

April 13, 2020

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, 2019. 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 May 29, 2019. 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 20, 2019, 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 Matters

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. As described in the notes to the financial statements, the City of Calais, Maine adopted to provisions of Statement of Governmental Accounting Standards (GASB Statement) No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in 2019. No other new accounting policies were adopted and the application of existing policies was not change in 2019. 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 and OPEB liabilities, which are based on actuarial reports. We evaluated the key factors and assumptions used to develop depreciation expense and the net pension and OPEB liabilities 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

The completion of our audit was delayed due to the School Department's management needing additional time after year end to reenter lost data from a ransomware attack. Management completed the rebuild in January 2020 and which delayed the commencement of our audit until February 2020.

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 nearly all 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 April 13, 2020, 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 and the schedules pertaining to the net pension and OPEB liabilities, 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 cursive script that reads "Raymond Hudson Ouellette".

City of Calais
Adjusting Journal Entries - City
6/30/2019

			<u>Debit</u>	<u>Credit</u>
1	01-2310-00	MMA Health Insurance		78,066.90
	08-7000-00	Unappr Surplus	20,310.95	
	01-7000-00	Unappr Surplus	57,755.95	
	06-7000-00	Fund Balance	118,004.00	
	06-8595-00	Ambulance Danforth Oper Rev		78,340.00
	6-6000-8525	Self-pay revenue		39,664.00
	<i>To reconcile fund balance with prior year audited figures.</i>			
2	08-8275-00	Ambulance Allowance for Bad Debt	3,433.28	
	8-8530-00	Ambulance Revenue Commercial		3,433.28
	<i>To adjust A/R Allowance account to actual as of 6/30/2019.</i>			
3	07-7470-00	Sewer Accrued Interest	1,703.61	
	7100-2005	2011FR Interest		1,703.61
	<i>To bring sewer accrued interest to actual as of June 30, 2019.</i>			
4	4-1210-00	Loans Receivable RLF		10,658.08
	4-1215-00	Allowance for Bad Debt RLF	14,065.62	
	4000-0314	RLF Interest		3,407.54
	<i>To adjust the Uptown Revolving Loan Fund accounts to actual.</i>			
5	3-1210-00	Loans Receivable UDAG		671.92
	3-1215-00	Allowance for Bad Debt RLF	30,222.99	
	3000-0314	EDLF Interest income		30,222.99
	3000-6561	Prof Services	671.92	
	<i>To adjust the UDAG Loan Fund accounts to actual and record loan administration payment.</i>			
6	02-2050-01	DTF General Fund		1,750.00
	02-0520-00	DTOF-GF Scholarships		750.00
	01-2050-02	Due To / From Trust Accounts	2,500.00	
	01-7000-00	Unapr Surplus		2,500.00
	<i>To balance the trust fund and correct GF fund balance issues.</i>			
7	7-7371-00	Sewer Lafayette St Parking Lot		350.00
	7000-6412	Safety Equip	350.00	
	7-7380-00	Sewer Temperance St		425.00
	7000-6412	Safety Equip	425.00	
	7-7381-00	Sewer Rd South Harrison	539.83	
	7000-6412	Safety Equip		539.83
	7-7468-00	Sewer BP Manning Street		6,725.37
	7-7469-00	Sewer BP Palmer Street		91,974.05
	7000-7700	WWTP Grant Revenue	98,699.42	
	<i>To reconcile grant/BAN activity to actual as of June 30, 2019.</i>			
8	7-7350-00	Sewer Plan Accum Depreciation		599,633.00
	7000-8060	Deprc/Asset	599,633.00	
	<i>To post current year depreciation expense for waste water.</i>			

9	07-7320-00	Sewer Construction in progress	84,697.01	
	07-7410-00	Sewer Accounts Payable		84,697.01
	<i>To post waste water AP found in search.</i>			
10	R0100-0218	2018 Taxes		21,800.00
	1-2910-00	Deferred property taxes	21,800.00	
	<i>To post current change in deferred property tax.</i>			
11	1-1830-00	Special Gas Account	3,306.70	
	0410-5510	Fuel/Oil/Lube		3,306.70
	<i>To bring fuel inventory to actual as of June 30, 2019.</i>			

City of Calais
Passed Adjusting Journal Entries - City
6/30/2019

			Debit	Credit
101	N/A (no account number)	Accrued Interest		5,120.68
	N/A (no account number)	Net Position - Entity Wide	5,120.68	
	<i>To bring accrued interest to actual as of 6/30/2019.</i>			
102	1310-13	2013 RE Taxes	3,475.00	
	0100-0213	2013 Taxes		3,475.00
	<i>To adjust 2013 real estate taxes receivable to actual as of 6/30/19.</i>			
103	6-8275-00	Ambulance Allowance		1,750.15
	6-6000-8525	Self-pay revenue	1,750.15	
	<i>To adjust ambulance allowance to actual as of June 30, 2019.</i>			

City of Calais
Adjusting Journal Entries - School Department
6/30/2019

		<u>Debit</u>	<u>Credit</u>
1	1000-0000-0000-10102-000	School Cash Account	2,446.55
	1000-0000-0000-10110-000	Cash--Cash Receipts/Transfers (City)	786.20
	1000-0000-0000-20100-000	ACCOUNTS PAYABLE	8,061.37
	1000-0000-0000-22400-000	MSRS RETIREMENT	148.15
	1000-0000-0000-22450-000	MSRS FEDERALLY FUNDED	134.00
	1000-0000-0000-23100-000	FEDERAL WITHHOLDING	292.04
	1000-0000-0000-23130-000	STATE WITHHOLDING	133.00
	1000-0000-0000-25990-000	PAYROLL ADJUSTMET	425.04
	1000-0000-0000-29000-000	Accrued Payroll	409,228.83
	1000-0000-0000-30100-000	UNDESIGNATED FUND BALANCE	145,374.08
	1000-0000-0000-25201-000	DTF	129.16
	1000-0000-0000-25221-000	DTF	19.99
	1000-0000-0000-25230-000	DTF	452.26
	1000-0000-0000-25238-000	DTF	0.01
	1000-0000-0000-25240-000	DTF	719.24
	1000-0000-0000-25248-000	DTF	84,389.98
	1000-0000-0000-25251-000	DTF	3,389.56
	1000-0000-0000-25267-000	DTF	370.00
	1000-0000-0000-25270-000	DTF	537.33
	1000-0000-0000-25600-000	DTF	3,599.42
	1000-0000-0000-25702-000	DTF	286.99
	1000-0000-0000-25900-000	DTF	177,114.76
	2015-0000-0000-25100-000	DTF	7,140.00
	2015-0000-0000-30100-000	Undesignated Fund Balance	7,140.00
	2017-0000-0000-25100-000	DTF	7,010.84
	2017-0000-0000-30100-000	Undesignated Fund Balance	7,010.84
	2214-0000-0000-25100-000	DTF	19.99
	2214-0000-0000-30100-000	Undesignated Fund Balance	19.99
	2238-0000-0000-20100-000	Accounts Payable	2,891.16
	2238-0000-0000-25100-000	DTF	0.01
	2238-0000-0000-25231-000	DTF	385.42
	2238-0000-0000-30100-000	Undesignated Fund Balance	2,891.17
	2248-0000-0000-25100-000	DTF	84,389.98
	2248-0000-0000-30100-000	Undesignated Fund Balance	84,389.98
	2300-0000-0000-12100-000	Accounts Receivable	35,538.70
	2300-0000-0000-25100-000	DTF	452.26
	2300-0000-0000-29000-000	Accrued Payroll	24,405.45
	2300-0000-0000-30100-000	Undesignated Fund Balance	59,491.89
	2310-0000-0000-25238-000	DTF	385.42
	2400-0000-0000-25100-000	DTF	719.24
	2400-0000-0000-30100-000	Undesignated Fund Balance	719.24

2470-0000-0000-25100-000	DTF	2,081.53	
2470-0000-0000-30100-000	Undesignated Fund Balance		2,081.53
2471-0000-0000-25100-000	DTF		2,081.53
2471-0000-0000-30100-000	Undesignated Fund Balance	2,081.53	
2510-0000-0000-25100-000	DTF		3,389.56
2510-0000-0000-30100-000	Undesignated Fund Balance	3,389.56	
2670-0000-0000-25100-000	DTF		370.00
2670-0000-0000-30100-000	Undesignated Fund Balance	370.00	
2700-0000-0000-25100-000	DTF		537.33
2700-0000-0000-30100-000	Undesignated Fund Balance	537.33	
6000-0000-0000-20100-000	Accounts Payable		2,254.34
6000-0000-0000-25100-000	DTF		3,599.42
6000-0000-0000-30100-000	Undesignated Fund Balance	5,853.76	
7020-0000-0000-25100-000	DTF	286.99	
7020-0000-0000-30100-000	Undesignated Fund Balance		286.99
9000-0000-0000-25100-000	DTF	177,114.76	
9000-0000-0000-30100-000	Undesignated Fund Balance		177,114.76
<i>To correct beginning balances.</i>			
2	6000-0000-0000-11710-000	Inventory	663.67
	6000-0000-3100-56300-900	School Lunch Food	663.67
<i>To adjust inventory to balance at year end.</i>			
3	1000-0000-0000-24510-000	Line of Credit	84,389.98
	1000-0000-0000-25248-000	DTF	84,389.98
	2238-0000-0000-12100-000	Accounts Receivable	2,891.16
	2238-0000-0000-20100-000	Accounts Payable	2,891.16
<i>To correct beginning balances.</i>			
4	1000-0000-2120-52010-300	Teacher Benefits	1,844.02
	1000-0000-2130-52010-900	Teacher Benefits	2,406.56
	1000-1100-1000-52010-010	Teacher Benefits	22,716.40
	1000-1100-1000-52010-040	Teacher Benefits	13,000.17
	1000-1120-1000-52010-010	Teacher Benefits	26,479.17
	1000-1200-1000-52010-300	Teacher Benefits	49,145.63
	1000-2100-1000-52010-950	Teacher Benefits	10,374.13
	1000-2100-1000-52010-990	Teacher Benefits	4,813.13
	1000-2300-1000-52010-990	Teacher Benefits	3,940.81
	1000-2310-1000-52010-950	Teacher Benefits	7,328.84
	1000-2310-1000-52010-990	Teacher Benefits	6,027.99
	1000-3046-1000-52010-390	Teacher Benefits	3,200.32
	1000-3101-1000-52010-390	Teacher Benefits	4,850.56
	1000-3233-1000-52010-390	Teacher Benefits	2,406.58
	1000-3261-1000-52010-390	Teacher Benefits	1,822.06
	1000-3301-1000-52010-390	Teacher Benefits	3,140.20
	1000-3333-1000-52010-390	Teacher Benefits	4,813.13
	1000-3407-1000-52010-390	Teacher Benefits	3,940.81
	1000-3503-1000-52010-390	Teacher Benefits	1,822.06
	1000-0000-2130-51010-900	Nurse salary	693.75

	1000-1100-1000-51010-010	Teacher salary		3,423.56
	1000-1100-1000-51010-040	Teacher salary		216.10
	1000-1120-1000-51010-010	Teacher salary		551.06
	1000-1200-1000-51010-300	Teacher salary		4,876.81
	1000-2100-1000-51010-950	Teacher salary		1,550.87
	1000-2100-1000-51010-990	Teacher salary		172.31
	1000-3233-1000-51010-390	Salary - Health Occupat		237.24
	1000-3333-1000-51010-390	Salary - Computer Tech		172.90
	1000-0000-0000-29000-000	Accrued Payroll	185,967.17	
	<i>To reverse benefit accrual and additional accrual from PY, as well as remainder of PY payroll accrual.</i>			
5	2300-0000-0000-29000-000	Accrued Payroll	659.51	
	2300-1100-1000-51010-950	Teacher Salary		659.51
	<i>To clear out remainder of PY payroll accrual.</i>			
6	1000-0000-0000-20100-000	ACCOUNTS PAYABLE		1,292.84
	2010-0000-0000-20100-000	Accounts Payable	1,191.34	
	9000-0000-0000-20100-000	Accounts Payable	101.50	
	<i>To move payable posted to incorrect fund and correct payable that cleared from incorrect fund.</i>			
7	1000-0000-0000-12110-000	Accounts Receivable - Baileyville	26,183.68	
	1000-0000-0000-25900-000	DTF		26,183.68
	9000-0000-0000-25100-000	DTF	26,183.68	
	9000-0000-0000-12100-000	Accounts Receivable		26,183.68
	1000-0000-0000-12100-000	ACCOUNTS RECEIVABLE		7,259.28
	1000-0000-0000-20100-000	ACCOUNTS PAYABLE	7,259.28	
	2238-0000-0000-12100-000	Accounts Receivable		779.80
	2238-1100-1000-51500-950	Stipend	779.80	
	2310-0000-0000-12100-000	Accounts Receivable		68.84
	2310-0000-0000-44504-000	Title - SES	68.84	
	2300-0000-0000-12100-000	Accounts Receivable		35,538.70
	2300-0000-0000-44517-000	NCLB Title 1A Disadvantaged	35,538.70	
	<i>To post correcting entries to accounts receivables for current year misspostings.</i>			
8	1000-0000-0000-12100-000	ACCOUNTS RECEIVABLE		27,104.41
	1000-0000-0000-30100-000	UNDESIGNATED FUND BALANCE	27,104.41	
	<i>To restate 2018 accounts receivable for amounts collected in 2018 but not removed from listing.</i>			
9	1000-0000-0000-12100-000	ACCOUNTS RECEIVABLE		605.26
	1000-0000-0000-12102-000	Accounts Receivable- Robbinston		264.71
	1000-0000-0000-12112-000	Accounts Receivable - Pleasant Point	80.16	
	1000-0000-0000-12115-000	Accounts Receivable - Lubec		97.50
	1000-0000-0000-12130-000	Accounts Receivable - AOS 77	52.00	
	1000-0000-0000-12131-000	Accounts Receivable - CHS Internal Acct		327.37
	1000-0000-0000-30100-000	UNDESIGNATED FUND BALANCE	1,162.68	
	<i>To flush out residual balances in various General Fund receivable accounts to avoid reconciliation issues in the future.</i>			
10	1000-0000-2120-51010-300	Guidance Counselor salary	10,227.50	
	1000-0000-2130-51010-900	Nurse salary	15,740.84	
	1000-1100-1000-51010-010	Teacher salary	11,312.18	
	1000-1100-1000-51010-010	Teacher salary	13,686.64	
	1000-1100-1000-51010-010	Teacher salary	7,121.02	
	1000-1100-1000-51010-010	Teacher salary	14,167.00	
	1000-1100-1000-51010-010	Teacher salary	12,378.38	
	1000-1100-1000-51010-010	Teacher salary	9,015.98	

1000-1100-1000-51010-010	Teacher salary	10,723.54	
1000-1100-1000-51010-010	Teacher salary	5,771.20	
1000-1100-1000-51010-010	Teacher salary	8,561.98	
1000-1100-1000-51010-010	Teacher salary	12,221.38	
1000-1100-1000-51010-040	Substitute salary	10,564.44	
1000-1100-1000-51010-040	Substitute salary	12,485.80	
1000-1100-1000-51010-040	Substitute salary	14,647.36	
1000-1100-1000-51010-040	Substitute salary	13,529.62	
1000-1100-1000-51010-040	Substitute salary	10,963.74	
1000-1120-1000-51010-010	Teacher salary	14,407.16	
1000-1120-1000-51010-010	Teacher salary	11,525.12	
1000-1120-1000-51010-010	Teacher salary	12,485.80	
1000-1120-1000-51010-010	Teacher salary	10,483.38	
1000-1120-1000-51010-010	Teacher salary	13,734.64	
1000-1120-1000-51010-010	Teacher salary	13,748.12	
1000-1120-1000-51010-010	Teacher salary	13,748.12	
1000-1200-1000-51010-300	Teacher salary	11,075.30	
1000-1200-1000-51010-300	Teacher salary	8,295.46	
1000-1200-1000-51010-300	Teacher salary	14,167.00	
1000-1200-1000-51010-300	Teacher salary	11,177.50	
1000-1200-1000-51010-300	Teacher salary	13,267.76	
1000-1200-1000-51010-300	Teacher salary	8,321.86	
1000-1200-1000-51010-300	Teacher salary	12,963.70	
1000-1200-1000-51010-300	Teacher salary	12,377.34	
1000-1200-1000-51010-300	Teacher salary	14,647.32	
1000-1200-1000-51010-300	Teacher salary	14,167.00	
1000-1200-1000-51010-300	Teacher salary	6,456.30	
1000-1200-1000-51010-300	Teacher salary	7,601.34	
1000-2100-1000-51010-950	Teacher salary	11,109.48	
1000-2100-1000-51010-950	Teacher salary	9,622.76	
1000-2100-1000-51010-950	Teacher salary	7,601.34	
1000-2100-1000-51010-950	Teacher salary	13,507.92	
1000-2100-1000-51010-990	Teacher salary	12,245.60	
1000-2300-1000-51010-990	Teacher salary (Life Skills)	13,267.76	
1000-3000-2400-51040-390	SALARY - Director	17,074.64	
1000-3046-1000-51010-390	SALARY - Construction Technology	10,697.18	
1000-3101-1000-51010-390	Salary - Business Administration & Manage	11,044.80	
1000-3261-1000-51010-390	SALARY - Culinary Arts	9,313.86	
1000-3301-1000-51010-390	SALARY - Early Childhood Occupations	8,535.66	
1000-3333-1000-51010-390	SALARY - Computer Technology	10,516.40	
1000-3407-1000-51010-390	SALARY- Welding	10,324.28	
1000-3503-1000-51010-390	SALARY - Automotive Technology	9,282.54	
1000-0000-0000-29000-000	Accrued Payroll		571,913.04
2300-1100-1000-51010-950	Teacher Salary	11,249.04	
2300-1100-1000-51010-950	Teacher Salary	15,382.20	
2300-0000-0000-29000-000	Accrued Payroll		26,631.24
9000-2310-1000-51010-950	Teacher Salary	10,456.98	
9000-2310-1000-51010-950	Teacher Salary	7,601.34	
9000-2310-1000-51010-990	Teacher Salary	6,880.82	
9000-2310-1000-51010-990	Teacher Salary	10,243.22	
9000-0000-0000-29000-000	Accrued Payroll		35,182.36
<i>To post current year accrued summer salaries entry.</i>			
11 1000-0000-0000-20100-000	ACCOUNTS PAYABLE		35,540.92
1000-0000-2700-55140-900	Purchased Transportation Services from p	35,540.92	
<i>To record missing payable found in search after year end.</i>			

City of Calais
Passed Adjusting Journal Entries - School Department
6/30/2019

		Debit	Credit
101	1000-0000-0000-20100-000		
	ACCOUNTS PAYABLE	2,361.14	
	1000-0000-0000-30100-000		
	UNDESIGNATED FUND BALANCE		2,361.14
	<i>Unreconciled variance in payables account at June 30, 2019.</i>		



City Building
11 Church Street
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207-454-2521
Fax: 207-454-2757
www.calaismaine.org

April 13, 2020

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, 2019, 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 **April 13, 2020**, 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 20, 2019, 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

"In accordance with Federal Law and USDA Policy, this institution 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 : USDA, Director; Office of Civil Rights, Room 326-W, Whitten Building, 1400 Independence Avenue, SW, Washington, D.C. 20250-9410, or call 1-800-795-3272 (voice) or 202-720-6382 (TDD). USDA 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 uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit. A list of the 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, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.

- 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, that 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 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 appropriately present majority equity interest in legally separate organizations and 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 GASBS No. 34, as amended, and GASBS No. 84.
- 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 or amortized.
- 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:
- a) We acknowledge our responsibility for preparing and presenting the schedule of expenditures of federal awards, combining and individual fund financial statements 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, 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 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 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.

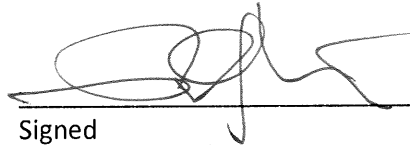
- v) We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
- w) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- x) We are responsible for 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

4.14.20

Date



Signed

4/14/2020

Date

April 13, 2020

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, 2019, 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 (2019-001 through 2019-004) to be significant deficiencies.

During our audit, we also 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 as other comments.

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 cursive script that reads "Raymond Hudson Ouellette".

CITY OF CALAIS, MAINE
Schedule of Comments and Responses
June 30, 2019

SIGNIFICANT DEFICIENCIES

2019-001 – Preparation of Financial Statements

Criteria: Client personnel designated as having responsibility over the financial reporting process 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.

Statement of Condition: 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.

Cause: The City does not employ an individual that possesses the expertise to prepare a complete set of financial statements that are in accordance with generally accepted accounting principles.

Effect: 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.

Recommendation: 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, which we feel management is fully capable of doing given their collective municipal financial reporting experience.

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.

2019-002 – Material Audit Adjusting Journal Entries (City and School Department)

Criteria: The general ledger includes activity and balances of the City and School Department's asset, liability, revenue, and expenditure/expense accounts. These accounts should be reconciled monthly with supporting ledgers to ensure accuracy of balance throughout the year.

Statement of Condition: Many of these accounts required audit adjustments at year-end, including sewer capital assets, UDAG and Uptown loan receivables, School Department fund balance, School Department payables, School Department receivables, School Department accrued salaries, and various revenue and expenditure/expense accounts. Both individually and in the aggregate, these entries were material to the financial statements.

CITY OF CALAIS, MAINE
Schedule of Comments and Responses, Continued

SIGNIFICANT DEFICIENCIES, CONTINUED

Cause: The City and School Department finance staff are not comfortable with certain entries related to year end accruals and waits until the auditor proposes correcting entries to adjust these accounts annually. Additionally, some of the School Department entries were directly related to a data loss that occurred during the fiscal year.

Effect: Whenever the auditor is required to propose a material amount of entries, the risk of material misstatement due to fraud or error increases significantly.

Recommendation: 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 and School Department 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.

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

- Reconcile receivables and payable listings with general ledger
- Review of direct fund balance posts and properly classify these entries out of fund balance
- Review waste water project draws and expenditures and ensure activity has been posted to accurate general ledger accounts
- Reconciliation of UDAG and Uptown Loan funds with loan fund Excel workbook

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. The UDAG and Uptown Loan funds will be reconciled to the Excel workbook at least quarterly. Management will continue to send finance staff to appropriate trainings as necessary and promote cross-training where needed.

The School Department will be taking the recommendation of RKO and create monthly checklist that includes reconciling accounts on the general ledger. The School Department will also be able to utilize our accounting software to record accrued salaries. The data loss prevented the use in FY19.

2019-003 – Account Structure of the City General Ledger (City)

Criteria: The internal account structure of the City should be set up in a manner that accomplishes the financial reporting objectives of management. All individual funds should be separated with individual fund names and fund numbers.

Statement of Condition: Currently, nearly all of the individual nonmajor governmental funds (special revenue and capital project funds) are recorded as single account lines in the general fund assets and liabilities.

Cause: When the current software package was purchased, management team at the time did not possess the financial reporting experience to accurately set up the funds accurately to meet its financial reporting goals.

CITY OF CALAIS, MAINE
Schedule of Comments and Responses, Continued

SIGNIFICANT DEFICIENCIES, CONTINUED

Effect: 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.

Recommendation: 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.

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. 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. Management, with the assistance of City Finance personnel, will work to set up older special revenue and capital project funds into their own unique fund as well.*

2019-004 – Information Technology (IT) Security (School Department)

Criteria: Prudent security over the School Department's general ledger is necessary to ensure that information not be stolen or lost due to security threats that the school faces on a daily basis.

Statement of Condition: During the fiscal year, management experienced a ransomware attack on two of three servers that store the general ledger back up. When management went to retrieve the back up information from the third server that was unaffected by the ransomware, management found out that back ups had not been run for months and the information was lost.

Cause: The IT department was not following established controls that require monthly testing of the back up servers to ensure that current back ups are available for emergency situations.

Effect: The finance team of the School Department had to manually reenter seven months of transactions to reestablish the general ledger activity through February 2019.

Recommendation: We suggest that management review internal IT control policies with the IT director that require monthly testing of the backups. Additionally, another control should be added that requires physical signoffs by staff when backups are performed. This will help management monitor that the controls are being followed as intended.

Management's response/corrective action plan: *The School has upgraded our ProFund server, installed a new NAS system, and have redundant backups happening each day to the new NAS and our cloud storage. We have also created network segments to block off sensitive network areas to more open student ones.*

CITY OF CALAIS, MAINE
Schedule of Comments and Responses, Continued
June 30, 2019

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.

Activity Funds – St Croix Regional Tech Center (SCRTC) Receipts (Repeat)

During our review of the cash receipting process for the SCRTC Activity Fund, we noted that in five of the twenty-five receipts tested the auditor was unable to determine if funds were posted to the proper activity due to lack of summary form (receipt journal) being filled out. We believe that a receipt journal should be utilized to provide supporting detail for all funds received. The receipt journal should include the date received, who received the funds, purpose of those funds, how funds were acquired, and who verified the funds. This will help provide additional documentation for the receipts.

Finally, during receipt testing we found that in six of the thirteen deposits tested, management did not deposit the funds within ten business days from receipt of the funds. Any time management is holding a deposit in excess of ten days the risk of misappropriation of assets, whether due to fraud or error, is significantly increased. We suggest that management ensure that all funds are deposited within ten business days.

Management's response/corrective action plan: The superintendent will work with the SCRTC director and review the written procedures that are in place and advise a plan to work with the SCRTC secretary to assure that all written procedures are being followed.

CITY OF CALAIS, MAINE
Schedule of Comments and Responses, Continued
June 30, 2019

OTHER COMMENTS, CONTINUED

School Department Payroll Process

As part of our control testing for the School Department payroll process, we ensure that management is charging employees appropriately for health insurance based on the plan and coverage that the employee selected during the enrollment period. During this test, we discovered that management was unable to substantiate the rate they were charging seventeen employees for health insurance. Additionally, we found three employees who's approved wage rate was different then what was being paid to the employee without any documentation as to why the change was made.

We suggest that management follow policies that require documentation to be maintained that shows amounts employer and employee need to be paying for monthly health insurance and document all changes made to employee wages after the contracts are signed.

Management's response/corrective action plan: Mid year in FY19, a new procedure was established to have the payroll clerk or employee in charge of health benefits review the health insurance invoice at least annually and ensure that every employee on the invoice has a valid form on file for their coverage. This procedure was not carried out in FY19 due to the change in payroll staff. The Superintendent will meet with the new payroll clerk and review the policy and make sure we have a complete health insurance application for each employee on our invoice and to make sure their coverage is as stated on the application. We will take RKO's recommendation that all changes made to employee wages, after contracts have been signed, to be properly documented.

School Lunch Receipts (Repeat)

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 or reports generated from a point of sale system.

Management's response/corrective action plan: At this time, Calais School Department does not have a plan to correct. Budget restrictions have not allowed us to purchase a POS system or cash register. Both options will require changes to the current lunch stations.

CITY OF CALAIS, MAINE
Schedule of Comments and Responses, Continued
June 30, 2019

OTHER COMMENTS, CONTINUED

School Department Credit Cards

As part of our control testing in the current fiscal year, we reviewed all of the credit card charges for the month of February 2019. During this review, we noted ten total exceptions out of twenty-four transactions for the month. Four of the exceptions were the result of supporting receipts not being attached to the statement and an additional six exceptions were the result of employees not documenting business purpose for the purchases. We suggest that the Business Manager reinforce the credit card control procedures with card holders and ensure that all of the supporting receipts are present and have a clear business purpose documented before finalizing the month end credit card statement reconciliation.

Management's response/corrective action plan: We have taken RKO's recommendation and created a written internal procedure for credit cards. In the past, PO's were processed prior to the credit card statement being received, checks were held until the statement arrived and then mailed. Now the approved PO's are now held by the building secretary until the credit card statement is received. Once the credit card statement is received, the secretary reconciles the credit card statement and sends the statement with all supporting documents to the central office to be processed for payment. The Superintendent has spoken with all administrators and requested more detailed information on the PO's .

School Department Retirement Contributions

During the current fiscal year, the School Department's bookkeeper/payroll employee held employee and employer retirement contribution checks in their desk as opposed to remitting the amounts to MainePERS. Some of the checks were dated as far back as February 2019. Management was unaware that this was occurring until after the employee had resigned. We suggest that management implement a control procedure requiring a second individual, to review and approve MainePERS reconciliations monthly to ensure that retirement contributions are being made as intended.

Management's response/corrective action plan: Monthly bank reconciliations were not able to be completed due to the data loss. If monthly bank reconciliations were being completed, the outstanding checks would have been discovered. The office has added the bookkeeper as a contact with MainePERS so we now have the payroll clerk plus the bookkeeper as contact people.

CITY OF CALAIS, MAINE
Schedule of Comments and Responses, Continued
June 30, 2019

OTHER COMMENTS, CONTINUED

City Credit Cards

As part of our control testing in the current fiscal year, we reviewed all of the credit card charges for the month of February and March 2019. During this review, we noted six total exceptions out of thirty-five transactions for the months. Two of the exceptions were the result of supporting receipts not being attached to the statement and an additional six exceptions were the result of individual supporting receipts not being approved prior to the auditor inquiring the client. We suggest that the City Finance Director reinforce the credit card control procedures with card holders and ensure that all of the supporting receipts are present and have approvals documented before finalizing the month end credit card statement reconciliation.

Management's response/corrective action plan: The City Clerk collects all credit card receipts and matches those receipts to the credit card statement monthly. The Finance Director has designated the City Clerk to be the person responsible for the initial review of credit card receipts for proper documentation and authorization, and to not pay the credit card bill until all documentation has been provided. The Finance Director will review the credit card bill during the A/P process to ensure that substantiation has been provided.

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, 2019, 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 April 13, 2020, 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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.

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 one cost center 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 Hudson Ouellette". The signature is written in a cursive style with a large initial 'R'.

April 13, 2020
South Portland, Maine

CITY OF CALAIS, MAINE
Schedule of Reconciliation of the NEO Financial System with Audited Financial Statements
For the year ended June 30, 2019

	School Department Operations	Day Treatment	School Special Revenues	School Lunch Program
Revenues and other financing sources:				
Per NEO	\$ 7,932,515	321,345	755,864	54,254
Adjustments:				
Donated commodities	-	-	-	13,999
Revenues not reported on NEO	-	1,540,723	-	269,529
Adjusted NEO balance	7,932,515	1,862,068	755,864	337,782
<hr/>				
Per financial statements (Statement 4, Exhibits B-2 and D-2):	7,933,796	1,862,068	755,863	337,782
<hr/>				
Immaterial differences	(1,281)	-	1	-
<hr/>				
	School Department Operations	Day Treatment	School Special Revenues	School Lunch Program
Expenditures and other financing uses:				
Per NEO	\$ 7,515,430	93,280	810,474	354,486
Adjustments:				
Donated commodities	-	-	-	13,999
Expenditures not reported in NEO	-	1,735,054	-	-
Adjusted NEO balance	7,515,430	1,828,334	810,474	368,485
<hr/>				
Per financial statements (Statement 4, Exhibits B-2 and D-2):	7,515,508	1,828,334	810,393	368,486
<hr/>				
Immaterial differences	\$ (78)	-	81	(1)
<hr/>				
Reconciliation between financial statements and NEO report:				
Revenues	\$ 6,459,651	1,862,068	755,863	322,782
Transfers in	1,474,145	-	-	15,000
Total revenues	7,933,796	1,862,068	755,863	337,782
<hr/>				
Expenditures	7,500,508	1,828,334	810,393	368,486
Transfers out	15,000	-	-	-
Total expenditures	7,515,508	1,828,334	810,393	368,486
<hr/>				
Net transfers in (out)	1,459,145	-	-	15,000

See accompanying auditor's report.

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



CITY OF CALAIS, MAINE

Annual Financial Report

For the Year Ended June 30, 2019

CITY OF CALAIS, MAINE
Annual Financial Report
For the year ended June 30, 2019

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CITY OF CALAIS, MAINE
Annual Financial Report
For the year ended June 30, 2019

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Certified Public Accountants and Business Consultants

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, 2019, 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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and School Department Operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described on page 28 in the notes to basic financial statements, the Calais Water Department reports on calendar year basis as opposed to a fiscal year. The Calais Water Department's financial position is reported as of December 31, 2018, and the changes in financial position and cash flows for the year then ended. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension and OPEB liability schedules 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 April 13, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Calais, Maine's 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.



April 13, 2020
South Portland, Maine

CITY OF CALAIS, MAINE
Management's Discussion and Analysis
June 30, 2019

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, 2019. 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 has invested 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.

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, 2019 was \$2,654,427 (combined governmental activities and business-type activities).
- The City's long-term debt decreased by \$599,305, for a balance of \$7,933,886 (combined governmental activities and business-type activities).
- The City's net position increased by a total of \$1,597,454 (combined governmental activities and business-type activities) after restating beginning net position due to the recording of OPEB related to School Department health insurance.
- Fund balance as reported in the City's fund financial statements increased by \$430,221 to a total of \$4,968,647.
- On a budgetary basis, the City's revenues and other financing sources exceeded its expenditures and other financing uses by \$92,623. The School Department's revenues and other financing sources exceeded its expenditures and other financing uses by \$418,288.

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 finances 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 three major funds: the General Fund (City only), School Department Operations (School General Fund), and Day Treatment (School program). 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 (including School Department Operations)

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 26-51.

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 and OPEB liabilities. Required supplementary information can be found on pages 52-57.

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 \$23,839,311 as of June 30, 2019.

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, 2019, with a restated June 30, 2018

	Governmental Activities		Business-type Activities		Total	
	2019	2018*	2019	2018*	2019	2018*
Current & other assets	\$ 6,958,535	\$ 6,459,148	(1,780,713)	(1,803,041)	5,177,822	4,656,107
Capital assets, net	5,996,718	5,760,362	26,017,990	25,891,100	32,014,708	31,651,462
Total assets	12,955,253	12,219,510	24,237,277	24,088,059	37,192,530	36,307,569
Deferred outflows						
related to pensions	463,234	381,447	-	-	463,234	381,447
Deferred outflows						
related to OPEB	96,122	88,411	-	-	96,122	88,411
Total deferred outflows	559,356	469,858	-	-	559,356	469,858
Current liabilities	1,465,388	1,516,014	893,415	824,774	2,358,803	2,340,788
Noncurrent liabilities	3,705,562	3,947,285	7,545,734	8,135,526	11,251,296	12,082,811
Total liabilities	5,170,950	5,463,299	8,439,149	8,960,300	13,610,099	14,423,599
Deferred inflows						
related to pensions	220,435	84,033	-	-	220,435	84,033
Deferred inflows						
related to OPEB	82,041	27,938	-	-	82,041	27,938
Total deferred inflows	302,476	111,971	-	-	302,476	111,971
Net investment in						
capital assets	5,596,818	5,362,697	17,826,817	17,189,276	23,423,635	22,551,973
Restricted	2,315,220	1,905,685	-	32,345	2,315,220	1,938,030
Unrestricted	129,145	(154,284)	(2,028,689)	(2,093,862)	(1,899,544)	(2,248,146)
Total net position	\$ 8,041,183	\$ 7,114,098	15,798,128	15,127,759	23,839,311	22,241,857

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

A portion of the City's net position, 9.7%, represents resources that are restricted. Unrestricted net position of \$129,145 includes actuarial estimates, including a restatement for the additional amount of the City's other post-employment benefits (OPEB) of \$2,012,369. The amount of unrestricted net position that may be used to meet the ongoing obligations to citizens and creditors for Governmental Activities is \$2,961,744, when you do not take into account the actuarially calculated liabilities and deferred inflows and outflows of resources for the net pension and OPEB liabilities. There is a deficit unrestricted net position of \$2,028,689 for Business-type Activities.

As of June 30, 2019, the City is able to report positive balances in all three categories of net position 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 and the government as a whole. The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2019.

	Governmental Activities		Business-type Activities		Total	
	2019	2018*	2019	2018*	2019	2018*
REVENUES						
Charges for services	\$ 2,333,548	\$ 2,217,403	2,441,499	2,436,916	4,775,047	4,654,319
Operating grants and contributions	7,920,495	7,269,069	-	-	7,920,495	7,269,069
Capital grants and contributions	61,514	448,880	910,159	209,010	971,673	657,890
Property taxes	3,800,082	3,828,638	-	-	3,800,082	3,828,638
Excise and misc. taxes	612,096	573,476	-	-	612,096	573,476
Grants and contributions not restricted to specific purpose	499,404	436,798	-	-	499,404	436,798
Unrestricted investment earnings (loss)	71,073	(573)	14,846	18,801	85,919	18,228
Miscellaneous revenues	308	3,234	-	-	308	3,234
Total revenues	15,298,520	14,776,925	3,366,504	2,664,727	18,665,024	17,441,652
EXPENSES						
General government	387,428	740,438	-	-	387,428	740,438
City services	438,386	458,119	-	-	438,386	458,119
Public safety	1,013,933	1,028,509	-	-	1,013,933	1,028,509
Public works	975,195	1,004,598	-	-	975,195	1,004,598
County tax	296,926	281,522	-	-	296,926	281,522
Unclassified	288,375	277,340	-	-	288,375	277,340
Education	10,910,507	10,192,499	-	-	10,910,507	10,192,499
Interest on debt service	97,613	11,125	-	-	97,613	11,125
Capital maintenance	15,982	42,378	-	-	15,982	42,378
Sewer	-	-	1,203,060	1,217,003	1,203,060	1,217,003
Ambulance	-	-	924,123	1,157,763	924,123	1,157,763
Water	-	-	516,042	512,653	516,042	512,653
Total expenses	14,424,345	14,036,528	2,643,225	2,887,419	17,067,570	16,923,947
Excess (deficiency) before transfers	874,175	740,397	723,279	(222,692)	1,597,454	517,705
Transfers	52,910	118,119	(52,910)	(118,119)	-	-
Change in net position	927,085	858,516	670,369	(340,811)	1,597,454	517,705
Net position, beginning of year, restated	7,114,098	8,295,055	15,127,759	15,468,570	22,241,857	23,763,625
Net position, end of year	\$ 8,041,183	9,153,571	15,798,128	15,127,759	23,839,311	24,281,330

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

Analysis of the City's Operations

Governmental Activities

Governmental activities increased net position by \$927,085. Net investment in capital assets increased by \$234,121, or 4.4%, due to purchases of capital assets and repayment of debt principal exceeding depreciation expense. Unrestricted net position increased by \$283,429 after taking into account restatements to prior year net position for the addition of OPEB related to health insurance at the School Department.

Total revenues for governmental activities increased from the prior year by \$521,595. Property tax revenues decreased \$28,556 or less than 1%, from the prior fiscal year due to the City Council maintaining a flat mil rate.

Expenses of governmental activities, including depreciation expense of \$256,006, increased \$387,817 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 \$670,369 from \$15,127,759 to \$15,798,128. Net investment in capital assets increased by \$637,541, primarily due to ongoing sewer and water projects, most of which were funded with grant revenues.

Charges for services increased \$4,583, or less than 1%, from the prior year, primarily due to increased ambulance calls and insurance reimbursement.

Depreciation expense decreased \$4,508 from the prior year to \$831,788.

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 \$4,968,647, \$430,221 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 \$3,821,882. Excise taxes accounted for \$612,096 in total revenue.

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

Total governmental fund expenditures for the year were \$15,142,156 and are broken down as follows:

	<u>2019</u>	<u>2018</u>
General government	\$ 668,732	\$ 690,508
City services	406,066	471,768
Public safety	983,461	1,005,119
Public works	930,569	913,948
County tax	296,926	281,522
Unclassified	288,375	277,340
Education	10,513,289	9,806,815
Debt service	585,686	668,589
Capital outlay	469,052	219,951
Total governmental fund expenditures	<u>\$ 15,142,156</u>	<u>\$ 14,335,560</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 \$15,798,128, \$670,369 higher than the previous year.

Total proprietary fund operating expenses for the year were \$2,604,910 and are broken down as follows:

Sewer fund	\$ 1,125,131
Calais Ambulance fund	780,531
NWSARAS Ambulance fund	142,621
Water fund	<u>556,627</u>
Total Proprietary Fund Expenses	<u>\$ 2,604,910</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, 2019 amount to \$32,014,708, net of accumulated depreciation. The investment in capital assets includes, land, building and improvements, equipment and furniture, vehicles, infrastructure and construction in progress.

The following summarizes capital assets at year-end:

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 3,111,905	\$ 3,111,905	75,896	75,896	3,187,801	3,187,801
Construction in progress	138,478	62,595	1,694,332	735,654	1,832,810	798,249
Buildings and improvements	1,883,728	1,867,044	8,462,771	8,462,771	10,346,499	10,329,815
Furniture, equipment and vehicles	3,942,001	3,843,359	1,508,284	1,508,284	5,450,285	5,351,643
Infrastructure	785,470	614,445	26,706,170	26,706,170	27,491,640	27,320,615
Total capital assets	9,861,582	9,499,348	38,447,453	37,488,775	48,309,035	46,988,123
Accumulated depreciation	(3,864,864)	(3,738,986)	(12,429,463)	(11,597,675)	(16,294,327)	(15,336,661)
Capital assets, net	\$ 5,996,718	\$ 5,760,362	26,017,990	25,891,100	32,014,708	31,651,462

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 35-36 of this report.

Debt Administration

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

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Bonds and notes payable	\$ 280,753	\$ 300,476	7,533,986	8,135,526	7,814,739	8,436,002
Capital lease obligations	119,147	97,189	-	-	119,147	97,189
Totals	\$ 399,900	397,665	7,533,986	8,135,526	7,933,886	8,533,191

During the fiscal year, the City's total debt decreased by \$599,305 or 7%.

A summary of the City's debt activity for the year ended June 30, 2019 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, 2019.

During the year, actual revenues exceeded budgeted revenues by \$541,402. Most of this variance resulted from under-anticipated tax and education revenue.

Budgeted expenditures exceeded actual expenditures by \$304,389. Most of this variance resulted from over anticipated public works and education expenditures.

OTHER OBLIGATIONS

In 2017, the City partnered with the Town of Baileyville to form Downeast Broadband Utility (DBU) to implement the fiber initiative, an effort to build a fiber infrastructure that will bring high-speed, reliable internet to the citizens of Calais and Baileyville. Upon completion, it is expected to be able to provide broadband internet to 97% of Calais residents. The project is ground-breaking in that DBU will own the infrastructure and lease it to providers via an open-access network.

In March 2018, the City backed a \$1,600,000 loan for Downeast Broadband Utility to begin building the infrastructure. As the fiber is put into place, it can begin serving customers almost immediately and collecting revenue. This revenue is expected to cover the repayment of the loan, with no tax dollars required.

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.

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 infrastructure by utilization of reserve funds.

The fiscal year 2019-2020 budgeted revenues for sewer remain the same as 2018-2019, 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, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,353,728	109,661	1,463,389
Investments	1,191,038	-	1,191,038
Receivables:			
Taxes	565,408	-	565,408
Due from other governments	589,223	-	589,223
Accounts, net	5,765	768,776	774,541
Loans, net	554,472	-	554,472
Cash held in escrow	-	40,348	40,348
Internal balances	2,646,618	(2,743,564)	(96,946) *
Prepaid expenses	32,450	-	32,450
Inventory	19,833	44,066	63,899
Capital assets, not being depreciated	3,250,383	1,770,228	5,020,611
Capital assets, net of accumulated depreciation	2,746,335	24,247,762	26,994,097
Total assets	12,955,253	24,237,277	37,192,530
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	463,234	-	463,234
Deferred outflows of resources related to OPEB	96,122	-	96,122
Total deferred outflows of resources	559,356	-	559,356
LIABILITIES			
Accounts payable and other current liabilities	411,956	154,754	566,710
Accrued payroll and benefits	696,422	10,626	707,048
Taxes paid in advance	157,010	-	157,010
Line of credit	200,000	-	200,000
Accrued interest	-	30,500	30,500
Bond anticipation note payable	-	697,535	697,535
Noncurrent liabilities:			
Due within one year	137,790	610,468	748,258
Due in more than one year	3,567,772	6,935,266	10,503,038
Total liabilities	5,170,950	8,439,149	13,610,099
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	220,435	-	220,435
Deferred inflows of resources related to OPEB	82,041	-	82,041
Total deferred inflows of resources	302,476	-	302,476
NET POSITION			
Net investment in capital assets	5,596,818	17,826,817	23,423,635
Restricted for:			
Permanent funds - nonexpendable principal	480,457	-	480,457
Permanent funds - expendable	106,242	-	106,242
Education	813,589	-	813,589
Grants and restricted programs	914,932	-	914,932
Unrestricted	129,145	(2,028,689)	(1,899,544)
Total net position	\$ 8,041,183	15,798,128	23,839,311

See accompanying notes to basic financial statements.

* Due to Water Fund being presented as of December 31, 2018.

CITY OF CALAIS, MAINE
Statement of Activities
For the year ended June 30, 2019

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	\$ 387,428	101,118	30,790	-	(255,520)	-	(255,520)
City services	438,386	91,602	27,483	-	(319,301)	-	(319,301)
Public safety	1,013,933	-	3,783	-	(1,010,150)	-	(1,010,150)
Public works	975,195	39,920	58,951	-	(876,324)	-	(876,324)
County tax	296,926	-	-	-	(296,926)	-	(296,926)
Unclassified	288,375	-	-	-	(288,375)	-	(288,375)
Education	10,910,507	2,100,908	7,799,488	-	(1,010,111)	-	(1,010,111)
Interest on debt service	97,613	-	-	-	(97,613)	-	(97,613)
Capital maintenance	15,982	-	-	61,514	45,532	-	45,532
Total governmental activities	14,424,345	2,333,548	7,920,495	61,514	(4,108,788)	-	(4,108,788)
Business-type activities:							
Sewer	1,203,060	855,442	-	910,159	-	562,541	562,541
Ambulance	924,123	961,409	-	-	-	37,286	37,286
Water	516,042	624,648	-	-	-	108,606	108,606
Total business-type activities	2,643,225	2,441,499	-	910,159	-	708,433	708,433
Total primary government	\$ 17,067,570	4,775,047	7,920,495	971,673	(4,108,788)	708,433	(3,400,355)
General revenues:							
Property taxes					\$ 3,800,082	-	3,800,082
Motor vehicle excise taxes					612,096	-	612,096
Grants and contributions not restricted to specific programs:							
State revenue sharing					242,243	-	242,243
Homestead and BETE exemptions					225,885	-	225,885
Other					31,276	-	31,276
Unrestricted investment earnings (loss)					71,073	14,846	85,919
Miscellaneous revenues					308	-	308
Transfers					52,910	(52,910)	-
Total general revenues and transfers					5,035,873	(38,064)	4,997,809
Change in net position					927,085	670,369	1,597,454
Net position - beginning, as restated					7,114,098	15,127,759	22,241,857
Net position - ending					\$ 8,041,183	15,798,128	23,839,311

See accompanying notes to basic financial statements.

CITY OF CALAIS, MAINE
Balance Sheet
Governmental Funds
June 30, 2019

	General	School Department Operations	Day Treatment	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 263,722	1,018,753	-	71,253	1,353,728
Investments	-	-	-	1,191,038	1,191,038
Receivables:					
Taxes	565,408	-	-	-	565,408
Due from other governments	53,149	220,212	143,299	172,563	589,223
Accounts	2,515	-	-	-	2,515
Loans, net	-	-	-	554,472	554,472
Interfund loans receivable	3,042,431	77,751	243,916	621,635	3,985,733
Prepaid expenditures	32,450	-	-	-	32,450
Inventory	11,959	-	-	7,874	19,833
Total assets	\$ 3,971,634	1,316,716	387,215	2,618,835	8,294,400
LIABILITIES					
Accounts payable	103,409	106,672	142,008	2,051	354,140
Accrued payroll and benefits	33,582	601,027	35,182	26,631	696,422
Payroll withholdings payable	50,235	-	-	-	50,235
Payable to other governments	7,581	-	-	-	7,581
Interfund loans payable	697,278	90,949	-	547,638	1,335,865
Taxes paid in advance	157,010	-	-	-	157,010
Line of credit	200,000	-	-	-	200,000
Total liabilities	1,249,095	798,648	177,190	576,320	2,801,253
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	524,500	-	-	-	524,500
Total deferred inflows of resources	524,500	-	-	-	524,500
FUND BALANCES					
Nonspendable	44,409	-	-	480,457	524,866
Restricted	-	518,068	210,025	1,106,670	1,834,763
Committed	-	-	-	581,019	581,019
Unassigned	2,153,630	-	-	(125,631)	2,027,999
Total fund balances	2,198,039	518,068	210,025	2,042,515	4,968,647
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,971,634	1,316,716	387,215	2,618,835	
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.					5,996,718
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.					524,500
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds:					
Accrued compensated absences					(216,183)
Capital leases					(119,147)
Notes from direct borrowing					(280,753)
Net OPEB liability with associated deferred inflows and outflows of resources					(96,163)
Total OPEB liability with associated deferred inflows and outflows of resources					(1,997,751)
Net pension liability with associated deferred inflows and outflows of resources					(738,685)
Net position of governmental activities				\$ 8,041,183	

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, 2019

	General	School Department Operations	Day Treatment	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 4,433,978	-	-	-	4,433,978
Intergovernmental	546,706	5,607,720	1,185,982	941,868	8,282,276
Charges for services	227,713	1,321,797	676,086	107,952	2,333,548
Investment earnings	10,013	-	-	61,060	71,073
Unclassified	18,784	30,166	-	150,495	199,445
Total revenues	5,237,194	6,959,683	1,862,068	1,261,375	15,320,320
Expenditures:					
Current:					
General government	593,320	-	-	75,412	668,732
City services	374,416	-	-	31,650	406,066
Public safety	977,002	-	-	6,459	983,461
Public works	915,121	-	-	15,448	930,569
County tax	296,926	-	-	-	296,926
Unclassified	288,296	-	-	79	288,375
Education	-	7,506,076	1,828,334	1,178,879	10,513,289
Debt service	91,222	494,464	-	-	585,686
Capital outlay	235,835	119,147	-	114,070	469,052
Total expenditures	3,772,138	8,119,687	1,828,334	1,421,997	15,142,156
Excess (deficiency) of revenues over (under) expenditures	1,465,056	(1,160,004)	33,734	(160,622)	178,164
Other financing sources (uses):					
Proceeds from issuance of notes payable	80,000	-	-	-	80,000
Proceeds from issuance of capital leases	-	119,147	-	-	119,147
Transfers from other funds	68,410	1,474,145	-	54,198	1,596,753
Transfers to other funds	(1,520,843)	(15,000)	-	(8,000)	(1,543,843)
Total other financing sources (uses)	(1,372,433)	1,578,292	-	46,198	252,057
Net change in fund balances	92,623	418,288	33,734	(114,424)	430,221
Fund balances, beginning of year, as restated	2,105,416	99,780	176,291	2,156,939	4,538,426
Fund balances, end of year	\$ 2,198,039	518,068	210,025	2,042,515	4,968,647

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, 2019

Net change in fund balances - total governmental funds (from Statement 4)	\$	430,221
<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.</p>		
Capital outlays	592,060	
Less: depreciation expense	(256,006)	
Less: book loss on disposal of capital assets	(99,698)	236,356
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the change in available revenue - property taxes.</p>		
		(21,800)
<p>Some revenues (expenses) reported in the Statement of Activities do not provide (require the use of) current financial resources and therefore, are not reported as revenues (expenditures) in the governmental funds. These are the changes in other asset (liability)-related amounts:</p>		
Accrued compensated absences	(74,591)	
Net OPEB liability, including related deferred inflows and outflows	(2,360)	
Total OPEB liability, including related deferred inflows and outflows	14,618	
Net pension liability, including related deferred inflows and outflows	346,876	284,543
<p>The issuance of long-term debt (direct borrowings/capital leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction however, has any effect on net position. These are the changes in long-term debt and related amounts:</p>		
Principal payments on notes from direct borrowings	99,723	
Proceeds from issuance of notes payable	(80,000)	
Principal payments on capital leases	97,189	
Proceeds from issuance of capital leases	(119,147)	(2,235)
Change in net position of governmental activities (see Statement 2)	\$	927,085

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, 2019

	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	\$ 4,385,959	4,385,959	4,433,978	48,019	-	-	-	-
Intergovernmental	531,668	531,668	546,706	15,038	4,853,860	4,853,860	5,107,688	253,828
Charges for services	239,212	239,212	227,713	(11,499)	1,120,106	1,120,106	1,321,797	201,691
Interest earned	2,000	2,000	10,013	8,013	-	-	-	-
Unclassified	22,638	22,638	18,784	(3,854)	-	-	30,166	30,166
Total revenues	5,181,477	5,181,477	5,237,194	55,717	5,973,966	5,973,966	6,459,651	485,685
Expenditures:								
Current:								
General government	573,659	589,174	593,320	(4,146)	-	-	-	-
City services	400,341	408,524	374,416	34,108	-	-	-	-
Public safety	994,519	1,012,764	977,002	35,762	-	-	-	-
Public works	866,015	986,792	915,121	71,671	-	-	-	-
County tax	296,926	296,926	296,926	-	-	-	-	-
Unclassified	327,382	327,382	288,296	39,086	-	-	-	-
Education	-	-	-	-	7,108,214	7,108,214	7,006,044	102,170
Debt service	91,222	91,222	91,222	-	497,826	497,826	494,464	3,362
Capital outlay	87,650	258,211	235,835	22,376	-	-	-	-
Total expenditures	3,637,714	3,970,995	3,772,138	198,857	7,606,040	7,606,040	7,500,508	105,532
Excess (deficiency) of revenues over (under) expenditures	1,543,763	1,210,482	1,465,056	254,574	(1,632,074)	(1,632,074)	(1,040,857)	591,217
Other financing sources (uses):								
Transfers from other funds	65,740	65,740	68,410	2,670	1,474,145	1,474,145	1,474,145	-
Transfers to other funds	(1,478,026)	(1,478,026)	(1,520,843)	(42,817)	(15,000)	(15,000)	(15,000)	-
Use of surplus	47,651	300,932	-	(300,932)	172,929	172,929	-	(172,929)
Proceeds from issuance of notes payable	-	80,000	80,000	-	-	-	-	-
Total other financing sources (uses)	(1,364,635)	(1,031,354)	(1,372,433)	(341,079)	1,632,074	1,632,074	1,459,145	(172,929)
Net change in fund balances	179,128	179,128	92,623	(86,505)	-	-	418,288	418,288
Fund balances, beginning of year, as restated			2,105,416				99,780	
Fund balances, end of year	\$		2,198,039				518,068	

See accompanying notes to basic financial statements.

CITY OF CALAIS, MAINE
Statement of Net Position
Proprietary Funds
June 30, 2019
(Water Fund presented as of December 31, 2018)

	Business-type Activities - Enterprise Funds				Totals
	Sewer Fund	NWSARAS Ambulance	Ambulance Fund	Water Fund	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 8,156	45,333	20,500	35,672	109,661
Accounts receivable, net	358,074	39,133	175,358	196,211	768,776
Cash held in escrow	18,826	-	-	21,522	40,348
Inventory	-	-	-	44,066	44,066
Total current assets	385,056	84,466	195,858	297,471	962,851
Noncurrent assets:					
Property, plant, and equipment:					
Land	-	-	-	75,896	75,896
Construction in progress	1,368,644	-	-	325,688	1,694,332
Buildings and improvements	8,348,925	-	-	113,846	8,462,771
Equipment, furniture, and vehicles	234,428	-	659,427	614,429	1,508,284
Infrastructure	16,848,346	-	-	9,857,824	26,706,170
Less accumulated depreciation	(9,170,383)	-	(395,493)	(2,863,587)	(12,429,463)
Total noncurrent assets	17,629,960	-	263,934	8,124,096	26,017,990
Total assets	18,015,016	84,466	459,792	8,421,567	26,980,841
LIABILITIES					
Current liabilities:					
Accounts payable	120,075	2,209	4,824	27,646	154,754
Accrued payroll and benefits	-	2,034	8,592	-	10,626
Accrued interest	25,672	-	-	4,828	30,500
Interfund loans payable	1,975,817	37,283	630,969	99,495	2,743,564
Bond anticipation note payable	377,047	-	-	320,488	697,535
Current portion of notes	391,917	-	20,168	198,383	610,468
Total current liabilities	2,890,528	41,526	664,553	650,840	4,247,447
Noncurrent liabilities:					
Compensated absences payable	-	-	11,748	-	11,748
Notes from direct borrowing	3,784,865	-	15,426	3,123,227	6,923,518
Total noncurrent liabilities	3,784,865	-	27,174	3,123,227	6,935,266
Total liabilities	6,675,393	41,526	691,727	3,774,067	11,182,713
NET POSITION					
Net investment in capital assets	13,094,957	-	228,340	4,503,520	17,826,817
Unrestricted	(1,755,334)	42,940	(460,275)	143,980	(2,028,689)
Total net position	\$ 11,339,623	42,940	(231,935)	4,647,500	15,798,128

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, 2019
(Water Fund presented for the year ended December 31, 2018)

	Business-type Activities - Enterprise Funds				Totals
	Sewer Fund	NWSARAS Ambulance	Ambulance Fund	Water Fund	
Operating revenues:					
Charges for services	\$ 832,777	103,601	782,649	624,547	2,343,574
Interest and lien fees	4,674	-	-	-	4,674
Miscellaneous	17,991	39,665	35,494	101	93,251
Total operating revenues	855,442	143,266	818,143	624,648	2,441,499
Operating expenses:					
Personnel services	208,592	105,763	615,352	260,126	1,189,833
Contractual services	150,965	24,495	50,170	41,552	267,182
Utilities	92,153	854	2,096	18,639	113,742
Repairs and maintenance	11,816	779	5,644	2,501	20,740
Materials and supplies	56,517	8,445	38,544	45,718	149,224
Miscellaneous	5,454	2,285	7,886	11,085	26,710
Bad debt expense	-	-	-	5,691	5,691
Depreciation	599,634	-	60,839	171,315	831,788
Total operating expenses	1,125,131	142,621	780,531	556,627	2,604,910
Operating income (loss)	(269,689)	645	37,612	68,021	(163,411)
Nonoperating revenue (expense):					
Interest income	13,008	-	787	1,051	14,846
Capital grants and contributions	910,159	-	-	-	910,159
Interest expense	(77,929)	-	(971)	(12,325)	(91,225)
Total nonoperating revenue (expense)	845,238	-	(184)	(11,274)	833,780
Net income (loss) before transfers	575,549	645	37,428	56,747	670,369
Transfers:					
Transfer from (to) other funds	-	(1,279)	1,279	-	-
Total transfers	-	(1,279)	1,279	-	-
Change in net position	575,549	(634)	38,707	56,747	670,369
Total net position, beginning of year	10,764,074	43,574	(270,642)	4,590,753	15,127,759
Total net position, end of year	\$ 11,339,623	42,940	(231,935)	4,647,500	15,798,128

See accompanying notes to basic financial statements.

CITY OF CALAIS, MAINE
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2019
(Water Fund presented for the year ended December 31, 2018)

	Business-type Activities - Enterprise Funds				Totals
	Sewer Fund	NWSARAS Ambulance	Ambulance Fund	Water Fund	
Cash flows from operating activities:					
Receipts from customers and users	\$ 850,556	133,134	776,987	633,270	2,393,947
Payments to suppliers	(310,687)	(36,267)	(149,807)	(114,650)	(611,411)
Payments to employees/employee services	(208,592)	(105,934)	(609,180)	(260,126)	(1,183,832)
Net cash provided by (used in) operating activities	331,277	(9,067)	18,000	258,494	598,704
Cash flows from non-capital financing activities:					
Transfers from (to) other funds	-	(1,279)	1,279	-	-
Increase (decrease) in interfund loans payable	(14,296)	(16,459)	(74,406)	(18,905)	(124,066)
Net cash provided by (used in) non-capital financing activities	(14,296)	(17,738)	(73,127)	(18,905)	(124,066)
Cash flows from capital and related financing activities:					
Purchase of capital assets	(942,463)	-	-	(16,215)	(958,678)
Capital grants and contributions	910,159	-	-	-	910,159
Proceeds from bond anticipation note	98,699	-	-	11,015	109,714
Principal payments on debt	(385,613)	-	(18,083)	(197,844)	(601,540)
Interest paid on debt	(79,631)	-	(971)	(13,454)	(94,056)
Net cash provided by (used in) capital and related financing activities	(398,849)	-	(19,054)	(216,498)	(634,401)
Cash flows from investing activities:					
Interest income	13,008	-	787	1,051	14,846
Net cash provided by (used in) investing activities	13,008	-	787	1,051	14,846
Increase (decrease) in cash and cash equivalents	(68,860)	(26,805)	(73,394)	24,142	(144,917)
Cash and cash equivalents, beginning of year	77,016	72,138	93,894	11,530	254,578
Cash and cash equivalents, end of year	\$ 8,156	45,333	20,500	35,672	109,661
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (269,689)	645	37,612	68,021	(163,411)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	599,634	-	60,839	171,315	831,788
(Increase) decrease in operating assets:					
Accounts receivable, net	(4,886)	(10,132)	(41,156)	8,622	(47,552)
Inventory	-	-	-	4,372	4,372
Increase (decrease) in operating liabilities:					
Accounts payable	6,218	591	(45,467)	6,164	(32,494)
Accrued wages and benefits	-	(171)	775	-	604
Accrued compensated absences	-	-	5,397	-	5,397
Net cash provided by (used in) operating activities	331,277	(9,067)	18,000	258,494	598,704

See accompanying notes to basic financial statements.

CITY OF CALAIS, MAINE
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2019

		Private- purpose Trust Funds	Student Activities	Other Agency Funds
ASSETS				
Cash and cash equivalents	\$	-	131,307	137,830
Investments		68,362	-	-
Total assets		68,362	131,307	137,830
LIABILITIES				
Interfund loans payable		3,250	-	-
Due to others		-	131,307	137,830
Total liabilities		3,250	131,307	137,830
NET POSITION				
Held in trust	\$	65,112	-	-

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, 2019

		Private- purpose Trust Funds
<hr/>		
Additions:		
Investment income (loss)	\$	2,538
<hr/>		
Total additions		2,538
<hr/>		
Deductions:		
Scholarships and other		750
<hr/>		
Total deductions		750
<hr/>		
Change in net position		1,788
Net position, beginning of year		63,324
<hr/>		
Net position, end of year	\$	65,112

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.

Joint Venture - The City of Calais has entered into a joint venture with the Town of Baileyville. This joint venture is considered to be a separate reporting entity and has not been included within the financial statements of the City. The joint venture is as follows:

Downeast Broadband Utility (the Utility) was formed in 2017 through an interlocal agreement between the two communities. Downeast Broadband Corporation's primary purposes according to the agreement was to establish, construct, and maintain a fiber network to provide broadband service in the Town of Baileyville and the City of Calais. The Utility has authorization to establish rates, collect revenues, and undertake all other actions necessary and appropriate for a regional municipal utility district.

In fiscal year 2019, the City of Calais contributed \$0 to the Utility. For the year ended June 30, 2019, the Utility did not have a financial audit completed; however unaudited figures show the following as of the year then ended: total assets \$1,777,352, total liabilities \$2,194,042, and a net loss of \$284,912. The City is contingently liable for a line of credit that the Utility issued in the City's name. At June 30, 2019, the line of credit had a balance of \$1,202,718.

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.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

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 Day Treatment Program is a special revenue fund that accounts for the day treatment program administered by the School Department.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The City reports the following major proprietary funds:

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

The NWSARAS Ambulance fund accounts for the City providing services to the Town of Danforth.

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.

* Due to the Water Department having reporting requirements under the Public Utilities Commission (PUC), the Calais Water Department has determined that a December year end is most appropriate for external financial reporting. All amounts reported in the City's financial statements for the Water Fund are reported as of the prior December, which represents the latest available audited information.

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.

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.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 inventories are generally recorded as expenditures when consumed rather than when purchased.

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.

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 and OPEB liabilities, which include the City's contributions subsequent to the measurement date, which is recognized as a reduction of the net pension and OPEB liabilities 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 plan investments, which is deferred and amortized over a five-year period.

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.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

9. Other Post-employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined based on actuary reports prepared by the OPEB Plan's actuary. 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.

10. 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.

11. 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.

12. 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.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

13. 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.

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, which includes School Department Operations. 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 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, 2019, expenditures exceeded appropriations in the following areas:

General government	\$ 4,146	Special Education	10,987
School administration	3,019	Transportation and buses	29,453
Regular instruction	8,686		

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

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, CONTINUED

C. Deficit Fund Balances

At June 30, 2019, the following funds had deficit fund balances and net position:

Donation - Skateboard	\$ 937	DEP Pumpout (BIG) Grant	7,099
Recreation Pavilion Project	325	Title IA – Disadvantaged	28,851
Recreation Tennis Donations	501	Title IA – Program Improvement	5,480
Library Pike Book Fund	113	Local Entitlement	39,958
Shore and Harbor (BIG) Grant	4,971	Perkins Learning Center	257
Momentum	7,455	Rotary Grant - BARR	574
CES Afterschool Program	462	Mano en Mano	3,311
Recreation Pool Donations	13,758	School lunch	11,579
Ambulance fund	231,935		

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

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 \$500,032. 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.

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. All investments held by the City are Level 1 inputs.

As of June 30, 2019, the City had the following investments with the following maturities:

	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1 – 5 years</u>	<u>Over 5 years</u>
Certificates of deposit	\$ 1,064,900	149,926	914,974	-
Federal Home Loan Bank	44,928	-	44,928	-
Federal Farm Credit Bank	49,852	-	49,852	-
Federal Home Loan Mortgage Corp.	24,914	24,914	-	-
<i>Federal National Mortgage Assoc.</i>	<u>74,806</u>	<u>24,970</u>	<u>49,836</u>	-
Totals	\$ 1,259,400	199,810	1,509,590	-

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, 2019, 100% of the City’s bank balance of \$2,351,002 was covered by FDIC insurance, fully insured, or collateralized.

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

DEPOSITS AND INVESTMENTS, CONTINUED

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, 2019, 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, 2019, 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	\$ 236,479	-	-
Loans receivable	-	665,506	33,484
<u>Allowance for uncollectible accounts</u>	<u>(61,121)</u>	<u>(120,142)</u>	<u>(24,376)</u>
<u>Accounts and loans receivable, net</u>	<u>\$ 175,358</u>	<u>545,364</u>	<u>9,108</u>

PROPERTY TAX

Property taxes for the current year were committed on July 21, 2018, 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.

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 \$179,128 for the year ended June 30, 2019.

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>2019</u>	<u>2018</u>
Assessed value	\$ 147,745,400	148,099,500
<u>Tax rate (per \$1,000)</u>	<u>25.30</u>	<u>25.30</u>
Commitment	3,737,958	3,746,917
<u>Supplemental taxes assessed</u>	<u>-</u>	<u>16,460</u>
	3,737,958	3,763,377
Less:		
Abatements	-	4,610
<u>Collections</u>	<u>3,464,282</u>	<u>3,457,108</u>
<u>Current year taxes receivable at end of year</u>	<u>\$ 273,676</u>	<u>301,659</u>

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

PROPERTY TAX, CONTINUED

Due date - current year	October 1, 2018	October 2, 2017
Interest rate on delinquent taxes	8.00%	7.00%
Collection rate	92.7%	92.0%

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance June 30, <u>2018</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2019</u>
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 62,595	138,478	62,595	138,478
Land	3,111,905	-	-	3,111,905
Total capital assets not being depreciated	3,174,500	138,478	62,595	3,250,383
Capital assets, being depreciated:				
Buildings and improvements	1,867,044	16,684	-	1,883,728
Furniture and equipment	2,077,906	184,069	162,248	2,099,727
Vehicles	1,765,453	144,399	67,578	1,842,274
Infrastructure	614,445	171,025	-	785,470
Total capital assets being depreciated	6,324,848	516,177	229,826	6,611,199
Less accumulated depreciation for:				
Buildings and improvements	1,053,334	43,240	-	1,096,574
Furniture and equipment	1,226,248	107,965	82,615	1,251,598
Vehicles	1,380,176	67,666	47,513	1,400,329
Infrastructure	79,228	37,135	-	116,363
Total accumulated depreciation	3,738,986	256,006	130,128	3,864,864
Total capital assets being depreciated, net	2,585,862	260,171	99,698	2,746,335
Governmental activities capital assets, net	\$ 5,760,362	398,649	162,293	5,996,718

Business-type activities:

Capital assets, not being depreciated:				
Land	\$ 75,896	-	-	75,896
Construction in progress	735,654	958,678	-	1,694,332
Total capital assets not being depreciated	811,550	958,678	-	1,770,228
Capital assets, being depreciated:				
Buildings and improvements	8,462,771	-	-	8,462,771
Equipment, furniture, and vehicles	1,508,284	-	-	1,508,284
Infrastructure	26,706,170	-	-	26,706,170
Total capital assets being depreciated	36,677,225	-	-	36,677,225

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

CAPITAL ASSETS, CONTINUED

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance June 30, <u>2018</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2019</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 5,121,992	259,684	-	5,381,676
Equipment, furniture, and vehicles	1,123,199	71,135	-	1,194,334
Infrastructure	5,352,484	500,969	-	5,853,453
Total accumulated depreciation	11,597,675	831,788	-	12,429,463
Total capital assets being depreciated, net	25,079,550	(831,788)	-	24,247,762
Business-type activities capital assets, net	\$ 25,891,100	126,890	-	26,017,990

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

Governmental activities:	
General government	\$ 8,216
City services	32,320
Public safety	40,262
Public works	124,626
Education	50,582
Total depreciation expense – governmental activities	\$ 256,006
Business-type activities:	
Sewer fund	\$ 599,634
Ambulance fund	60,839
Water fund	171,315
Total depreciation expense – business-type activities	\$ 831,788

LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2019 was as follows:

	Beginning balance (restated)	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Notes payable	\$ 300,476	80,000	99,723	280,753	121,016
Capital leases	97,189	119,147	97,189	119,147	16,774
Compensated absences	141,592	74,591	-	216,183	-
OPEB liabilities	2,166,645	-	58,650	2,107,995	-
Net pension liability	1,382,975	-	401,491	981,484	-
Governmental activities long-term liabilities	\$ 4,088,877	273,738	657,053	3,705,562	137,790

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

LONG-TERM DEBT, CONTINUED

	Beginning balance (restated)	Additions	Reductions	Ending balance	Due within one year
Business-type activities:					
Notes payable	\$ 8,135,526	-	601,540	7,533,986	610,468
Compensated absences	6,351	5,397	-	11,748	-
Business-type activities					
long-term liabilities	\$ 8,141,877	5,397	601,540	7,545,734	610,468

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, 2019:

2020	\$ 22,698
2021	22,698
2022	22,698
2023	22,698
2024	22,698
2025	22,696
Total payments	136,186
Less amount representing interest	(17,039)
Total future minimum lease payments	\$ 119,147

Amounts capitalized under leases are \$119,147 for governmental activities. Accumulated depreciation for these capital assets is \$11,915.

NOTES FROM DIRECT BORROWING

Notes from direct borrowing at June 30, 2019 are comprised of the following:

	Date of issue	Original amount issued	Date of maturity	Interest rate	Balance June 30, 2019
Governmental activities:					
Information center note	6/20/16	\$ 135,000	2027	2.50%	\$ 111,546
Street sweeper note	5/15/19	80,000	2024	2.82%	80,000
Sidewalk/library note	11/23/12	584,992	2020	2.20%	89,207
Total governmental activities					280,753

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

NOTES FROM DIRECT BORROWING, CONTINUED

Business-type activities:

2016 ambulance note	3/4/16	98,000	2021	2.30%	\$ 35,594
2009 sewer note	10/26/09	978,822	2030	1.00%	562,358
2010-FS-CW	12/22/10	2,263,000	2031	1.00%	775,264
2010-SR-CW	6/29/10	943,371	2030	1.00%	541,991
2011-FR-CW	3/28/11	1,231,000	2031	1.50%	782,074
2012 Rural Development	12/2/11	777,000	2040	2.25%	625,498
2016 Rural Development	12/22/16	500,000	2045	1.375%	470,267
2002 sewer bond	2/16/02	2,350,000	2022	2.36%	419,330
2013 water note	1/29/13	127,241	2026	2.75%	83,608 *
2008 water note	6/17/08	1,963,998	2031	0.00%	1,063,827 *
2009 water note	1/15/09	914,500	2036	0.00%	587,893 *
2009 water note	6/17/09	44,500	2039	0.00%	30,408 *
2009 water note	6/17/09	143,550	2039	0.00%	98,093 *
2009 water note	12/17/09	584,500	2039	0.00%	409,150 *
2012 water note	6/22/12	382,250	2042	0.00%	293,059 *
2014 water note	11/22/13	305,000	2044	1.00%	208,219 *
2016 water note	12/21/16	195,593	2037	1.00%	140,827 *
2017 water note	8/14/17	596,484	2037	1.00%	406,526 *
Total business-type activities					7,533,986

Total notes from direct borrowing **\$ 7,814,739**

* All outstanding notes payable for the Water Fund are reported as of December 31, 2018.

The annual requirements to amortize all long-term debt outstanding as of June 30, 2019 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>
2020	\$ 121,016	5,763	126,779	610,468	75,556	686,024
2021	31,352	4,230	35,582	612,704	68,003	680,707
2022	32,205	3,376	35,581	604,356	60,640	664,996
2023	33,075	2,506	35,581	465,179	49,938	515,117
2024	18,637	1,612	20,249	469,096	45,938	515,034
2025-2029	44,468	2,276	46,744	2,382,319	167,987	2,550,306
2030-2034	-	-	-	1,423,945	79,494	1,503,439
2035-2039	-	-	-	698,787	37,588	736,375
2040-2044	-	-	-	245,939	7,936	253,875
2045	-	-	-	21,193	292	21,485
Total	\$ 280,753	19,763	300,516	7,533,986	593,372	8,127,358

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 \$7,814,739 at June 30, 2019 was within the statutory limit.

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

OVERLAPPING DEBT

In addition to the notes and bonds payable, the City is contingently responsible for the following overlapping debt as of June 30, 2019:

<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	\$ 2,330,100	100%	2,330,100
2017 loan payable - \$375,000	304,069	100%	304,069
Total overlapping debt			\$ 2,634,169

* All outstanding overlapping debt will be paid through the School Operations Fund.

The annual requirements to amortize all long-term debt outstanding as of June 30, 2019 are as follows:

<u>June 30,</u>	<u>Overlapping Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 422,848	100,114	522,962
2021	424,050	82,405	506,455
2022	425,267	64,862	490,129
2023	426,525	46,774	473,299
2024	427,813	28,390	456,203
2025-2027	507,666	11,616	519,282
Total	\$ 2,634,169	334,161	2,968,330

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 2.85%. Interest is payable and due each month based on the outstanding balance. Line of credit activity for the year ended June 30, 2019 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
City	\$ 400,000	200,000	400,000	200,000
School Department	-	51	51	-
Total lines of credit payable	\$ 400,000	200,051	400,451	200,000

Additionally, the City holds a line of credit the First in the amount of \$800,000 and interest rate of 5.50%. As of June 30, 2019 the City has not yet drawn on this line of credit and the full principal balance is available to provide emergency financing for the City.

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: \$431,000 with an interest rate of 1.00% and due on September 25, 2020; and \$400,000 with an interest rate of 1.00% and due July 5, 2019 and the water fund: \$457,000 with an interest rate of 1.00% and due on September 25, 2020. Bond anticipation note activity for the year ended June 30, 2019 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Clean water revolving	\$ -	91,974	-	91,974
Water – Manning Street	309,473	11,015	-	320,488
Sewer – Manning Street	278,348	6,725	-	285,073
Total Bond anticipation notes	\$ 587,821	109,714	-	697,535

INTERFUND BALANCES AND TRANSFERS

As of June 30, 2019, 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	\$ 3,042,431	697,278	(1,452,433)
School Department Operations	77,751	90,949	1,459,145
Day Treatment	243,916	-	-
Proprietary Funds:			
Sewer Fund	-	1,975,817	-
NWSARAS Ambulance	-	37,283	(1,279)
Ambulance Fund	-	630,969	1,279
Water Fund *	-	99,495	(52,910)
Private-purpose trust funds	-	3,250	-
Other Non-major Governmental Funds	621,635	547,638	46,198
Totals	\$ 3,985,733	4,082,679	-

* Interfund loans receivable and payable do not equal due to the Water Department being reported as of December 31, 2018. 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:

2020	\$ 440,138
2021	454,223
<u>2022</u>	<u>468,667</u>
Total	\$ 1,363,028

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

FUND BALANCE

As of June 30, 2019, fund balance components consisted of the following:

	General Fund	School Department Operations	Day Treatment	Other Governmental Funds	Total
Nonspendable:					
Inventory and prepaid expenditures	\$ 44,409	-	-	-	44,409
Principal for permanent funds	-	-	-	480,457	480,457
Total nonspendable	44,409	-	-	480,457	524,866
Restricted:					
General government	-	-	-	24,584	24,584
City services	-	-	-	37,197	37,197
Public safety	-	-	-	15,650	15,650
Education	-	518,068	210,025	85,496	813,589
Loan funds	-	-	-	837,501	837,501
Permanent funds	-	-	-	106,242	106,242
Total restricted	-	518,068	210,025	1,106,670	1,834,763
Committed:					
Education	-	-	-	9,111	9,111
Public works	-	-	-	13,694	13,694
Capital projects	-	-	-	558,214	558,214
Total committed	-	-	-	581,019	581,019
Unassigned	2,153,630	-	-	(125,631)	2,027,999
Total fund balance	\$ 2,198,039	518,068	210,025	2,042,515	4,968,647

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 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, 2019:

	Governmental activities	Business-type activities
Capital assets	\$ 9,861,582	38,447,453
Accumulated depreciation	(3,864,864)	(12,429,463)
Bond anticipation notes	-	(697,535)
Notes from direct borrowing	(280,753)	(7,533,986)
Unspent bond proceeds	-	40,348
Capital leases payable	(119,147)	-
Total net investment in capital assets	\$ 5,596,818	17,826,817

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

RESTATEMENT OF NET POSITION AND FUND BALANCE

For the fiscal year ended June 30, 2019, the City has restated beginning net position in the government-wide statement of net position to account for the addition of the City's total OPEB liability in regards to an implicit liability for retiree health insurance through the Maine Education Association Benefits Trust (MEABT), which effectively decreased the City's net position as of July 1, 2018 by \$2,012,369.

Additionally, due to information discovered in the fiscal year 2019 audit, the School Department Operations fund's accounts receivable was restated to remove receivables collected during 2018. As a result of the restatement, prior fund balance and accounts receivable were decreased by \$27,104.

RISK MANAGEMENT

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. Based on the coverage provided by the commercial insurance the City purchases, the City is not aware of any material actual or potential claim liabilities which should be recorded at June 30, 2019.

The School Department is exposed to various risks of loss related to tort, theft of, damage to and destruction of assets, errors, and omissions, and natural disasters for which the School Department either carries commercial insurance, or participates in public entity risk pools. Currently, the School Department participates in a public entity risk pool sponsored by the Maine School Management Association. Based on the coverage provided by the pool, as well as coverage provided by commercial insurance purchased, the School Department is not aware of any material actual or potential claim liabilities which should be recorded at June 30, 2019.

NET PENSION LIABILITY

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.maineipers.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 SET 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).

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

NET PENSION LIABILITY, CONTINUED

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 rate for the year ended June 30, 2019 was 10.0% of annual payroll. Contributions to the pension plan from the City were \$175,678 for the year ended June 30, 2019.

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, 2019, was 15.05% of annual payroll of which 3.97% of payroll was required from the City and 11.08% was required from the State. Contributions to the pension plan from the City were \$135,213 for the year ended June 30, 2019.

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, 2018, 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, 2019, the City reported a liability of \$778,136 for its proportionate share of the net pension liability. At June 30, 2018, the City's proportion of the PLD Plan was 0.2843%.

SET Plan - At June 30, 2019, 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	\$ 203,348
State's proportionate share of the net pension liability associated with the City	<u>3,325,142</u>
Total	<u>\$ 3,528,490</u>

At June 30, 2018, the City's proportion of the SET Plan was 0.0151%.

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

NET PENSION LIABILITY, CONTINUED

For the year ended June 30, 2019, the City recognized pension expense (gain) of (\$164,036) for the PLD Plan and \$505,419 for the SET Plan with revenue of \$377,368 for support provided by the State. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>PLD Plan</u>		<u>SET Plan</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	6,110	6,211	-
Changes of assumptions	124,196	-	12,791	-
Net difference between projected and actual earnings on pension plan investments	-	187,889	-	26,436
Changes in proportion and differences between City contributions and proportionate share of contributions	4,992	-	4,153	-
City contributions subsequent to the measurement date	175,678	-	135,213	-
Total	\$ 304,866	193,999	158,368	26,436

\$310,891 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, 2020. 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>	<u>PLD Plan</u>	<u>SET Plan</u>
2020	\$ 111,011	16,508
2021	558	6,133
2022	(127,820)	(18,819)
2023	(48,560)	(7,103)

Actuarial Assumptions - The total pension liability in the June 30, 2018 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	6.75%	6.75%
Cost of living benefit increases, per annum	1.91%	2.20%

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

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

NET PENSION LIABILITY, CONTINUED

The actuarial assumptions used in the June 30, 2018 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, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Public equities	30.0%	6.0%
US Government	7.5%	2.3%
Private equity	15.0%	7.6%
Real estate	10.0%	5.2%
Infrastructure	10.0%	5.3%
Natural resources	5.0%	5.0%
Traditional credit	7.5%	3.0%
Alternative credit	5.0%	4.2%
Diversifiers	10.0%	5.9%

Discount Rate - The discount rate used to measure the total pension liability was 6.75% 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 6.75% 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 (5.75%) or 1 percentage-point higher (7.75%) than the current rate:

<u>PLD Plan</u>	1% Decrease <u>(5.75%)</u>	Current Discount Rate <u>(6.75%)</u>	1% Increase <u>(7.75%)</u>
City's proportionate share of the net pension liability	\$ 1,833,963	778,136	(208,773)

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

NET PENSION LIABILITY, CONTINUED

<u>SET Plan</u>	1% Decrease <u>(5.75%)</u>	Current Discount Rate <u>(6.75%)</u>	1% Increase <u>(7.75%)</u>
City's proportionate share of the net pension liability	\$ 375,786	203,348	59,734

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 – The City owed \$62,818 to MPERS for the SET Plan at year end.

OTHER POSTEMPLOYMENT BENEFITS (OPEB) – LIFE INSURANCE

General Information about the OPEB Plans

Plan Description - The City sponsors two post-retirement benefit plans providing group term life insurance to retiring employees. For municipal employees and certain School Department employees the City contributes to the Group Life Insurance Plan for Participating Local District (PLD). Teachers also participate in the Group Term Life Insurance Plan for State Employees and Teachers (SET). Both plans are a cost-sharing multiple-employer defined benefit OPEB plan administered by the Maine Public Employees Retirement System (MPERS). The MPERS Board of Trustees has the authority to establish and amend the benefit terms and financing requirements for each plan. MPERS issues publicly available financial reports that are available at www.mainepepers.org.

Benefits Provided - Under each plan, MPERS provides basic group life insurance benefits, during retirement, to retirees who participated in the plan prior to retirement for a minimum of 10 years. The level of coverage is initially set to an amount equal to the retirees average final compensation. The initial amount of basic life is then subsequently reduced at the rate of 15% per year to the greater of 40% of the initial amount or \$2,500.

Contributions - Premium rates are determined by the MPERS Board of Trustees to be actuarially sufficient to pay anticipated claims.

PLD OPEB Plan - The City is required to remit a premium of \$0.46 per \$1,000 of coverage per month during the post-employment retirement period. Contributions to the PLD OPEB plan from the City were \$5,873 for the year ended June 30, 2019. Employees are not required to contribute to the PLD OPEB plan.

SET OPEB Plan - The State of Maine is required to remit the total dollar amount of each year's annual required contribution. Contributions to the OPEB plan by the State of Maine on-behalf of the City were \$10,071 for the year ended June 30, 2019. Employers and employees are not required to contribute to the OPEB plan.

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

OTHER POSTEMPLOYMENT BENEFITS (OPEB) – LIFE INSURANCE, CONTINUED

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability for each plan was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City’s proportion of the net OPEB liability was based on a projection of the City’s long-term share of contributions to the OPEB plans relative to the projected contributions of all participating employers, actuarially determined.

PLD OPEB Plan – At June 30, 2019, the City reported a liability of \$91,571 for its proportionate share of the net OPEB liability. At June 30, 2018, the City’s proportion was 0.4533%.

SET OPEB Plan – At June 30, 2019, the City reported no liability related to the plan. The State of Maine’s proportionate share of the net OPEB liability associated with the City was \$110,371 as of June 30, 2019. At June 30, 2018, the City’s proportion was 0.00%.

For the year ended June 30, 2019, the City recognized OPEB expense of \$8,233 for the PLD OPEB Plan. For the year ended June 30, 2019, the City recognized OPEB expense of \$10,071 and also revenues of \$10,071 for support provided by the State related to the SET OPEB plan. At June 30, 2019, the City reported no deferred outflows of resources nor deferred inflows of resources related to the SET OPEB plan. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to the PLD OPEB plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	11,026
Net difference between projected and actual earnings on OPEB plan investments	-	4,806
Difference between expected and actual experience	7,728	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	2,361
City contributions subsequent to the measurement date	5,873	-
Total	\$ 13,601	18,193

\$5,873 is reported as deferred outflows of resources related to the PLD OPEB plan resulting from City contributions subsequent to the measurement date and will be recognized as a reduction of the OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:		
2020	\$	(3,535)
2021		(3,535)
2022		(3,536)
2023		(2,629)
2024		2,770

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

OTHER POSTEMPLOYMENT BENEFITS (OPEB) – LIFE INSURANCE, CONTINUED

Actuarial Assumptions - The total OPEB liability in the June 30, 2018 actuarial valuations was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

	PLD OPEB Plan	SET OPEB Plan
Inflation	2.75%	2.75%
Salary increases	2.75% - 9.00%	2.75% - 14.50%
Investment rate of return	6.75%	6.75%

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

The actuarial assumptions used in the June 30, 2018 valuations were based on the results of an actuarial experience study conducted for the period June 30, 2012 to June 30, 2015.

The long-term expected rate of return on both OPEB plan investments was determined using a building-block method which best estimates ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Public equities	70.0%	6.0%
Real estate	5.0%	5.2%
Traditional credit	15.0%	3.0%
US Government Securities	10.0%	2.3%

Discount Rate - The rate used to measure the net OPEB liability for the PLD OPEB plan was 5.13% which is a blend of the assumed long-term expected rate of return of 6.75% and a municipal bond index rate of 3.87%, based on the Bond Buyer GO 20-Year Municipal Bond Index as of June 30, 2018. Projections of the plan's fiduciary net position indicate that it is not expected to be sufficient to make projected benefit payments for current members beyond 2047. Therefore, the portion of the future projected benefit payments after 2047 are discounted at the municipal bond index rate. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at contractually required rates, actuarially determined.

The rate used to measure the net OPEB liability for the SET OPEB plan was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at contractually required rates, actuarially determined. Based on this assumption, the OPEB plans fiduciary net position was projected to be available to make all projected OPEB payments for current and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

OTHER POSTEMPLOYMENT BENEFITS (OPEB) – LIFE INSURANCE, CONTINUED

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate - The following presents the City’s proportionate share of the net PLD OPEB plan liability calculated using the discount rate of 5.13%, as well as what the City’s proportionate share of the net PLD OPEB plan liability would be if it were calculated using a discount rate that is 1 percentage-point lower (4.13%) or 1 percentage-point higher (6.13%) than the current rate:

	1% Decrease (4.13%)	Discount Rate (5.13%)	1% Increase (6.13%)
Net OPEB liability	\$ 120,979	91,571	68,385

Sensitivity of the City’s proportionate share of the net SET OPEB plan liability to the changes in the discount rate are not presented as the City does not have any liability related to this plan given that the SET OPEB plan is 100% funded by contributions from the State of Maine.

OPEB Plan Fiduciary Net Position - Detailed information about both the PLD and SET OPEB plan’s fiduciary net positions are available in a separately issued MPERS financial report.

OTHER POSTEMPLOYMENT BENEFITS (OPEB) – HEALTH INSURANCE – MEABT

General Information about the OPEB Plan

Plan Description - The City sponsors a post-retirement benefit plan providing health insurance to retiring employees. The plan is a single-employer defined benefit OPEB plan administered by the Maine Education Association Benefits Trust (MEABT). The State Legislature has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Benefits Provided - MEABT provides healthcare insurance benefits for retirees and their dependents. The employee must have participated in the MEABT health plan for the 12 months prior to retirement and have 10 years of continuous active service and enrollment in the health plan (under age 50), or 5 years of continuous active service and enrollment in the health plan (age 50 or above), in order to be eligible for postretirement benefits. The retiree is eligible for a State subsidy of 45% of the blended single premium for the retiree only. Under State laws, the blended premium is determined by blending rates for active members and retired members. The retiree pays 55% of the blended premium rate for coverage selected. Spouses must contribute 100% of the blended premium amounts. Thus, the total premium is paid for by both the State and the retiree and or spouse.

Employees Covered by Benefit Terms – At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	48
Inactive employee entitled to but not yet receiving benefits	-
Active employees	77
Total	125

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

OTHER POSTEMPLOYMENT BENEFITS (OPEB) – HEALTH INSURANCE – MEABT, CONTINUED

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The City’s total OPEB liability of \$2,016,424 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Changes in the Total OPEB Liability

Balance at June 30, 2018	\$ 2,091,072
Changes for the year:	
Service cost	10,042
Interest	73,823
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	(79,810)
Benefit payments	<u>(78,703)</u>
Net changes	<u>(74,648)</u>
Balance at June 30, 2019	\$ <u>2,016,424</u>

Change in assumptions reflects a change in the discount rate from 3.58% to 3.87%.

For the year ended June 30, 2019, The City recognized OPEB expense of \$67,903. At June 30, 2019, The City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumption or other inputs	\$ -	63,848
City contributions subsequent to measurement date	82,521	-
Total	<u>\$ 82,521</u>	<u>63,848</u>

\$82,521 is reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2020	\$ (15,962)
2021	(15,962)
2022	(15,962)
2023	(15,962)

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

OTHER POSTEMPLOYMENT BENEFITS (OPEB) – HEALTH INSURANCE – MEABT, CONTINUED

Actuarial Assumptions - The total OPEB liability in the June 30, 2018 actuarial valuation for the total OPEB liability was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	Not reported
Salary increases	2.75% - 14.50% per year
Discount rate	3.87% per annum
Healthcare cost trend rates - Pre-Medicare	5.55% for 2018 grading over 15 years to 3.73%
Healthcare cost trend rates - Medicare	3.72% for 2018 grading over 15 years to 2.81%
Retirees' share of the benefit related costs	55% of the blended premium rate with a State subsidy for the remaining 45% of the blended premium rate

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period June 30, 2012 through June 30, 2015.

Discount Rate - The rate used to measure the total OPEB liability was 3.87% per annum. Since the plan is pay as you go and is not funded, the discount rate was based upon high quality AA/Aa or higher bond yields in effect for 20 years, tax-exempt general obligation municipal bonds using the Bond Buyer 20-Bond GO Index.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate - The following presents the City's total OPEB liability calculated using the discount rate of 3.87%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.87%) or 1 percentage-point higher (4.87%) than the current rate:

	1% Decrease (2.87%)	Discount Rate (3.87%)	1% Increase (4.87%)
Total OPEB liability	\$ 2,312,700	2,016,424	1,773,765

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the City's total OPEB liability calculated using the healthcare cost trend rates, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Total OPEB liability	\$ 1,762,374	2,016,424	2,325,129

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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>PLD Plan</u>					
City's proportion of the net pension liability	0.2843%	0.2872%	0.2832%	0.2737%	0.3073%
City's proportionate share of the net pension liability	\$ 778,136	1,176,018	1,504,835	873,381	472,801
City's covered payroll	1,636,334	1,549,657	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	47.55%	75.89%	100.01%	60.97%	28.89%
Plan fiduciary net position as a percentage of of the total pension liability	91.14%	86.43%	81.61%	88.27%	94.10%
<u>SET Plan</u>					
City's proportion of the net pension liability	0.0151%	0.0142%	0.0150%	0.0137%	0.0162%
City's proportionate share of the net pension liability	203,348	206,957	265,264	185,628	174,495
State's proportionate share of the net pension liability associated with the City	3,325,142	3,402,301	4,460,648	3,645,902	3,125,546
Total	\$ 3,528,490	3,609,258	4,725,912	3,831,530	3,300,041
City's covered payroll	3,212,091	3,005,936	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	6.33%	6.88%	8.39%	5.73%	5.09%
Plan fiduciary net position as a percentage of of the total pension liability	82.90%	80.78%	76.21%	81.18%	83.91%

* Only five 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*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>PLD Plan</u>						
Contractually required contribution	\$ 175,678	157,088	147,217	132,586	111,737	106,371
Contributions in relation to the contractually required contribution	(175,678)	(157,088)	(147,217)	(132,586)	(111,737)	(106,371)
<u>Contribution deficiency (excess)</u>	\$ -	-	-	-	-	-
City's covered payroll	1,756,765	1,636,334	1,549,657	1,489,726	1,432,520	1,636,481
Contributions as a percentage of covered payroll	10.00%	9.60%	9.50%	8.90%	7.80%	6.50%
<u>SET Plan</u>						
Contractually required contribution	\$ 135,213	127,520	100,975	106,239	85,776	90,793
Contributions in relation to the contractually required contribution	(135,213)	(127,520)	(100,975)	(106,239)	(85,776)	(90,793)
<u>Contribution deficiency (excess)</u>	\$ -	-	-	-	-	-
City's covered payroll	3,405,846	3,212,091	3,005,936	3,161,879	3,236,834	3,426,161
Contributions as a percentage of covered payroll	3.97%	3.97%	3.36%	3.36%	2.65%	2.65%

* Only six years of information available.

CITY OF CALAIS, MAINE
Required Supplementary Information, Continued

Schedule of City's Proportionate Share of the Net OPEB Liability
Last 10 Fiscal Years*

	<u>2019</u>	<u>2018</u>
<u>PLD OPEB Plan</u>		
City's proportion of the net OPEB liability	0.4533%	0.4520%
City's proportionate share of the net OPEB liability	\$ 91,571	75,573
City's covered-employee payroll	1,636,334	1,549,657
City's proportionate share of the net OPEB liability as a percentage of covered-employee payroll	5.60%	4.88%
Plan fiduciary net position as a percentage of the total OPEB liability	43.92%	47.42%
<u>SET OPEB Plan</u>		
City's proportion of the net OPEB liability	0.00%	0.00%
City's proportionate share of the net OPEB liability	\$ -	-
State's proportionate share of the net OPEB liability associated with the City	110,371	104,614
Total	<u>\$ 110,371</u>	<u>104,614</u>
Plan fiduciary net position as a percentage of the total OPEB liability	48.04%	47.29%

* Only two years of information available. Amounts presented for each fiscal year were determined as of the end of the previous fiscal year.

CITY OF CALAIS, MAINE
Required Supplementary Information, Continued

Schedule of City's OPEB Contributions
Last 10 Fiscal Years*

	<u>2019</u>	<u>2018</u>
<u>PLD OPEB Plan</u>		
Contractually required contribution	\$ 5,873	5,979
Contributions in relation to the contractually required contribution	<u>(5,873)</u>	<u>(5,979)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
City's covered-employee payroll	\$ 1,756,765	1,636,334
Contributions as a percentage of covered-employee payroll	0.33%	0.37%

* Only two years of information available.

CITY OF CALAIS, MAINE
Required Supplementary Information, Continued

Schedule of Changes in the City's Total Health Plan – MEABT OPEB Liability and Related Ratios
Last 10 Fiscal Years*

	<u>2019</u>
Total OPEB Liability	
Service Cost	\$ 10,042
Interest	73,823
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions or other inputs	(79,810)
Benefit payments	<u>(78,703)</u>
Net change in total OPEB Liability	(74,648)
Total OPEB liability - beginning	<u>2,091,072</u>
Total OPEB liability - ending	\$ <u>2,016,424</u>
Covered-employee payroll	\$ 3,535,679
Total OPEB liability as a percentage of covered-employee payroll	57.0%

* Only one year of information available.

CITY OF CALAIS, MAINE
Notes to Required Supplementary Information

Changes of Benefit Terms (Pension) - None

Changes of Assumptions (Pension) - The following are changes in actuarial assumptions used in the most recent valuations:

	<u>2018</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Discount rate – PLD	6.750%	6.875%	7.125%	7.250%	7.250%
Discount rate – SET	6.750%	6.875%	7.125%	7.125%	7.250%
Inflation rate	2.75%	2.75%	3.50%	3.50%	3.50%
Salary increases – PLD	2.75-9.00%	2.75-9.00%	3.50-9.50%	3.50-9.50%	3.50-9.50%
Salary increases – SET	2.75-14.50%	2.75-14.50%	3.50-13.50%	3.50-13.50%	3.50-13.50%
Cost of living increases – PLD	1.91%	2.20%	2.55%	3.12%	3.12%
Cost of living increases – SET	2.20%	2.20%	2.55%	2.55%	2.55%

** This schedule is intended to show information for ten years, but only the years in which changes occurred have been displayed. Additional years' information will be displayed as it becomes available.*

Mortality rates:

In 2015, mortality rates were based on the RP2000 Combined Mortality Table projected forward to 2015 using Scale AA. In 2016 and going forward, mortality rates were based on the RP2014 Total Data Set Health Annuitant Mortality Table.

Changes of Benefit Terms (OPEB) - None

Changes of Assumptions (OPEB) - The following are changes in actuarial assumptions used in the most recent valuations regarding the MPERS life insurance plans:

	<u>2018</u>	<u>2017</u>
Discount rate - SET	6.750%	6.875%

Under the Health Plan – MEABT, changes of assumptions and other inputs reflects the changes in the discount rate each period. The following are the discount rates used in each period:

	<u>2019</u>	<u>2018</u>
Discount rate - MEABT	3.87%	3.58%

GENERAL FUND

CITY OF CALAIS, MAINE
General Fund
Comparative Balance Sheets
June 30, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 263,722	344,535
Taxes receivable	565,408	595,346
Due from other governments	53,149	47,126
Accounts receivable	2,515	2,011
Interfund loans receivable	3,042,431	3,041,918
Prepaid expenditures	32,450	29,273
Inventory	11,959	4,730
Total assets	\$ 3,971,634	4,064,939
LIABILITIES		
Accounts payable	103,409	87,928
Accrued payroll and benefits	33,582	32,368
Payroll withholdings payable	50,235	50,518
Payable to other governments	7,581	7,392
Interfund loans payable	619,527	586,345
Due to School Department	77,751	77,751
Taxes paid in advance	157,010	170,921
Line of credit	200,000	400,000
Total liabilities	1,249,095	1,413,223
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property taxes	524,500	546,300
Total deferred inflows of resources	524,500	546,300
FUND BALANCES		
Nonspendable - inventory and prepaid	44,409	34,003
Unassigned	2,153,630	2,071,413
Total fund balances	2,198,039	2,105,416
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,971,634	4,064,939

CITY OF CALAIS, MAINE
General Fund
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the year ended June 30, 2019
(with comparative actual amounts for the year ended June 30, 2018)

	2019			2018 Actual
	Budget	Actual	Variance positive (negative)	
Revenues:				
Taxes:				
Property taxes	\$ 3,737,959	3,740,388	2,429	3,772,434
Excise taxes	583,000	612,096	29,096	573,476
Payments in lieu of taxes	30,000	29,166	(834)	32,739
Interest on taxes	35,000	52,328	17,328	51,500
Total taxes	4,385,959	4,433,978	48,019	4,430,149
Intergovernmental:				
State revenue sharing	232,067	242,243	10,176	236,165
Homestead exemption	204,304	204,304	-	165,252
Business equipment tax reimbursement	21,477	21,581	104	6,395
Veterans exemption	-	3,553	3,553	3,880
Tree growth reimbursement	23,000	27,723	4,723	25,106
Snowmobile reimbursement	1,000	602	(398)	748
General assistance	9,100	6,396	(2,704)	3,411
Urban rural initiative payment	40,720	40,304	(416)	40,720
Total intergovernmental	531,668	546,706	15,038	481,677
Charges for services:				
Administration	15,000	15,505	505	16,357
Code enforcement	3,000	2,886	(114)	2,335
EMS administration	70,850	69,137	(1,713)	70,164
Motor vehicle agent fees	5,800	5,601	(199)	5,742
Building rentals	3,062	3,062	-	3,062
Library	5,500	2,773	(2,727)	5,247
Recreation	93,500	88,829	(4,671)	90,848
Transfer station	42,500	39,920	(2,580)	40,443
Total charges for services	239,212	227,713	(11,499)	234,198
Interest earned	2,000	10,013	8,013	2,806
Unclassified:				
Sale of property	2,500	-	(2,500)	476
Police	1,188	3,427	2,239	1,240
Fire	-	2	2	52
Public works	7,250	6,666	(584)	7,391
Cemetery	11,700	8,381	(3,319)	10,416
Unclassified - City	-	308	308	2,758
Total unclassified	22,638	18,784	(3,854)	22,333
Total revenues	5,181,477	5,237,194	55,717	5,171,163

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

	2019			2018 Actual
	Budget	Actual	Variance positive (negative)	
Expenditures:				
Current:				
General government:				
City council	\$ 15,077	15,076	1	14,890
City manager	115,249	130,814	(15,565)	117,464
City clerk	76,968	79,620	(2,652)	67,684
Finance department	140,544	136,775	3,769	138,838
Legal services	23,400	26,258	(2,858)	15,737
Assessing	88,454	87,823	631	81,918
City building	78,337	71,522	6,815	66,610
St. Croix fire house	2,080	1,579	501	1,762
Information Center	-	-	-	880
Public buildings - north	49,065	43,853	5,212	41,045
Total general government	589,174	593,320	(4,146)	546,828
City services:				
Library	164,582	145,212	19,370	160,431
Recreation	240,662	226,322	14,340	223,809
Subsidies and donations	3,280	2,882	398	748
Total City services	408,524	374,416	34,108	384,988
Public safety:				
Police	532,207	520,904	11,303	540,734
Fire	395,557	387,673	7,884	368,736
Street and traffic lights	85,000	68,425	16,575	86,995
Total public safety	1,012,764	977,002	35,762	996,465
Public works:				
Public works	769,402	724,507	44,895	665,614
Transfer station	98,025	94,222	3,803	89,977
Cemetery	119,365	96,392	22,973	96,193
Total public works	986,792	915,121	71,671	851,784
County tax	296,926	296,926	-	281,522
Unclassified:				
Miscellaneous	229,382	227,561	1,821	222,567
Insurance	62,000	59,495	2,505	54,696
Contingency	36,000	1,240	34,760	-
Total unclassified	327,382	288,296	39,086	277,263

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

	2019			2018 Actual
	Budget	Actual	Variance positive (negative)	
Expenditures, continued:				
Debt service	91,222	91,222	-	142,721
Capital projects	258,211	235,835	22,376	7,920
Total expenditures	3,970,995	3,772,138	198,857	3,489,491
Excess (deficiency) of revenues over (under) expenditures	1,210,482	1,465,056	254,574	1,681,672
Other financing sources (uses):				
Use of surplus	300,932	-	(300,932)	-
Transfers from other funds	65,740	68,410	2,670	233,619
Transfer out - Education Local Appropriation	(1,474,145)	(1,474,145)	-	(1,428,920)
Transfers to other funds	(3,881)	(46,698)	(42,817)	(331,296)
Proceeds from issuance of notes payable	80,000	80,000	-	-
Total other financing sources (uses)	(1,031,354)	(1,372,433)	(341,079)	(1,526,597)
Net change in fund balance	179,128	92,623	(86,505)	155,075
Fund balance, beginning of year		2,105,416		1,950,341
Fund balance, end of year	\$	2,198,039		2,105,416

SCHOOL DEPARTMENT OPERATIONS

CITY OF CALAIS, MAINE
School Department Operations
Comparative Balance Sheets
June 30, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 1,018,753	235,344
Due from other governments	220,212	554,425
Due from City	77,751	77,751
Total assets	\$ 1,316,716	867,520
LIABILITIES		
Accounts payable	106,672	19,050
Accrued payroll and benefits	601,027	573,553
Interfund loans payable	90,949	148,033
Total liabilities	798,648	740,636
FUND BALANCES		
Restricted:		
Assigned for subsequent budget	155,285	126,884
Unassigned	362,783	-
Total fund balances	518,068	126,884
Total liabilities and fund balances	\$ 1,316,716	867,520

CITY OF CALAIS, MAINE
School Department Operations
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the year ended June 30, 2019
(with comparative actual amounts for the year ended June 30, 2018)

	2019		Variance positive (negative)	2018 Actual
	Budget	Actual		
Revenues:				
Intergovernmental:				
State subsidy	\$ 4,526,602	4,614,500	87,898	4,191,246
MaineCare/Medicare	224,230	390,160	165,930	193,428
Assessments	103,028	103,028	-	-
Charges for services:				
Tuition - elementary	200,603	229,240	28,637	231,365
Tuition - secondary	697,271	857,423	160,152	738,653
Tuition - special	222,232	235,134	12,902	231,910
Other revenues	-	30,166	30,166	109,416
Total revenues	5,973,966	6,459,651	485,685	5,696,018
Expenditures:				
Current:				
Regular instruction	2,651,047	2,659,733	(8,686)	2,630,140
Special education	1,154,401	1,165,388	(10,987)	1,072,627
Career and technical education	979,609	931,215	48,394	799,110
Other instruction	157,253	142,167	15,086	136,437
Student and staff support	332,038	286,958	45,080	292,060
System administration	395,092	377,797	17,295	368,599
School administration	271,270	274,289	(3,019)	258,193
Transportation and buses	366,993	396,446	(29,453)	353,554
Facilities maintenance	800,511	772,051	28,460	725,708
Debt service assessments:				
Principal	388,350	388,350	-	386,350
Interest	109,476	106,114	3,362	123,937
Total expenditures	7,606,040	7,500,508	105,532	7,146,715
Excess (deficiency) of revenues over (under) expenditures	(1,632,074)	(1,040,857)	591,217	(1,450,697)
Other financing sources (uses):				
Transfer in - Local Appropriation	1,474,145	1,474,145	-	1,428,920
Transfers to other funds	(15,000)	(15,000)	-	(115,000)
Use of surplus	172,929	-	(172,929)	-
Total other financing sources (uses)	1,632,074	1,459,145	(172,929)	1,313,920
Net change in fund balance - GAAP basis	-	418,288	418,288	(136,777)
Fund balance, beginning of year, as restated		99,780		263,661
Fund balance, end of year	\$	518,068		126,884

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
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2019

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	-	71,253	71,253
Investments	641,307	-	549,731	1,191,038
Due from other governments	172,563	-	-	172,563
Loans receivable, net	554,472	-	-	554,472
Interfund loans receivable	77,179	544,456	-	621,635
Inventory	7,874	-	-	7,874
Total assets	\$ 1,453,395	544,456	620,984	2,618,835
LIABILITIES				
Accounts payable	2,051	-	-	2,051
Accrued payroll and benefits	26,631	-	-	26,631
Interfund loans payable	513,353	-	34,285	547,638
Total liabilities	542,035	-	34,285	576,320
FUND BALANCES				
Nonspendable	-	-	480,457	480,457
Restricted	1,000,428	-	106,242	1,106,670
Committed	22,805	558,214	-	581,019
Unassigned	(111,873)	(13,758)	-	(125,631)
Total fund balances	911,360	544,456	586,699	2,042,515
Total liabilities and fund balances	\$ 1,453,395	544,456	620,984	2,618,835

CITY OF CALAIS, MAINE
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2019

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Revenues:				
Intergovernmental	\$ 941,868	-	-	941,868
Charges for services	107,952	-	-	107,952
Investment income (loss)	32,050	-	29,010	61,060
Unclassified	85,381	61,514	3,600	150,495
Total revenues	1,167,251	61,514	32,610	1,261,375
Expenditures:				
Current:				
General government	71,708	-	3,704	75,412
City services	30,604	-	1,046	31,650
Public safety	6,459	-	-	6,459
Public works	12,825	-	2,623	15,448
Unclassified	-	-	79	79
Education	810,393	-	-	810,393
Food services	368,486	-	-	368,486
Capital outlay	-	114,070	-	114,070
Total expenditures	1,300,475	114,070	7,452	1,421,997
Excess (deficiency) of revenues over (under) expenditures	(133,224)	(52,556)	25,158	(160,622)
Other financing sources (uses):				
Transfer from other funds	5,790	48,408	-	54,198
Transfer to other funds	-	-	(8,000)	(8,000)
Total other financing sources (uses)	5,790	48,408	(8,000)	46,198
Net change in fund balances	(127,434)	(4,148)	17,158	(114,424)
Fund balances, beginning of year	1,038,794	548,604	569,541	2,156,939
Fund balances, end of year	\$ 911,360	544,456	586,699	2,042,515

CITY OF CALAIS, MAINE
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2019

	City Special Revenue Funds	UDAG Economic Development Loan Fund	Uptown Loan Fund	School Special Revenue Funds	School Lunch	Totals
ASSETS						
Investments	\$ -	487,456	153,851	-	-	641,307
Due from other governments	-	-	-	142,569	29,994	172,563
Loans receivable, net	-	545,364	9,108	-	-	554,472
Interfund loans receivable	77,179	-	-	-	-	77,179
Inventory	-	-	-	-	7,874	7,874
Total assets	\$ 77,179	1,032,820	162,959	142,569	37,868	1,453,395
LIABILITIES						
Accounts payable	-	-	-	1,381	670	2,051
Accrued payroll and benefits	-	-	-	26,631	-	26,631
Interfund loans payable	-	252,675	105,603	106,298	48,777	513,353
Total liabilities	-	252,675	105,603	134,310	49,447	542,035
FUND BALANCES						
Restricted	77,431	780,145	57,356	85,496	-	1,000,428
Committed	13,694	-	-	9,111	-	22,805
Unassigned	(13,946)	-	-	(86,348)	(11,579)	(111,873)
Total fund balances (deficits)	77,179	780,145	57,356	8,259	(11,579)	911,360
Total liabilities and fund balances	\$ 77,179	1,032,820	162,959	142,569	37,868	1,453,395

CITY OF CALAIS, MAINE
Nonmajor Special Revenue Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2019

	City Special Revenue (Schedule 1)	UDAG Economic Development Loan Fund	Uptown Loan Fund	School Special Revenue (Schedule 2)	School Lunch	Totals
Revenues:						
Intergovernmental	\$ -	-	-	705,790	236,078	941,868
Charges for services	-	4,927	-	16,321	86,704	107,952
Investment income (loss)	-	21,771	10,279	-	-	32,050
Unclassified	44,872	6,344	413	33,752	-	85,381
Total revenues	44,872	33,042	10,692	755,863	322,782	1,167,251
Expenditures:						
Current:						
General government	16,111	54,517	1,080	-	-	71,708
City services	30,604	-	-	-	-	30,604
Public safety	6,459	-	-	-	-	6,459
Public works	12,825	-	-	-	-	12,825
Education	-	-	-	810,393	-	810,393
Food services	-	-	-	-	368,486	368,486
Total expenditures	65,999	54,517	1,080	810,393	368,486	1,300,475
Excess (deficiency) of revenues over (under) expenditures	(21,127)	(21,475)	9,612	(54,530)	(45,704)	(133,224)
Other financing sources (uses):						
Transfers from (to) other funds	(1,710)	(3,750)	(3,750)	-	15,000	5,790
Total other financing sources (uses)	(1,710)	(3,750)	(3,750)	-	15,000	5,790
Net change in fund balances	(22,837)	(25,225)	5,862	(54,530)	(30,704)	(127,434)
Fund balances, beginning of year	100,016	805,370	51,494	62,789	19,125	1,038,794
Fund balances (deficits), end of year	\$ 77,179	780,145	57,356	8,259	(11,579)	911,360

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, 2019

	Balances (deficits) beginning of year	Revenues		Expenditures	Transfers in (out)	Balances (deficits) end of year
		Inter- governmental	Other			
General government:						
3625 Economic Development - Dawson	\$ 23,058	-	17,637	16,111	-	24,584
3885 PW Insurance Claim	3,210	-	-	-	(3,210)	-
City services:						
2830 Donation - Skateboard	(815)	-	-	122	-	(937)
3661 Recreation Playground	-	-	500	-	-	500
3662 Recreation Smith Field	1,000	-	-	-	-	1,000
3665 Recreation JMG Grant	600	-	-	-	-	600
3666 Recreation School Basketball	909	-	-	-	-	909
3667 Recreation Pavilion Project	(325)	-	-	-	-	(325)
3668 Recreation Tennis Donations	(1,682)	-	1,181	-	-	(501)
3758 Library - Eaton Foundation	4,435	-	26	2,426	-	2,035
3762 Library - Special Gift Book	2,796	-	1,224	3,080	-	940
3763 Library - Pike Book Fund	-	-	-	113	-	(113)
3764 J. Baig Bequest - Library	1,920	-	-	-	-	1,920
3771 Library - Pike Fund Income	17,977	-	22,850	19,631	-	21,196
3778 Concert Donations	229	-	1,100	1,279	-	50
3779 Triangle Park Donations	12,000	-	-	3,953	-	8,047
Public safety:						
1725 Shore and Harbor (BIG) Grant	(4,971)	-	-	-	-	(4,971)
1789 Police Drug Forfeiture Funds	5,463	-	-	4,825	229	867
3600 Animal Control Fees	2,285	-	354	443	-	2,196
3635 Firefighter Training FAC	2,738	-	-	-	-	2,738
3638 J. Baig Bequest - Firefighters	2,000	-	-	-	-	2,000
3640 Police - DARE	5,900	-	-	-	-	5,900
3642 Police - Fingerprint Clinic	2,412	-	-	463	-	1,949
3648 J. Baig Bequest - Police	957	-	-	728	(229)	-
Public works:						
1726 DEP Pumpout (BIG) Grant	560	-	-	7,659	-	(7,099)
3874 Transfer Station Prof Services	2,500	-	-	-	1,500	4,000
3875 Transfer Station Environ Monit	3,258	-	-	-	(2,500)	758
3877 PW Tree Planting	2,500	-	-	1,827	500	1,173
3878 PW Tree Removal	5,552	-	-	3,339	-	2,213
3879 PW Chipping Program	3,550	-	-	-	2,000	5,550
Total City special revenue funds	\$ 100,016	-	44,872	65,999	(1,710)	77,179

CITY OF CALAIS, MAINE
School Special Revenue Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2019

	Balances (deficits) beginning of year	Revenues	Expenditures	Balances (deficits) end of year
Federal programs:				
2300 Title IA - Disadvantaged	\$ (4,225)	239,045	263,671	(28,851)
2310 Title IA - Program Improvement	(5,411)	4,006	4,075	(5,480)
2400 Title IV - Student Support	-	20,951	20,951	-
2470 Local Entitlement	(100)	108,405	148,263	(39,958)
2510 Preschool	-	4,990	3,593	1,397
2635 Project AWARE	-	56,465	52,993	3,472
2670 Rural Low Income	(81)	19,309	17,040	2,188
2700 Title IIA - Supporting Effective Instruction	-	46,628	35,091	11,537
2860 Perkins Learning Center	-	35,120	35,377	(257)
2870 Perkins Alignment Grant	-	4,935	4,935	-
2915 HRSA Grant - School Based Health	79	-	-	79
Total federal programs	(9,738)	539,854	585,989	(55,873)
State programs:				
2015 Melmac Grant - High School	7,647	10,000	7,770	9,877
2017 Melmac Grant - Tech Center	5,092	14,000	13,917	5,175
2214 CTE Industry Standards	109	49,870	44,981	4,998
2220 Dental	113	-	-	113
2230 IT-V	6,113	-	-	6,113
2232 Proficiency Based Education	4,450	-	-	4,450
2233 PEP Grant	1,981	-	-	1,981
2237 Advantage ME	(1)	18,800	18,627	172
2238 Momentum	(3,355)	-	4,100	(7,455)
2248 FEDES Grant	-	18,491	18,491	-
2250 Regional Support Unit	2,108	-	-	2,108
2900 HIV Prevention	134	-	-	134
2905 Youth Suicide Prevention	58	-	-	58
7020 DHHS Teen and Youth	472	54,775	49,678	5,569
Total state programs	24,921	165,936	157,564	33,293
Other programs:				
2010 Kellogg Grant	520	-	-	520
2020 Maine Dairy	28	-	-	28
2025 Rotary Grant - BARR	-	33,000	33,574	(574)
2060 Local Funds	6,921	-	-	6,921
2071 Wellness Grant	2,343	-	-	2,343
2080 Suicide Prevention Grant	7,497	-	-	7,497
2090 Tootsie Roll Grant	3,111	752	396	3,467
2100 Recommissioned Computer Revenue	780	-	345	435
2130 Maine Indian Education - Afterschool	3,550	-	-	3,550
2135 CES Afterschool Program	9,431	16,321	26,214	(462)
2145 Mano en Mano	3,000	-	6,311	(3,311)
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	47,606	50,073	66,840	30,839
Totals	\$ 62,789	755,863	810,393	8,259

CITY OF CALAIS, MAINE
Nonmajor Capital Project Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2019

	Balances (deficits) beginning of year	Revenues	Expenditures	Transfers in (out)	Balances (deficits) end of year
3623 WCPA Purchase Escrow	\$ 304,655	17,637	-	-	322,292
3630 Nash's Lake Dam	1,846	-	-	-	1,846
3664 Recreation Pool Donations	(17,648)	5,000	1,110	-	(13,758)
3761 Library - Building Fund	37,720	9,964	18,716	-	28,968
3785 Land Disposition	18,969	27,880	13,605	-	33,244
3870 Cemetery Road Repair	4,000	-	-	2,000	6,000
3900 Veteran's Memorial Pavers	2,312	200	100	-	2,412
4202 CIP Administration	(1,667)	44	-	10,486	8,863
4205 CIP Fire Department	18,311	82	5,060	14,909	28,242
4210 CIP Recreation Dept	5,877	29	-	-	5,906
4215 CIP Police Dept	(3,686)	47	1,183	16,649	11,827
4220 CIP Public Works	166,538	565	74,296	(181)	92,626
4225 CIP Transfer Station	(2,278)	13	-	4,600	2,335
4230 CIP Cemetery	9,235	42	-	-	9,277
4240 CIP North Street Building	2,312	11	-	(55)	2,268
2120 School - SCRTC Reserve Fund	2,108	-	-	-	2,108
Total nonmajor capital projects	\$ 548,604	61,514	114,070	48,408	544,456

CITY OF CALAIS, MAINE
Nonmajor Permanent Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2019

	Cemetery Trust Funds	Library Trust Funds	Poor Trust Funds	Beckett Pool Funds	Totals
Revenues:					
Contributions/donations	\$ 3,600	-	-	-	3,600
Investment income	7,241	2,911	1,737	218	12,107
Unrealized gain (loss)	10,201	3,943	2,451	308	16,903
Total revenues	21,042	6,854	4,188	526	32,610
Expenditures:					
Current:					
General government	-	-	3,704	-	3,704
City services	-	1,046	-	-	1,046
Public works	2,623	-	-	-	2,623
Unclassified	-	-	-	79	79
Total expenditures	2,623	1,046	3,704	79	7,452
Excess (deficiency) of revenues over (under) expenditures	18,419	5,808	484	447	25,158
Other financing sources (uses):					
Transfer to other funds	(4,000)	(4,000)	-	-	(8,000)
Total other financing sources (uses)	(4,000)	(4,000)	-	-	(8,000)
Net change in fund balances	14,419	1,808	484	447	17,158
Fund balances, beginning of year	356,042	136,488	63,923	13,088	569,541
Fund balances, end of year	\$ 370,461	138,296	64,407	13,535	586,699

CITY OF CALAIS, MAINE
Agency Funds - Student Activity Funds
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2019

	Balances Beginning of year	Additions	Deletions	Balances End of year
ASSETS				
Cash	\$ 133,481	162,666	164,840	131,307
Total assets	\$ 133,481	162,666	164,840	131,307
LIABILITIES				
Due to student groups:				
Calais High School	105,293	108,077	107,563	105,807
St. Croix Technical Center	20,403	39,666	40,510	19,559
Calais Elementary School	7,785	14,923	16,767	5,941
Total liabilities	\$ 133,481	162,666	164,840	131,307

CITY OF CALAIS, MAINE

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

For the Year Ended June 30, 2019

CITY OF CALAIS, MAINE
Reports Required by *Government Auditing Standards*
and Uniform Guidance
For the Year Ended June 30, 2019

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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, 2019, 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 April 13, 2020.

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 have not been 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 (2019-001 through 2019-004).

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 April 13, 2020.

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.



April 13, 2020
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, 2019. 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.

Opinion on Each Major Federal Program

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 major federal programs for the year ended June 30, 2019.

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-005. Our opinion on each major federal program is not modified with respect to this matter.

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

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.

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.

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

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, 2019, 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 April 13, 2020, 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.



April 13, 2020
South Portland, Maine

CITY OF CALAIS, MAINE
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

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	\$ 263,671		-
Title IA, Program Improvement	84.010	3106	4,075	267,746	-
Special Education Cluster:					
Special Education State Grants Individuals with Disabilities Act	84.027	3046	148,263		-
Preschool	84.173	6247	3,593		-
Total Special Education Cluster				151,856	
Career and Technical Education - Perkins	84.048	3030	35,377		-
Career and Technical Education - Perkins Alignment Grant	84.048	N/A	4,935	40,312	-
Title IV, Student Support and Academic Enrichment	84.424	3345	20,951		-
Title VI, Rural Education	84.358	3305	17,040		-
Title IIA, Supporting Effective Instruction	84.367	3042	35,091		-
Total U.S. Department of Education			532,996		-
U.S. Department of Health and Human Services,					
Passed through the Maine Department of Education:					
Project AWARE	93.243	N/A	52,993		-
Total U.S. Department of Health and Human Services			52,993		-
U.S. Department of Agriculture,					
Direct Program:					
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	135,772		-
Passed through the Maine Department of Education:					
Child Nutrition Cluster:					
National School Lunch Program	10.555	3022/3024	129,462		-
School Breakfast Program	10.553	3014	58,502		-
Summer Food Service Program	10.559	3016/3018	12,078		-
Food Donation Program	10.555	N/A	13,999		-
Total Child Nutrition Cluster				214,041	
Fresh Fruits and Vegetables	10.582	3028	18,170		-
Total U.S. Department of Agriculture			367,983		-

CITY OF CALAIS, MAINE
Schedule of Expenditures of Federal Awards, Continued
For the year ended June 30, 2019

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 Housing and Urban Development, Passed through Maine Department of Economic and Community Development: Community Development Block Grant (Public Infrastructure Grant)	14.228	N/A	\$ 700,000		-
Total U.S. Department of Housing and Urban Development			700,000		-
U.S. Department of the Interior, Direct Program: DEP Pump out Grant	15.622	N/A	7,659		-
Total U.S. Department of the Interior			7,659		-
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	C230253-12	14,728		-
Total Clean Water State Revolving Fund Cluster				14,728	
Drinking Water State Revolving Fund Cluster: Drinking Water State Revolving Loan Fund	66.468	2017-08	8,499		-
Total Drinking Water State Revolving Fund Cluster				8,499	
Total Environmental Protection Agency			23,227		-
U.S. Department of Homeland Security, Passed through the Maine Emergency Management Agency: Stone Garden Grant	97.067	N/A	2,086		-
Total U.S. Department of Homeland Security			2,086		-
Totals			\$ 1,686,944		-

See accompanying notes to schedule of expenditures of federal awards.

CITY OF CALAIS, MAINE
Notes to Schedule of Expenditures of Federal Awards
June 30, 2019

PURPOSE OF THE SCHEDULE

Office of Management and Budget (OMB) 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, 2019. 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, 2019

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: Unmodified

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>
14.228	Community Development Block Grant (Public Infrastructure Grant)
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? Yes

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

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

SIGNIFICANT DEFICIENCIES

2019-001 – Preparation of Financial Statements

Criteria: Client personnel designated as having responsibility over the financial reporting process 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.

Statement of Condition: 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.

Cause: The City does not employ an individual that possesses the expertise to prepare a complete set of financial statements that are in accordance with generally accepted accounting principles.

Effect: 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.

Recommendation: 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, which we feel management is fully capable of doing given their collective municipal financial reporting experience.

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.*

2019-002 – Material Audit Adjusting Journal Entries (City and School Department)

Criteria: The general ledger includes activity and balances of the City and School Department's asset, liability, revenue, and expenditure/expense accounts. These accounts should be reconciled monthly with supporting ledgers to ensure accuracy of balance throughout the year.

Statement of Condition: Many of these accounts required audit adjustments at year-end, including sewer capital assets, UDAG and Uptown loan receivables, School Department fund balance, School Department payables, School Department receivables, School Department accrued salaries, and various revenue and expenditure/expense accounts. Both individually and in the aggregate, these entries were material to the financial statements.

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

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

Cause: The City and School Department finance staff are not comfortable with certain entries related to year end accruals and waits until the auditor proposes correcting entries to adjust these accounts annually. Additionally, some of the School Department entries were directly related to a data loss that occurred during the fiscal year.

Effect: Whenever the auditor is required to propose a material amount of entries, the risk of material misstatement due to fraud or error increases significantly.

Recommendation: 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 and School Department 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.

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

- Reconcile receivables and payable listings with general ledger
- Review of direct fund balance posts and properly classify these entries out of fund balance
- Review waste water project draws and expenditures and ensure activity has been posted to accurate general ledger accounts
- Reconciliation of UDAG and Uptown Loan funds with loan fund Excel workbook

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. The UDAG and Uptown Loan funds will be reconciled to the Excel workbook at least quarterly. Management will continue to send finance staff to appropriate trainings as necessary and promote cross-training where needed.*

The school department will be taking the recommendation of RKO and create monthly checklist that includes reconciling accounts on the general ledger. The school department will also be able to utilize our accounting software to record accrued salaries. The data loss prevented the use in FY19

2019-003 – Account Structure of the City General Ledger (City)

Criteria: The internal account structure of the City should be set up in a manner that accomplishes the financial reporting objectives of management. All individual funds should be separated with individual fund names and fund numbers.

Statement of Condition: Currently, nearly all of the individual nonmajor governmental funds (special revenue and capital project funds) are recorded as single account lines in the general fund assets and liabilities.

Cause: When the current software package was purchased, management team at the time did not possess the financial reporting experience to accurately set up the funds accurately to meet its financial reporting goals.

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

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

Effect: 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.

Recommendation: 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.

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. 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. Management, with the assistance of City Finance personnel, will work to set up older special revenue and capital project funds into their own unique fund as well.*

2019-004 – Information Technology (IT) Security (School Department)

Criteria: Prudent security over the School Department's general ledger is necessary to ensure that information not be stolen or lost due to security threats that the school faces on a daily basis.

Statement of Condition: During the fiscal year, management experienced a ransomware attack on two of three servers that store the general ledger back up. When management went to retrieve the back up information from the third server that was unaffected by the ransomware, management found out that back ups had not been run for months and the information was lost.

Cause: The IT department was not following established controls that require monthly testing of the back up servers to ensure that current back ups are available for emergency situations.

Effect: The finance team of the School Department had to manually reenter seven months of transactions to reestablish the general ledger activity through February 2019.

Recommendation: We suggest that management review internal IT control policies with the IT director that require monthly testing of the backups. Additionally, another control should be added that requires physical signoffs by staff when backups are performed. This will help management monitor that the controls are being followed as intended.

Management's response/corrective action plan: *The school has upgraded our ProFund server, installed a new NAS system, and have redundant backups happening each day to the new NAS and our cloud storage. We have also created network segments to block off sensitive network areas to more open student ones.*

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

Section III - Findings and Questioned Costs for Federal Awards

2019-005 – Uniform Guidance Procurement Standards

Criteria: One of the more significant provisions of the Uniform Guidance that affects the City and School Department is the procurement standards under 2 CFR sections 200.318 through 200.326. Under the new procurement standards, the City and School Department is required to have a documented purchasing policy, which at a minimum, incorporates the provisions of the Uniform Guidance.

Statement of Condition: The Office of Management and Budget (OMB) revised regulations applicable to federally funded programs. The new regulations are contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Uniform Guidance replaced OMB Circulars A-133, A-87, and A-110 and incorporates new requirements for grant recipients. The Uniform Guidance includes not only protocols for program management and administration, but also updates compliance regulations for federal awards. Currently the City and School Department do not have a formal written procurement policy that incorporates all provisions of the Uniform Guidance procurement standards.

Cause: The City and School Department have not adopted a procurement policy that covers all aspects required by the Uniform Guidance. However, during our testing of procurement over federal expenditures, we did not notate any violations of the Uniform Guidance procurement standards.

Effect: Items required by the Uniform Guidance procurement standards that are not currently addressed in the City and School Department's procurement policy are as follows:

- Contracting with small and minority businesses, women's business enterprises, and labor surplus area firms
- Bonding requirements
- Contract provisions
- Subrecipient and contractor determinations

Recommendation: We recommend that management review the applicable provisions of the Uniform Guidance procurement standards and update the City and School Department's procurement policy appropriately. This would include adding any missing components to the City and School Department's current procurement policy and updating definitions of types of procurement, i.e., micro-purchases, small purchases, and small acquisition threshold, to match the language used in the Uniform Guidance procurement standards.

Management response/corrective action plan: *The City and School department will develop procurement policies in FY 2020 to meet the requirements of the Uniform Guidance.*

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

2018-001 – 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.

Status: The City continues to use auditor financial schedules to assist in the preparation of the financial statements, as it is not cost effective to have this expertise in-house. Management of the City and School Department continue to need assistance when analyzing equity of the various funds, but will continue its efforts to minimize auditor assistance.

2018-002 – 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.

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
- Reconciliation of UDAG and Uptown Loan funds with loan fund Excel workbook

Status: The City has continued improvement in this area but still has some reconciliation issues to address.

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

2018-003 – 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.

Status: The City was able to move most of the proprietary fund revenues off the balance sheet; however, individual funds have not yet been established for many capital project and special revenue funds.

2018-004 – U.S. Department of Agriculture, For the Period July 1, 2017 through June 30, 2018, CFDA #10.553-10.559 Child Nutrition Cluster

Statement of Condition: The City did not properly change two students' status to paid 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: Two students (same application) that should have been changed to paid remained on free lunch even though the student's household income was above 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

Status: There were no findings under this compliance requirement in the current period.

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

2018-005 – Environmental Protection Agency, For the Period July 1, 2017 through June 30, 2018, CFDA #66.468 Drinking Water State Revolving Fund Cluster (DWSRF)

Statement of Condition: During the construction process, a contractor installed a valve that was non-compliant with American Iron and Steel (AIS) requirements.

Criteria: All iron and steel products used for a DWSRF project for the construction, alteration, maintenance or repair of treatment work are produced in the United States.

Effect: The Maine Drinking Water Program refused to accept a waiver for the AIS requirement and subsequently did not reimburse the City for the cost of the valve.

Cause: The contractor felt that the AIS compliant valve was not of the same quality and ease of use as the non-compliant AIS valve that was installed.

Recommendation: The City should follow the AIS requirements or be in contact with the funding source of the project and request a waiver for the AIS requirements prior to purchasing and installing any non-compliant products.

Questioned Costs: None

Status: The program did not have enough expenditures in the current period to be tested again and therefore did not have similar findings in the current period.

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