



Financial Report

June 30, 2013

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Accessible
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Independent Auditors' Report

City Council
City of Waterville
Waterville, Maine

Report on the Financial Statements

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 (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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To the City Council
City of Waterville, Maine

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, 2013, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the schedule of funding progress on page 38, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2013, on our consideration of City of Waterville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Waterville's internal control over financial reporting and compliance

Maerpage LLC

South Portland, Maine
November 25, 2013

MANAGEMENT'S DISCUSSION & ANALYSIS

As management of the City of Waterville, Maine (the City), we offer this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013.

FINANCIAL HIGHLIGHTS

- Total net position for year ended June 30, 2013 of \$28,033,962. A portion of that amount, \$17,236,323, is a net investment in capital assets while the next largest portion, \$7,500,850 is unrestricted. Total net position for the year ended June 30, 2012 was \$27,379,006. A portion of that amount, \$15,381,297, is a net investment in capital assets while the next largest portion, \$8,170,184 was unrestricted.
- Net position increased by \$654,956 and \$1,269,381 for the years ended June 30, 2013 and 2012 respectively.
- The governmental funds reported combined fund balances of \$13,318,267, an increase of \$1,052,398 from the prior year. The increase in fund balance is attributed a decrease in the General Fund fund balance of \$472,514 offset by an increase in the Other Governmental Funds fund balance of \$1,524,912 primarily related to bond proceeds for construction projects received in the current year that were not fully expended.
- As of June 30, 2013, unassigned fund balance for the general fund was \$5,537,068 or 16% of the total general fund expenditures. The City's policy establishes a goal to maintain an unassigned fund balance of at least 12%.
- Bonds payable increased to \$27,062,612 as compared to \$22,890,084 from the prior year as a result of new bonds issued for \$5,831,120 net of repayments of \$1,658,592.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The City'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 are reported using the economic resources measurement focus and the accrual basis of accounting. 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's Governmental activities which are normally supported by taxes and intergovernmental revenues.
- The City's financial statements are comprised of a series of statements such as the statement of net position and the statement of activities. These statements provide an overview of the activities of the government as a whole.
- The statement of net position provides a picture of the difference between assets, deferred outflows of resources and liabilities and deferred inflows of resources (including infrastructure). This is called *net position*. The statement of activities provides a look at how the net position has changed from the prior year to the current year. Increases or decreases in net position 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.
- *Other Governmental Funds* – This is the remaining special revenue funds, capital projects funds and permanent funds that do not meet the criteria for reporting as a major fund.
- *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 position and changes in fiduciary net position. 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 position.

	Governmental Activities		Library	
	2013	2012	2013	2012
Current and other assets	\$ 17,808,743	\$ 15,809,992	\$ 1,654,117	\$ 1,566,203
Capital assets, net	42,263,162	38,679,541	89,921	89,921
Total assets	\$ 60,071,905	\$ 54,489,533	\$ 1,744,038	\$ 1,656,124
Long-term debt outstanding	\$ 28,066,736	\$ 24,028,376		
Other liabilities	3,971,207	3,082,151	\$ 5,678	\$ 6,041
Total liabilities	32,037,943	27,110,527	5,678	6,041
Net assets:				
Invested in:				
Capital assets	17,236,323	15,381,297		
Restricted	3,296,789	3,829,326		
Unrestricted	7,500,850	8,168,383	1,738,360	1,650,083
Total net assets	\$ 28,033,962	\$ 27,379,006	\$ 1,738,360	\$ 1,650,083

Current and other assets are substantially all comprised of cash and investments. 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. Capital assets increased in 2013 as significant investment in capital assets at the new police station exceeded depreciation. The governmental activities increase in total net assets is due primarily to revenues raised being consistent with the budget and expenditures were kept below anticipated budget amounts. By far the largest portion of the City's net position reflects its investment in capital assets less any related debt to acquire those assets still outstanding. There were bonds issued in the current year for various capital project renovations in the amount of \$5.8 million. Detail of the activity of capital assets and long-term debt can be found in the notes to the financial statements.

The following schedule, the statement of activities, focuses on changes in net position of the City's governmental activities.

	Governmental Activities		Library	
	2013	2012	2013	2012
Program Revenues:				
Charges for services	\$ 3,150,257	\$ 3,228,788	\$ 23,533	\$ 22,474
Operating grants and contributions	16,329,598	17,512,525	446,071	403,393
Capital grants and contributions	2,324,761	1,636,642		
	<u>21,804,616</u>	<u>22,377,955</u>	<u>469,604</u>	<u>425,867</u>
General Revenues:				
Property and other taxes	17,760,903	17,399,582		
Licenses, permits and fees	446,984	309,206		
Grants and contributions not restricted to specific programs	2,069,033	2,228,167		
Investment earnings	118,767	102,735	250,189	(77,849)
Contributions and other income	1,174,206			
Unclassified	220,246	263,780		
	<u>21,790,139</u>	<u>20,303,470</u>	<u>250,189</u>	<u>(77,849)</u>
Total Revenues	<u>43,594,755</u>	<u>42,681,425</u>	<u>719,793</u>	<u>348,018</u>
Program Expenses:				
General government	3,289,384	3,068,234		
Public works	4,251,652	4,265,644		
Public safety	6,054,860	5,461,856		
Parks, recreation and culture	598,996	669,298		
Health and welfare	285,486	292,846		
Education	24,785,472	24,655,586		
Program expenses	61,664	606,922		
TIF projects	1,444,727	1,105,394		
Unclassified	856,408	744,246		
Capital outlay	966,246	141,985		
Interest on debt	344,904	400,033		
Library expenses			631,516	695,391
Total Expenses	<u>42,939,799</u>	<u>41,412,044</u>	<u>631,516</u>	<u>695,391</u>
Change in Net Position	654,956	1,269,381	88,277	(347,373)
Net Position, Beginning of Year	<u>27,379,006</u>	<u>26,109,625</u>	<u>1,650,083</u>	<u>1,997,456</u>
Net Position, End of Year	<u>\$ 28,033,962</u>	<u>\$ 27,379,006</u>	<u>\$ 1,738,360</u>	<u>\$ 1,650,083</u>

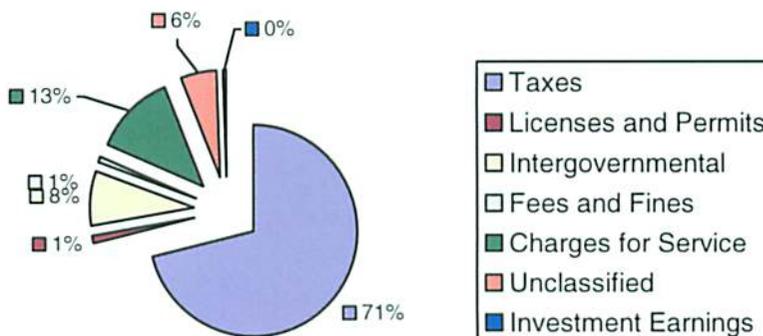
The cost of all governmental activities this year was \$42,939,799, which represents an increase of \$1,527,755. Of this amount, Waterville taxpayers financed \$17,760,903 through property, personal and excise taxes. Municipal and educational departments have continued to aggressively pursue grant revenue 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 grant 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

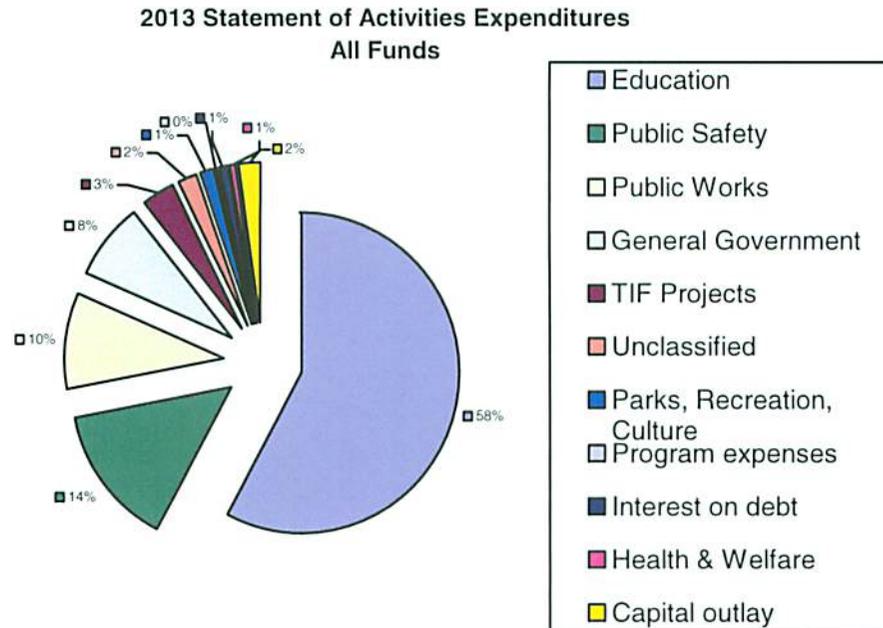
2013 Statement of Activities Revenues
All Funds



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
Fees and fines	Includes fees for late dog registrations, witness fees
Charges for service	Includes revenue from the various departments for services
Unclassified	Includes miscellaneous revenue, grant revenue, sale of City assets, and contributions
Investment earnings	Includes interest income from general fund investment money

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

Governmental Activities – Continued



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

Total budgeted revenues were \$36,198,735, which includes \$1,621,265 of budgeted use of fund balance, and actual revenues were \$34,954,347, resulting in a negative variance of \$1,244,388. Excluding the amount of budgeted use of fund balance the variance for revenues was a positive \$376,877. Total budgeted expenditures were \$36,198,735 and actual expenditures were \$35,426,861, resulting in a positive variance of \$771,874. For the year the general fund had a decrease in fund balance of \$472,514.

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 a half months. The residents of the City 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 decreased by \$2 million or .3% in fiscal year ended June 30, 2013. Residential valuation stayed the same while Personal Property decreased \$2 million or 2.8%.

The unemployment rate for the City at fiscal year-end was an estimated 7.3% which was down from 7.9% from prior year. The rate is above the estimated State average of 6.8% but below the estimated National rate of 7.6%. These figures are from the Maine Center for Workforce Research and Information website.

The 2013/2014 budget adopted by the City Council resulted in a 1.75 mill increase in the mill rate from the 2012/2013 to 27.4 mills. For the 2012/2013 budget year, which is the year this audit covers, the mill rate was 25.65 mills.

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 Position

June 30, 2013

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Library</u>
ASSETS		
Cash and cash equivalents	\$ 5,687,816	\$ 3,234
Investments	9,601,371	1,639,794
Receivables:		
Taxes receivable	1,135,177	
Tax liens	311,067	
Other receivables	184,966	11,089
Intergovernmental	692,895	
Inventory	195,451	
Capital assets, net of accumulated depreciation	42,263,162	89,921
Total Assets	<u>60,071,905</u>	<u>1,744,038</u>
LIABILITIES		
Accounts payable	1,972,186	5,678
Accrued wages and benefits payable	1,228,799	
Accrued compensated absences	88,973	
Unearned revenue	374,790	
Taxes received in advance	16,701	
Due to agency fund	120,141	
Accrued interest	169,617	
Noncurrent liabilities:		
Due within one year	2,146,587	
Due in more than one year	25,208,952	
Other post employment benefits liability	333,703	
Accrued compensated absences	377,494	
Total Liabilities	<u>32,037,943</u>	<u>5,678</u>
NET POSITION		
Net investment in capital assets	17,236,323	
Restricted for:		
Nonexpendable trust principal	1,310,897	
Expendable for trust designated uses	888,958	
Tax Incentive Financing (TIF) Projects Fund	205,271	
Work in Process Capital Projects	413,952	
Other purposes	477,711	
Unrestricted	7,500,850	1,738,360
Total Net Position	<u>\$ 28,033,962</u>	<u>\$ 1,738,360</u>

See independent auditors' report.

The accompanying notes are an integral part of these financial statements.

Statement of Activities

Year Ended June 30, 2013

Functions/programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit Library
Primary Government:						
Governmental Activities:						
Mayor	\$ 20,982				\$ (20,982)	
Administration	1,634,091	\$ 40			(1,634,051)	
Assessor	147,378				(147,378)	
Information services	398,775	32,362			(366,413)	
Finance department	379,096	33,505			(345,591)	
City clerk	179,445	56,541			(122,904)	
Planning department	89,269	4,250			(85,019)	
Economic development	440,348		\$ 228,486		(211,862)	
Public works	4,251,652	209,428	223,977		(3,818,247)	
Parks, recreation and culture	598,996	145,901	34,509		(418,586)	
Police	2,759,963	160,930	18,544		(2,580,489)	
Communication center	490,663	128,940			(361,723)	
Fire	2,130,351	44,440	200		(2,085,711)	
Code enforcement	86,673				(86,673)	
Health and welfare	285,486		65,905		(219,581)	
Airport	587,210	349,480			(237,730)	
Unclassified	856,408		218,425		(637,983)	
Program expenses	61,664				(61,664)	
TIF projects	1,444,727				(1,444,727)	
Education	24,785,472	1,984,440	15,539,552	\$ 29	(7,261,451)	
Capital outlay recaptured	966,246			2,324,732	1,358,486	
Interest on debt	344,904				(344,904)	
Total Governmental Activities	\$ 42,939,799	\$ 3,150,257	\$ 16,329,598	\$ 2,324,761	(21,135,183)	
Component Unit:						
Library	\$ 631,516	\$ 23,533	\$ 446,071			\$ (161,912)
General revenues:						
Property taxes					16,218,343	
Excise taxes					1,542,560	
Licenses and permits					257,373	
Franchise fees					179,486	
Fees and fines					10,125	
Grants and contributions not restricted to specific programs:						
State revenue sharing					1,619,797	
Homestead exemption					264,998	
BETE Reimbursement					184,238	
Investment earnings					118,767	250,189
Contributions and other income					1,174,206	
Unclassified					220,246	
Total general revenues					21,790,139	250,189
Change in net position					654,956	88,277
Net position - beginning of year					27,379,006	1,650,083
Net position - end of year					\$ 28,033,962	\$ 1,738,360

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

Balance Sheet Governmental Funds

June 30, 2013

	General	Other Governmental Funds	Total
ASSETS			
Cash	\$ 5,677,304	\$ 10,512	\$ 5,687,816
Investments	7,380,946	2,220,425	9,601,371
Receivables:			
Taxes receivable	1,135,177		1,135,177
Tax liens	311,067		311,067
Other receivables	27,624	157,342	184,966
Intergovernmental	323,216	369,679	692,895
Interfund loans receivable	138,036	5,274,465	5,412,501
Inventory	118,854	76,597	195,451
Total Assets	<u>\$ 15,112,224</u>	<u>\$ 8,109,020</u>	<u>\$ 23,221,244</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 265,095	\$ 1,707,091	\$ 1,972,186
Accrued wages and benefits payable	1,227,019	1,780	1,228,799
Accrued compensated absences	88,973		88,973
Unearned revenue	83,497	291,293	374,790
Taxes received in advance	16,701		16,701
Due to agency fund	120,141		120,141
Interfund loans payable	4,864,502	547,999	5,412,501
Total Liabilities	<u>6,665,928</u>	<u>2,548,163</u>	<u>9,214,091</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable revenue - property taxes	688,886		688,886
Fund Balances (Deficits):			
Nonspendable for inventory	118,854	76,597	195,451
Nonspendable for trusts		1,310,897	1,310,897
Restricted for trusts		888,958	888,958
Restricted for special revenue funds		682,982	682,982
Restricted for capital projects		2,646,300	2,646,300
General Fund - assigned for subsequent year budget	1,400,000		1,400,000
General Fund - unassigned	5,537,068		5,537,068
General Fund - restricted for education	701,488		701,488
Special Revenues - committed		161,482	161,482
Special Revenues - unassigned		(126,756)	(126,756)
Capital Projects - committed		319,338	319,338
Capital Projects - assigned		120,407	120,407
Capital Projects - unassigned		(519,348)	(519,348)
Total Fund Balances	<u>7,757,410</u>	<u>5,560,857</u>	<u>13,318,267</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 15,112,224</u>	<u>\$ 8,109,020</u>	
Reconciliation of Fund Balances to Net Position:			
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			42,263,162
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			688,886
Long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds.			
Accrued compensated absences			(377,494)
Accrued interest			(169,617)
Landfill closure liability			(96,352)
Capital leases payable			(196,575)
Other post employment benefits liability			(333,703)
Bonds payable			(27,062,612)
Net Position of Governmental Activities			<u>\$ 28,033,962</u>

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

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

Year Ended June 30, 2013

	General	Other Governmental Funds	Total
Revenues:			
Taxes	\$ 17,755,290		\$ 17,755,290
Licenses and permits	257,373		257,373
Intergovernmental	14,810,018	\$ 3,860,186	18,670,204
Tuition and other charges - Education	1,771,483	212,957	1,984,440
Charges for services - City	540,888	485,781	1,026,669
Fees and fines	10,125		10,125
Unclassified	789,102	2,977,175	3,766,277
Investment earnings	54,133	64,631	118,764
Total Revenues	<u>35,988,412</u>	<u>7,600,730</u>	<u>43,589,142</u>
Expenditures:			
Current:			
Mayor	20,982		20,982
Administration	1,457,525		1,457,525
Assessor	141,621		141,621
Information services	384,362		384,362
Finance department	379,096		379,096
City clerk	177,243		177,243
Planning department	89,269		89,269
Economic development	276,840		276,840
Public works	3,659,521		3,659,521
Parks, recreation and culture	416,176	80,367	496,543
Police	2,614,103	84,709	2,698,812
Communication center	490,663		490,663
Fire	1,895,377		1,895,377
Code enforcement	86,673		86,673
Health and welfare	285,486		285,486
Airport		423,412	423,412
Education	20,884,877	3,527,758	24,412,635
County tax	795,968		795,968
Unclassified	60,440	225,172	285,612
TIF projects		1,444,727	1,444,727
Capital outlay		7,100,909	7,100,909
Debt service (excluding education portion)	1,364,588		1,364,588
Total Expenditures	<u>35,480,810</u>	<u>12,887,054</u>	<u>48,367,864</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>507,602</u>	<u>(5,286,324)</u>	<u>(4,778,722)</u>
Other Financing Sources (Uses):			
Bond proceeds		5,831,120	5,831,120
Transfers in	514,935	1,774,886	2,289,821
Transfers out	(1,495,051)	(794,770)	(2,289,821)
Total Other Financing Sources (Uses)	<u>(980,116)</u>	<u>6,811,236</u>	<u>5,831,120</u>
Net Change in Fund Balances	(472,514)	1,524,912	1,052,398
Fund Balances, Beginning of Year	<u>8,229,924</u>	<u>4,035,945</u>	<u>12,265,869</u>
Fund Balances, End of Year	<u>\$ 7,757,410</u>	<u>\$ 5,560,857</u>	<u>\$ 13,318,267</u>

See 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, 2013

Net change in fund balances - total governmental funds	\$ 1,052,398
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 (\$6,134,663) exceeded depreciation expense (\$2,551,042) in the current period.	3,583,621
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 increase in accrued compensated absences (\$3,847), the increase in OPEB liability (\$73,570) and the decrease in accrued interest (\$51,684).	(25,733)
Capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position (\$6,100). Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position (\$217,685).	211,585
Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., property taxes) differ between the two statements. This amount represents the net change in deferred revenue.	5,613
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position (\$5,831,120). Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position (\$1,658,592).	(4,172,528)
Change in Net Position of Governmental Activities	<u>\$ 654,956</u>

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

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

Year Ended June 30, 2013

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 17,503,607	\$ 17,503,607	\$ 17,755,290	\$ 251,683
Licenses and permits	165,650	165,650	257,373	91,723
Intergovernmental	13,461,576	13,461,576	13,261,018	(200,558)
Tuition and other charges for services - Education	1,826,097	1,826,097	1,771,483	(54,614)
Charges for services - City	470,845	470,845	540,888	70,043
Fees and fines	4,150	4,150	10,125	5,975
Unclassified	744,350	744,350	789,102	44,752
Investment earnings	100,000	100,000	54,133	(45,867)
Transfers in	301,195	301,195	514,935	213,740
Budgeted use of fund balance	1,621,265	1,621,265		(1,621,265)
Total Revenues	<u>36,198,735</u>	<u>36,198,735</u>	<u>34,954,347</u>	<u>(1,244,388)</u>
Expenditures				
Mayor	19,450	19,450	20,982	(1,532)
Administration	1,545,805	1,545,805	1,457,525	88,280
Assessor	154,350	154,350	141,621	12,729
Information services	416,980	416,980	384,362	32,618
Finance department	368,555	368,555	379,096	(10,541)
City clerk	183,600	183,600	177,243	6,357
Planning department	91,300	91,300	89,269	2,031
Economic development	274,655	274,655	276,840	(2,185)
Public works	3,943,580	3,943,580	3,659,521	284,059
Parks, culture and recreation	445,255	445,255	416,176	29,079
Police	2,666,290	2,666,290	2,614,103	52,187
Communication center	476,675	476,675	490,663	(13,988)
Fire	1,927,000	1,927,000	1,895,377	31,623
Code enforcement	85,620	85,620	86,673	(1,053)
Health and welfare	311,850	311,850	285,486	26,364
Education	19,736,525	19,736,525	19,335,877	400,648
County tax	800,400	800,400	795,968	4,432
Unclassified	51,100	51,100	60,440	(9,340)
Debt service (excluding education portion)	1,398,900	1,398,900	1,364,588	34,312
Transfers out	1,300,845	1,300,845	1,495,051	(194,206)
Total Expenditures	<u>36,198,735</u>	<u>36,198,735</u>	<u>35,426,861</u>	<u>771,874</u>
Deficiency of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>(472,514)</u>	<u>\$ (472,514)</u>
Fund Balance, Beginning of Year			<u>8,229,924</u>	
Fund Balance, End of Year			<u>\$ 7,757,410</u>	

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

**Statement of Fiduciary Net Position
Fiduciary Funds**

June 30, 2013

	Private- Purpose Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents		\$ 323,038
Investments	\$ 230,047	83,728
Accounts receivable		38,749
Due from other funds		120,141
	<hr/>	<hr/>
Total Assets	<u><u>\$ 230,047</u></u>	<u><u>\$ 565,656</u></u>
 LIABILITIES AND NET POSITION		
Liabilities:		
Due to student groups		\$ 406,766
Amount held for others		158,890
		<hr/>
Total Liabilities		<u><u>\$ 565,656</u></u>
 Net Position		
Held in trust	<u><u>\$ 230,047</u></u>	

Statement of Changes in Fiduciary Net Position Fiduciary Funds

Year Ended June 30, 2013

	Private- Purpose Trust Funds
Investment Income and Donations	\$ 33,944
Scholarships and Related Expenses	<u>8,529</u>
Change in Net Position	25,415
Net Position, Beginning of Year	<u>204,632</u>
Net Position, End of Year	<u><u>\$ 230,047</u></u>

Notes to Financial Statements

June 30, 2013

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. The more significant of the City's accounting policies are described below.

Reporting Entity

In evaluating the City as a reporting entity, management has addressed all potential component units for which the City may be financially accountable and, as such, should be included within the City's financial statements. In accordance with GASB Statement No. 14 as amended by GASB Statement No. 61, the City is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on 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 Corporation and the Robert H. Lafleur Airport are not considered to be separate legal entities from the City. 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 Corporation

The Waterville/Winslow Solid Waste Disposal Corporation has its own Board of Directors. The appointment of the majority of the members of the Board is controlled by the City. Decisions made by the Disposal Corporation Board are subject to the approval of the City. The Disposal Corporation 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 are reported in Public Works in the general fund 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 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, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reporting Entity – 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. 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 discretely presented in the government-wide financial statements.

Joint Venture – The City 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, was 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.

The Authority derives the bulk of its revenue from the participants, but also receives some grant revenues from the State of Maine. During fiscal year 2013, the City contributed \$75,735. 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 position and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been 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, 2013

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 City 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 fund:

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.

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.

Cash and Investments

Cash and cash equivalents includes amounts in demand deposits as well as short-term investments with an initial maturity date within three months or less. 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 certificates of deposits with a longer maturity.

Investments are stated at fair value.

Notes to Financial Statements

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column 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 when historical cost information is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. 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.

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 and adds to the life or capacity of the road or infrastructure.

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.

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.

Notes to Financial Statements

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an 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.

Deferred Inflows of Resources

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as a inflow of resources (revenue) until that time. The City has only one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category, unavailable revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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 Balances

In the governmental fund financial statements fund balance is reported in five classifications.

Nonspendable Nonspendable fund balance represent fund balance amounts that are not in spendable form, such as inventories.

Restricted Restricted by State or Federal statute as a portion of fund balance such as TIF Fund commitments.

The City also considers amounts as restricted that are from Private or Public Grants. Any matching amounts are also considered Restricted as they cannot be withdrawn due to the outside parties' involvement and commitment.

Notes to Financial Statements

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Balances – Continued

Committed	Committed is the portion of fund balance that has been approved by the highest level of formal action of the City Council by adoption of a resolution, and remains binding unless removed in the same manner. An example of Committed Funds would be amounts for City initiated only projects or activities in the Recreation and Capital Funds.
Assigned	Assigned is the portion of fund balance that has been approved by formal action of the City Council for appropriation in future budgets. The amounts are not for a highly specified purpose and their use has some discretion by the administration. Special Revenue balances that do not meet the above categories are considered assigned.
Unassigned	Fund balance that has not been reported in any other classification. Note that in all governmental funds other than the general fund, amounts expended in excess of resources that do not meet the above categories are classified here – i.e. residual deficits.

The City's fund balance policy establishes that an amount equal to at least 12% of the City's most recent approved operating budget shall be established as a minimum undesignated fund balance. Annually, following completion of the City's audit, the City Manager shall review the undesignated fund balance and propose to utilize, through the annual budget process, surplus funds above the 12% minimum, if any. Use of those undesignated fund balance funds should be dedicated to projects in the capital improvement program or other unanticipated one-time expenses. The Council may vote to establish certain reserve accounts from the undesignated fund balance for the purpose of funding specific capital improvement needs in the future and may, by a two-thirds (2/3) vote, decide to expend or to reserve amounts greater than that listed above based on the immediate or long-term needs of the City.

The City has no formal revenue spending policy for programs with multiple revenue sources. The Finance Director uses resources in the following hierarchy unless otherwise directed by Statute or Council: bond proceeds, federal funds and State funds, local non-city funds, city funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

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, 2013

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.

Recently Adopted Accounting Pronouncements

In November 2010, the GASB issued GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34. This statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. It applies to financial reporting by primary governments and other stand-alone governments, and to the separately issued financial statements of governmental component units as defined in GASB Statement No. 14. The adoption of this statement did not have a significant impact on the City's financial statements.

In June 2011, the GASB issued GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". This statement requires amounts reported as deferred outflows and inflows of resources to be reported in a separate section following assets and liabilities, respectively, in a new statement of net position. The adoption of this statement did not have a significant impact on the City's financial statements.

In March 2012, the GASB issued GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities". This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of this statement did not have a significant impact on the City's financial statements.

Recent Accounting Pronouncements

In June 2012, the GASB issued GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This statement improves accounting and financial reporting by state and local governments for pensions. The new statement is effective for periods beginning after June 15, 2014. The City is currently assessing the impact of this statement on its financial statement.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Each year the City Manager submits to the City Council a budget for the ensuing fiscal year and an accompanying message. The City Manager'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 upcoming 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 City Manager 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 fiscal year.

Notes to Financial Statements

June 30, 2013

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – CONTINUED

Budgets – Continued

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 GAAP, 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.

Deficit Fund Balances

The individual special revenue funds carrying fund deficits as of June 30, 2013 are as follows:

Police Grants	\$ 51,848
Grant Fund	21,079

The individual capital projects funds carrying fund deficits as of June 30, 2013 are as follows:

Snow Dump	\$ 2,989
Fire Department Equipment	25,000
Improve First Rangeway Intersection	28,450
Maintenance/Mobile Facility	5,957
Quarry Road Recreational Trails Program	8,455
Waterfront Plaza Project	8,272
Ticonic Bridge/Plaza Project Match	381
Airport Master Plan - AP16	110
Airport Apron - AP15	84
Quarry Trail Project	61,631
Chaplin/Colby Circle/Temple	13,328
School Improvement	409,965

Deficits in the special revenue funds and capital projects funds will be funded by future bond proceeds, grants, and donations from third-parties, and/or future transfers from the general fund.

Notes to Financial Statements

June 30, 2013

NOTE 3 – CASH AND INVESTMENTS

Custodial Credit Risk – Deposits

Custodial credit risk is that in event of a bank failure, the government's deposits may not be returned to it.

Primary Government – City of Waterville

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, 2013, none of the City's bank balance of \$7,093,445 was exposed to custodial credit risk.

Component Unit – Waterville Public Library

The Library does not have a policy for custodial credit risk. As of June 30, 2013, none of the Library's bank balance of \$12,519 was exposed to custodial credit risk.

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, 2013, 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	\$ 7,493,407	\$7,493,407			
U.S. Agencies	352,581	218,930	\$ 133,651		
Common Stock	1,063,722				\$ 1,063,722
Mutual Bond Funds	691,661				691,661
Total Investments	\$ 9,601,371	\$7,712,337	\$ 133,651		\$ 1,755,383

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The City's policy for managing interest rate risk is to the extent possible, 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 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. The City is in the process of moving all its non-trust funds beyond five years to maturities of five years or less.

Notes to Financial Statements

June 30, 2013

NOTE 3 – CASH AND INVESTMENTS – CONTINUED

Credit Risk

Credit risk is the risk than an issuer or other counterparty to an investment will not fulfill its obligations.

Funds of the City 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.
- Permanent fund investments may consist of common stock and mutual funds in accordance with any investment guidelines as established by the respective trust agreements.

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.

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

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer. 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)			
		Less Than 1	1 - 5	6 - 10	No Maturity
Bonds	\$ 62,238	\$ 10,126	\$ 801	\$ 51,311	
Common Stock	356,860				\$ 356,860
Mutual Funds	985,127				985,127
Money Market, less than one year	235,569	235,569			
Total Investments	\$ 1,639,794	\$ 245,695	\$ 801	\$ 51,311	\$1,341,987

Notes to Financial Statements

June 30, 2013

NOTE 3 – CASH AND INVESTMENTS – CONTINUED

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

Credit Risk – The Library's investment policy allows investments to be comprised of stocks, mutual funds and investment grade bonds. As of June 30, 2013 the Library's investment in corporate bonds were rated between Baa3 and Aa3 by Moody's.

Concentration of Credit Risk – The Library limits investments to no more than 5% in any one issuer. As of June 30, 2013 none of the Library's individual holdings exceeded 5% of total investments.

NOTE 4 – PROPERTY TAX

Property taxes for the current year were committed on August 15, 2012, 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 \$279,170 for the year ended June 30, 2013.

Tax liens are placed on real property within 12 months following the tax commitment date if taxes are delinquent. The City has the authority to foreclose on property 18 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 60 days following the end of the fiscal year have been recorded as revenues. The remaining receivables have been recorded as deferred revenues.

The following summarizes the levy as of and for the year ended June 30, 2013:

Assessed value	\$634,965,068
Tax rate (per \$1,000)	25.65
Commitment	<u>16,286,854</u>
Less:	
Abatements	44,586
Collections	<u>15,116,242</u>
	<u>15,160,828</u>
Current year taxes receivable at end of year	<u>\$ 1,126,026</u>
Due date(s) - current year	1/4 October 12, 2012 1/4 December 14, 2012 1/4 March 8, 2013 1/4 June 14, 2013
Interest rate on delinquent taxes	7.00%
Collection rate	92.81%
Taxes receivable - current year	\$ 1,126,026
Taxes receivable - prior years	9,151
Total taxes receivable	<u>\$ 1,135,177</u>

Notes to Financial Statements

June 30, 2013

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 position. 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, 2013.

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,685,335	\$ 201,309		\$ 1,886,644
Construction in progress	2,841,610	5,680,037	\$ 702,144	7,819,503
Total capital assets not being depreciated	<u>4,526,945</u>	<u>5,881,346</u>	<u>702,144</u>	<u>9,706,147</u>
Capital assets being depreciated:				
Buildings	39,088,943	11,850		39,100,793
Improvements	5,718,622	55,872		5,774,494
Vehicles	5,618,842	807,946	234,835	6,191,953
Equipment	4,408,699	79,793	14,340	4,474,152
Infrastructure	17,256,711			17,256,711
Total capital assets being depreciated	<u>72,091,817</u>	<u>955,461</u>	<u>249,175</u>	<u>72,798,103</u>
Less accumulated depreciation for:				
Buildings	14,277,847	1,335,570		15,613,417
Improvements	3,859,876	174,875		4,034,751
Vehicles	3,952,894	411,493	234,835	4,129,552
Equipment	3,109,311	183,323	14,340	3,278,294
Infrastructure	12,739,293	445,781		13,185,074
Total accumulated depreciation	<u>37,939,221</u>	<u>2,551,042</u>	<u>249,175</u>	<u>40,241,088</u>
Total capital assets being depreciated, net	<u>34,152,596</u>	<u>(1,595,581)</u>		<u>32,557,015</u>
Governmental Activities Capital Assets, Net	<u>\$38,679,541</u>	<u>\$ 4,285,765</u>	<u>\$ 702,144</u>	<u>\$42,263,162</u>

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

Governmental activities:	
Administration	\$ 87,625
Assessor	5,757
Information services	14,413
City clerk	2,202
Public works (includes infrastructure)	592,131
Parks, recreation and culture	102,453
Police	61,151
Fire	234,974
Airport	163,798
Education	1,286,538
Total depreciation expense - governmental activities	<u>\$ 2,551,042</u>

Notes to Financial Statements

June 30, 2013

NOTE 6 – CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities					
Bonds and notes payable	\$22,890,084	\$ 5,831,120	\$1,658,592	\$27,062,612	\$2,064,649
Capital leases	408,160	6,100	217,685	196,575	81,938
Accrued compensated absences	444,420	92,820	70,773	466,467	88,973
Landfill liability closure	96,352			96,352	
Other post employment benefits liability	260,133	73,570		333,703	
Governmental activity Long-term liabilities	<u>\$24,099,149</u>	<u>\$ 6,003,610</u>	<u>\$1,947,050</u>	<u>\$28,155,709</u>	<u>\$2,235,560</u>

NOTE 7 – CAPITAL LEASES

The Department of Public Schools is engaged in four capital leases, and the City is engaged in three capital leases as of June 30, 2013. The original cost of assets capitalized under these leases total \$448,483. Future minimum capital lease payments are as follows.

Principal	
2014	\$ 81,938
2015	74,536
2016	28,470
2017	11,631
Total	<u>196,575</u>
Interest	
2014	5,759
2015	3,373
2016	1,196
2017	320
Total	<u>10,648</u>
Total payments	207,223
Less interest	10,648
Net present value	<u>\$ 196,575</u>

Notes to Financial Statements

June 30, 2013

NOTE 8 – LONG-TERM DEBT

Bonds and notes payable at June 30, 2013 are comprised of the following:

	Date of Issue	Original Amount Issued	Date of Maturity	Interest Rate	Ending Balance
Long-term debt:					
2005 General Obligation Bond	6/14/05	\$ 5,285,000	2025	3.50-4.00%	\$ 2,785,000
2007 QZAB Bond	10/9/07	965,000	2022	1.4407%	666,034
2008 QZAB Bond	7/16/08	516,279	2023	1.84%	359,616
2009 QZAB Bond	11/18/09	4,333,368	2025	1.40%	3,466,695
2011 QSCB Bond	5/26/11	5,000,000	2025	5.692%	4,066,407
2011 General Obligation Bond	5/3/11	3,150,000	2031	2.00-4.00%	2,960,000
2011 General Obligation Bond	5/3/11	3,096,000	2020	1.70-2.85%	2,726,000
2012 QSCB Bond	7/15/11	943,859	2027	5.366%	901,740
2013 General Obligation Bond	11/1/12	3,300,000	2033	1.00-2.75%	3,300,000
2013 General Obligation Bond	4/1/13	5,831,120	2038	2.00-3.50%	5,831,120
Total bonds and notes payable					<u>\$27,062,612</u>

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, 2013 are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 2,064,649	\$ 445,789	\$ 2,510,438
2015	2,099,955	421,954	2,521,909
2016	2,009,054	389,864	2,398,918
2017	2,013,319	359,802	2,373,121
2018	2,022,758	328,474	2,351,232
2019 - 2023	9,058,110	1,141,129	10,199,239
2024 - 2028	4,834,767	423,764	5,258,531
2029 - 2033	2,235,000	81,941	2,316,941
2034 - 2038	725,000		725,000
	<u>\$ 27,062,612</u>	<u>\$ 3,592,717</u>	<u>\$ 30,655,329</u>

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 \$27,062,612 at June 30, 2013 was within the statutory limit.

In addition to the bonds and notes payable, the City is contingently responsible for the following overlapping debt as of June 30, 2013:

Governmental Unit	Net Debt Outstanding	Applicable To the City	The City's Share of Debt
Kennebec County	<u>\$ 15,000</u>	<u>7.75%</u>	<u>\$ 1,162</u>

Notes to Financial Statements

June 30, 2013

NOTE 8 – LONG-TERM DEBT – CONTINUED

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, 2013, the balances of interfund loans receivable/payable were as follows:

	Interfund Loans Receivable	Interfund Loans Payable
General fund	\$ 138,036	\$ 4,984,643
Other governmental funds	5,274,465	547,999
Agency funds	120,141	
Totals	<u>\$ 5,532,642</u>	<u>\$ 5,532,642</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 MSRS 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 MSRS 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 System, 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. As of June 30, 2013, the City had a credit balance of \$200,098 which is utilized to fund future contributions to the Consolidated Plan. The utilization of the credit during 2013 was \$115,770.

Funding Policy (School Department) – The contribution rates of plan members and the Public Schools are established and may be amended by the MSRS Board of Trustees. The School's contribution to the MSRS Consolidated Plan for the year ended June 30, 2013 was \$118,120, which equals the required contributions for the year.

Maine State Retirement – Teachers Group

Description of Plan – All school teachers and other qualified educators, participate in the MSRS's teacher group. The teacher's group is a cost-sharing plan with a special funding situation, established by the Maine State Legislature. The MSRS 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 MSRS Board of Trustees. The MSRS 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.

Notes to Financial Statements

June 30, 2013

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

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 approximately \$1,549,000 (16.33%) for the fiscal year 2013. This amount has been reported as an intergovernmental revenue and retirement expenditure in the financial statements within the education department. There is no contribution required by the School except for federally funded teachers, for which the School contributed 14.32% of their compensation. This cost is charged to the applicable grant.

NOTE 11 – DEFERRED COMPENSATION PLAN

The City offers all its employees not participating in the MSRS 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 City is a member of the Maine Municipal Employees Health Trust (MMEHT). 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 October 2011.

Plan Descriptions – The City 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.

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 MMEHT.

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

1. The employee must have been employed by the City 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 (i.e. Maine Public Employees Retirement System or ICMA).

Notes to Financial Statements

June 30, 2013

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS – CONTINUED

Funding Policy and Annual OPEB Cost – GASB Statement 45 does not mandate the prefunding of post employment benefits liability. The City currently plans to fund these benefits on a pay-as you-go basis. No assets have been 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 30 years.

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

Normal Cost	\$ 40,885
Amortization of Unfunded	42,693
Interest	1,655
Annual Required Contribution	<u>85,233</u>
Offset to Annual Required Contribution	<u>(11,663)</u>
2013 OPEB Liability Expense	73,570
Fiscal Year Ending 2012 OPEB Accrued Liability	260,133
Total Accrued Liability Fiscal Year Ended 2013	<u>\$ 333,703</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 December 31, 2011 was as follows:

Annual Required Contribution	\$ 85,233
Actual Contribution	11,663
Percent Contributed	13.68%
Actuarial Accrued Liability	\$ 767,786
Plan Assets	
Unfunded Actuarial Accrued Liability	<u>\$ 767,786</u>
Covered Payroll	\$ 5,066,198
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	15.16%

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, 2013

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS – CONTINUED

Actuarial Valuation Date	January 1, 2011
Actuarial Cost Method	Projected Unit Credit (PUC)
Amortization Method	Level dollar
Remaining Amortization	Period 30 years
Actuarial Assumptions:	
Investment Rate of Return	4.00%
Projected Salary Increases	N/A
Healthcare Inflation Rate	4.0% to 8.7%

NOTE 13 – TAX INCREMENT FINANCING (TIF) DISTRICT

The City has established eight tax increment-financing districts under the terms of applicable State laws and which were still in effect during the year ended June 30, 2013.

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. By using a mechanism known as a credit enhancement agreement (CEA), 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 1 through 5 of the project, and 50% in years 6 through 20 of the project.

In July 2000, the City established **The Chinnet Company Tax Increment Financing District**. The purpose of the District is to secure the City's industrial job base and to ensure the long-term economic stability and well being of the Chinnet 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 Chinnet Company Plant added approximately \$8,157,301 of new tax base to the City. Chinnet will finance the improvements within the District. The City will not assume any financial liability within the District. Under the District CEA, 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 TIF ending April 1, 2005, the resulting tax revenue will be distributed 75% to the Chinnet Company for the first 10 years following the year in which the investment is made and 50% in years 10 through 15 following the year in which investment is made through the CEA.

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 TIF 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 1 through 5, and 50% for years 6 through 15 for the manufacturing sector. The non-manufacturing sector may receive credit enhancement reimbursements not exceeding 50% for years 1 through 10.

Notes to Financial Statements

June 30, 2013

NOTE 13 – TAX INCREMENT FINANCING DISTRICT – CONTINUED

In December 2004, the City established the **Downtown Redevelopment Tax Increment Financing District**. The City 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 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 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 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.

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'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 District CEA, 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 TIF 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 6 through 10, 30% in years 11 through 15, and 20% in years 16 through 20 following the year in which investment is made through the CEA.

In November 2009, the City established the **Gilman Place Tax Increment Financing District**. The purpose of the District to create 35 units of affordable rental housing and to preserve the former Waterville High School building, which is the centerpiece of the Gilman Street neighborhood and a very important landmark in the Waterville Community. Resident services will be provided on-site. The tax increment revenues will be used to fund the project's operating costs.

In March 2012, the City established the **KVGasCo Project Tax Increment Financing District**. The purpose of the District is to encourage the retention, improvement, expansion, and attraction of retail, commercial, professional and industrial businesses in the City and the surrounding region. The tax increment revenues will be used help finance the indebtedness, not to exceed \$50 million for related business expansion.

Notes to Financial Statements

June 30, 2013

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 City 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.

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 30 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, 2013, the Landfill Closure Fund had a fund balance of \$96,352, 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, 2013. 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, 2013.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The City guarantees a \$1,250,000 million line of credit obtained by the Waterville Opera House Association for the purpose of completing the expansion and renovation of the Waterville Opera House. The Waterville Opera House's most recent financial statements dated August 31, 2012 reported assets of \$5,268,723 and liabilities of \$1,218,473 and net assets of \$4,050,250.

The City has incurred approximately \$7.8 million of construction in progress as of June 30, 2013. The most significant projects include the Police Department Building, Quarry Road Recreation Area, Airport Runway Reconstruction and the Opera House which collectively comprise approximately \$5.5 million of the total projects in process at June 30, 2013. The total cost of all projects when completed is expected to be approximately \$8.9 million.

Notes to Financial Statements

June 30, 2013

NOTE 18 – NET POSITION

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The City's net position invested in capital assets, net of related debt was calculated as follows at June 30, 2013:

	Governmental Activities
Capital assets	\$ 82,504,250
Accumulated depreciation	(40,241,088)
Bonds payable and capital leases payable	(27,259,187)
Unspent bond proceeds	<u>2,232,348</u>
Total invested in capital assets, net of related debt	<u>\$ 17,236,323</u>

Required Supplementary Information - Schedule of Funding Progress

June 30, 2013 (Unaudited)

Other Post-Employment Benefits						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a % of Covered Payroll
December 31, 2012	\$0	\$ 767,786	\$ 767,786	0%	\$ 5,066,198	15.16%
December 31, 2011	\$0	\$ 767,786	\$ 767,786	0%	\$ 4,950,088	15.88%
December 31, 2010	\$0	\$ 767,786	\$ 767,786	0%	\$ 4,834,079	15.88%
December 31, 2009	\$0	\$ 591,128	\$ 591,128	0%	\$ 3,007,951	19.65%
December 31, 2008	\$0	\$ 591,128	\$ 591,128	0%	\$ 3,007,951	19.65%

Independent Auditors' Report on Additional Information

City Council
City of Waterville
Waterville, Maine

We have audited the financial statements of the City of Waterville, Maine as of and for the year ended June 30, 2013, and our report thereon dated November 25, 2013, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedules on pages 40 through 46 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macpage LLC

South Portland, Maine
November 25, 2013

Macpage LLC

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Special Revenue Funds Combining Balance Sheet

June 30, 2013

	410	420	540	550	270	590	800		
	TIF Projects Fund	Loan Fund	Recreation Fund	Airport Fund	Police Grants	Fire Dept Grant Fund	Grant Fund	School Funds	Total
ASSETS									
Cash		\$ 10,512							\$ 10,512
Accounts receivable			\$ 1,897	\$ 13,934			\$ 29,903	\$ 34,155	79,889
Intergovernmental receivable								344,679	344,679
Inventory				60,806				15,791	76,597
Interfund loans receivable	\$ 1,074,377		152,174			\$ 2,500		324,184	1,553,235
Total Assets	<u>\$ 1,074,377</u>	<u>\$ 10,512</u>	<u>\$ 154,071</u>	<u>\$ 74,740</u>		<u>\$ 2,500</u>	<u>\$ 29,903</u>	<u>\$ 718,809</u>	<u>\$ 2,064,912</u>
LIABILITIES AND FUND BALANCES									
Liabilities:									
Unearned revenues			\$ 1,713	\$ 6,870			\$ 29,903	\$ 227,807	\$ 266,293
Accounts payable	\$ 869,106		1,388	2,243			13,840		886,577
Accrued wages				1,780					1,780
Interfund loans payable				56,870	\$ 51,848		7,239		115,957
Total Liabilities	<u>869,106</u>		<u>3,101</u>	<u>67,763</u>	<u>51,848</u>		<u>50,982</u>	<u>227,807</u>	<u>1,270,607</u>
Fund Balances (Deficit):									
Nonspendable - inventory				60,806				15,791	76,597
Restricted Fund Balance	205,271					\$ 2,500		475,211	682,982
Committed Fund Balance		\$ 10,512	150,970						161,482
Unassigned Fund Balance				(53,829)	(51,848)		(21,079)		(126,756)
Total Fund Balances (Deficit)	<u>205,271</u>	<u>10,512</u>	<u>150,970</u>	<u>6,977</u>	<u>(51,848)</u>	<u>2,500</u>	<u>(21,079)</u>	<u>491,002</u>	<u>794,305</u>
Total Liabilities and Fund Balances	<u>\$ 1,074,377</u>	<u>\$ 10,512</u>	<u>\$ 154,071</u>	<u>\$ 74,740</u>	<u>\$ -</u>	<u>\$ 2,500</u>	<u>\$ 29,903</u>	<u>\$ 718,809</u>	<u>\$ 2,064,912</u>

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

Year Ended June 30, 2013

	410	420	540	550	270	590	800		
	TIF Projects Fund	Loan Fund	Recreation Fund	Airport Fund	Police Grants	Fire Dept Grant Fund	Grant Fund	School Funds	Total
Revenues:									
Federal programs					\$ 13,050		\$ 222,486	\$ 2,700,215	\$ 2,935,751
State programs					5,293			230,360	235,653
Local programs							6,000	152,322	158,322
Charges for services			\$ 136,301	\$ 349,480				212,957	698,738
Unclassified		\$ 3,219	450						3,669
Total Revenues		<u>3,219</u>	<u>136,751</u>	<u>349,480</u>	<u>18,343</u>		<u>228,486</u>	<u>3,295,854</u>	<u>4,032,133</u>
Expenditures:									
Recreation			80,367						80,367
Police					84,709				84,709
Education								2,341,585	2,341,585
Adult education								121,784	121,784
Food services								1,064,389	1,064,389
TIF projects	\$ 1,444,727								1,444,727
Cooperation with other entities							163,508		163,508
Unclassified				423,412					423,412
Total Expenditures	<u>1,444,727</u>		<u>80,367</u>	<u>423,412</u>	<u>84,709</u>		<u>163,508</u>	<u>3,527,758</u>	<u>5,724,481</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,444,727)</u>	<u>3,219</u>	<u>56,384</u>	<u>(73,932)</u>	<u>(66,366)</u>		<u>64,978</u>	<u>(231,904)</u>	<u>(1,692,348)</u>
Other Financing Sources:									
Transfers in	1,031,132			45,610					1,076,742
Transfers out	(504,490)		(30,280)						(534,770)
	<u>526,642</u>		<u>(30,280)</u>	<u>45,610</u>					<u>541,972</u>
Net Change in Fund Balances	<u>(918,085)</u>	<u>3,219</u>	<u>26,104</u>	<u>(28,322)</u>	<u>(66,366)</u>		<u>64,978</u>	<u>(231,904)</u>	<u>(1,150,376)</u>
Fund Balances (Deficit), Beginning of Year	<u>1,123,356</u>	<u>7,293</u>	<u>124,866</u>	<u>35,299</u>	<u>14,518</u>	<u>\$ 2,500</u>	<u>(86,057)</u>	<u>722,906</u>	<u>1,944,681</u>
Fund Balances (Deficit), End of Year	<u>\$ 205,271</u>	<u>\$ 10,512</u>	<u>\$ 150,970</u>	<u>\$ 6,977</u>	<u>\$ (51,848)</u>	<u>\$ 2,500</u>	<u>\$ (21,079)</u>	<u>\$ 491,002</u>	<u>\$ 794,305</u>

**Capital Projects
Combining Balance Sheet**

June 30, 2013

ASSETS

Intergovernmental receivable	\$ 25,000
Interfund loans receivable	3,721,230
Grants receivable	<u>75,668</u>

Total Assets \$ 3,821,898

LIABILITIES AND FUND BALANCES

Liabilities:

Deferred revenues	\$ 25,000
Interfund loans payable	409,965
Accounts payable	<u>820,236</u>

Total Liabilities 1,255,201

Fund Balances:

Restricted	2,646,300
Committed	319,338
Assigned	120,407
Unassigned	<u>(519,348)</u>

Total Fund Balances 2,566,697

Total Liabilities and Fund Balances \$ 3,821,898

Capital Projects

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2013

	Beginning Balance	Inter- Governmental and Miscellaneous Revenue	Bond Issue	Expenditures	Operating Transfer In (Out)	Ending Balance
Municipal						
Snow Dump	\$ (2,989)					\$ (2,989)
Voting Machines/Storage Equipment	45,500			\$ 23,507		21,993
Cemetery Chapel Repairs			\$ 50,000			50,000
Parks and Recreation Equipment			25,000			25,000
Fire Dept Equipment	(25,000)					(25,000)
Fire Truck		\$ 332,500	74,785	407,285		
Fire Dept Hot Water Reconfiguration			15,000	14,999		1
Public Works Equipment	27,773		301,720	324,737		4,756
Improve First Rangeway Intersection	(28,450)					(28,450)
Golf Course Irrigation Project	500					500
Campus Drive	4,333					4,333
North Street Connector Trail	28,242	3,703				31,945
Maintenance/Mobile Facility	25,215			31,172		(5,957)
Washbay/Roof Repairs			150,000			150,000
Quarry Road Recreational Trails Program	(8,455)					(8,455)
Waterfront Project	197,196				\$ (60,000)	137,196
Waterfront Plaza Project	(8,272)					(8,272)
Two Cent Foot Bridge	(62,391)	403,970		399,605	60,000	1,974
Ticonic Bridge/Plaza Project Match	(381)					(381)
Assigned Sources and Uses	138,062			221,309	201,309	118,062
Airport Capital Improvement Fund	17,945			15,600		2,345
Airport Master Plan - AP16	(110)					(110)
Airport Apron - AP15	(84)					(84)
Airport Crosswind Runway Design	13					13
Runway Reconstruction		843,539	50,000	803,125		90,414
Airport Equipment			245,000	127,850		117,150
Landfill Closure	96,352					96,352
Quarry Road Project	778					778
Quarry Trail Project	179,441	423,333		464,405	(200,000)	(61,631)
Quarry Road	142,703			137,843		4,860
Downtown Streetscape Project	20,000					20,000
Waterville Opera House Project	215,497	78,288		148,712		145,073
Police Department New Building	(95,271)		3,419,615	3,029,418		294,926
Downtown Sidewalk Repairs				45,988	65,000	19,012
Grover/Water Street	272,648	129,283		380,359		21,572
Chaplin/Colby Circle/Temple		115,115		250,278	121,835	(13,328)
Future Paving Projects			1,500,000			1,500,000
School Improvement	(409,994)	29				(409,965)
Pavement Rehab	297,781			274,717	250,000	273,064
Totals	<u>\$ 1,068,582</u>	<u>\$ 2,329,760</u>	<u>\$ 5,831,120</u>	<u>\$ 7,100,909</u>	<u>\$ 438,144</u>	<u>\$ 2,566,697</u>

Permanent Funds Balance Sheet

June 30, 2013

ASSETS

Investments	\$ 2,220,425
Accounts receivable	1,785
Total Assets	<u>\$ 2,222,210</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Interfund loans payable	\$ 22,077
Accounts payable	278
Total Liabilities	<u>22,355</u>

Fund Balances:

Nonspendable principal	1,310,897
Restricted to charitable or community purposes	888,958
Total Fund Balances	<u>2,199,855</u>

Total Liabilities and Fund Balances	<u>\$ 2,222,210</u>
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Permanent Funds

Combining Statement of Revenues, Expenses and Changes in Fund Balance

Year Ended June 30, 2013

	Fund Balances Beginning of Year		Contributions and Other Income	Investment Income (Loss)	Expenditures	Fund Balances End of Year	
	Nonspendable Principal	Restricted Income				Nonspendable Principal	Restricted Income
City Funds:							
Haines Charity	\$ 100,000	\$ 443,790		\$ 49,888	\$ 11,693	\$ 100,000	\$ 481,985
Frank Champlin Teachers Fund	100,000	288,044		22,186	5,235	100,000	304,995
Mildred Pray Ware fund	5,000	46,321		12	1,048	5,000	45,285
Violet Smith Fund		1,240		1	3		1,238
Marr Charity		896		557	10		1,443
Pine Grove Cemetery			\$ 1,174,206	(8,038)	43,324	1,082,097	40,747
Boothby Fountain		198					198
"470" Engine Fund (A)	3,800	3,289		4	99	3,800	3,194
Mary Warren Fund	10,000	2,822		6	208	10,000	2,620
George Mitchell Fund	10,000	7,282		15	44	10,000	7,253
Total City Funds	<u>\$ 228,800</u>	<u>\$ 793,882</u>	<u>\$ 1,174,206</u>	<u>\$ 64,631</u>	<u>\$ 61,664</u>	<u>\$ 1,310,897</u>	<u>\$ 888,958</u>

Private-Purpose Trust Funds - School Funds Combining Schedule of Changes in Fiduciary Net Assets

Year Ended June 30, 2013

	Balances Beginning of Year	Additions	Deductions	Balances End of Year
Private Purpose Trust Funds:				
Buford Grant Scholarship	\$ 21,010	\$ 3,009	\$ 500	\$ 23,519
W. A. Donovan Fund	3,255	382		3,637
Wentworth Fund	19,410	3,251	2,200	20,461
Flora Harriman Small Fund	77,003	9,595		86,598
Gladys Briggs Walker Fund	10,847	1,367	300	11,914
Tina Thompson Poulin Drama Fund	7,751	1,085	600	8,236
Rene Plante Scholarship	4,959	673	800	4,832
Myra Stearns	14,401	2,046		16,447
Faculty Gowns Account	2,503	196		2,699
Messalonskee Fish and Game	12,153	1,719		13,872
Ron LaPlante Scholarship Fund	11,772	1,740		13,512
Janice H. & Cynthia V. Scholarship Fund	2,211	180		2,391
Pre Vocational Program	17,357	2,164	4,129	15,392
Carol Shapiro Scholarship		6,537		6,537
	<u>\$ 204,632</u>	<u>\$ 33,944</u>	<u>\$ 8,529</u>	<u>\$ 230,047</u>
Total Private Purpose Trust Funds	<u>\$ 204,632</u>	<u>\$ 33,944</u>	<u>\$ 8,529</u>	<u>\$ 230,047</u>