

City of Waterville, Maine

Financial Report

June 30, 2009

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Independent Auditors' Report

City Council
City of Waterville
Waterville, Maine

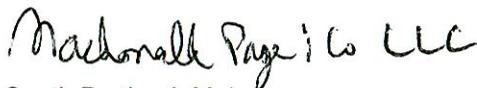
We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waterville, Maine, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed on the table of contents. These financial statements are the responsibility of the City of Waterville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waterville, Maine, as of June 30, 2009, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



South Portland, Maine
December 3, 2009

MANAGEMENT'S DISCUSSION & ANALYSIS

As management of the City of Waterville, we offer this narrative overview and analysis of the financial activities of the City of Waterville for the fiscal year ended June 30, 2009.

FINANCIAL HIGHLIGHTS

- Total net assets of the City of Waterville for year ended June 30, 2009 are approximately \$24,736,180. A portion of that amount, \$10,266,014 is a net investment in capital assets while the largest portion, \$11,570,508 remains unrestricted. These numbers do not include another \$1,864,753 of net assets attributed to the City's Library. The increase in net investment in capital assets from the prior year is due to the retirement of corresponding debt.
- The ending fund balance for the general fund is \$8,303,013. This is a decrease of \$2,050,611 from last year. The decrease is due to an intended use of \$2,786,000 of fund balance to be utilized and reserved for capital projects, a growth in investment earnings, and expenditures overall being less for the City than budgeted. Unused departmental appropriated funds contribute to less fund balance used than appropriated. A shortfall in intergovernmental revenue and other miscellaneous revenue was offset by overlay.
- The General Funds undesignated and school fund balance of \$8,303,013 equals 22.0% of total revenues for the year or 23.0% of total expenditures. The percentages place the City of Waterville at a strong fund balance amount for bonding purposes. Moody and Standard & Poor's bond rating agencies like to see a fund balance rate in the 14% to 16% range or an amount equal to two months of budgeted expenditures. The City of Waterville's current fund balance exceeds both requirements.
- City-wide governmental revenues include \$16,936,166 of tax revenue, an increase of \$11,207 from the year ended June 30, 2008 and \$20,853,777 of intergovernmental, program and general revenues.
- City-wide governmental expenses were \$43,925,939, an increase of \$2,577,853.
- The City's Capital Projects Fund Balance was \$3.8 million as of June 30, 2009. This was increase of \$1.3 million from the end of the prior fiscal year. It represented appropriations to and investment in the City's Public Library, Public Works Equipment and Facilities, Paving, the Airport, and other projects.
- The City's credit rating was raised from A- to A+ by Standard and Poors. This allows the City to borrow at a lower rate, as well as increases the City's standing in the eyes of the financial community.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The City of Waterville's Basic Financial Report has three components: (1) Government-Wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

All of the funds of the City of Waterville are reported using the economic resources measurement focus and the accrual basis of accounting as prescribed by GASB Statement No. 34. The accrual basis of accounting is similar to the accounting method used by non-public businesses, in that, revenues and expenditures are recorded in the current year regardless of when the revenue is collected or paid out.

Government-Wide Financial Statements

- Government-wide financial statements report information on all of the non-fiduciary activities of the City Governmental activities which are normally supported by taxes and intergovernmental revenues.
- The City of Waterville's financial statements are comprised of a series of statements such as The *Statement of Net Assets* and the *Statement of Activities*. These statements provide an overview of the activities of the government as a whole.

- The Statement of Net Assets provides a picture of the difference between assets and liabilities (including infrastructure). This is called *Net Assets*. The Statement of Activities provides a look at how the Net Assets have changed from the prior year to the current year. Increases or decreases in net assets can show whether the City is improving or deteriorating. Other factors such as changes in the City's Property tax base and the condition of the roads also need to be considered to assess the overall health of the City.

Fund Financial Statements

- The Fund Financial Statements provide details of the City's most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, management establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. Examples of funds within the City's Financial Statements follow.
- *General Fund* – This is the primary operating fund for the City. Most of the City's basic services are reported in the general fund. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- *Landfill Closure Fund* – This is a major fund that accounts for landfill closure costs.
- *Fiduciary Funds* – These funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. The City is the trustee, or *fiduciary*, for Trust Funds that are set up primarily as scholarships or funds for people in need. These assets, because of a trust arrangement, can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-37 of this document.

THE CITY AS A WHOLE

The following information is a condensed version of the Statement of Net Assets.

	Governmental Activities		Library	
	2009	2008	2009	2008
Current and other assets	\$ 18,914,658	\$ 19,968,959	\$ 1,864,753	\$ 1,877,129
Capital assets, net	25,395,428	25,373,340		
Total assets	<u>44,310,086</u>	<u>45,342,299</u>	<u>1,864,753</u> #	<u>1,877,129</u>
Long-term debt outstanding	16,049,620	17,779,666		
Other liabilities	3,524,286	3,080,726		
Total liabilities	<u>19,573,906</u>	<u>20,860,392</u>		
Net assets:				
Invested in:				
Capital assets	10,266,014	8,913,437		
Restricted	2,899,658	3,612,759		
Unrestricted	11,570,508	11,955,711	1,864,753	1,877,129
Total net assets	<u>\$ 24,736,180</u>	<u>\$ 24,481,907</u>	<u>\$ 1,864,753</u>	<u>\$ 1,877,129</u>

Governmental activities remained substantially flat. Capital assets, which include property, plant, equipment, and infrastructure, are generally defined by the City as assets with an initial, individual cost of greater than or equal to \$5,000 (five thousand dollars) and an estimated useful life in excess of one year. These two were substantially flat for 2009 as investment in capital assets offset depreciation. By far the largest portion of the City's net assets reflects its cash and investments and its investment in capital assets less any related debt to acquire those assets still outstanding. There were no significant new bonds issued in the current year. The City reduced its long term debt outstanding by roughly 10%. Detail of the activity of capital assets and long-term debt can be found in the footnotes.

The following schedule, *the Statement of Activities*, focuses on changes in net assets of the City's governmental activities.

Changes in Net Assets:

	Governmental Activities		Library	
	2009	2008	2009	2008
Program revenues:				
Charges for services	\$ 2,976,977	\$ 2,951,550	\$ 22,177	\$ 19,669
Operating grants and contributions	18,372,321	17,600,480	650,798	713,790
Capital grants and contributions	294,940	766,810		
	<u>21,644,238</u>	<u>21,318,840</u>	<u>672,975</u>	<u>733,459</u>
General revenues:				
Property and other taxes	16,813,639	16,729,841		
Licenses, permits and fees	287,729	408,925		
Grants and contributions not restricted to specific programs	2,848,655	3,304,450		
Investment earnings (loss)	270,222	450,999	(199,598)	(142,874)
Unclassified	829,915	474,414		
Gain (loss) on disposition of capital assets	27,322	(368,636)		
	<u>21,077,482</u>	<u>20,999,993</u>	<u>(199,598)</u>	<u>(142,874)</u>
Total revenues	42,721,720	42,318,833	473,377	590,585
Program expenses:				
General government	3,331,596	3,070,065		
Public works	4,296,540	4,101,245		
Public safety	4,960,706	4,817,529		
Parks, recreation, and culture	712,062	682,906		
Health and welfare	257,045	296,191		
Education	25,807,091	24,577,862		
Program expenditures	570,341	586,043		
TIF projects	1,294,560	9,686		
Unclassified	768,374	1,128,178		
Capital outlay	(213,644)	733,506		
Interest on debt	494,827	443,123		
Library expenses			485,754	493,232
Total expenses	<u>42,279,498</u>	<u>40,446,334</u>	<u>485,754</u>	<u>493,232</u>
Change in net assets	442,222	1,872,499	(12,377)	97,353
Net assets, beginning of year (restated)	<u>24,293,958</u>	<u>22,609,408</u>	<u>1,877,130</u>	<u>1,779,776</u>
Net assets, end of year	<u>\$ 24,736,180</u>	<u>\$ 24,481,907</u>	<u>\$ 1,864,753</u>	<u>\$ 1,877,129</u>

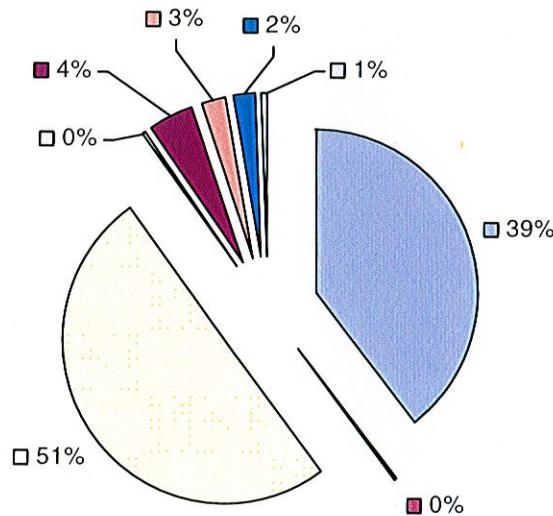
The cost of all governmental activities this year was \$42,279,468 which represents a \$1,833,134 increase. Of this amount, Waterville taxpayers financed \$16,813,639 through property, personal and excise taxes. Municipal and educational departments have continued to aggressively pursue grant revenue to cover programs and services and to help reduce the tax burden to Waterville residents.

Special revenue fund program expenses are expenditures from City and School funds such as the city recreation and airport funds and school programs such as the lunch program and other specifically funded programs. These programs are found in the "All Other Governmental Funds" section of this report.

Capital outlay represents the net amount paid for items that are capital in nature and major repairs. Interest on debt indicates the debt service amounts paid from the City and School general fund and the TIF fund.

Governmental Activities

2009 Governmental Fund Revenues



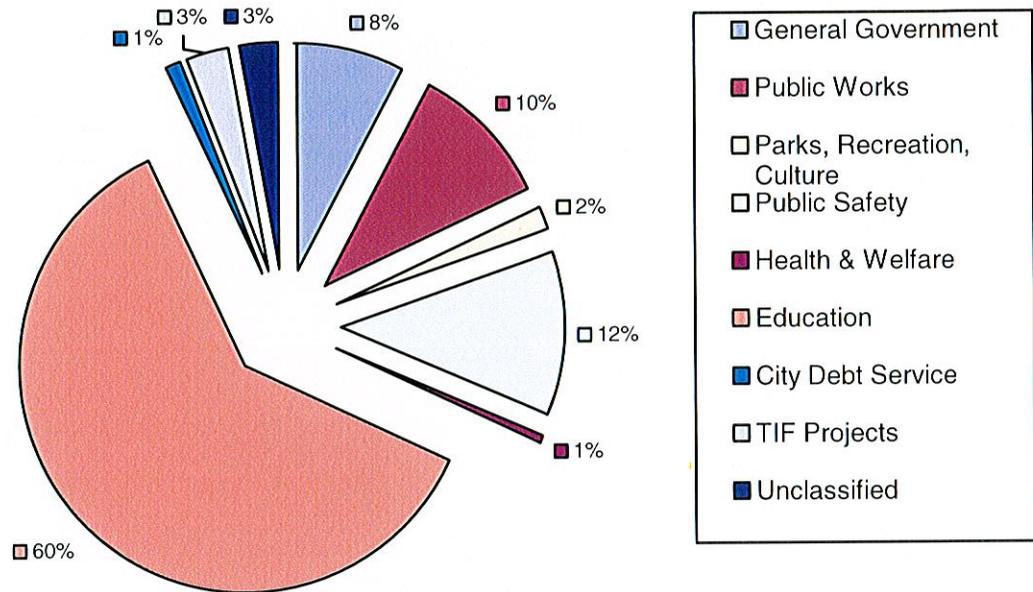
■ Taxes	■ Licenses and Permits	□ Intergovernmental	□ Fees and Fines
■ Education-other	■ City Charges for Service	■ Unclassified	□ Investment Earnings

Taxes	Includes real property, personal property and excise taxes
Licenses and permits	Includes city clerk and code enforcement revenue
Intergovernmental	Includes State revenue sharing, homestead, veterans and welfare reimbursement, State road grant
Education – other	Includes tuition, fees, Medicaid reimbursement revenue
City service charges	Includes revenue from the various departments for services
Fees and fines	Includes fees for late dog registrations, witness fees
Investment earnings	Includes interest income from general fund investment money
Unclassified	Includes miscellaneous revenue, grant revenue, sale of City assets

As the revenue chart shows, the major sources of revenue for the City of Waterville are taxes and intergovernmental revenue.

Governmental Activities Continued

2009 General Fund Expenditures



As the above chart indicates, education is the department with the largest expenditure with public safety and public works following respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The majority of changes to the original budget approved by the City Council, during the fiscal year, were transfers to other funds. The changes amounted to an increase of 1.30% to the budget.

The City continues to meet its responsibilities for sound financial management. This year the City exceeds a fund balance percentage range preferred by bond rating agencies such as Moody's and Standard & Poor's. Carefully monitoring expenditures, finding non-tax sources of revenue, and setting a debt repayment ceiling have all helped in establishing a favorable fund balance. Having the fund balance at an appropriate level is important when the City goes to bond. The rating agencies also prefer a fund balance that will cover two months of actual appropriations. The City actually can cover about two and three quarter months. The residents of the City of Waterville can be proud of its municipal and school personnel who have worked together to continue to meet these financial goals.

ECONOMIC FACTORS AND THE CITY'S BUDGET

The valuation for the City increased by \$13.1 million or 2.0%. Residential valuation increased \$9.6 million or 1.7% while Personal Property increased \$3.5 million or 4.4%.

The unemployment rate for Waterville at fiscal year end was an estimated 8.5% as compared with 5.3% for the year prior. The rate is above the estimated State average of 8.2%, but below the estimated National rate of 9.7%. These figures are from the August 2009 Maine Labor Market Digest report, which reported on the June 2009 unemployment rate.

The 2009/2010 budget adopted by the City Council resulted in a 1.0% decrease in the mill rate from the 2008/2009 year to 24.15 mills. For the 2008/2009 budget year, which is the year this audit covers, the mill rate decreased 2.0% from the 2007/2008 year to 24.40 mills. The 2007/2008 budget adopted by the City Council resulted in a decrease of 3.9% in the mill rate from 25.90 the previous year to 24.90 mills. The 2009/2010 fiscal year represents the seventh consecutive fiscal year the mill rate remained flat or decreased.

Some of the contributing factors to the reduction in property taxes were as follows:

- A budgeted increase of \$150,000 in State Revenue Sharing.
- The school budget funded by the City increased by only 1.6% and therefore redirected funds contributed toward lowering the property tax rate as intended by LD 1.
- The increased valuation as specified above.

LD 1 adopted in 2005, imposes a property tax levy limit which is based on a combination of the State's average personal income growth factor and the property growth factor of each individual municipality. The budget adopted by the City Council was within the limits established by the law.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the City's *Finance Director*, 1 Common Street, Waterville, ME, 04901.

Statement of Net Assets

June 30, 2009

	Primary Government Governmental Activities	Component Unit Library
ASSETS		
Cash and cash equivalents	\$ 9,583,552	\$ 238,901
Investments	7,365,034	1,311,132
Receivables:		
Taxes receivable	1,417,939	
Tax liens	15,823	
Other receivables	57,357	224,800
Intergovernmental	375,900	
Inventory	99,053	
Capital assets, net	25,395,428	89,920
Total Assets	<u>44,310,086</u>	<u>1,864,753</u>
LIABILITIES		
Accounts payable	1,215,691	
Deferred revenues	529,728	
Accrued wages and benefits payable	1,405,841	
Taxes received in advance	18,673	
Accrued interest	149,492	
Accrued compensated absences	91,510	
Due to agency fund	113,351	
Noncurrent liabilities:		
Due within one year	1,665,028	
Due in more than one year	13,910,738	
Other postemployment benefits liability	68,445	
Accrued compensated absences	405,409	
Total Liabilities	<u>19,573,906</u>	<u> </u>
NET ASSETS		
Invested in capital assets, net of related debt	10,266,014	
Restricted for:		
Nonexpendable trust principal	228,800	
Expendable for trust designated uses	645,388	
Tax Incentive Financing (TIF) District	607,461	
Work in Process capital projects	1,418,009	
Unrestricted	11,570,508	1,864,753
Total Net Assets	<u>\$ 24,736,180</u>	<u>\$ 1,864,753</u>

See accompanying independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Statement of Activities

Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit Library
Primary Government:						
Governmental Activities:						
Mayor	\$ 19,139				\$ (19,139)	
Administration	1,477,284	\$ 2,382			(1,474,902)	
Assessor	138,614				(138,614)	
Information services	504,893	14,739			(490,154)	
Finance department	354,867	34,255			(320,612)	
City clerk	140,492	55,728			(84,764)	
Planning department	81,533	850			(80,683)	
Economic development	614,774		\$ 350,000		(264,774)	
Public works	4,296,540	265,104	237,987		(3,793,449)	
Parks, recreation and culture	712,062	137,748	1,056		(573,258)	
Police	2,461,652	72,110	35,951		(2,353,591)	
Communication center	409,217	123,614			(285,603)	
Fire	2,010,769	28,457	455		(1,981,857)	
Code enforcement	79,068				(79,068)	
Health and welfare	257,045		3,000		(254,045)	
Airport	541,641	347,949			(193,692)	
Unclassified	768,374		301,532		(466,842)	
Program expenses	28,700				(28,700)	
TIF projects	1,294,560				(1,294,560)	
Education	25,807,091	1,894,041	17,442,340		(6,470,710)	
Capital outlay recaptured	(213,644)			\$ 294,940	508,584	
Interest on debt	494,827				(494,827)	
Total Governmental Activities	\$ 42,279,498	\$ 2,976,977	\$ 18,372,321	\$ 294,940	(20,635,260)	
Component Unit:						
Library	\$ 485,754	\$ 22,177	\$ 650,798			\$ 187,221
General revenues:						
Property taxes					15,344,411	
Excise taxes					1,469,228	
Licenses and permits					109,080	
Franchise fees					170,533	
Fees and fines					8,116	
Grants and contributions not restricted to specific programs:						
State revenue sharing					2,406,580	
Homestead exemption					326,199	
BETE Reimbursement					115,876	
Investment earnings (loss)					270,222	(199,598)
Unclassified					407,591	
Release of funds reserved for landfill asset					422,324	
Gain on disposal of capital assets					27,322	
Total general revenues					21,077,482	(199,598)
Change in net assets					442,222	(12,377)
Net assets - beginning (restated)					24,293,958	1,877,130
Net assets - ending					\$ 24,736,180	\$ 1,864,753

See accompanying independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Balance Sheet Governmental Funds

June 30, 2009

	General	Landfill Closure	Other Governmental Funds	Total
ASSETS				
Cash	\$ 9,583,552			\$ 9,583,552
Investments	6,469,512		\$ 895,522	7,365,034
Receivables:				
Taxes receivable	1,417,939			1,417,939
Tax liens	15,823			15,823
Other receivables	48,724		71,793	120,517
Intergovernmental	9,618		303,122	312,740
Interfund loans receivable	103,938	\$ 446,352	6,517,803	7,068,093
Inventory	24,570		74,483	99,053
Total Assets	<u>\$ 17,673,676</u>	<u>\$ 446,352</u>	<u>\$ 7,862,723</u>	<u>\$ 25,982,751</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 571,786		\$ 643,901	\$ 1,215,687
Accrued wages and benefits payable	1,404,169		1,677	1,405,846
Accrued compensated absences	91,510			91,510
Deferred revenue	553,281		592,888	1,146,169
Taxes received in advance	18,673			18,673
Due to agency fund	113,351			113,351
Interfund loans payable	6,617,893		450,203	7,068,096
Total Liabilities	<u>9,370,663</u>		<u>1,688,669</u>	<u>11,059,332</u>
Fund Balances:				
Reserved for inventory	24,570		74,483	99,053
Reserved for nonexpendable principal			228,800	228,800
Reserved for capital projects			971,657	971,657
Unreserved, reported in:				
General fund - undesignated	8,101,006			8,101,006
General fund - school	177,437			177,437
Special revenues			1,896,288	1,896,288
Capital projects		\$ 446,352	2,357,438	2,803,790
Permanent funds			645,388	645,388
Total Fund Balances	<u>8,303,013</u>	<u>446,352</u>	<u>6,174,054</u>	<u>14,923,419</u>
Total Liabilities and Fund Balances	<u>\$ 17,673,676</u>	<u>\$ 446,352</u>	<u>\$ 7,862,723</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	25,395,428
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	616,445
Long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds.	
Accrued compensated absences	(405,409)
Accrued interest	(149,492)
Landfill closure liability	(446,352)
Capital leases payable	(622,522)
Other postemployment benefits liability	(68,445)
Bonds payable	(14,506,892)
Net Assets of Governmental Activities	<u>\$ 24,736,180</u>

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

Year Ended June 30, 2009

	General	Landfill Closure	Other Governmental Funds	Total
Revenues:				
Taxes	\$ 16,936,166			\$ 16,936,166
Licenses and permits	109,080			109,080
Intergovernmental	17,123,402		\$ 3,730,375	20,853,777
Tuition and other charges - Education	1,102,995		337,567	1,440,562
Charges for services - City	818,869		458,439	1,277,308
Fees and fines	8,116			8,116
Unclassified	1,231,000		199,827	1,430,827
Investment earnings (losses)	357,098		(86,876)	270,222
Total Revenues	37,686,726		4,639,332	42,326,058
Expenditures:				
Current:				
Mayor	19,139			19,139
Administration	1,317,983			1,317,983
Assessor	129,632			129,632
Information services	433,069			433,069
Finance department	354,259			354,259
City Clerk	139,665			139,665
Planning department	81,508			81,508
Economic development	616,605			616,605
Public works	3,698,467			3,698,467
Parks, recreation and culture	456,287		101,166	557,453
Police	2,406,788		47,269	2,454,057
Communication center	409,829			409,829
Fire	1,824,444			1,824,444
Code enforcement	79,101			79,101
Health and welfare	254,290			254,290
Education	21,719,036		3,974,185	25,693,221
County tax	736,021			736,021
Unclassified	27,317		422,011	449,328
TIF projects			1,294,560	1,294,560
Capital outlay			1,961,125	1,961,125
Debt service (excluding education portion)	1,338,145		84,038	1,422,183
Total Expenditures	36,041,585		7,884,354	43,925,939
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,645,141		(3,245,022)	(1,599,881)
Other Financing Sources (Uses):				
Bond Proceeds			147,952	147,952
Sale of Municipal Property	12,905			12,905
Purchase of Municipal Property	(5,037)			(5,037)
Transfers in	790,785		4,489,405	5,280,190
Transfers out	(4,494,405)	\$ 422,324	(363,460)	(5,280,189)
Total Other Financing Sources (Uses)	(3,695,752)	(422,324)	4,273,897	155,821
Net Change in Fund Balances	(2,050,611)	(422,324)	1,028,875	(1,444,060)
Fund Balances, Beginning of Year (Restated)	10,353,624	868,676	5,145,179	16,367,479
Fund Balances, End of Year	\$ 8,303,013	\$ 446,352	\$ 6,174,054	\$ 14,923,419

See accompanying independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended June 30, 2009

Net change in fund balances - total governmental funds \$ (1,444,060)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which the cost of assets (\$2,248,791) exceeded depreciation expense (\$2,054,984) in the current period. 193,808

In the statement of activities, the gain on disposal of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balance by the cost of the assets disposed of (\$487,777) and trade-ins/expenses absorbed by the purchaser (\$50,464), net of related accumulated depreciation of (\$451,730). 14,417

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (122,527)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This represents the reduction in accrued compensated absences (\$45,678) and the reduction in accrued interest (\$1,993). 47,671

Capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets (\$146,236). Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets (\$320,861). 174,626

Landfill closure expenses in the statement of activities that are not current uses of financial resources are not reported as expenditures in the funds 422,324

Per GASB 45 to include other postemployment retirement benefits other than pensions for eligible current and retired employees (68,445)

Revenues that have been earned on projects, that are not providing current financial resources. 68,545

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets (\$147,952). Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets (\$1,303,816). 1,155,863

Change in Net Assets of Governmental Activities \$ 442,222

Statement of Revenues, Expenditures and Changes in Fund Balance Budget (Non-GAAP Budgetary Basis) and Actual - General Fund

Year Ended June 30, 2009

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 16,626,284	\$ 16,626,284	\$ 16,962,662	\$ 336,378
Licenses and permits	195,000	195,000	109,080	(85,920)
Intergovernmental	15,770,400	15,790,400	15,262,745	(527,655)
Tuition and other charges for services - Education	1,110,000	1,110,000	1,102,994	(7,006)
Charges for services - City	445,445	796,059	818,869	22,810
Fees and fines	3,300	3,300	8,116	4,816
Unclassified	1,231,108	1,238,619	1,217,410	(21,209)
Investment earnings	350,000	350,000	357,098	7,098
Transfers in		572,062	790,785	218,723
Budgeted use of fund balance - City	2,786,000	2,732,410		(2,732,410)
Total Revenues	<u>38,517,537</u>	<u>39,414,134</u>	<u>36,629,759</u>	<u>(2,784,375)</u>
Expenditures				
Mayor	20,865	20,865	19,139	1,726
Administration	1,448,490	1,418,592	1,317,983	100,609
Assessor	155,345	155,683	129,632	26,051
Information services	476,930	476,930	433,069	43,861
Finance department	375,365	377,882	354,259	23,623
City Clerk	155,835	156,531	139,665	16,866
Planning department	88,565	88,565	81,508	7,057
Economic development	258,315	628,918	616,605	12,313
Public works	3,918,635	3,939,096	3,698,467	240,629
Parks, culture and recreation	487,930	488,549	456,287	32,262
Police	2,460,730	2,462,974	2,406,788	56,186
Communication center	430,060	430,060	409,829	20,231
Fire	1,819,810	1,842,131	1,824,444	17,687
Code enforcement	81,035	81,035	79,101	1,934
Health and welfare	318,540	320,969	254,290	66,679
Education	20,042,512	20,042,512	19,858,379	184,133
County tax	736,455	736,455	736,021	434
Unclassified	71,100	76,100	32,354	43,746
Debt service (excluding education portion)	1,356,280	1,356,280	1,338,145	18,135
Transfers out	3,814,740	4,314,007	4,494,405	(180,398)
Total Expenditures	<u>38,517,537</u>	<u>39,414,134</u>	<u>38,680,370</u>	<u>733,764</u>
Excess of Expenditures over Revenues	<u>\$ -</u>	<u>\$ -</u>	(2,050,611)	<u>\$ (2,050,611)</u>
Fund Balance, Beginning of Year (Restated)			<u>10,353,624</u>	
Fund Balance, End of Year			<u>\$ 8,303,013</u>	

See accompanying independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Statement of Fiduciary Net Assets Fiduciary Funds

June 30, 2009

	<u>Private- Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents		\$ 326,218
Investments	\$ 175,408	
Accounts receivable		98,309
Due from other funds		<u>123,109</u>
Total Assets	<u>\$ 175,408</u>	<u>\$ 547,636</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Due to student groups		\$ 326,218
Amount held for others		<u>221,418</u>
Total Liabilities		<u>\$ 547,636</u>
 Net Assets		
Held in trust	<u>\$ 175,408</u>	

Statement of Changes in Fiduciary Net Assets Fiduciary Funds

Year Ended June 30, 2009

	<u>Private- Purpose Trust Funds</u>
Additions	\$ 429
Deductions	<u>2,969</u>
Change in Net Assets	(2,540)
Net Assets, Beginning of Year	<u>177,948</u>
Net Assets, End of Year	<u><u>\$ 175,408</u></u>

Notes to Financial Statements

June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Waterville, Maine (the City) have been prepared in accordance with accounting principles generally accepted in the United States of America (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. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (standards and interpretations), constitute GAAP for governmental units. GAAP also includes guidance from the American Institute of Certified Public Accountants in the publication entitled State and Local Governments, and the Financial Accounting Standards Board (when applicable). The City has elected to consistently not follow Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989 as permitted under Governmental Accounting Standards Board Statement No. 20. The more significant of the City's accounting policies are described below.

Reporting Entity

In evaluating how to define the reporting entity, for financial reporting purposes, management has considered all potential 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. The basic — but not the only — criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either (a) the ability to impose will by the primary government, 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 is generally available to its citizens. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity. Included within the reporting entity:

The following three entities have been included in the reporting entity. The Waterville/Winslow Joint Solid Waste Disposal Facility and the Robert H. Lafleur Airport are not considered to be separate legal entities from the City of Waterville. The financial activity related to these organizations has been included in the appropriate funds of these financial statements. The Waterville Public Library is a separate legal entity but has met the criteria of a component unit due to the City's financial accountability. A brief description of these three entities follows:

Waterville/ Winslow Solid Waste Disposal Core

The Waterville/Winslow Solid Waste Disposal Core has its own Board of Directors. The appointment of the majority of the members of the Board is controlled by the City of Waterville. Decisions made by the Disposal Core Board are subject to the approval of the City of Waterville. The Disposal Core Board functions solely as a steering committee and does not control any financial resources of the landfill or transfer facility. All of the financial activity of the landfill and transfer facility flows through the accounting records of the City and is controlled by the Waterville City Council.

Robert H. Lafleur Airport

The airport is not a legally separate entity from the City of Waterville and, therefore, all of the airport's financial activity has been reported in these financial statements in the special revenue and capital project funds.

Notes to Financial Statements

June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Waterville Public Library

Waterville Public Library has a separate Board appointed by the City. The City also funds approximately \$400,000 of the Library's annual expenditures of approximately \$470,000. In addition to general operation, the Library Board controls a substantial amount of trust funds held for the benefit of the Library. The Library is considered a component unit and is included in the government-wide financial statements.

Joint Venture – The City of Waterville has entered into a joint venture with another entity. 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:

Kennebec Regional Development Authority (FirstPark) was formed in 1998 through an act of the Maine State legislature. Its primary purposes according to the act were to strengthen the financial condition of local governments within the geographic territory of the authority, while combining resources and sharing costs for meeting regional economic development needs and challenges; to promote and develop infrastructure and programs for employment and economic development opportunities and other conditions to positively affect regional development. The intent was that the members would fund the start-up costs and then all benefit from the tax revenues later on. There are currently 24 local governments who are members of the Authority including the City of Waterville.

The Authority derives the bulk of its revenue from the participants, but also receives some grant revenues from the State of Maine. In fiscal year 2009, the City of Waterville contributed \$78,961. Complete financial statements may be obtained from Kennebec Regional Development Authority/FirstPark at P.O. Box 246, Oakland, ME 04963.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets 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 eliminated from these statements. Governmental activities are primarily supported by taxes and intergovernmental revenues.

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 included among program revenues are reported as general revenues.

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

Notes to Financial Statements

June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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, interest, and charges for services. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

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. Landfill Closure is a major fund. It accounts for landfill closure costs.

Additionally, the City reports the following fund type:

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. The City's fiduciary funds include the following fund types:

Private-purpose trust funds are used to report all trust arrangements (other than pension and investment trust funds) under which principal and income benefit individuals, private organizations, or other governments.

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 modified accrual basis of accounting. The funds are used to account for assets that the City holds for others in an agency capacity.

Notes to Financial Statements

June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 and U.S. Agencies, commercial paper, repurchase agreements and certain corporate stocks and bonds. Cash equivalents include CDs with a longer maturity.

Investments are stated at fair value.

Interfund Receivables/Payables

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which the transactions are executed.

Inventories

Inventories are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. The costs of governmental fund-type inventories are generally recorded as expenditures when consumed rather than when purchased. Some items in the special revenue fund have been recorded as assets and the related fund balances are reserved for these amounts because these "inventories" do not constitute expendable available financial resources. Certain inventory is on hand at the Public Works garage and the Airport. This inventory, made up of gasoline and oil, has been expensed as purchased.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

For City roads and other infrastructure maintenance is defined as repairs that are regularly scheduled and are normal for that type of road surface. These costs are generally expensed, even though the cost may exceed the capitalization threshold. However, if the road is "improved" or "rebuilt" by straightening curves, upgrading the surface type, replacing low water crossings, digging up old pavement down to the road base or any other major change, it must be capitalized and depreciated if it exceeds the threshold of \$50,000 (fifty thousand dollars) and adds to the life or capacity of the road or infrastructure. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the assets' estimated useful lives ranging from 3 to 40 years.

For all capital assets - buildings, vehicles, equipment – the City elects to use the Depreciation Approach as defined by Statement No. 34 for reporting.

Notes to Financial Statements

June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets – Continued

This process determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition. Original costs were developed in one of three ways: (1) historical records; (2) standard unit costs appropriate for the construction/acquisition date; or (3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight-line, unrecovered cost method was computed using industry accepted life expectancies for each capital asset. The book value was then computed by deducting the accumulated depreciation from the original cost.

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements. No current expenditure is reported for these amounts in the fund financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as "terminal leave" prior to retirement.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs 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.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation for expenditure or that are legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

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.

Notes to Financial Statements

June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Each year the Mayor submits to the City Council a budget for the ensuing fiscal year and an accompanying message. The Mayor's message explains the budget both in fiscal terms and in terms of the work programs. It outlines the proposed financial policies of the City for the coming fiscal year; describes the important features of the budget; indicates any major changes from the current year in financial policies, expenditures, and revenues, together with the reasons for such changes; summarizes the City's debt position/ and includes such other material as the Mayor deems desirable. It also describes the tax impact of the proposed budget. The City charter requires that the budget be submitted to the City Council no later than 90 days prior to the beginning of the new year.

Hearings are held to obtain public comments. The budget is legally enacted by an appropriation order. The order enacts the total City and the total School appropriation. In addition, separate orders are adopted for individual budgeted special revenue funds. Any revisions to the budget that alter total expenditures must be approved by the Council.

All unexpended appropriations lapse at year-end unless specific approval is granted to carry forward such amounts. Department level total expenditures should not exceed appropriations.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. For reporting under accounting principles generally accepted in the United States of America, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

On-behalf payments, which represent a contribution to the Maine State Retirement System made by the State of Maine on-behalf of the School Department, are recorded as revenue and expense under GAAP and have been excluded from both revenue and expenditures on the budgetary basis of accounting.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2009, expenditures did not exceed appropriations for any department.

Notes to Financial Statements

June 30, 2009

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – CONTINUED

Deficit Fund Balances

The individual Special Revenue Funds carrying fund deficits as of June 30, 2009 are as follows:

Community Development Program	\$	5,518
Office equipment		7,860
Police		69,006
Grant Fund		539

All will be funded by future program income.

The individual Capital Projects Funds carrying fund deficits as of June 30, 2009 are as follows:

School Revolving Renovation Loan Fund	\$	43,784
Improve First Rangeway Intersection		7,920
Central Office Facility - School		900
Airport Master Plan - AP15		84
Airport Master Plan - AP16		65,007
Snow Dump Construction		220
Schools Other		4,410
High School Renovation Project		328,764
North Street Connector Trail		46,652

Capital Projects Funds will be funded by future bond proceeds, grants, and donations from third parties, and/or future transfers from the general fund.

NOTE 3 – CASH AND INVESTMENTS

Custodial Credit Risk – Deposits

Primary Government – City of Waterville

Custodial credit risk is that in event of a bank failure, the government's deposits may not be returned to it. The City has a policy whereby all deposits are to be insured by FDIC insurance or when the amount of deposit balances exceeds FDIC insurance the balance in excess of FDIC insurance must be collateralized. As of June 30, 2009, none of the City's bank balance of \$11,094,096 was exposed to custodial credit risk.

Component Unit – Waterville Public Library

Custodial credit risk is that in event of a bank failure, the government's deposits may not be returned to it. The Library does not have a policy for custodial credit risk. As of June 30, 2009, none of the Library's bank balance of \$270,318 was exposed to custodial credit risk.

Notes to Financial Statements

June 30, 2009

NOTE 3 – CASH AND INVESTMENTS – CONTINUED

Investments

Primary Government — City of Waterville

Maine statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. Agencies, commercial paper, repurchase agreements, and certain corporate stocks and bonds. As of June 30, 2009, the City had the following investments and maturities:

	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	No Maturity
Repurchase agreements	\$ 5,580,026	\$ 5,580,026			
U.S. Treasuries	819,326	181,843	\$ 528,411	\$ 109,072	
U.S. Agencies	518,119	61,894	456,225		
Common Stock	381,531				\$ 381,531
Mutual Bond Funds	66,032				66,032
Total Investments	\$ 7,365,034	\$ 5,823,763	\$ 984,636	\$ 109,072	\$ 447,563

Interest Rate Risk – To the extent possible, the City of Waterville will attempt to match investments with anticipated cash requirements. Maturities will be two years or less for operating fund investments and five years or less for other long term funds. This does not apply to trust funds held by the City. The City of Waterville may collateralize its repurchase agreements using longer term investments through a Letter of Credit with banks of such standing and quality as the Federal Home Loan Bank of Boston or the Federal Reserve Bank. This policy was formally adopted by the City during the fiscal year ended 2008. The City is in the process of moving all its non- trust funds beyond five years to maturities of five years or less.

Credit Risk – Funds of the City of Waterville may be invested in the following types of securities:

- Obligations of the U.S. government, its agencies and instrumentalities, i.e., Treasury bills. Treasury notes or bonds maturing within one year.
- Insured or fully collateralized certificates of deposit of banks and savings and loan associations.
- Repurchase agreements collateralized by Letters of Credit from such institutions such as Federal Home Loan Bank or the Federal Reserve Bank; or by U.S. Government backed obligations of U.S. Government agencies and corporations. Pledged collateral must be at least 102% of the market value of the principal and accrued interest and marked-to-market daily. A Master Repurchase Agreement must be signed with the bank or dealer and kept on file by the Finance Director.
- Money market mutual funds whose portfolios consist entirely of U.S. Government securities.

Funds may be invested in longer maturities, prime bankers' acceptances and secured commercial paper with an AAA rating according to the Standard & Poor's rating scale upon adoption of a motion of authorization by the majority of the governing body at a regular or special public meeting.

Notes to Financial Statements

June 30, 2009

NOTE 3 – CASH AND INVESTMENTS – CONTINUED

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investments with material exposure to custodial credit risk at this time.

Concentration of Credit Risk — The City places no limit on the amount the City may invest in any one issuer.

Component Unit — Waterville Public Library

	Fair Value	Investment Maturities (in Years)			
		1 - 5	6 - 10	More than 10	No Maturity
Corporate Bonds	\$ 122,220	\$ 115,565	\$ 5,308	\$ 1,347	
Common Stock	738,485				\$ 738,485
Mutual Funds	104,925				104,925
CD's, less than 1 year	233,000	233,000			
Money Market, less than 1 year	112,502	112,502			
Total Investments	\$ 1,311,132	\$ 461,067	\$ 5,308	\$ 1,347	\$ 843,410

Interest Rate Risk — The Library has no investment policy that addresses interest rate risk.

Credit Risk – The Library has no investment policy. As of June 30, 2009 the Library's investment in corporate bonds were rated between BAA2 and AA3 by Moody's.

Concentration of Credit Risk — The Library places no limit on the amount the Library may invest in any one issuer. The following concentration of credit risk exists for the following common stock holdings as of June 30, 2009, Exxon Mobil — 8% and Kimberly-Clark — 5%.

NOTE 4 – PROPERTY TAX

Property taxes for the current year were committed on August 15, 2008, on the assessed value listed as of the prior April 1 for all real and personal property located in the City. Assessed values are periodically 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 \$302,811 for the year ended June 30, 2009.

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The City has the authority to foreclose on property eighteen months after the filing of the lien if the tax liens and associated costs remain unpaid.

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 deferred revenues.

Notes to Financial Statements

June 30, 2009

NOTE 4 – PROPERTY TAX – CONTINUED

The following summarizes the levy as of and for the year ended June 30, 2009:

Assessed value	\$ 629,708,652
Tax rate (per \$1,000)	24.40
Commitment	\$ 15,364,902
Supplemental taxes assessed	3,708
	<u>15,368,610</u>
Less:	
Abatements	22,691
Collections	14,207,402
	<u>14,230,093</u>
Current year taxes receivable at end of year	<u>\$ 1,138,517</u>
Due date(s) - current year	1/4 - October 10, 2008 1/4 - December 12, 2008 1/4 - March 13, 2009 1/4 - June 12, 2009
Interest rate on delinquent taxes	9.0%
Collection rate	92.5%
Taxes receivable - current year	\$ 1,138,517
Taxes receivable - prior years	279,422
Total taxes receivable	<u>\$ 1,417,939</u>

NOTE 5 – CAPITAL ASSETS

In accordance with GASB Statement No. 34, the City has reported all capital assets in the Government-Wide Statement of Net Assets. All capital assets were reported using the basic approach whereby accumulated depreciation and depreciation expense has been recorded. The table below presents summary information on capital assets for the year ended June 30, 2009.

Notes to Financial Statements

June 30, 2009

NOTE 5 – CAPITAL ASSETS – CONTINUED

Capital asset activity for the City for the year ended June 30, 2009 was as follows:

	Balance 6/30/2008	Adjustments	Increases	Decreases	Balance 6/30/2009
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 1,652,905	\$ (882)	\$ 12,813		\$ 1,664,836
Construction in progress	376,094	(131,630)	985,679		1,230,143
Total capital assets not being depreciated	<u>2,028,999</u>	<u>(132,512)</u>	<u>998,492</u>		<u>2,894,979</u>
Capital assets being depreciated:					
Buildings	22,881,085	(3,183)	29,604	\$ 8,818	22,898,688
Improvements	5,446,265		23,331		5,469,596
Vehicles	5,313,875		451,299	329,032	5,436,142
Equipment	3,705,052		364,515	149,927	3,919,640
Infrastructure	16,442,108		381,550		16,823,658
Total capital assets being depreciated	<u>53,788,385</u>	<u>(3,183)</u>	<u>1,250,299</u>	<u>487,777</u>	<u>54,547,724</u>
Less accumulated depreciation for:					
Buildings	10,691,044	(20)	686,894	8,818	11,369,100
Improvements	2,817,779		259,061		3,076,840
Vehicles	3,371,433		345,593	292,985	3,424,041
Equipment	2,696,801		295,495	149,927	2,842,369
Infrastructure	10,866,984		467,941		11,334,925
Total accumulated depreciation	<u>30,444,041</u>	<u>(20)</u>	<u>2,054,984</u>	<u>451,730</u>	<u>32,047,275</u>
Total capital assets being depreciated, net	<u>23,344,344</u>	<u>(3,163)</u>	<u>(804,685)</u>	<u>36,047</u>	<u>22,500,449</u>
Governmental Activities					
Capital Assets, Net	<u>\$ 25,373,343</u>	<u>\$ (135,675)</u>	<u>\$ 193,807</u>	<u>\$ 36,047</u>	<u>\$ 25,395,428</u>

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

Governmental activities:	
Administration	\$ 97,634
Information services	69,985
Public works (includes infrastructure)	599,115
Parks and recreation	153,024
Police	80,933
Fire	182,783
Program expenditures	150,063
Education	721,447
Total depreciation expense - governmental activities	<u>\$ 2,054,984</u>

Capital asset activity for the component unit – Waterville Public Library for the year ended June 30, 2009 consisted of construction in progress of \$89,921, all of which was incurred during the current fiscal year.

Notes to Financial Statements

June 30, 2009

NOTE 6 - CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions and Adjustments	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and notes payable	\$ 15,662,756	\$ 147,952	\$ 1,303,816	\$ 14,506,892	\$ 1,342,761
Capital leases	797,147	146,236	320,861	622,522	322,267
Compensated absences	536,655	45,832	85,568	496,919	91,510
Landfill liability closure	868,676		422,324	446,352	
Other post employment benefits		68,445		68,445	
Governmental Activity					
Long-Term Liabilities	<u>\$ 17,865,234</u>	<u>\$ 408,465</u>	<u>\$ 2,132,569</u>	<u>\$ 16,141,130</u>	<u>\$ 1,756,538</u>

NOTE 7 – CAPITAL LEASES

The Department of Public Schools is engaged in four capital leases, and the City is engaged in one capital lease as of June 30, 2009. The amount of assets capitalized under these leases total \$2,089,894 of which \$570,765 has been depreciated, leaving a net book value of \$1,519,129 as of June 30, 2009. Future minimum capital lease payments are as follows:

Principal	
2010	\$ 322,267
2011	139,095
2012	145,538
2013	15,622
Total Principal	<u>622,522</u>
Interest	
2010	28,286
2011	13,499
2012	7,055
2013	315
Total Interest	<u>49,155</u>
Total Payments	671,677
Less Interest	<u>49,155</u>
Net Present Value	<u>\$ 622,522</u>

Notes to Financial Statements

June 30, 2009

NOTE 8 – LONG-TERM DEBT

Bonds and notes payable at June 30, 2009 are comprised of the following:

	Date of Issue	Original Amount Issued	Date of Maturity	Interest Rate	Balance June 30, 2009
Long-Term Debt					
1997 General Obligation Bond	11/1/97	\$ 3,880,000	2012	4.35%-5.00%	\$ 510,000
1999 General Obligation Bond	7/1/99	4,970,000	2019	3.50%-5.50%	2,955,000
2001 State Street Capital Bond	2/1/01	2,021,000	2021	4.25%-5.00%	1,221,000
2002S MMBB SRRLF - Loan 1	4/29/02	1,000,000	2011		136,860
2002S MMIBB SRB.LF - Loan 2	5/8/02	975,000	2011		115,773
2002S MMBB SRRLF - Loan 3	4/29/02	907,000	2011		107,698
2002S MMBB SRRF	10/2/02	994,000	2012		73,100
2002 General Obligation Bond	11/1/02	5,300,000	2032	2.00%-5.00%	4,100,000
2005S School Renovation	4/13/05	538,051	2014		157,606
2005 General Obligation Bond	6/14/05	5,285,000	2025	3.50%-4.00%	4,075,000
2007 QZAB Bond	10/9/07	965,000	2022	1.44%	906,904
2008 QZAB Bond	7/16/08	516,279	2023	1.84%	147,951
Total Bonds and Notes Payable					\$ 14,506,892

Arbitrage rebate - Pursuant to the Tax Reform Act of 1986, governments issuing tax-exempt bonds or entering into note or lease obligations are required to perform an arbitrage rebate calculation upon the fifth anniversary of the obligation and to remit such rebate to the federal government, subject to certain exceptions. Since August 15, 1986, the effective date of these rules, the City has not been subject to any arbitrage refunds as they have met the exceptions to the arbitrage regulations.

The annual requirements to amortize all long-term debt outstanding as of June 30, 2009 are as follows:

	Principal	Interest	Total
June 30,			
2010	\$ 1,342,761	\$ 567,263	\$ 1,910,024
2011	1,292,992	522,556	1,815,548
2012	1,171,546	477,443	1,648,989
2013	1,071,925	440,402	1,512,327
2014	977,979	398,006	1,375,985
2015-2019	4,431,196	1,424,553	5,855,749
2020-2024	2,817,771	612,222	3,429,993
2025-2029	875,000	227,375	1,102,375
2030-2034	525,722	54,000	579,722
Total	\$ 14,506,892	\$ 4,723,820	\$ 19,230,712

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 long-term debt of \$14,506,892 at June 30, 2009 was within the statutory limit.

Notes to Financial Statements

June 30, 2009

NOTE 8 – LONG-TERM DEBT – CONTINUED

In addition to the bonds and notes payable, the City is contingently responsible for the following overlapping debt as of June 30, 2009:

Governmental Unit	Net Debt Outstanding	Applicable to Waterville	City of Waterville Share of Debt
Kennebec County	<u>\$ 850,790</u>	<u>8.09%</u>	<u>\$ 68,820</u>

Reimbursement for Debt Service Expenditures - The State of Maine currently reimburses the City for a portion of the financing costs of certain school buildings. Continuation of such reimbursements is dependent upon continued appropriation by the State Legislature.

NOTE 9 – INTERFUND BALANCES

As of June 30, 2009, the balances of interfund loans receivable/payable were as follows:

	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$ 103,938	\$ 6,617,891
Landfill Closure Fund	446,352	
Other Governmental Funds	6,517,803	450,202
	<u>\$ 7,068,093</u>	<u>\$ 7,068,093</u>

NOTE 10 – MAINE STATE RETIREMENT SYSTEM (MSRS)

Consolidated Retirement Pension Plan – City and School

Description of the Plan – The City and School Department (custodians, school lunch personnel and other non-teacher personnel) contribute to the Maine State Retirement System Consolidated Plan, a cost sharing multiple-employer retirement system established by the Maine State legislature. The Maine State Retirement System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Maine State Legislature establishes and amends benefit provisions. The Maine State Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Consolidated Plan. That report may be obtained by writing to Maine State Retirement, 46 State House Station, Augusta, ME 04333-0046 or by calling 1-800-451-9800.

Funding Policy (City) – Plan members are required to contribute 8% of their annual covered salary and the City is required to contribute an actuarially determined rate. The current rate is 2.9% of annual covered payroll. The contribution rates of plan members and the City are established and may be amended by the Maine State Legislature. The City made no contribution to the Maine State Legislature Consolidated Plan for the year ended June 30, 2009.

Funding Policy (School Department) – The contribution rates of plan members and the Public Schools are established and may be amended by the Maine State Retirement System Board of Trustees. The School's contribution to the Maine State Retirement System Consolidated Plan for the year ended June 30, 2009 was \$143,066, which equals the required contributions for the year.

Notes to Financial Statements

June 30, 2009

NOTE 10 – MAINE STATE RETIREMENT SYSTEM (MSRS) – CONTINUED

Maine State Retirement – Teachers Group

Description of Plan – All schoolteachers, plus other qualified educators, participate in the Maine State Retirement System's teacher group. The teacher's group is a cost-sharing plan with a special funding situation, established by the Maine State legislature. The Maine State Retirement System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the Maine State Retirement System Board of Trustees. The Maine State Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Teacher's Group. That report may be obtained by writing to Maine State Retirement System, 46 State House Station, Augusta, ME 04333-0046 or by calling 1-800-451-9800.

Funding Policy – Plan members are required to contribute 7.65% of their compensation to the retirement system. The State of Maine Department of Education is required, by the same statute, to contribute the employer contribution which amounts to \$1,860,658 (18.76%) for the fiscal year 2009. This amount has been reported as an intergovernmental revenue and retirement expenditure in the financial statements. There is no contribution required by the School except for federally funded teachers, for which the School contributed 18.76% of their compensation. This cost is charged to the applicable grant.

NOTE 11 – DEFERRED COMPENSATION PLAN

The City of Waterville offers all its employees not participating in Maine State Retirement a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan permits participating employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The City amended the plan in accordance with the provisions of IRS Section 457(g). Assets of the plan were placed in trust for the exclusive benefit of participants and their beneficiaries. The requirements of that IRC Section prescribes that the City no longer owns the amounts deferred by employees, including the related income on those amounts. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on their plan assets, were removed from the City's basic financial statements.

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS

The Governmental Accounting Standards Board (GASB) recently promulgated its Statement 45, which addressed the reporting and disclosure requirements for other post employment benefits (OPEB). GASB Statement 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*, was implemented as required by the City of Waterville for the year ended June 30, 2009. This pronouncement requires the long-term cost of retirement health care and obligations for other post employment benefits be determined on an actuarial basis and reported similar to pension plans.

The City is a member of the Maine Municipal Employees Health trust. The Trust contracted with an outside consultant to assist in the determination and valuation of the City's OPEB liability under GASB 45. An OPEB liability actuarial valuation was completed by the consultants in December 31, 2008.

Plan Descriptions - The City of Waterville offers two separate health insurance plans. Employees are placed into a plan depending on their position and bargaining unit (if applicable). The City does not provide any payment toward employee retirement benefits for health, dental or life insurances for any employee. However, if an employee meets the requirements, they may, at their own cost, remain on the employer's health insurance plan.

Notes to Financial Statements

June 30, 2009

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS – CONTINUED

All non-union administrative employees, employees in the AFSCME bargaining unit, and employees in the Maine Association of Police bargaining unit are eligible for health, dental and life insurance through the Maine Municipal Employees Health Trust (MMEHT).

The criteria for being eligible to remain on the City's health insurance plan with MMEHT after retiring are as follow:

1. The employee must have been employed by the City of Waterville for the last five consecutive years.
2. The employee must be at least 55 years of age on the date of retirement.
3. The employee must be receiving benefits from a retirement plan established by the City of Waterville (i.e. Maine Public Employees Retirement System or ICMA).

All Teamster bargaining unit employees, including Fire, Parks & Recreation, Custodial, and Public Works union employees, receive health insurance plans through Northern New England Benefit Trust (NNEBT). An actuarial valuation was not performed for this plan and management believes any potential liability would not be material at this time.

The criteria for being eligible to receive retiree benefits with NNEBT are as follows:

1. The employee must have 13 consecutive years of medical coverage with NNEBT or if there was a break in medical coverage, the employee must have 20 years of collective medical coverage with NNEBT.
2. The employee must be at least 57 years of age on the date of retirement.

Eligible employees have a maximum of eight years of subsidy on the retiree program, which is based on the age of the employee. This subsidy is based on a per person, per month rate. The employee is responsible for any amount beyond the subsidy. They are as follows:

1. Employees aged 57, 58 and 59 have a 50% subsidy.
2. Employees aged 60 and 61 will receive a 70% subsidy.
3. Employees aged 62 and over will receive a 100% subsidy until age 65.

In order to be eligible for the retiree program, there are certain rules that must be followed. They are as follows:

1. The employee may not work more than 30 hours in any one week.
2. The employee may not be eligible for any other group insurance.
3. Any coverage for dependents would be based on the wording of the collective bargaining agreement. As the current contracts state, employees pay the same percentage of coverage no matter what level of benefit they have (i.e. single, dependent or family).

Notes to Financial Statements

June 30, 2009

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS – CONTINUED

Funding Policy and Annual OPEB Cost – GASB Statement 45 does not mandate the prefunding of postemployment benefits liability. The City currently plans to fund these benefits on a pay-as-you-go basis. No assets have been segregated and restricted to provide post employment benefits. The annual required contribution (ARC), an actuarial determined rate, represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities over a period not to exceed thirty years.

The following table represents the OPEB costs for the year and the annual required contribution:

Normal cost	\$ 34,233
Amortization of unfunded	32,870
Interest	1,342
Annual required contribution	<u>\$ 68,445</u>

Funding Status and Funding Progress – The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ending June 30, 2009 was as follows:

Annual required contribution	\$ 68,445
Actual contribution	
Percent contributed	0.00%
Actuarial accrued liability	\$ 591,128
Plan assets	
Unfunded actuarial accrued liability	<u>\$ 591,128</u>
Covered payroll	\$ 3,007,951
Unfunded actuarial accrued liability as a percentage of covered payroll	19.65%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revisions. Actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information provides multiyear trend information (only one year available at this time) that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions – Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the plan members at that point. Actuarial calculations reflect long term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of plan assets. Significant methods and assumptions were as follows:

Notes to Financial Statements

June 30, 2009

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS – CONTINUED

Actuarial valuation date	January 1, 2009
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Level dollar
Remaining amortization	Period 30 years

Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	N/A
Healthcare inflation rate	4.0% to 9.6%

The Schedule of Funding Progress for the Retiree Healthcare Plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a % of Covered Payroll
6/30/09	\$ -	\$ 591,128	\$ 591,128	\$ -	\$ 3,007,951	19.65%

NOTE 13 – TAX INCREMENT FINANCING DISTRICT

The City has established seven tax increment-financing districts under the terms of applicable State laws.

The **Kennedy Memorial Drive District** was established in 1992 to finance certain infrastructure improvements. The expenditures for these improvements will be recouped in the future years via an incremental tax levied upon the District's so-called "captured assessed value". The bonds issued to fund the improvements are limited obligations of the City, payable solely from the monies pledged under the indenture consisting of tax increment revenues and an irrevocable funding commitment from Wal-Mart Stores, Inc. The bonds do not constitute or create any debt or liability of or on behalf of the State of Maine or the City of Waterville. The tax increment will be used expressly for the repayment of principal and interest on the indebtedness created to fund the expenditures of the improvements. Expenditures related to the project have been recorded in the Capital Project Fund.

In September 1994, the Development Program and Financial Plan for the TIF District were amended to allow the use of additional tax increment revenue to provide funds to create and fund the Waterville Downtown Job Retention Fund. The State authorized the City to capture 80% of the incremental assessed value to be used to finance first the original bond debt services payments and then the downtown job retention activities. The remaining 20% of property tax revenues from incremental assessed value will be paid to the City's General Fund. The City has retained the right to further amend the designation of the TIF District and its Development Program consistent with the provisions of Section 5253 of the Title 30-A of the Maine Revised Statutes, as amended.

In August 1996, the City established the **Upper Main Street Tax Increment Financing Development District**. The District is designed to provide incentives for the revitalization of a major retail corridor in the City of Waterville. By using a mechanism known as a credit enhancement agreement, the City will return a portion of new tax revenues generated within the District to the developer as new taxable value is created. Under the agreement, the City returns 75% of newly generated tax revenues to the developer in years one through five of the project, and 50% in years six through twenty of the project.

Notes to Financial Statements

June 30, 2009

NOTE 13 – TAX INCREMENT FINANCING DISTRICT – CONTINUED

In July 2000, the City established **The Chinet Company Tax** Increment Financing District. The purpose of the District is to secure the City of Waterville's industrial job base and to ensure the long-term economic stability and well being of the Chinet Company Plant. The project provides the City with additional tax revenues and a potential long-term increase in employment without an increase in demand for local service. The overhauling of machinery and equipment at the Chinet Company Plant added approximately \$8,157,301 of new tax base to the City of Waterville. Chinet will finance the improvements within the District. The City will not assume any financial liability within the District. Under the T.I.F. District Credit Enhancement Agreement, the appropriate percentages of new tax revenues will be reinvested into the District to support the cost of capital investment. The design is intended to capture the appropriate percentage of new investment above the current base value of \$2,320,230. For municipal assessed values in excess of this amount from investment made in the first five years of the T.I.F. ending April 1, 2005, the resulting tax revenue will be distributed 75% to the Chinet Company for the first ten years following the year in which the investment is made and 50% in years ten through fifteen following the year in which investment is made through the Credit Enhancement Agreement. In October 2002, the City established the **Airport Park Tax Increment Financing** and Development District. The District is designed to create and save jobs, and improve infrastructure (Century Drive and Airport Road). The City will retain 100% of the captured assessed value. This will be used to fund the Airport Park T.I.F. District Development Program Sinking Fund. The sinking fund shall consist of the captured assessed value earnings less the monies necessary for repayment of debt incurred from the initial construction of Century Drive and the continuation of Airport Road and less the monies to fund the enhancement reimbursements as may be required. Credit enhancement reimbursements may not exceed 75% for years one through five, and 50% for years six through fifteen for the manufacturing sector. The non-manufacturing sector may receive credit enhancement reimbursements not exceeding 50% for years one through ten.

In December 2004, the City established the **Downtown Redevelopment Tax** Increment Financing District. The City of Waterville is authorized to capture 100% of the increased assessed value of real and personal property in the district as set forth in the financial plan section of the application received initially by the State on February 3, 2005, and in final form May 24, 2005. The tax increment arising from this captured value is to be used expressly for the project costs described in the Development Program, i.e. potential credit enhancement agreements (CEA) with developers and owners of site specific real estate projects; and other eligible project costs in the downtown, including capital costs, financing costs, professional services, and administrative expenses.

In October 2006, the City established the **Lockwood Mills Tax Increment** Financing District. The purpose of the District is to generate substantial economic benefit for the City and its residents, including employment opportunities, broadened and improved tax base and economic stimulus. The City of Waterville is authorized to capture 100% of the increased assessed value of real and personal property in the district as set forth in the Financial Plan. The tax increment arising from this captured value is to be used expressly for the project costs described in the Development Program, i.e. potential credit enhancement agreements (CEA) with developers and owners of site specific real estate projects; and other eligible project costs, including capital costs, financing costs, professional services, and administrative expenses.

Notes to Financial Statements

June 30, 2009

NOTE 13 – TAX INCREMENT FINANCING DISTRICT – CONTINUED

In February 2007, the City established the Mid-State **Machine Products Tax** Increment Financing District. The purpose of the District is to secure the City of Waterville's industrial job base and to ensure the long-term economic stability and well being of Mid-State Machine Products. The project provides the City with additional tax revenues and a potential long-term increase in employment without an increase in demand for local service. Mid-State Machine Products will finance the improvements within the District. The City will not assume any financial liability within the District. Under the T.I.F. District Credit Enhancement Agreement, the appropriate percentages of new tax revenues will be reinvested into the District to support the cost of capital investment. The design is intended to capture the appropriate percentage of new investment above the current base value of \$1,275,000. For municipal assessed values in excess of this amount from investment made in the first five years of the T.I.F. ending February 20, 2012, the resulting tax revenue will be distributed 50% to Mid-State Machine Products for the first five years following the year in which the investment is made, 40% in years six through ten, 30% in years eleven through fifteen, and 20% in years sixteen through twenty following the year in which investment is made through the Credit Enhancement Agreement.

NOTE 14 – CONTINGENT LIABILITIES

Grant Funds – The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Other Contingent Liabilities – The City is not currently a defendant in any lawsuit.

NOTE 15 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws require that the City place a final cover on its landfills when waste is no longer accepted and perform certain maintenance and monitoring functions at the post closure thirty years after closure. Closure and post closure costs are based on landfill capacity used to date. Since the landfill is no longer operational, 100% capacity has been assumed.

The Capital Project Fund – Landfill Closure has been established to provide financial assurance for the closure and post closure care costs. As of June 30, 2009, the Landfill Closure Fund had a fund balance of \$446,352, which is considered to be adequate to cover future expenditures.

The estimated total current cost of landfill closure and post closure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor and maintain the landfill were acquired as of June 30, 2009. Actual cost may be higher or lower due to inflation, changes in technology, and changes in laws or regulations.

NOTE 16 – RISK MANAGEMENT – CITY

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors, and omissions, and natural disasters for which the City either carries commercial insurance, or participates in public entity risk pools or is effectively self-insured. Currently, the City participates in a public entity risk pool sponsored by the Maine Municipal Association.

Based on the coverage provided by this pool, as well as coverage provided by commercial insurance purchased, the City is not aware of any material actual or potential claim liabilities which should be recorded at June 30, 2009.

Notes to Financial Statements

June 30, 2009

NOTE 17 – RESTATEMENT OF BEGINNING FUND BALANCE/NET ASSETS

The following discloses the restatement of fund balances as of the beginning of the fiscal year:

	Permanent Funds
Fund balance, beginning of year, as previously stated:	
Increase due to additional bank account for "470" Engine Fund being recorded	\$ 987,907 1,856
Fund balance, beginning of year, as restated	<u>\$ 989,763</u>

Primary Government:

Net asset, beginning of year, as previously stated	\$ 24,481,907
Restatement of last year's assets	(135,694)
Restatement of last year's accumulated depreciation	20
Understated assets synced up upon disposal	(50,464)
Added bank account from "470" Fund	1,856
Other adjustments - schools	(3,667)
Net assets, beginning of year, as restated	<u>\$ 24,293,958</u>

Independent Auditors' Report on Additional Information

City Council
City of Waterville
Waterville, Maine

Our report on our audit of the basic financial statements of the City of Waterville as of and for the year ended June 30, 2009 appears on page 1. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Waterville's basic financial statements. The accompanying schedules on pages 39 through 46 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Macdonald Page & Co LLC

South Portland, Maine
December 3, 2009

**Special Revenue Funds
Combining Balance Sheet**

June 30, 2009

	400	410	540	550	260	270	320	800	Grant Fund	School Funds	Total
	Community Development Program	TIF Projects Fund	Recreation Fund	Airport Fund	Archives Clerk	Police Grants	Office Equip				
Accounts receivable			\$ 2,500	\$ 6,021		\$ 112				\$ 303,122	\$ 8,633
Due from other governments										13,639	303,122
Inventory				60,844						1,453,874	74,483
Interfund loans receivable	\$ 1,054,601		78,061	64,809							2,651,345
Total Assets	\$ -	\$ 1,054,601	\$ 80,561	\$ 131,674	\$ -	\$ 112	\$ -	\$ -	\$ -	\$ 1,770,635	\$ 3,037,583
LIABILITIES AND FUND BALANCES											
Liabilities:											
Deferred revenues											
Accounts Payable		\$ 447,140	\$ 4,314	\$ 919				\$ 432		\$ 529,728	\$ 529,728
Accrued Wages				1,677							1,677
Interfund loans payable	\$ 5,518								107		82,602
Total Liabilities	\$ 5,518	\$ 447,140	\$ 4,314	\$ 2,596					\$ 539	\$ 529,728	\$ 1,066,812
Fund Balances (Deficit):											
Reserved for inventory				60,844						13,639	74,483
Unreserved:											
Undesignated	(5,518)	607,461	76,247	68,234		(69,005)	(7,860)	(539)		1,227,268	1,896,288
Total Fund Balances (Deficit)	(5,518)	607,461	76,247	129,078		(69,005)	(7,860)	(539)		1,240,907	1,970,771
Total Liabilities and Fund Balances	\$ -	\$ 1,054,601	\$ 80,561	\$ 131,674	\$ -	\$ 112	\$ -	\$ -	\$ -	\$ 1,770,635	\$ 3,037,583

See accompanying independent auditors' report on additional information.

Special Revenue Funds Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2009

	400	410	540	550	260	270	320	800		
	Community Development Program	TIF Projects Fund	Recreation Fund	Airport Fund	Archives Clerk	Police Grants	Office Equip	Grant Fund	School Funds	Total
Revenues:										
Federal programs						\$ 34,851			\$ 3,463,744	\$ 3,498,595
Charges for services			\$ 110,491	\$ 347,949					337,567	796,007
Unclassified			22,257							22,257
Total Revenues			<u>132,748</u>	<u>347,949</u>		<u>34,851</u>			<u>3,801,311</u>	<u>4,316,859</u>
Expenditures:										
Recreation			101,166							101,166
Police						47,269				47,269
Education									3,974,185	3,974,185
TIF projects		\$ 1,294,560								1,294,560
Debt service		84,038								84,038
Cooperation with other entities								\$ 539		539
Unclassified				392,772						392,772
Total Expenditures		<u>1,378,598</u>	<u>101,166</u>	<u>392,772</u>		<u>47,269</u>		<u>539</u>	<u>3,974,185</u>	<u>5,894,529</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures		<u>(1,378,598)</u>	<u>31,582</u>	<u>(44,823)</u>		<u>(12,418)</u>		<u>(539)</u>	<u>(172,874)</u>	<u>(1,577,670)</u>
Other Financing Sources:										
Transfers in		911,302	30,665	87,695						1,029,662
Transfers out			(27,787)	(18,025)	\$ (2,100)					(47,912)
		<u>911,302</u>	<u>2,878</u>	<u>69,670</u>	<u>(2,100)</u>					<u>981,750</u>
Net Change in Fund Balances		<u>(467,296)</u>	<u>34,460</u>	<u>24,847</u>	<u>(2,100)</u>	<u>(12,418)</u>		<u>(539)</u>	<u>(172,874)</u>	<u>(595,920)</u>
Fund Balances (Deficit), Beginning of Year (Restated)	\$ (5,518)	1,074,757	41,787	104,231	2,100	(56,587)	\$ (7,860)		1,413,781	2,566,691
Fund Balances (Deficit), End of Year	\$ (5,518)	\$ 607,461	\$ 76,247	\$ 129,078	\$ -	\$ (69,005)	\$ (7,860)	\$ (539)	\$ 1,240,907	\$ 1,970,771

See accompanying independent auditors' report on additional information.

Capital Projects Combining Balance Sheet

June 30, 2009

ASSETS

Accounts receivable	\$ 63,159
Interfund loans receivable	<u>4,312,812</u>

Total Assets

\$ 4,375,971

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$ 191,099
Deferred revenue	63,160
Interfund loans payable	<u>346,265</u>
Total Liabilities	<u>600,524</u>

Fund Balances:

Reserved	1,418,009
Unreserved:	
Designated	2,065,368
Undesignated	<u>292,070</u>
Total Fund Balances	<u>3,775,447</u>

Total Liabilities and Fund Balances

\$ 4,375,971

Capital Projects Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2009

	Balance June 30, 2008	Inter- Governmental and Miscellaneous Revenue	Bond Issue	Expenditures	Operating Transfer In (Out)	Balance June 30, 2009
School						
Jr. High Air Quality II	\$ 22,088					\$ 22,088
Albert Hall Air	5,023					5,023
George Mitchell Athletic Field	4,481					4,481
School Revolving Renovation Fund	(43,784)					(43,784)
Other	(4,410)					(4,410)
High School Renovation (2008 QZAB)			\$ 147,952	\$ 476,716		(328,764)
Central Office Facility	(900)					(900)
Municipal						
City Website				11,650	\$ 12,000	350
Fleet Maintenance Facility				404,660	454,290	49,630
Snow Dump				220		(220)
Records Management	44,301			19,526		24,775
Voting Machines	45,500					45,500
Fire Dept Equipment				29,741	60,000	30,259
Public Works Equipment	197,136			490,533	300,000	6,603
Waterfront Project	601,069			2,889		598,180
Improve 1st Rangeway Intersection				7,920		(7,920)
North Street Connector Trail	(24,684)	\$ 16,780		38,748		(46,652)
Other	18					18
Unallocated	209,072					209,072
Balances - Forward	<u>1,054,910</u>	<u>16,780</u>	<u>147,952</u>	<u>1,482,603</u>	<u>826,290</u>	<u>563,329</u>

Capital Projects

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Continued

Year Ended June 30, 2009

	Balance June 30, 2008	Inter- Governmental and Miscellaneous Revenue	Bond Issue	Expenditures	Operating Transfer In (Out)	Balance June 30, 2009
Balances - Forwarded	\$ 1,054,910	\$ 16,780	\$ 147,952	\$ 1,482,603	\$ 826,290	\$ 563,329
Public Works Facilities					195,710	195,710
Public Works Salt/Shed	15,562			14,357	(1,205)	
Airport Master Plan - AP16				68,957	3,950	(65,007)
Airport Apron - AIP14	81,320				(81,320)	
Airport Apron - AIP15	(3,375)	15,000		15,470	3,761	(84)
Recreational Courts	32,832			2,450	(25,000)	5,382
Pavement Management	30,431			33,506	3,075	
Sidewalks - Downtown CDBG	56				(56)	
Library Project Commitment				72	1,500,000	1,499,928
Airport Parking Apron (beginning balance restated)	(80,064)				80,064	
North Street Rec Trail	436					436
Local Project Administration		325,000		14,456	422,324	732,868
Silver Street Community Enterprise	40,094				(40,094)	
Accounting System	14,528				(14,528)	
Landfill	868,676				(422,324)	446,352
Facilities Maintenance Workshop	(1,214)				1,214	
Quarry Road Project	1,500	3,600		12,245	26,000	18,855
Quarry Trail Project		48,970		10,942	15,000	53,028
Parks and Recreation North Street	(14,147)			2,450	25,000	8,403
Mayflower Street	29,057					29,057
Park and Recreation Trail Revenue	45,990				(45,990)	
Airport Capital Improvement Fund	82,980					82,980
Pavement Rehab	257,827			303,617	250,000	204,210
Totals	<u>\$ 2,457,399</u>	<u>\$ 409,350</u>	<u>\$ 147,952</u>	<u>\$ 1,961,125</u>	<u>\$ 2,721,871</u>	<u>\$ 3,775,447</u>

Permanent Funds Balance Sheet

June 30, 2009

ASSETS

Investments	\$ 895,523
Total Assets	<u>\$ 895,523</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Interfund loans payable	\$ 21,335
Total Liabilities	<u>21,335</u>

Fund Balances:

Reserved for nonexpendable principal	228,800
Unreserved	645,388
Total Fund Balances	<u>874,188</u>

Total Liabilities and Fund Balances	<u>\$ 895,523</u>
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Permanent Funds Combining Statement of Revenues, Expenses and Changes in Fund Balance

Year Ended June 30, 2009

	Fund Balances Beginning of Year		Contributions and Gifts	Investment Income	Expenditures	Fund Balances End of Year	
	Principal	Unexpended Income				Principal	Unexpended Income
City Funds:							
Haines Charity	\$ 100,000	\$ 431,450		\$ (63,673)	\$ 18,715	\$ 100,000	\$ 349,062
Frank Champlin Teachers Fund	100,000	273,876		(27,445)	8,279	100,000	238,152
Sarah Pray Fund		1,527		48	3		1,572
Mildred Pray Ware fund	5,000	43,522		2,573	1,251	5,000	44,844
Violet Smith Fund		1,106		54	3		1,157
Marr Charity		(1,082)		74	203		(1,211)
Boothby Fountain		177		9			186
"470" Engine Fund (A)	3,800	3,029	\$ 17	127	5	3,800	3,168
Mary Warren Fund	10,000	1,934		589	204	10,000	2,319
George Mitchell Fund	10,000	5,424		752	37	10,000	6,139
Total City Funds	\$ 228,800	\$ 760,963	\$ 17	\$ (86,892)	\$ 28,700	\$ 228,800	\$ 645,388

Private-Purpose Trust Funds - School Funds

Combining Schedule of Changes in Fiduciary Net Assets

Year Ended June 30, 2009

	Balances Beginning of Year	Additions	Deductions	Balances End of Year
Private Purpose Trust Funds:				
Buford Grant Scholarship	\$ 16,855	\$ 41	\$ 188	\$ 16,708
W. A. Donovan Fund	3,349	8	37	3,320
Wentworth Fund	20,759	50	231	20,578
Flora Harriman Small Fund	62,395	150	694	61,851
Gladys Briggs Walker Fund	9,220	22	102	9,140
Tina Thompson Poulin Drama Fund	6,807	17	76	6,748
Rene Plante Scholarship	4,376	10	48	4,338
Myra Stearns	11,121	27	124	11,024
Faculty Gowns Account	1,924	6	22	1,908
Messalonskee Fish and Game	9,234	22	102	9,154
Track Resurfacing	20,462	50	228	20,284
Ron LaPlante Scholarship Fund	9,859	22	1,099	8,782
Janice H. & Cynthia V. Scholarship Fund	1,587	4	18	1,573
Total Private Purpose Trust Funds	<u>\$ 177,948</u>	<u>\$ 429</u>	<u>\$ 2,969</u>	<u>\$ 175,408</u>