committed | 18,111 | 377,775 | - | 395,886 |
| Unassigned | (26,456) | (61,001) | - | (87,457) |
| Total fund balances | 1,198,546 | 316,774 | 580,629 | 2,095,949 |
| Total liabilities and fund balances | \$ 1,353,888 | 316,774 | 603,039 | 2,273,701 |

CITY OF CALAIS, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2017

| | Special Revenue Funds | Capital Projects Funds | Permanent Funds | Total Nonmajor Governmental Funds |
|--|-----------------------------|------------------------------|--------------------|---|
| Revenues: | | | | |
| Intergovernmental | \$ 944,786 | - | - | 944,786 |
| Charges for services | 111,945 | - | - | 111,945 |
| Investment income (loss) | (8,931) | - | (773) | (9,704) |
| Unclassified | 122,570 | 43,566 | - | 166,136 |
| Total revenues | 1,170,370 | 43,566 | (773) | 1,213,163 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 120,934 | - | 2,488 | 123,422 |
| City services | 29,596 | - | 1,014 | 30,610 |
| Public safety | 14,305 | - | - | 14,305 |
| Public works | 2,843 | - | 2,554 | 5,397 |
| Unclassified | - | - | 77 | 77 |
| Education | 672,695 | - | - | 672,695 |
| Food services | 307,879 | - | - | 307,879 |
| Capital outlay | - | 157,084 | - | 157,084 |
| Total expenditures | 1,148,252 | 157,084 | 6,133 | 1,311,469 |
| Excess (deficiency) of revenues over (under) expenditures | 22,118 | (113,518) | (6,906) | (98,306) |
| Other financing sources: | | | | |
| Transfer from other funds | 8,000 | 9,900 | - | 17,900 |
| Total other financing sources | 8,000 | 9,900 | - | 17,900 |
| Net change in fund balance | 30,118 | (103,618) | (6,906) | (80,406) |
| Fund balances, beginning of year, as restated | 1,168,428 | 420,392 | 587,535 | 2,176,355 |
| Fund balances, end of year | \$ 1,198,546 | 316,774 | 580,629 | 2,095,949 |

CITY OF CALAIS, MAINE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2017

| | City Special Revenue Funds | UDAG Economic Development Loan Fund | Uptown Loan Fund | School Special Revenue Funds | School Lunch | Totals |
|--|-------------------------------------|--|---------------------|---------------------------------------|-----------------|------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 283 | 299,204 | 149,374 | - | - | 448,861 |
| Investments | - | 173,862 | - | - | - | 173,862 |
| Due from other governments | - | - | - | 111,370 | 40,452 | 151,822 |
| Loans receivable, net | - | 337,917 | 17,005 | - | - | 354,922 |
| Interfund loans receivable | 96,693 | 115,166 | - | - | - | 211,859 |
| Inventory | - | - | - | - | 12,562 | 12,562 |
| Total assets | \$ 96,976 | 926,149 | 166,379 | 111,370 | 53,014 | 1,353,888 |
| LIABILITIES | | | | | | |
| Accounts payable | - | - | - | 1,555 | 2,469 | 4,024 |
| Accrued payroll and benefits | - | - | - | 24,583 | - | 24,583 |
| Interfund loans payable | - | - | 110,646 | 1,661 | 14,428 | 126,735 |
| Total liabilities | - | - | 110,646 | 27,799 | 16,897 | 155,342 |
| FUND BALANCES | | | | | | |
| Nonspendable | - | - | - | - | 12,562 | 12,562 |
| Restricted | 97,920 | 926,149 | 55,733 | 90,972 | 23,555 | 1,194,329 |
| Committed | 9,308 | - | - | 8,803 | - | 18,111 |
| Unassigned | (10,252) | - | - | (16,204) | - | (26,456) |
| Total fund balances | 96,976 | 926,149 | 55,733 | 83,571 | 36,117 | 1,198,546 |
| Total liabilities and fund balances | \$ 96,976 | 926,149 | 166,379 | 111,370 | 53,014 | 1,353,888 |

CITY OF CALAIS, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the year ended June 30, 2017

| | City Special Revenue (Schedule 1) | UDAG Economic Development Loan Fund | Uptown Loan Fund | School Special Revenue (Schedule 2) | School Lunch | Totals |
|--|--|--|---------------------|--|-----------------|------------------|
| Revenues: | | | | | | |
| Intergovernmental | \$ 68,744 | - | - | 641,445 | 234,597 | 944,786 |
| Charges for services | - | - | - | 25,998 | 85,947 | 111,945 |
| Investment income (loss) | - | (7,385) | (1,546) | - | - | (8,931) |
| Unclassified | 57,236 | 48,905 | 6,924 | 9,505 | - | 122,570 |
| Total revenues | 125,980 | 41,520 | 5,378 | 676,948 | 320,544 | 1,170,370 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | 74,733 | 35,720 | 10,481 | - | - | 120,934 |
| City services | 29,596 | - | - | - | - | 29,596 |
| Public safety | 14,305 | - | - | - | - | 14,305 |
| Public works | 2,843 | - | - | - | - | 2,843 |
| Education | 500 | - | - | 672,195 | - | 672,695 |
| Food services | - | - | - | - | 307,879 | 307,879 |
| Total expenditures | 121,977 | 35,720 | 10,481 | 672,195 | 307,879 | 1,148,252 |
| Excess (deficiency) of revenues over (under) expenditures | 4,003 | 5,800 | (5,103) | 4,753 | 12,665 | 22,118 |
| Other financing sources (uses): | | | | | | |
| Transfers from (to) other funds | 500 | (3,750) | (3,750) | - | 15,000 | 8,000 |
| Total other financing sources (uses) | 500 | (3,750) | (3,750) | - | 15,000 | 8,000 |
| Net change in fund balances | 4,503 | 2,050 | (8,853) | 4,753 | 27,665 | 30,118 |
| Fund balances, beginning of year, as restated | 92,473 | 924,099 | 64,586 | 78,818 | 8,452 | 1,168,428 |
| Fund balances, end of year | \$ 96,976 | 926,149 | 55,733 | 83,571 | 36,117 | 1,198,546 |

SCHEDULES

CITY OF CALAIS, MAINE
City Special Revenue Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2017

| | Balances (deficits) beginning of year | Revenues | | Expenditures | Transfers in (out) | Balances (deficits) end of year |
|---|--|------------------------|---------------|----------------|-----------------------|--|
| | | Inter- governmental | Other | | | |
| General government: | | | | | | |
| 1730 CDBG Facade Grant | \$ (3,701) | 55,653 | - | 52,310 | - | (358) |
| 1746 Downtown Community Enterprise | 3,098 | - | - | - | - | 3,098 |
| 1795 Pet Smart Grant | 44 | - | - | - | - | 44 |
| 1800 Summer Food Program | 3,843 | 944 | - | 4,622 | - | 165 |
| 3625 Economic Development - Dawson | 17,132 | - | 20,844 | 17,799 | - | 20,177 |
| 3885 PW Insurance Claim | 3,210 | - | - | - | - | 3,210 |
| 4747 Walkway Extension Donation | 306 | - | - | - | - | 306 |
| Rental Rehabilitation | 284 | - | 1 | 2 | - | 283 |
| City services: | | | | | | |
| 2830 Donation - Skateboard | (545) | - | - | 117 | - | (662) |
| 3660 Recreation Wellness | 605 | - | - | - | - | 605 |
| 3661 Recreation Arts & Humanities | 1,197 | - | - | - | - | 1,197 |
| 3662 Recreation Smith Field | - | - | 1,000 | - | - | 1,000 |
| 3663 Recreation Center Expansion | 1,690 | - | - | - | - | 1,690 |
| 3665 Recreation JMG Grant | 600 | - | - | - | - | 600 |
| 3666 Recreation School Basketball | 909 | - | - | - | - | 909 |
| 3667 Recreation Pavilion Project | 343 | - | - | 668 | - | (325) |
| 3668 Recreation Tennis Donations | - | - | 7,268 | - | - | 7,268 |
| 3758 Library - Eaton Foundation | 10,736 | - | - | 3,744 | - | 6,992 |
| 3760 Library - Figure Foundation | 180 | - | - | 180 | - | - |
| 3762 Library - Special Gift Book | 2,671 | - | 2,442 | 4,070 | - | 1,043 |
| 3764 J. Baig Bequest - Library | 1,920 | - | - | - | - | 1,920 |
| 3767 Library - MBNA Collect Deve | 14 | - | - | 10 | - | 4 |
| 3768 Library - Rudman Trust | 16 | - | - | 10 | - | 6 |
| 3771 Library - Pike Fund Income | 13,503 | - | 23,348 | 17,511 | - | 19,340 |
| 3778 Concert Donations | 229 | - | - | - | - | 229 |
| 3779 Triangle Park Donations | 542 | - | 1,944 | 3,286 | - | (800) |
| 3783 Arts Council Donations | 199 | - | - | - | - | 199 |
| Public safety: | | | | | | |
| 1725 Shore and Harbor (BIG) Grant | 143 | 5,000 | - | 10,014 | - | (4,871) |
| 1740 FEMA Disaster | 4,707 | - | - | - | - | 4,707 |
| 1745 Safe Routes to School | (1,110) | - | - | - | - | (1,110) |
| 1765 2012 Justice Assistance Grant | (376) | - | - | - | - | (376) |
| 1766 Stone Garden Grant | 950 | 3,053 | - | 3,446 | - | 557 |
| 1789 Police Drug Forfeiture Funds | 2,003 | 4,094 | - | - | - | 6,097 |
| 3600 Animal Control Fees | 2,026 | - | 389 | 267 | - | 2,148 |
| 3635 Firefighter Training FAC | 2,873 | - | - | - | - | 2,873 |
| 3638 J. Baig Bequest - Firefighters | 2,000 | - | - | - | - | 2,000 |
| 3640 Police - DARE | 5,884 | - | - | - | - | 5,884 |
| 3642 Police - Fingerprint Clinic | 2,412 | - | - | - | - | 2,412 |
| 3648 J. Baig Bequest - Police | 1,535 | - | - | 578 | - | 957 |
| Public works: | | | | | | |
| 3874 Transfer Station Prof Services | 1,000 | - | - | - | - | 1,000 |
| 3875 Transfer Station Environ Monit | 1,851 | - | - | 1,593 | - | 258 |
| 3877 PW Tree Planting | 2,000 | - | - | - | - | 2,000 |
| 3878 PW Tree Removal | 3,500 | - | - | - | 500 | 4,000 |
| 3879 PW Chipping Program | 3,300 | - | - | 1,250 | - | 2,050 |
| Unclassified: | | | | | | |
| 3633 Scholarship Account | (1,250) | - | - | 500 | - | (1,750) |
| Total City special revenue funds | \$ 92,473 | 68,744 | 57,236 | 121,977 | 500 | 96,976 |

CITY OF CALAIS, MAINE
School Special Revenue Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2017

| | | Balances (deficits) beginning of year | Revenues | Expenditures | Balances (deficits) end of year |
|------------------------|--|--|----------------|----------------|--|
| Federal programs: | | | | | |
| 2300 | Title IA - Disadvantaged | \$ (7,378) | 300,765 | 299,742 | (6,355) |
| 2310 | Title IA - Program Improvement | - | 14,032 | 19,443 | (5,411) |
| 2470 | Local Entitlement | - | 103,797 | 103,897 | (100) |
| 2670 | Rural Low Income | - | 17,172 | 17,253 | (81) |
| 2700 | Title IIA - Supporting Effective Instruction | - | 62,563 | 62,563 | - |
| 2860 | Perkins Learning Center | - | 32,359 | 32,359 | - |
| 2915 | HRSA Grant - School Based Health | 79 | - | - | 79 |
| Total federal programs | | (7,299) | 530,688 | 535,257 | (11,868) |
| State programs: | | | | | |
| 2015 | Melmac Grant - High School | 1,210 | 10,000 | 4,597 | 6,613 |
| 2017 | Melmac Grant - Tech Center | 1,802 | 14,000 | 11,426 | 4,376 |
| 2214 | CTE Industry Standards | - | 26,081 | 26,082 | (1) |
| 2220 | Dental | 403 | 500 | 470 | 433 |
| 2230 | IT-V | 6,113 | - | - | 6,113 |
| 2232 | Proficiency Based Education | 8,457 | 5,745 | 5,296 | 8,906 |
| 2233 | PEP Grant | 3,567 | - | 1,586 | 1,981 |
| 2238 | Momentum | - | - | 4,256 | (4,256) |
| 2250 | Regional Support Unit | 2,108 | - | - | 2,108 |
| 2900 | HIV Prevention | 134 | - | - | 134 |
| 2905 | Youth Suicide Prevention | 58 | - | - | 58 |
| 7020 | DHHS Teen and Youth | 23,570 | 54,431 | 53,249 | 24,752 |
| Total state programs | | 47,422 | 110,757 | 106,962 | 51,217 |
| Other programs: | | | | | |
| 2010 | Kellogg Grant | 520 | - | - | 520 |
| 2020 | Maine Dairy | 28 | - | - | 28 |
| 2060 | Local Funds | - | 6,860 | - | 6,860 |
| 2071 | Wellness Grant | 2,614 | - | 271 | 2,343 |
| 2080 | Suicide Prevention Grant | 7,497 | - | - | 7,497 |
| 2090 | Tootsie Roll Grant | 2,426 | 545 | 361 | 2,610 |
| 2100 | Recommissioned Computer Revenue | 1,586 | - | - | 1,586 |
| 2130 | Maine Indian Education - Afterschool | 3,550 | - | - | 3,550 |
| 2135 | CES Afterschool Program | 10,049 | 25,998 | 27,244 | 8,803 |
| 2145 | Mano en Mano | - | 2,100 | 2,100 | - |
| 2150 | T.A.G. | 3,046 | - | - | 3,046 |
| 2160 | Underwater Robotics | 5 | - | - | 5 |
| 2180 | EPGY | 5,624 | - | - | 5,624 |
| 2190 | Private Dormant Grants | 1,750 | - | - | 1,750 |
| Total other programs | | 38,695 | 35,503 | 29,976 | 44,222 |
| Totals | | \$ 78,818 | 676,948 | 672,195 | 83,571 |

CITY OF CALAIS, MAINE
Nonmajor Capital Project Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2017

| | Balances (deficits) beginning of year | Revenues | Expenditures | Transfers in (out) | Balances (deficits) end of year |
|--|--|---------------|----------------|-----------------------|--|
| 3623 WCPA Purchase Escrow | \$ 264,571 | 20,843 | - | - | 285,414 |
| 3630 Nash's Lake Dam | (1,500) | - | 1,002 | - | (2,502) |
| 3664 Recreation Pool Donations | (58,908) | 6,660 | 4,714 | - | (56,962) |
| 3761 Library - Building Fund | 1,582 | - | 117 | - | 1,465 |
| 3785 Land Disposition | (31,455) | 5,008 | 11,417 | 37,864 | - |
| 3870 Cemetery Road Repair | 2,000 | - | - | 2,000 | 4,000 |
| 3895 Nursing Home Feasibility Study | 120 | - | - | - | 120 |
| 3900 Veteran's Memorial Pavers | 1,592 | 1,000 | 400 | - | 2,192 |
| 4202 CIP Administration | 51,823 | 529 | 776 | (37,164) | 14,412 |
| 4205 CIP Fire Department | 11,901 | 46 | - | - | 11,947 |
| 4207 CIP Library | 1 | - | - | - | 1 |
| 4210 CIP Recreation Dept | 5,791 | 49 | - | - | 5,840 |
| 4215 CIP Police Dept | 14,087 | 76 | 598 | 1,000 | 14,565 |
| 4220 CIP Public Works | 136,213 | 1,052 | 132,010 | 6,200 | 11,455 |
| 4225 CIP Transfer Station | (1,661) | 124 | - | - | (1,537) |
| 4230 CIP Cemetery | 5,959 | 8,075 | 6,050 | - | 7,984 |
| 4235 CIP Equipment Reserve | 178 | 1 | - | - | 179 |
| 4240 CIP North Street Building | 2,284 | 14 | - | - | 2,298 |
| 4245 CIP Debt | 13,706 | 89 | - | - | 13,795 |
| 2120 School - SCRTC Reserve Fund | 2,108 | - | - | - | 2,108 |
| Total nonmajor capital projects | \$ 420,392 | 43,566 | 157,084 | 9,900 | 316,774 |

CITY OF CALAIS, MAINE
Nonmajor Permanent Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2017

| | Cemetery Trust Funds | Library Trust Funds | Poor Trust Funds | Beckett Pool Funds | Totals |
|-----------------------------------|----------------------------|---------------------------|------------------------|--------------------------|----------------|
| Revenues: | | | | | |
| Investment income | \$ 5,865 | 2,374 | 1,406 | 176 | 9,821 |
| Unrealized gain (loss) | (6,436) | (2,415) | (1,549) | (194) | (10,594) |
| Total revenues | (571) | (41) | (143) | (18) | (773) |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | - | - | 2,488 | - | 2,488 |
| City services | - | 1,014 | - | - | 1,014 |
| Public works | 2,554 | - | - | - | 2,554 |
| Unclassified | - | - | - | 77 | 77 |
| Total expenditures | 2,554 | 1,014 | 2,488 | 77 | 6,133 |
| Net change in fund balances | (3,125) | (1,055) | (2,631) | (95) | (6,906) |
| Fund balances, beginning of year | 361,407 | 142,847 | 69,970 | 13,311 | 587,535 |
| Fund balances, end of year | \$ 358,282 | 141,792 | 67,339 | 13,216 | 580,629 |

CITY OF CALAIS, MAINE
Statement of Changes in Assets and Liabilities
Agency Funds - Student Activity Funds
For the year ended June 30, 2017

| | Balances Beginning of year | Additions | Deletions | Balances End of year |
|----------------------------|----------------------------------|----------------|----------------|----------------------------|
| ASSETS | | | | |
| Cash | \$ 116,964 | 161,953 | 157,129 | 121,788 |
| Total assets | \$ 116,964 | 161,953 | 157,129 | 121,788 |
| LIABILITIES | | | | |
| Due to student groups: | | | | |
| Calais High School | 85,705 | 104,740 | 103,898 | 86,547 |
| St. Croix Technical Center | 20,296 | 34,955 | 30,055 | 25,196 |
| Calais Elementary School | 10,963 | 22,258 | 23,176 | 10,045 |
| Total liabilities | \$ 116,964 | 161,953 | 157,129 | 121,788 |

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
MAINE STATE STATUTE REQUIREMENTS

Calais School Committee
Calais School Department
City of Calais, Maine

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Calais, Maine as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Calais, Maine's basic financial statements. We issued our report thereon dated December 13, 2017, which contained unmodified opinions on those financial statements.

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 grants agreements, and 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.

In connection with that audit, we:

1. Considered whether the Calais School Department has complied with budget content requirements of section 15693.
2. Considered whether the Calais School Department has complied with transfer limitations between budget cost centers pursuant to section 1485.
3. Considered whether the Calais School Department has exceeded its authority to expend funds.
4. Considered whether the Calais School Department has complied with the applicable provisions of the unexpended balances requirements established under section 15004.
5. Reviewed the annual financial data submitted to the Maine Department of Education and reconciled it to the audited financial statement totals (see attached *Schedule of Reconciliation of the NEO Financial System with Audited Financial Statements*).
6. Considered whether the Calais School Department was in compliance with applicable provisions of the Essential Programs and Services Funding Act.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. Other known matters of noncompliance relating to the above listed items (items #1 - #6) are as follows:

- The Calais School Department did not ensure that all of the accounts were properly bridged and uploaded to the NEO website. The result was that multiple accounts were not reported to the Maine Department of Education.
- The School Department did not make allowable budgetary transfers of up to 5% and, as a result, had multiple cost centers with actual expenditures in excess of budgeted amounts. However, in total, the School Department did not exceed its authority to expend funds.

Calais School Committee
Calais School Department
City of Calais, Maine
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying *Schedule of Reconciliation of the NEO Financial System with Audited Financial Statements* is presented for purposes of additional analysis as required by regulation of the Maine Department of Education and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

A handwritten signature in black ink, reading "Raymond Weston Ouellette". The signature is written in a cursive style with a large initial 'R'.

December 13, 2017
South Portland, Maine

CALAIS SCHOOL DEPARTMENT
Schedule of Reconciliation of the NEO Financial Systems with Audited Financial Statements
For the year ended June 30, 2017

| | School Department General Fund | School Special Revenues | School Lunch Program |
|--|--------------------------------------|-------------------------------|----------------------------|
| Revenues and other financing sources: | | | |
| Per NEO | \$ 8,649,235 | 703,208 | 50,754 |
| Revenues not reported on NEO: | | | |
| School lunch - Fund 6000: | | | |
| (Accounts 41610, 41620 ,43250) | - | - | 271,990 |
| Adjustments: | | | |
| Removal of internal accounts receivable | (7,259) | - | - |
| Removal of e-rate | - | (26,260) | - |
| Donated commodities | - | - | 12,800 |
| Adjusted NEO balance | 8,641,976 | 676,948 | 335,544 |
| Per fund financial statements (Exhibits B-2 and D-2): | 8,641,975 | 676,948 | 335,544 |
| Immaterial differences | 1 | - | - |
| Expenditures and other financing uses: | | | |
| Per NEO | \$ 8,510,817 | 699,479 | 295,079 |
| Adjustments: | | | |
| Removal of internal accounts payable | (7,259) | - | - |
| Removal of e-rate | - | (26,259) | - |
| Donated commodities | - | - | 12,800 |
| Summer salaries accrual | - | (1,023) | - |
| Adjusted NEO balance | 8,503,558 | 672,197 | 307,879 |
| Per fund financial statements (Exhibits B-2 and D-2): | 8,503,559 | 672,195 | 307,879 |
| Immaterial differences | \$ (1) | 2 | - |
| Reconciliation between financial statements and NEO report: | | | |
| Revenues | \$ 7,114,338 | 676,948 | 320,544 |
| Transfers in | 1,527,637 | - | 15,000 |
| Total revenues | 8,641,975 | 676,948 | 335,544 |
| Expenditures | 8,488,559 | 672,195 | 307,879 |
| Transfers out | 15,000 | - | - |
| Total expenditures | 8,503,559 | 672,195 | 307,879 |
| Net transfers in (out) | 1,512,637 | - | 15,000 |

See accompanying auditor's report.

Note: This schedule excludes agency, which were also excluded from the NEO data submitted to the State Department of Education.

CITY OF CALAIS, MAINE

**Reports Required by *Government Auditing
Standards* and Uniform Guidance**

For the Year Ended June 30, 2017

CITY OF CALAIS, MAINE
Reports Required by *Government Auditing Standards*
and Uniform Guidance
For the Year Ended June 30, 2017

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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

To the City Council
City of Calais, Maine

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2017, 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 December 13, 2017.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (2017-001 through 2017-004).

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*, CONTINUED

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Calais, Maine's financial statements are free from 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 reported to management of the City of Calais, Maine in a separate letter dated December 13, 2017.

City of Calais, Maine's Responses to Findings

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

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



December 13, 2017
South Portland, Maine

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the 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 Compliance Supplement* that could have direct and material effect on each of the City of Calais, Maine's major federal programs for the year ended June 30, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

Basis for Qualified Opinion on the Child Nutrition Cluster

As described in the accompanying schedule of findings and questioned costs, the City of Calais, Maine did not comply with requirements regarding the Child Nutrition Cluster as described in finding numbers 2017-005 for Special Tests and Provisions: Verification of Free and Reduced Price Applications and 2017-006 for Reporting: Monthly Claim Form Meal Counts. Compliance with such requirements is necessary, in our opinion, for the City of Calais, Maine to comply with the requirements applicable to that program.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE, CONTINUED

Qualified Opinion on the Child Nutrition Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Calais, Maine complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Child Nutrition Cluster for the year ended June 30, 2017.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City of Calais, Maine complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2017.

Other Matters

The City of Calais, Maine's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Calais, Maine's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly we express no opinion on the responses.

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 the Uniform Guidance, 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 a combination of deficiencies, in internal control over compliance, such that there 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 a 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE, CONTINUED

Our consideration of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Calais, Maine as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Calais, Maine's basic financial statements. We issued our report thereon dated December 13, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



December 13, 2017
South Portland, Maine

CITY OF CALAIS, MAINE
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2017

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA number | Pass-through number | Federal expenditures | CFDA/cluster totals | Passed through to subrecipients |
|--|---------------------|---------------------|----------------------|---------------------|---------------------------------|
| U.S. Department of Education, | | | | | |
| Passed through the Maine Department of Education: | | | | | |
| Title IA, Disadvantaged | 84.010 | 3107 | \$ 299,742 | | - |
| Title IA, Program Improvement | 84.010 | 3106 | 19,443 | 319,185 | - |
| Special Education Cluster: | | | | | |
| Special Education State Grants Individuals with Disabilities Act | 84.027 | 3046 | 103,897 | | - |
| Total Special Education Cluster | | | | 103,897 | |
| Career and Technical Education | 84.048 | 3030 | 32,359 | | - |
| Title VI, Rural Education | 84.358 | 3305 | 17,253 | | - |
| Title IIA, Supporting Effective Instruction | 84.367 | 3042 | 62,563 | | - |
| Total U.S. Department of Education | | | 535,257 | | - |
| U.S. Department of Agriculture, | | | | | |
| Direct Program: | | | | | |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | N/A | 1,214,689 | | - |
| Passed through the Maine Department of Education: | | | | | |
| Child Nutrition Cluster: | | | | | |
| National School Lunch Program | 10.555 | 3022/3024 | 129,667 | | - |
| School Breakfast Program | 10.553 | 3014 | 57,600 | | - |
| Summer Food Service Program | 10.559 | 3016/3018 | 13,840 | | - |
| Food Donation Program | 10.555 | N/A | 12,800 | | - |
| Total Child Nutrition Cluster | | | | 213,907 | |
| Fresh Fruits and Vegetables | 10.582 | 3028 | 12,940 | | - |
| Total U.S. Department of Agriculture | | | 1,441,536 | | - |
| U.S. Department of Housing and Urban Development, | | | | | |
| Passed through the Maine Department of Economic and Community Development: | | | | | |
| CDBG Public Infrastructure Program | 14.228 | N/A | 22,693 | | - |
| CDBG Façade Grant | 14.228 | N/A | 52,310 | 75,003 | - |
| Total U.S. Department of Housing and Urban Development | | | 75,003 | | - |
| U.S. Department of Justice, | | | | | |
| Passed through the Maine Department of Justice: | | | | | |
| Asset Forfeiture | 16.922 | N/A | 4,094 | | - |
| Total U.S. Department of Justice | | | 4,094 | | - |
| U.S. Department of the Interior, | | | | | |
| Direct Program: | | | | | |
| Boating Infrastructure Grant | 15.622 | N/A | 10,014 | | - |
| Total U.S. Department of the Interior | | | 10,014 | | - |
| Environmental Protection Agency, | | | | | |
| Passed through the Maine Department of Environmental Protection: | | | | | |
| Clean Water State Revolving Fund Cluster: | | | | | |
| Clean Water State Revolving Loan Fund | 66.458 | 230253-10 | 153,588 | | - |
| Clean Water State Revolving Loan Fund | 66.458 | N/A | 188,394 | | - |
| Clean Water State Revolving Loan Fund | 66.458 | N/A | 572,757 | | - |
| Total Clean Water State Revolving Fund Cluster | | | | 914,739 | |
| Total Environmental Protection Agency | | | 914,739 | | - |
| U.S. Department of Homeland Security, | | | | | |
| Passed through the Maine Emergency Management Agency: | | | | | |
| Stone Garden Grant | 97.067 | N/A | 3,446 | | - |
| Total U.S. Department of Homeland Security | | | 3,446 | | - |
| Totals | | | \$ 2,984,089 | | - |

See accompanying notes to schedule of expenditures of federal awards.

CITY OF CALAIS, MAINE
Notes to Schedule of Expenditures of Federal Awards
June 30, 2017

PURPOSE OF THE SCHEDULE

Office of Management and Budget (OMB)'s Uniform Guidance 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

- A. Reporting Entity - The accompanying schedule includes all federal award programs of the City of Calais, Maine for the fiscal year ended June 30, 2017. The reporting entity is defined in the notes to basic financial statements of the City of Calais, Maine.

- B. Basis of Presentation - The information in the accompanying schedule of expenditures of federal awards is presented in accordance with the Uniform Guidance.
 - 1. Pursuant to the Uniform Guidance, federal awards are defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations.

 - 2. Major Programs - The Uniform Guidance establishes the level of expenditures or expenses to be used in defining major federal award programs. Major programs for the City of Calais, Maine are identified in the summary of auditor's results in the schedule of findings and questioned costs.

- C. Basis of Accounting - The information presented in the schedule of expenditures of federal awards is presented on the modified accrual basis of accounting, which is consistent with the reporting in the City's fund financial statements.

- D. The City of Calais, Maine has elected not to use the 10-percent de minimis cost rate allowed under the Uniform Guidance.

CITY OF CALAIS, MAINE
Schedule of Findings and Questioned Costs
June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:
 Material weaknesses identified? No
 Significant deficiencies identified? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:
 Material weaknesses identified? No
 Significant deficiencies identified? None reported

Type of auditor's report issued on compliance for major federal programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? Yes

Identification of major federal programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|----------------------------|---|
| 10.760 | Water and Waste Disposals Systems for Rural Communities |
| 10.553 – 10.559 | Child Nutrition Cluster |

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? No

CITY OF CALAIS, MAINE
Schedule of Findings and Questioned Costs, Continued

Section II - Findings Required to be Reported Under *Government Auditing Standards*

SIGNIFICANT DEFICIENCIES

2017-001 – Preparation of Financial Statements (City)

Auditing standards require external auditors to determine whether or not client personnel designated as having responsibility over the financial reporting process possess the expertise to identify all financial reporting matters in compliance with generally accepted accounting principles without the reliance on external auditors. This means that these individuals would need to have the knowledge of all the various financial statement disclosure requirements in addition to an understanding of fund financial statements and government-wide financial statements. From a practical standpoint, the costs of maintaining the expertise in-house to meet these requirements often exceed the benefit. As a result, it is common practice for governmental entities to rely on assistance from their auditing firm to assist in the preparation of the financial statements and the related disclosures. When the auditing firm prepares the financial statements, the City must assign a competent management level individual to oversee this service. Additionally, management must review, approve, and accept responsibility for the financial statements and related notes.

Unfortunately, when this approach is taken, the City is considered to have a control deficiency in the design of internal controls over the preparation of the financial statements in accordance with generally accepted accounting principles, and as a result, we are required to report this as such in this letter.

Management's response/corrective action plan: The City continues to use auditor financial schedules to assist in the preparation of the audit, as it is not cost effective to have this expertise in-house. 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 also consider the feasibility of implementing cross-training of all functions amongst the limited number of admin staff.

2017-002 – Material Audit Adjusting Journal Entries (City)

The general ledger includes activity and balances of the City's asset, liability, revenue, and expenditure/expense accounts. Many of these accounts required audit adjustments at year-end, including ambulance receivables, capital assets, and various revenue and expenditure/expense accounts. Both individually and in the aggregate, these entries were material to the financial statements. Whenever the auditor is required to propose a material amount of entries, the risk of material misstatement due to fraud or error increases significantly.

In order to maintain an accurate accounting of all accounts on the general ledger and provide accurate financial reports during the year, we recommend that City employees reconcile the ending balances of each general ledger account on a monthly basis. We suggest that management establish a checklist of required monthly and year-end adjustments to ensure that general ledger accounts are being reconciled in a timely manner. Additionally, we suggest that the proprietary funds be maintained on a full accrual basis as required by generally accepted accounting principles.

CITY OF CALAIS, MAINE
Schedule of Findings and Questioned Costs, Continued

Section II - Findings Required to be Reported Under *Government Auditing Standards*, Continued

2017-002 – Material Audit Adjusting Journal Entries (City), Continued

We believe that the following procedures should be performed on a monthly basis:

- Reconciliation of the detailed listing of ambulance accounts receivable to the general ledger balances
- Review of direct fund balance posts and properly classify these entries out of fund balance.

Management's response/corrective action plan: Management, in conjunction with City finance staff, has created a checklist of the various general ledger accounts that require reconciliation on a monthly and/or annual basis as well as a checklist for the journal entries required annually. Currently, the number of accounts on the General Ledger are numerous and time-consuming to be reconcile monthly. Finance staff will attempt to reconcile the accounts at least quarterly. Management will continue to send finance staff to appropriate trainings as necessary and promote cross-training where needed.

2017-003 – Account Structure of the City General Ledger (City)

The current account structure that is being utilized within the City's accounting system is not reflective of the reporting objectives of management. Currently, nearly all of the individual nonmajor governmental funds (special revenue and capital project funds), which ideally should be reported separately, are recorded as single account lines in the general fund assets and liabilities. The effect of utilizing single lines for account purposes is that there are no revenue or expenditure accounts for any of the nonmajor governmental funds. This makes financial reporting for individual funds difficult, as all of the activity within these funds needs to be manually adjusted for financial statement preparation. We believe that management should update its account structure so that every fund that either is required to be reported separately, or that management wishes to report separately, has its own unique fund number within the accounting system.

Additionally, within the proprietary funds (Ambulance and Sewer), revenues are reported as liability and fund balance accounts rather than revenue accounts. These accounts will not close to fund balance without a manual adjusting journal entry posted at the end of the year. We suggest that all revenues recorded within the liability and fund balance accounts be reclassified as revenue accounts so the accounting system can properly close at year-end.

Management's response/corrective action plan: Management has considered the feasibility and efficiency of implementing a revised account structure that would reflect each fund separately with its own unique fund number. Management, with the assistance of finance staff, has revised the account structure effective July 1, 2017 to move revenues off of the Balance Sheet for the proprietary funds. New funds or accounts will be set up as a unique fund so that going forward, these types of accounts are easier to track and report on.

2017-004 – Budget Errors (City)

As part of the budget process, the City is required to pass a balanced budget that assesses to taxpayers the total appropriations less any non-property tax revenues. During the fiscal year 2017, we discovered that the City did not take into account the School Department's use of fund balance, a non-property tax revenue, and subsequently overstated the School Department net appropriation by \$226,143. We suggest that management take care in preparation of future budgets to avoid over stating the yearly property tax commitment.

Management's response/corrective action plan: The budget error was brought to the attention of Management during the audit of the FY16 financial statements. The budget for FY17 was already completed and a similar error had been made. The budget for FY18 has omitted the use of fund balance by the School.

CITY OF CALAIS, MAINE
Schedule of Findings and Questioned Costs, Continued

Section III - Findings and Questioned Costs for Federal Awards

2017-005 – U.S. Department of Agriculture, For the Period July 1, 2016 through June 30, 2017, CFDA #10.553-10.559 Child Nutrition Cluster

Statement of Condition: The City did not properly change one student's status to free based on information received during the verification process.

Criteria: By November 15th of each school year, the local education agency (LEA) must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals. The LEA must follow-up on children whose eligibility status has changed as the result of verification activities to put them in the correct category.

Effect: A student that should have been changed to free remained on reduced lunch even though the student's household income was below the income thresholds established by the U.S. Department of Agriculture, based on submitted verification documentation.

Cause: The School Lunch director did not make the necessary changes to the free and reduced price student lists based on the information submitted from selected households.

Recommendation: Management needs to ensure that after the verification process is complete, the School Lunch Director makes the necessary changes to the free and reduced lunch student lists.

Questioned Costs: None

Management's response/corrective action plan: Administration will speak with each food service lead person. Administration or person appointed by administration will check the list against the applications on a quarterly basis.

2017-006 – U.S. Department of Agriculture, For the Period July 1, 2016 through June 30, 2017, CFDA #10.553-10.559 Child Nutrition Cluster

Statement of Condition: During the month of April 2017, meals served at the Middle and High Schools were not reported on the monthly claim form. Also, during the month of October 2016, the School Department over claimed paid lunches.

Criteria: Accurate meal counts and reporting are required for proper calculation of federal subsidy.

Effect: The federal funds reimbursed under this program were not calculated correctly as accurate meal counts were not submitted to the State of Maine.

Cause: Management reported the incorrect monthly meals served to the State of Maine.

CITY OF CALAIS, MAINE
Schedule of Findings and Questioned Costs, Continued

Section III - Findings and Questioned Costs for Federal Awards, Continued

2017-006 – U.S. Department of Agriculture, For the Period July 1, 2016 through June 30, 2017, CFDA #10.553-10.559 Child Nutrition Cluster, Continued

Recommendation: An employee, other than the School Nutrition Director, should review and approve the reported amounts for the meal counts prior to submission of the monthly claim to the State of Maine.

Questioned Costs: None

Management's response/corrective action plan: The lead food service workers submit school lunch information for the claim form to the Superintendent's Administrative Assistant. The Administrative Assistant completes the school lunch claim form. The claim form is reviewed by another person in the office prior to the claim being submitted. After the review is complete, the Administrative Assistant submits the claim.

CITY OF CALAIS, MAINE
Schedule of Findings and Questioned Costs, Continued

Section IV - Status of Prior Year Findings and Questioned Costs for *Government Auditing Standards* and Federal Awards

2016-001 – City Accounting Software to School Accounting Software Reconciliation (City and School)

The City and School Department utilize separate accounting software. Since the City and the School Department have separate accounting software, it is essential that reconciliations of all balance sheet, revenue, and expenditure accounts be performed between the School's general ledger (ADS) and the City's general ledger (TRIO) on a monthly basis. This reconciliation should be performed as soon as feasible after month end. An essential part of this process is for the City to receive all School Department journal entries and postings promptly so they can be posted to the City's accounting software.

As of June 30, 2016, balance sheet, revenue, and expenditure accounts on the School Department's accounting system did not reconcile with the balance sheet, revenue, and expenditure accounts on the City's accounting system. The reconciliation between the City and School accounting systems was not complete when we arrived for fieldwork on October 24, 2016. Work continued on the reconciliation process through the month of January when it was eventually completed. We received the reconciliation from the City on January 3, 2017. The reconciliation did not correct the balance sheet account variances, and some minor variances remained between the revenue and expenditure accounts. The residual difference remaining to correct all accounts was \$30,384.

We recommend utilizing the cash reconciliation feature in the School's accounting system and removing School related items from the City's accounting system. The City would then pay the School its local assessments during the fiscal year, thus simplifying the reconciliation process. The City could maintain control over the cash account by having signing authority over that account and reviewing and approving the monthly cash reconciliations performed by School employees. If the City does not want to utilize the cash reconciliation feature within the School's accounting system, we recommend that the reconciliation between the City and School accounting systems be performed monthly. Any variances should be investigated promptly and entries should be posted to the proper system (City or School) accordingly so that the two accounting systems present the same financial information.

Status: No similar findings occurred in fiscal year 2017.

2016-002 – Material Governmental Funds Unrecorded in Accounting Software (City)

During our review of the TRIO accounting software, it was noted that the UDAG Economic Development Loan Fund, the Uptown Loan Fund, and the Rental Rehabilitation Fund were not recorded in the accounting software. These three funds had a combined fund balance of \$1,011,627 as of June 30, 2015. During the 2016 fiscal year, those funds reported \$32,410 of revenues and \$55,068 of expenditures and transfers, ending the year with a \$988,969 fund balance. Those funds reported cash and investments totaling \$613,290 and loans receivable of \$544,673 with an allowance for uncollectible accounts of \$160,875, for a net loans receivable balance of \$383,798. We recommend that all governmental and proprietary funds be accounted for in the City's accounting system to properly track the assets, liabilities, and activities of those funds.

Status: No similar findings occurred in fiscal year 2017.

CITY OF CALAIS, MAINE
Schedule of Findings and Questioned Costs, Continued

Section IV - Status of Prior Year Findings and Questioned Costs for *Government Auditing Standards* and Federal Awards, Continued

2016-003 – Preparation of Financial Statements (City)

Auditing standards require external auditors to determine whether or not client personnel designated as having responsibility over the financial reporting process possess the expertise to identify all financial reporting matters in compliance with generally accepted accounting principles without the reliance on external auditors. This means that these individuals would need to have the knowledge of all the various financial statement disclosure requirements in addition to an understanding of fund financial statements and government-wide financial statements. From a practical standpoint, the costs of maintaining the expertise in-house to meet these requirements often exceed the benefit. As a result, it is common practice for governmental entities to rely on assistance from their auditing firm to assist in the preparation of the financial statements and the related disclosures. When the auditing firm prepares the financial statements, the City must assign a competent management level individual to oversee this service. Additionally, management must review, approve, and accept responsibility for the financial statements and related notes.

Unfortunately, when this approach is taken, the City is considered to have a control deficiency in the design of internal controls over the preparation of the financial statements in accordance with generally accepted accounting principles, and as a result, we are required to report this as such in this letter.

Status: The City continues to use auditor financial schedules to assist in the preparation of the audit, as it is not cost effective to have this expertise in-house. 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.

Recommendation: We recommend the Finance Director consider attending training sessions or taking accounting courses in order to gain the expertise necessary to prepare the financial statements in the future.

Corrective Action Plan: *Management is making sure that finance personnel attend adequate training. Management will also consider the feasibility of implementing cross-training of all functions amongst the limited number of admin staff.*

2016-004 – Material Audit Adjusting Journal Entries (City)

The general ledger includes activity and balances of the City's asset, liability, revenue, and expenditure/expense accounts. Many of these accounts required audit adjustments at year-end, including cash, interfund accounts, accounts receivable, accounts payable, accrued expenses, capital assets, long-term debt, and various revenue and expenditure/expense accounts. Both individually and in the aggregate, these entries were material to the financial statements. Whenever the auditor is required to propose a material amount of entries, the risk of material misstatement due to fraud or error increases significantly.

In order to maintain an accurate accounting of all accounts on the general ledger and provide accurate financial reports during the year, we recommend that City employees reconcile the ending balances of each general ledger account on a monthly basis. We suggest that management establish a checklist of required monthly and year-end adjustments to ensure that general ledger accounts are being reconciled in a timely manner. Additionally, we suggest that the proprietary funds be maintained on a full accrual basis as required by generally accepted accounting principles.

CITY OF CALAIS, MAINE
Schedule of Findings and Questioned Costs, Continued

Section IV - Status of Prior Year Findings and Questioned Costs for *Government Auditing Standards* and Federal Awards, Continued

2016-004 – Material Audit Adjusting Journal Entries (City), Continued

We believe that the following procedures should be performed on a monthly basis:

- Reconciliation of the detailed listing of all accounts receivable and accounts payable accounts to the general ledger balances
- Determination of the accuracy of the employee benefit and taxes withholding accounts and other liability accounts recorded on the general ledger
- Analytical review of revenue accounts to identify misclassifications or errors
- Analytical review of expenditure/expense accounts to identify misclassifications or errors

Status: The City has addressed many of the reconciliation issues that produced most of the material audit adjustments, however there were still material entries in the ambulance fund and in the sewer fund.

Recommendation: We recommend continued improvement on performing monthly reconciliations including ambulance payables and receivables as well as reclassifying direct fund balance posts out of the sewer fund prior to the audit.

Corrective Action Plan: *Management, in conjunction with City finance staff, has created a checklist of the various general ledger accounts that require reconciliation on a monthly and/or annual basis as well as a checklist for the journal entries required annually. Currently, the number of accounts on the General Ledger are numerous and time-consuming to be reconcile monthly. Finance staff will attempt to reconcile the accounts at least quarterly. Management will continue to send finance staff to appropriate trainings as necessary and promote cross-training where needed.*

2016-005 – Account Structure of the City General Ledger (City)

The current account structure that is being utilized within the City's accounting system is not reflective of the reporting objectives of management. Currently, all of the individual nonmajor governmental funds (special revenue and capital project funds), which ideally should be reported separately, are recorded as single account lines in the general fund assets and liabilities. The effect of utilizing single lines for account purposes is that there are no revenue or expenditure accounts for any of the nonmajor governmental funds. This makes financial reporting for individual funds difficult, as all of the activity within these funds needs to be manually adjusted for financial statement preparation. We believe that management should update its account structure so that every fund that either is required to be reported separately, or that management wishes to report separately, has its own unique fund number within the accounting system.

Additionally, within the proprietary funds (Ambulance and Sewer), revenues are reported as liability and fund balance accounts rather than revenue accounts. These accounts will not close to fund balance without a manual adjusting journal entry posted at the end of the year. We suggest that all revenues recorded within the liability and fund balance accounts be reclassified as revenue accounts so the accounting system can properly close at year-end.

CITY OF CALAIS, MAINE
Schedule of Findings and Questioned Costs, Continued

Section IV - Status of Prior Year Findings and Questioned Costs for *Government Auditing Standards* and Federal Awards, Continued

2016-005 – Account Structure of the City General Ledger (City), Continued

Status: This finding remains uncorrected in fiscal year 2017.

Recommendation: We suggest that all revenues recorded within the liability and fund balance accounts be reclassified as revenue accounts so the accounting system can properly close at year-end.

Corrective Action Plan: *Management has considered the feasibility and efficiency of implementing a revised account structure that would reflect each fund separately with its own unique fund number. Management, with the assistance of finance staff, has revised the account structure effective July 1, 2017 to move revenues off of the Balance Sheet for the proprietary funds. New funds or accounts will be set up as a unique fund so that going forward, these types of accounts are easier to track and report on.*

2016-006 – Budget Errors

As part of the budget process, the City is required to pass a balanced budget that assesses to taxpayers the total appropriations less any non-property tax revenues. During the fiscal year 2016, we discovered that the City did not take into account the School Department's use of fund balance, a non-property tax revenue, and subsequently overstated the School Department net appropriation by \$172,000.

Additionally, the City had errors on the Certificate of Assessment whereby total assessments were understated by \$11,308 compared to amounts that were passed in the budget. This error, combined with the school department budget error, resulted in over assessing taxpayers \$160,692 for fiscal year 2016. We suggest that management take into account all non-property tax revenues during the budget process which may include use of fund balance and ensure that the Certificate of Assessment matches the final budget prior to committing taxes.

Status: The budget error was brought to the attention of Management during the audit of the fiscal year 2016 financial statements. The budget for fiscal year 2016 was already completed and a similar error had been made.

Recommendation: We suggest that management take care in preparation of future budgets to avoid overstating the yearly property tax commitment.

Corrective Action Plan: *The budget for fiscal year 2018 has omitted the use of fund balance by the School.*

2016-007 – U.S. Department of Agriculture, For the Period July 1, 2015 through June 30, 2016, CFDA #10.553-10.559 Child Nutrition Cluster

Statement of Condition: Documentation of the income verification letters and subsequent responses from families were not retained.

Criteria: By November 15th of each school year, the local education agency (LEA) must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals. The LEA must follow-up on children whose eligibility status has changed as the result of verification activities to put them in the correct category.

CITY OF CALAIS, MAINE
Schedule of Findings and Questioned Costs, Continued

Section IV - Status of Prior Year Findings and Questioned Costs for *Government Auditing Standards* and Federal Awards, Continued

2016-007 – U.S. Department of Agriculture, For the Period July 1, 2015 through June 30, 2016, CFDA #10.553-10.559 Child Nutrition Cluster, Continued

Effect: Students who were selected in the sample could be receiving free and reduced lunch even though they are above the income thresholds established by the U.S. Department of Agriculture.

Cause: The School Lunch Director did not retain copies of the income verifications letters that were sent to parents, or the responses from the parents, that document their income. Because of the lack of documentation, we were unable to determine if the income verification process was completed.

Recommendation: Management needs to ensure that all documentation, including letters sent and responses received, are retained for each student that is selected through the verification process.

Questioned Costs: None

Status: There were findings in the current year for this program under the same compliance requirement.

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