



Financial Report

June 30, 2014

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Independent Auditors' Report

To the City Council
City of Waterville, Maine
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, 2014, 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, 2014, 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 39, 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 21, 2014, on our consideration of City of Waterville, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Waterville, Maine's internal control over financial reporting and compliance



South Portland, Maine
November 21, 2014

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, 2014.

FINANCIAL HIGHLIGHTS

- Total net position for year ended June 30, 2014 of \$28,250,192. A portion of that amount, \$18,070,669, is a net investment in capital assets while the next largest portion, \$6,215,201 is unrestricted. Total net position for the year ended June 30, 2013 was \$28,033,962. A portion of that amount, \$17,236,323, was a net investment in capital assets while the next largest portion, \$7,500,850 was unrestricted.
- Net position increased by \$216,230 and \$654,956 for the years ended June 30, 2014 and 2013 respectively.
- The governmental funds reported combined fund balances of \$11,338,957, a decrease of \$1,979,310 from the prior year. The decrease in fund balance is attributed to a decrease in the General Fund fund balance of \$897,194 combined with a decrease in the Other Governmental Funds fund balance of \$1,082,116 primarily related to bond proceeds for construction projects received in the prior year that were spent during the current year.
- As of June 30, 2014, unassigned fund balance for the General Fund was \$4,696,399 or 13% 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 decreased to \$24,997,963 as compared to \$27,062,612 from the prior year as a result of repayments of \$2,064,649.

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 (including infrastructure), deferred outflows of resources and liabilities and deferred inflows of resources. 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 City's capital assets also need to be considered to assess the overall health of the City.

MANAGEMENT'S DISCUSSION & ANALYSIS

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 17-38 of this document.

THE CITY AS A WHOLE

The following information is a condensed version of the statement of net position.

	Governmental Activities		Library	
	2014	2013	2014	2013
Current and other assets	\$ 15,178,349	\$ 17,808,743	\$ 1,729,409	\$ 1,654,117
Capital assets, net	42,081,119	42,263,162		89,921
Total assets	<u>\$ 57,259,468</u>	<u>\$ 60,071,905</u>	<u>\$ 1,729,409</u>	<u>\$ 1,744,038</u>
Long-term debt outstanding	\$ 25,983,583	\$ 28,066,736		
Other liabilities	3,025,693	3,971,207	\$ 874	\$ 5,678
Total liabilities	<u>29,009,276</u>	<u>32,037,943</u>	<u>874</u>	<u>5,678</u>
Net investment in capital assets	18,070,669	17,236,323		
Restricted	3,964,322	3,296,789		
Unrestricted	6,215,201	7,500,850	1,728,535	1,738,360
Total net position	<u>\$ 28,250,192</u>	<u>\$ 28,033,962</u>	<u>\$ 1,728,535</u>	<u>\$ 1,738,360</u>

MANAGEMENT'S DISCUSSION & ANALYSIS

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 decreased in 2014 as depreciation exceeded total new investments in capital assets. The governmental activities increase in total net position 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 no new bonds issued in the current year. 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	
	2014	2013	2014	2013
Program Revenues:				
Charges for services	\$ 3,331,077	\$ 3,150,257	\$ 25,647	\$ 23,533
Operating grants and contributions	16,595,943	16,329,598	464,945	446,071
Capital grants and contributions	565,308	2,324,761		
	<u>20,492,328</u>	<u>21,804,616</u>	<u>490,592</u>	<u>469,604</u>
General Revenues:				
Property and other taxes	19,010,348	17,760,903		
Licenses, permits and fees	489,102	446,984		
Grants and contributions not restricted to specific programs	1,648,146	2,069,033		
Investment earnings	366,753	118,767	217,079	250,189
Contributions and other income		1,174,206		
Transfer	89,921		(89,921)	
Unclassified	201,563	220,246		
	<u>21,805,833</u>	<u>21,790,139</u>	<u>127,158</u>	<u>250,189</u>
Total Revenues	<u>42,298,161</u>	<u>43,594,755</u>	<u>617,750</u>	<u>719,793</u>
Program Expenses:				
General government	3,247,359	3,289,384		
Public works	4,036,527	4,251,652		
Public safety	6,382,232	6,054,860		
Parks, recreation and culture	550,738	598,996		
Health and welfare	282,300	285,486		
Education	25,093,802	24,785,472		
Program expenses	125,273	61,664		
TIF projects	790,139	1,444,727		
Unclassified	844,568	856,408		
Capital outlay	247,398	966,246		
Interest on debt	481,595	344,904		
Library expenses			627,575	631,516
Total Expenses	<u>42,081,931</u>	<u>42,939,799</u>	<u>627,575</u>	<u>631,516</u>
Change in Net Position	216,230	654,956	(9,825)	88,277
Net Position, Beginning of Year	<u>28,033,962</u>	<u>27,379,006</u>	<u>1,738,360</u>	<u>1,650,083</u>
Net Position, End of Year	<u>\$ 28,250,192</u>	<u>\$ 28,033,962</u>	<u>\$ 1,728,535</u>	<u>\$ 1,738,360</u>

MANAGEMENT’S DISCUSSION & ANALYSIS

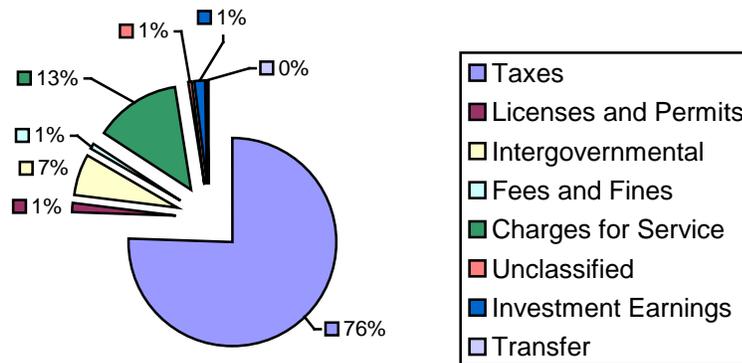
The cost of all governmental activities this year was \$42,081,931, which represents a decrease of \$857,868 from prior year. Of this amount, Waterville taxpayers financed \$19,010,348 through property, personal and excise taxes. Municipal and educational departments have continued to aggressively pursue 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

**2014 Statement of Activities Revenues
All Funds**

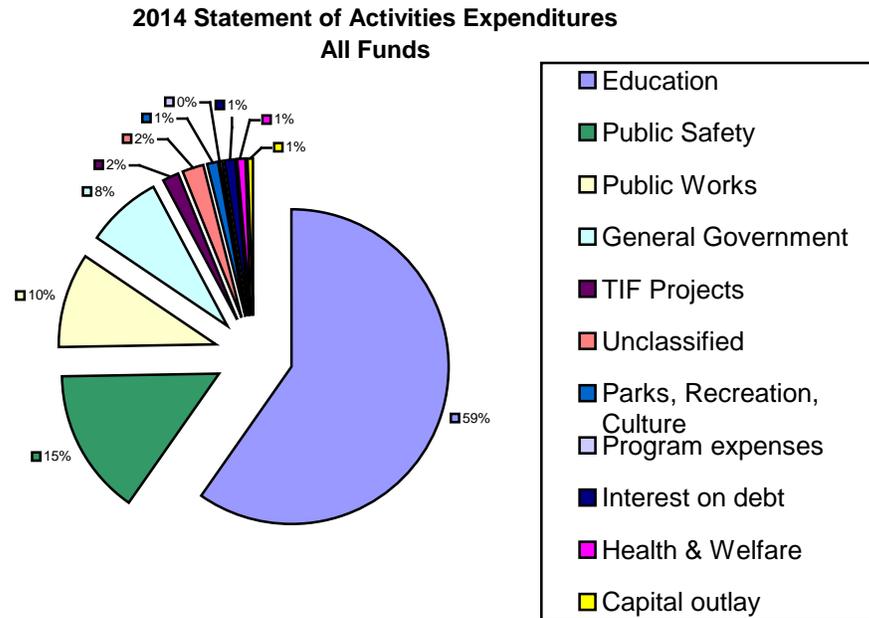


Taxes	Includes real property, personal property and excise taxes
Licenses and permits	Includes city clerk and code enforcement revenue
Intergovernmental	Includes State revenue sharing, homestead, veterans and welfare reimbursement, State road grant
Fees and fines	Includes fees for late dog registrations, 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.

MANAGEMENT'S DISCUSSION & ANALYSIS

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 \$35,122,765, and actual revenues were \$35,567,569, resulting in a positive variance of \$444,804. Total budgeted expenditures were \$36,777,792 and actual expenditures were \$36,464,763, resulting in a positive variance of \$313,029. For the year the General Fund had a decrease in fund balance of \$897,194.

The City continues to meet its responsibilities for sound financial management. This year the City exceeds the fund balance percentage range set by the council of 12%. 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 residents of the City can be proud of its municipal and school personnel who have worked together to continue to meet these financial goals.

MANAGEMENT'S DISCUSSION & ANALYSIS

ECONOMIC FACTORS AND THE CITY'S BUDGET

The valuation for the City increased by approximately \$4.6 million or .7% in fiscal year ended June 30, 2014. Residential valuation increased by approximately \$7.7 million or 13.6% while Personal Property decreased approximately \$3.1 million or 4.6%.

The unemployment rate for the City at fiscal year-end was an estimated 5.9% which was down from 7.3% from prior year. The rate is above the estimated State average of 5.1% but below the estimated National rate of 6.3%. These figures are from the Maine Center for Workforce Research and Information website.

The 2014/2015 budget adopted by the City Council resulted no change in the mill rate from the 2013/2014 rate of 27.4 mills. For the 2013/2014 budget year, which is the year this audit covers, the mill rate was 27.4 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, 2014

	Primary Government	Component Unit
	Governmental Activities	Library
ASSETS		
Cash and cash equivalents	\$ 3,395,243	\$ 51,266
Investments	9,221,508	1,667,954
Receivables:		
Taxes receivable	1,212,938	
Tax liens	344,188	
Other receivables	258,277	10,189
Intergovernmental	566,925	
Inventory	179,270	
Capital assets, net of accumulated depreciation	42,081,119	
Total Assets	57,259,468	1,729,409
LIABILITIES		
Accounts payable	643,732	874
Accrued wages and benefits payable	1,259,416	
Accrued compensated absences	222,031	
Unearned revenue	294,076	
Deposits	462,972	
Taxes received in advance	16,581	
Due to agency fund	139,225	
Accrued interest	209,691	
Noncurrent liabilities:		
Due within one year	2,164,422	
Due in more than one year	23,034,461	
Other post employment benefits liability	402,310	
Accrued compensated absences	160,359	
Total Liabilities	29,009,276	874
NET POSITION		
Net investment in capital assets	18,070,669	
Restricted for:		
Nonexpendable trust principal	1,310,897	
Expendable for trust designated uses	1,084,820	
Special revenue funds	785,332	
Work in Process Capital Projects	105,926	
Education	677,347	
Unrestricted	6,215,201	1,728,535
Total Net Position	\$ 28,250,192	\$ 1,728,535

See independent auditors' report.

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

Statement of Activities

Year Ended June 30, 2014

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	Component
					Governmental Activities	Unit Library
Primary Government:						
Governmental Activities:						
Mayor	\$ 20,135				\$ (20,135)	
Administration	1,463,461				(1,463,461)	
Assessor	150,143				(150,143)	
Information services	400,975	\$ 37,816			(363,159)	
Finance department	385,710	34,264			(351,446)	
City clerk	185,907	47,296			(138,611)	
Planning department	83,697	500			(83,197)	
Economic development	557,331		\$ 313,074		(244,257)	
Public works	4,036,527	421,399			(3,615,128)	
Parks, recreation and culture	550,738	124,717	35,880		(390,141)	
Police	2,944,285	174,749	133,603		(2,635,933)	
Communication center	528,515	130,164			(398,351)	
Fire	2,176,190	43,966	325		(2,131,899)	
Code enforcement	87,760				(87,760)	
Health and welfare	282,300		58,103		(224,197)	
Airport	645,482	426,914		\$ 138,684	(79,884)	
Unclassified	844,568		224,624		(619,944)	
Program expenses	125,273				(125,273)	
TIF projects	790,139				(790,139)	
Education	25,093,802	1,889,292	15,830,334		(7,374,176)	
Capital outlay recaptured	247,398			426,624	179,226	
Interest on debt	481,595				(481,595)	
Total Governmental Activities	\$ 42,081,931	\$ 3,331,077	\$ 16,595,943	\$ 565,308	(21,589,603)	
Component Unit:						
Library	\$ 627,575	\$ 25,647	\$ 464,945			\$ (136,983)
General revenues:						
Property taxes					17,371,904	
Excise taxes					1,638,444	
Licenses and permits					307,401	
Franchise fees					174,731	
Fees and fines					6,970	
Grants and contributions not restricted to specific programs:						
State revenue sharing					1,111,223	
Homestead exemption					277,629	
BETE reimbursement					259,294	
Investment earnings					366,753	217,079
Transfer					89,921	(89,921)
Unclassified					201,563	
Total general revenues					21,805,833	127,158
Change in net position					216,230	(9,825)
Net position - beginning of year					28,033,962	1,738,360
Net position - end of year					\$ 28,250,192	\$ 1,728,535

See independent auditors' report.

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

Balance Sheet - Governmental Funds

January 00, 1900

	General	Other Governmental Funds	Total
ASSETS			
Cash	\$ 3,218,427	\$ 176,816	\$ 3,395,243
Investments	6,970,257	2,251,251	9,221,508
Receivables:			
Taxes receivable	1,212,938		1,212,938
Tax liens	344,188		344,188
Other receivables	15,955	242,322	258,277
Intergovernmental	14,794	552,131	566,925
Interfund loans receivable	252,529	2,350,841	2,603,370
Inventory	86,470	92,800	179,270
Total Assets	<u>\$ 12,115,558</u>	<u>\$ 5,666,161</u>	<u>\$ 17,781,719</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 334,897	\$ 308,835	\$ 643,732
Accrued wages and benefits payable	1,258,391	1,025	1,259,416
Accrued compensated absences	221,021	1,010	222,031
Unearned revenue	40,020	254,056	294,076
Deposits	462,972		462,972
Taxes received in advance	16,581		16,581
Due to agency fund	139,225		139,225
Interfund loans payable	1,980,876	622,494	2,603,370
Total Liabilities	<u>4,453,983</u>	<u>1,187,420</u>	<u>5,641,403</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable revenue - property taxes	<u>801,359</u>		<u>801,359</u>
Fund Balances (Deficits):			
Nonspendable for inventory	86,470	92,800	179,270
Nonspendable for trusts		1,310,897	1,310,897
Restricted for trusts		1,084,820	1,084,820
Restricted for special revenue funds		785,332	785,332
Restricted for capital projects		1,198,007	1,198,007
General Fund - assigned for subsequent year budget	1,400,000		1,400,000
General Fund - unassigned	4,696,399		4,696,399
General Fund - restricted for education	677,347		677,347
Special Revenues - committed		179,548	179,548
Special Revenues - unassigned		(81,905)	(81,905)
Capital Projects - committed		480,265	480,265
Capital Projects - assigned		-	-
Capital Projects - unassigned		(571,023)	(571,023)
Total Fund Balances	<u>6,860,216</u>	<u>4,478,741</u>	<u>11,338,957</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 12,115,558</u>	<u>\$ 5,666,161</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.			42,081,119
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			801,359
Long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds.			
Accrued compensated absences			(160,359)
Accrued interest			(209,691)
Landfill closure liability			(96,352)
Capital leases payable			(104,568)
Other post employment benefits liability			(402,310)
Bonds payable			(24,997,963)
Net Position of Governmental Activities			<u>\$ 28,250,192</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, 2014

	General	Other Governmental Funds	Total
Revenues:			
Taxes	\$ 18,897,875		\$ 18,897,875
Licenses and permits	307,401		307,401
Intergovernmental	14,159,445	\$ 4,271,995	18,431,440
Tuition and other charges - Education	1,695,674	193,618	1,889,292
Charges for services - City	897,654	544,131	1,441,785
Fees and fines	6,970		6,970
Unclassified	398,066	356,185	754,251
Investment earnings	56,709	310,044	366,753
Total Revenues	<u>36,419,794</u>	<u>5,675,973</u>	<u>42,095,767</u>
Expenditures:			
Current:			
Mayor	20,135		20,135
Administration	1,449,543		1,449,543
Assessor	145,101		145,101
Information services	390,853		390,853
Finance department	385,710		385,710
City clerk	183,705		183,705
Planning department	83,697		83,697
Economic development	269,355		269,355
Public works	3,840,793		3,840,793
Parks, recreation and culture	438,990	62,428	501,418
Police	2,766,296	41,642	2,807,938
Communication center	528,515		528,515
Fire	1,961,192		1,961,192
Code enforcement	87,760		87,760
Health and welfare	282,300		282,300
Airport		469,214	469,214
Education	21,546,820	3,369,626	24,916,446
County tax	796,941		796,941
Unclassified	47,627	413,249	460,876
TIF projects		790,139	790,139
Capital outlay		2,102,805	2,102,805
Debt service (excluding education portion)	1,600,641		1,600,641
Total Expenditures	<u>36,825,974</u>	<u>7,249,103</u>	<u>44,075,077</u>
Deficiency of Revenues Over Expenditures	<u>(406,180)</u>	<u>(1,573,130)</u>	<u>(1,979,310)</u>
Other Financing Sources (Uses):			
Transfers in	597,775	1,310,955	1,908,730
Transfers out	(1,088,789)	(819,941)	(1,908,730)
Total Other Financing Sources (Uses)	<u>(491,014)</u>	<u>491,014</u>	
Net Change in Fund Balances	(897,194)	(1,082,116)	(1,979,310)
Fund Balances, Beginning of Year	<u>7,757,410</u>	<u>5,560,857</u>	<u>13,318,267</u>
Fund Balances, End of Year	<u>\$ 6,860,216</u>	<u>\$ 4,478,741</u>	<u>\$ 11,338,957</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, 2014

Net change in fund balances - total governmental funds \$ (1,979,310)

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 depreciation expense (\$2,466,707) exceeded cost of assets (\$2,194,743) and the transfer of work in process from the Library to the City (\$89,921) in the current period.

(182,043)

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 decrease in accrued compensated absences (\$217,135), the increase in OPEB liability (\$68,607) and the increase in accrued interest (\$40,074).

108,454

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.

92,007

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 unavailable revenue.

112,473

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

2,064,649

Change in Net Position of Governmental Activities

\$ 216,230

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

Year Ended June 30, 2014

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 18,700,322	\$ 18,700,322	\$ 18,897,875	\$ 197,553
Licenses and permits	157,200	157,200	307,401	150,201
Intergovernmental	12,712,123	12,712,123	12,709,445	(2,678)
Tuition and other charges for services - Education	1,611,000	1,611,000	1,695,674	84,674
Charges for services - City	907,845	907,845	897,654	(10,191)
Fees and fines	4,150	4,150	6,970	2,820
Unclassified	392,350	392,350	398,066	5,716
Investment earnings	40,000	40,000	56,709	16,709
Transfers in	597,775	597,775	597,775	
Total Revenues	<u>35,122,765</u>	<u>35,122,765</u>	<u>35,567,569</u>	<u>444,804</u>
Expenditures				
Mayor	20,590	20,590	20,135	455
Administration	1,562,130	1,547,380	1,449,543	97,837
Assessor	160,175	160,175	145,101	15,074
Information services	412,335	412,335	390,853	21,482
Finance department	382,515	382,515	385,710	(3,195)
City clerk	188,300	188,300	183,705	4,595
Planning department	88,800	88,800	83,697	5,103
Economic development	270,195	270,195	269,355	840
Public works	3,838,540	3,838,540	3,840,793	(2,253)
Parks, culture and recreation	467,310	467,310	438,990	28,320
Police	2,781,360	2,781,360	2,766,296	15,064
Communication center	508,750	508,750	528,515	(19,765)
Fire	1,960,880	1,975,630	1,961,192	14,438
Code enforcement	89,750	89,750	87,760	1,990
Health and welfare	319,570	319,570	282,300	37,270
Education	20,243,032	20,243,032	20,096,820	146,212
County tax	797,000	797,000	796,941	59
Unclassified	51,100	51,100	47,627	3,473
Debt service (excluding education portion)	1,604,320	1,604,320	1,600,641	3,679
Transfers out	1,031,140	1,031,140	1,088,789	(57,649)
Total Expenditures	<u>36,777,792</u>	<u>36,777,792</u>	<u>36,464,763</u>	<u>313,029</u>
Deficiency of Revenues Over Expenditures	(1,655,027)	(1,655,027)	(897,194)	<u>\$ 757,833</u>
Beginning Fund Balance Utilized	<u>1,655,027</u>	<u>1,655,027</u>		
Fund Balance, Beginning of Year			<u>7,757,410</u>	
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,860,216</u>	

See independent auditors' report.

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

Statement of Fiduciary Net Position - Fiduciary Funds

January 00, 1900

	Private- Purpose Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents		\$ 358,980
Investments	\$ 258,735	91,637
Accounts receivable		25,880
Due from other funds		139,225
	<hr/>	<hr/>
Total Assets	<u><u>\$ 258,735</u></u>	<u><u>\$ 615,722</u></u>
 LIABILITIES AND NET POSITION		
Liabilities:		
Due to student groups		\$ 450,617
Amount held for others		165,105
		<hr/>
Total Liabilities		<u><u>\$ 615,722</u></u>
 Net Position		
Held in trust	<u><u>\$ 258,735</u></u>	

Statement of Changes in Fiduciary Net Position - Fiduciary Funds

Year Ended June 30, 2014

	Private- Purpose Trust Funds
Investment Income and Donations	\$ 41,552
Scholarships and Related Expenses	<u>12,864</u>
Change in Net Position	28,688
Net Position, Beginning of Year	<u>230,047</u>
Net Position, End of Year	<u><u>\$ 258,735</u></u>

Notes to Financial Statements

June 30, 2014

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 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, 2014

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 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, were to strengthen the financial condition of local governments within the geographic territory of the Authority, while combining resources and sharing costs for meeting regional economic development needs and challenges; to promote and develop infrastructure and programs for employment and economic development opportunities and other conditions to positively affect regional development. The intent was that the members would fund the start-up costs and then all benefit from the tax revenues later on. There are currently 24 local governments who are members of the Authority including the City.

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 2014, the City contributed \$74,716. Complete financial statements may be obtained from Kennebec Regional Development Authority 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, 2014

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, 2014

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, 2014

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 or resources that must be maintained intact pursuant to legal or contractual requirements.

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, 2014

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 the City 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, 2014

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.

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 statements.

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.

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.

Notes to Financial Statements

June 30, 2014

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – CONTINUED

Deficit Fund Balances

The individual special revenue fund carrying a fund deficit as of June 30, 2014 is as follows:

Airport Fund	\$ 11,178
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The individual capital projects funds carrying fund deficits as of June 30, 2014 are as follows:

Improve First Rangeway Intersection	\$ 28,450
Runway Reconstructions	11,740
Airport Main Runway Construction	898
Quarry Road Projects	6,115
Waterville Opera House Project	4,204
Chaplin/Colby Circle/Temple	13,328
Drummond Ave	15,576
Mayflower Hill	120,747
School Improvement	369,965

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.

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, Maine

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, 2014, \$168,124 of the City's bank balances of \$4,044,906 were exposed to custodial credit risk. The remaining bank balance is covered by FDIC insurance or are collateralized.

The Public School does not have a deposit policy for custodial credit risk. As of June 30, 2014, \$10,254 of the Public Schools' bank balances of \$1,711,891 were exposed to custodial credit risk. The remaining bank balance is covered by FDIC insurance or are collateralized.

Component Unit – Waterville Public Library

The Library does not have a policy for custodial credit risk. As of June 30, 2014, none of the Library's bank balance of \$82,307 was exposed to custodial credit risk.

Notes to Financial Statements

June 30, 2014

NOTE 3 – CASH AND INVESTMENTS – CONTINUED

Investments

Primary Government – City of Waterville, Maine

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, 2014, 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	\$6,970,257	\$6,970,257			
U.S. Agencies	236,773	101,019	\$135,754		
Common Stock	1,681,041			\$41,104	\$1,639,937
Mutual Bond Funds	683,809				683,809
Total Investments	\$9,571,880	\$7,071,276	\$135,754	\$41,104	\$2,323,746

Investments are categorized by fund as follows:

	Public Schools	City	Total
General Fund		\$6,970,257	\$6,970,257
Fiduciary Funds:			
Private-Purpose Trust Funds	\$258,735		258,735
Agency Funds	91,637		91,637
Permanent Fund		2,251,251	2,251,251
Total Investments	\$350,372	\$9,221,508	\$9,571,880

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.

Notes to Financial Statements

June 30, 2014

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 - Investments

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.

City of Waterville, Maine

With the exception of U.S. Treasury securities or Federal Deposit Insurance Corporation (FDIC) insured certificates of deposit, no more than seventy percent of the City's total investment portfolio may be invested in a single security type or with a single financial institution. As of June 30, 2014 the City's investments were sufficiently diversified according to their policy.

Waterville Public Schools

The Public Schools' investment policies are governed by Maine Statutes, generally 30-A M.R.S.A. 5706-5715. The Public Schools' investments consist of \$350,372 invested in open-end mutual funds, which are sufficiently diversified; therefore as of June 30, 2014 none of the Public Schools' investments were exposed to concentration of credit risk.

Notes to Financial Statements

June 30, 2014

NOTE 3 – CASH AND INVESTMENTS – CONTINUED

Component Unit – Waterville Public Library

	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	No Maturity
Bonds	\$ 53,796		\$ 786	\$ 53,010	
Common Stock	262,149				\$ 262,149
Mutual Funds	1,335,256				1,335,256
Money Market	16,753	\$ 16,753			
Total Investments	<u>\$ 1,667,954</u>	<u>\$ 16,753</u>	<u>\$ 786</u>	<u>\$ 53,010</u>	<u>\$1,597,405</u>

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, 2014 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, 2014 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, 2013, 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 \$142,637 for the year ended June 30, 2014.

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 a different inflow of resources, unavailable revenue – property taxes.

Notes to Financial Statements

June 30, 2014

NOTE 4 – PROPERTY TAX - CONTINUED

The following summarizes the levy as of and for the year ended June 30, 2014:

Assessed value	\$632,903,723
Tax rate (per \$1,000)	<u>27.40</u>
Commitment	<u>17,341,562</u>
Less:	
Abatements	34,794
Collections	<u>16,119,428</u>
	<u>16,154,222</u>
Current year taxes receivable at end of year	<u><u>\$ 1,187,340</u></u>
Due date(s) - current year	1/4 October 11, 2013 1/4 December 34, 2013 1/4 March 7, 2014 1/4 June 13, 2014
Interest rate on delinquent taxes	7.00%
Collection rate	92.95%
Taxes receivable - current year	\$ 1,187,340
Taxes receivable - prior years	<u>25,598</u>
Total taxes receivable	<u><u>\$ 1,212,938</u></u>

Notes to Financial Statements

June 30, 2014

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, 2014.

Capital asset activity for the City for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,886,644	\$ 100,000		\$ 1,986,644
Construction in progress	7,819,503	2,017,435	\$4,335,993	5,500,945
Total capital assets not being depreciated	<u>9,706,147</u>	<u>2,117,435</u>	<u>4,335,993</u>	<u>7,487,589</u>
Capital assets being depreciated:				
Buildings	39,100,793	4,291,032		43,391,825
Improvements	5,774,494			5,774,494
Vehicles	6,191,953	79,992	44,778	6,227,167
Equipment	4,474,152	132,198		4,606,350
Infrastructure	17,256,711			17,256,711
Total capital assets being depreciated	<u>72,798,103</u>	<u>4,503,222</u>	<u>44,778</u>	<u>77,256,547</u>
Less accumulated depreciation for:				
Buildings	15,613,417	1,428,972		17,042,389
Improvements	4,034,751	120,341		4,155,092
Vehicles	4,129,552	417,578	44,778	4,502,352
Equipment	3,278,294	165,322		3,443,616
Infrastructure	13,185,074	334,494		13,519,568
Total accumulated depreciation	<u>40,241,088</u>	<u>2,466,707</u>	<u>44,778</u>	<u>42,663,017</u>
Total capital assets being depreciated, net	<u>32,557,015</u>	<u>2,036,515</u>		<u>34,593,530</u>
Governmental Activities Capital				
Assets, Net	<u>\$42,263,162</u>	<u>\$ 4,153,950</u>	<u>\$4,335,993</u>	<u>\$42,081,119</u>

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

Governmental activities:	
Administration	\$ 98,332
Assessor	5,042
Information services	10,122
City clerk	2,202
Public works (includes infrastructure)	479,199
Parks, recreation and culture	49,320
Police	136,347
Fire	214,998
Airport	176,268
Education	1,294,877
Total depreciation expense - governmental activities	<u>\$ 2,466,707</u>

Notes to Financial Statements

June 30, 2014

NOTE 6 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Bonds and notes payable	\$27,062,612		\$2,064,649	\$24,997,963	\$2,099,955
Capital leases	196,575		92,007	104,568	64,467
Accrued compensated absences	466,467	\$ 4,896	88,973	382,390	222,031
Landfill liability closure	96,352			96,352	
Other post employment benefits liability	333,703	68,607		402,310	
Long-term liabilities	<u>\$28,155,709</u>	<u>\$73,503</u>	<u>\$2,245,629</u>	<u>\$25,983,583</u>	<u>\$2,386,453</u>

NOTE 7 – CAPITAL LEASES

The Department of Public Schools is engaged in four capital leases, and the City is engaged in two capital leases as of June 30, 2014. The original cost of assets capitalized under these leases total \$388,352. Future minimum capital lease payments are as follows.

Principal	
2015	\$ 64,467
2016	28,470
2017	11,631
Total	<u>104,568</u>
Interest	
2015	2,504
2016	1,196
2017	320
Total	<u>4,020</u>
Total payments	108,588
Less interest	4,020
Net present value	<u>\$ 104,568</u>

Notes to Financial Statements

June 30, 2014

NOTE 8 – LONG-TERM DEBT

Bonds payable at June 30, 2014 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%	\$ 2,470,000
2007 QZAB Bond	10/9/07	965,000	2022	1.4407%	603,635
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%	3,177,804
2011 QSCB Bond	5/26/11	5,000,000	2025	5.692%	3,753,606
2011 General Obligation Bond	5/3/11	3,150,000	2031	2.00-4.00%	2,770,000
2011 General Obligation Bond	5/3/11	3,096,000	2020	1.70-2.85%	2,356,000
2012 QSCB Bond	7/15/11	943,859	2027	5.366%	857,302
2013 General Obligation Bond	11/1/12	3,300,000	2033	1.00-2.75%	3,105,000
2013 General Obligation Bond	4/1/13	5,831,120	2038	2.00-3.50%	5,545,000
Total bonds payable					<u>\$24,997,963</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, 2014 are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 2,099,955	\$ 563,676	\$ 2,663,631
2016	2,009,056	525,887	2,534,943
2017	2,013,319	490,125	2,503,444
2018	2,022,758	453,096	2,475,854
2019	2,017,380	413,826	2,431,206
2020 - 2024	8,482,309	1,498,316	9,980,625
2025 - 2029	3,863,186	674,549	4,537,735
2030 - 2034	1,910,000	237,778	2,147,778
2035 - 2039	580,000	49,735	629,735
	<u>\$ 24,997,963</u>	<u>\$ 4,906,988</u>	<u>\$ 29,904,951</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 \$24,997,963 at June 30, 2014 was within the statutory limit.

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.

Notes to Financial Statements

June 30, 2014

NOTE 9 – INTERFUND BALANCES

As of June 30, 2014, the balances of interfund loans receivable/payable were as follows:

	Interfund Loans Receivable	Interfund Loans Payable	Due to Agency Funds
General fund	\$ 252,529	\$1,980,876	\$139,225
Other governmental funds	2,350,841	622,494	
Agency funds	139,225		
Totals	<u>\$2,742,595</u>	<u>\$2,603,370</u>	<u>\$139,225</u>

NOTE 10 – MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (MPERS)

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 Public Employees Retirement System Consolidated Plan, a cost sharing multiple-employer retirement system established by the Maine State Legislature. The MPERS 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 MPERS 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 Public Employees 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 4.5% 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, 2014, the City had a credit balance of \$62,645 which is utilized to fund future contributions to the Consolidated Plan. The utilization of the credit during 2014 was \$118,069.

Funding Policy (School Department) – The contribution rates of plan members and the Public Schools are established and may be amended by the MPERS Board of Trustees.

Maine Public Employees Retirement System – Teachers' Fund

Description of Plan – All school teachers and other qualified educators, participate in the MPERS' Teachers' Fund. The Teachers' Fund is a cost-sharing plan with a special funding situation, established by the Maine State Legislature. The MPERS 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 MPERS Board of Trustees. The MPERS 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 Public Employees Retirement System, 46 State House Station, Augusta, ME 04333-0046 or by calling 1-800-451-9800.

Notes to Financial Statements

June 30, 2014

NOTE 10 – MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (MPERS) – 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 \$1,450,000 (15.36%) for the fiscal year 2014. This amount has been reported as an intergovernmental revenue and retirement expenditure in the financial statements within the education department. The School is required to contribute for those positions that are federally funded. This contribution amounted to \$106,731 for the year ended June 30, 2014. The cost is chargeable to the applicable grant.

The School also makes a contribution to the Maine Public Employees Retirement System Teachers' Fund for the teachers of the School. The payment is determined by an actuary and is approximately 2.65% of the qualified teachers' salaries for the entire Teachers' Fund. For the year ended June 30, 2014, the amount of this contribution was approximately \$271,000

NOTE 11 – DEFERRED COMPENSATION PLAN

The City offers all its employees not participating in the MPERS 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 an unforeseeable emergency.

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 August 2014.

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. 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, 2014

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	\$ 44,004
Amortization of Unfunded Actuarial Liability	40,316
Interest	1,670
Annual Required Contribution	<u>85,990</u>
Offset to Annual Required Contribution	<u>(17,383)</u>
2014 OPEB Liability Expense	68,607
Fiscal Year Ending 2013 OPEB Accrued Liability	<u>333,703</u>
Total Accrued Liability Fiscal Year Ended 2014	<u><u>\$ 402,310</u></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, 2013 was as follows:

Annual Required Contribution	\$ 85,990
Actual Contribution	17,383
Percent Contributed	20.22%
Actuarial Accrued Liability	\$ 725,027
Plan Assets	
Unfunded Actuarial Accrued Liability	<u><u>\$ 725,027</u></u>
Covered Payroll	\$ 5,065,460
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	14.31%

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 that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Notes to Financial Statements

June 30, 2014

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS – CONTINUED

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:

Actuarial Valuation Date	January 1, 2014
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	3.00%
Healthcare Inflation Rate	4.60%

NOTE 13 – TAX INCREMENT FINANCING (TIF) DISTRICT

The City has established seven tax increment-financing districts under the terms of applicable State laws which were still in effect during the year ended June 30, 2014.

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.

Notes to Financial Statements

June 30, 2014

NOTE 13 – TAX INCREMENT FINANCING (TIF) DISTRICT – CONTINUED

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.

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.

Notes to Financial Statements

June 30, 2014

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, 2014, 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, 2014. 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, 2014.

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 reviewed by an independent accountant are dated August 31, 2013 and reported assets of \$4,801,563 and liabilities of \$712,201 and net assets of \$4,089,362.

The City has incurred approximately \$5.5 million of construction in progress as of June 30, 2014. The most significant projects include the Quarry Road Recreation Area, Airport Runway Reconstruction and Pavement Projects which collectively comprise approximately \$3.2 million of the total projects in process at June 30, 2014. The total cost of all projects when completed is expected to be approximately \$10.5 million.

Notes to Financial Statements

June 30, 2014

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, 2014:

	Governmental Activities
Capital assets	\$ 84,744,136
Accumulated depreciation	(42,663,017)
Bonds payable and capital leases payable	(25,102,531)
Unspent bond proceeds	<u>1,092,081</u>
Total invested in capital assets, net of related debt	<u>\$ 18,070,669</u>

Required Supplementary Information - Schedule of Funding Progress

June 30, 2014 (Unaudited)

Other Post-Employment Benefits							
Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a % of Covered Payroll
2014	January 1, 2014	\$0	\$ 725,027	\$ 725,027	0%	\$ 5,065,460	14.3%
2013	January 1, 2011	\$0	\$ 767,786	\$ 767,786	0%	\$ 5,066,198	15.2%
2012	January 1, 2011	\$0	\$ 767,786	\$ 767,786	0%	\$ 4,950,088	15.5%
2011	January 1, 2011	\$0	\$ 767,786	\$ 767,786	0%	\$ 4,834,079	15.9%
2010	January 1, 2009	\$0	\$ 591,128	\$ 591,128	0%	\$ 3,007,951	19.7%
2009	January 1, 2009	\$0	\$ 591,128	\$ 591,128	0%	\$ 3,007,951	19.7%

Independent Auditors' Report on Additional Information

To the City Council
City of Waterville, Maine
Waterville, Maine

We have audited the financial statements of the City of Waterville, Maine as of and for the year ended June 30, 2014, and our report thereon dated November 21, 2014, 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 41 through 47 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.



South Portland, Maine
November 21, 2014

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Combining Balance Sheet Special Revenue Funds

January 00, 1900

	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		\$ 12,587							\$ 12,587
Accounts receivable			\$ 184	\$ 23,235				\$ 4,551	27,970
Intergovernmental receivable								370,905	370,905
Inventory				70,727				22,073	92,800
Interfund loans receivable	\$ 373,920		181,910		\$ 15,327	\$ 2,500	\$ 5,926	252,056	831,639
Total Assets	<u>\$ 373,920</u>	<u>\$ 12,587</u>	<u>\$ 182,094</u>	<u>\$ 93,962</u>	<u>\$ 15,327</u>	<u>\$ 2,500</u>	<u>\$ 5,926</u>	<u>\$ 649,585</u>	<u>\$ 1,335,901</u>
LIABILITIES AND FUND BALANCES									
Liabilities:									
Unearned revenues								\$ 72,830	\$ 72,830
Accounts payable	\$ 177,389		\$ 2,546	\$ 2,268	\$ 314				182,517
Accrued wages				1,025					1,025
Accrued compensated absences				1,010					1,010
Interfund loans payable		\$ 1,907		100,837					102,744
Total Liabilities	<u>177,389</u>	<u>1,907</u>	<u>2,546</u>	<u>105,140</u>	<u>314</u>			<u>72,830</u>	<u>360,126</u>
Fund Balances (Deficit):									
Nonspendable - inventory				70,727				22,073	92,800
Restricted fund balance	196,531	10,680			15,013	\$ 2,500	\$ 5,926	554,682	785,332
Committed fund balance			179,548						179,548
Unassigned fund balance				(81,905)					(81,905)
Total Fund Balances (Deficit)	<u>196,531</u>	<u>10,680</u>	<u>179,548</u>	<u>(11,178)</u>	<u>15,013</u>	<u>2,500</u>	<u>5,926</u>	<u>576,755</u>	<u>975,775</u>
Total Liabilities and Fund Balances	<u>\$ 373,920</u>	<u>\$ 12,587</u>	<u>\$ 182,094</u>	<u>\$ 93,962</u>	<u>\$ 15,327</u>	<u>\$ 2,500</u>	<u>\$ 5,926</u>	<u>\$ 649,585</u>	<u>\$ 1,335,901</u>

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

Year Ended June 30, 2014

	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					\$ 122,708		\$ 303,774	\$ 2,795,378	\$ 3,221,860
State programs					10,795			635,834	646,629
Local programs							9,300	170,549	179,849
Charges for services			\$ 117,217	\$ 426,914				193,618	737,749
Unclassified		\$ 2,075	1,369						3,444
Total Revenues		<u>2,075</u>	<u>118,586</u>	<u>426,914</u>	<u>133,503</u>		<u>313,074</u>	<u>3,795,379</u>	<u>4,789,531</u>
Expenditures:									
Recreation			62,428						62,428
Police					41,642				41,642
Education								2,217,759	2,217,759
Adult education								135,935	135,935
Food services								1,015,932	1,015,932
TIF projects	\$ 790,139								790,139
Cooperation with other entities							286,069		286,069
Unclassified		1,907		469,214					471,121
Total Expenditures	<u>790,139</u>	<u>1,907</u>	<u>62,428</u>	<u>469,214</u>	<u>41,642</u>		<u>286,069</u>	<u>3,369,626</u>	<u>5,021,025</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(790,139)</u>	<u>168</u>	<u>56,158</u>	<u>(42,300)</u>	<u>91,861</u>		<u>27,005</u>	<u>425,753</u>	<u>(231,494)</u>
Other Financing Sources:									
Transfers in	1,075,739			24,145					1,099,884
Transfers out	(294,340)		(27,580)		(25,000)			(340,000)	(686,920)
	<u>781,399</u>		<u>(27,580)</u>	<u>24,145</u>	<u>(25,000)</u>			<u>(340,000)</u>	<u>412,964</u>
Net Change in Fund Balances	<u>(8,740)</u>	<u>168</u>	<u>28,578</u>	<u>(18,155)</u>	<u>66,861</u>		<u>27,005</u>	<u>85,753</u>	<u>181,470</u>
Fund Balances (Deficit), Beginning 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>
Fund Balances (Deficit), End of Year	<u>\$ 196,531</u>	<u>\$ 10,680</u>	<u>\$ 179,548</u>	<u>\$ (11,178)</u>	<u>\$ 15,013</u>	<u>\$ 2,500</u>	<u>\$ 5,926</u>	<u>\$ 576,755</u>	<u>\$ 975,775</u>

**Combining Balance Sheet
Capital Projects**

January 00, 1900

ASSETS

Grants receivable	\$ 214,352
Intergovernmental receivable	181,226
Interfund loans receivable	<u>1,486,079</u>
Total Assets	<u><u>\$ 1,881,657</u></u>

LIABILITIES AND FUND BALANCES

Liabilities:

Unearned revenue	\$ 181,226
Interfund loans payable	467,196
Accounts payable	<u>125,986</u>
Total Liabilities	<u>774,408</u>

Fund Balances:

Restricted	1,198,007
Committed	480,265
Assigned	-
Unassigned	<u>(571,023)</u>
Total Fund Balances	<u>1,107,249</u>

Total Liabilities and Fund Balances	<u><u>\$ 1,881,657</u></u>
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Combining Statement of Revenues, Expenditures and Changes in Fund Balances Capital Projects

Year Ended June 30, 2014

	Beginning Balance	Inter- Governmental and Miscellaneous Revenue	Bond Issue	Expenditures	Operating Transfer In (Out)	Ending Balance
Municipal						
Voting Machines/Storage Equipment	\$ 21,993			\$ 16,062		\$ 5,931
Cemetery Chapel Repairs	50,000			47,968		2,032
Parks and Recreation Equipment	25,000				\$ (23,021)	1,979
Fire Dept Equipment	(25,000)				25,000	
Public Works Equipment	4,756				23,021	27,777
Improve First Rangeway Intersection	(28,450)					(28,450)
Golf Course Irrigation Project	500					500
Campus Drive	4,333					4,333
North Street Connector Trail	31,945					31,945
Maintenance/Mobile Facility/Washbay	144,043			79,268		64,775
Waterfront Projects	127,528			30,416	(71,530)	25,582
Assigned Sources and Uses	118,063	\$ 71,456		17,702	(18,470)	153,347
Airport Capital Improvement Fund	2,164					2,164
Runway Reconstruction	90,414	92,472		194,626		(11,740)
Airport Runway Design		216,430		227,822	13,050	1,658
Airport Main Runway Construction		17,067		17,965		(898)
Airport Equipment	117,150			84,421		32,729
Landfill Closure	96,352					96,352
Quarry Road Projects	(64,448)	58,333				(6,115)
Downtown Streetscape Project	20,000				(20,000)	
Waterville Opera House Project	145,073			149,277		(4,204)
Police Department New Building	294,926			319,926	25,000	
Downtown Sidewalk Repairs	19,012			535		18,477
City Hall		2,012		55,804	85,000	31,208
Grover/Water Street	21,572					21,572
Chaplin/Colby Circle/Temple	(13,328)					(13,328)
West River Road Culvert		77,537		77,537		
Drummond Ave				15,576		(15,576)
Bonded Paving Projects	1,500,000			484,219		1,015,781
Mayflower Hill		30,000		150,747		(120,747)
School Improvement	(409,965)				40,000	(369,965)
Pavement Rehab	273,064			132,934		140,130
Totals	\$ 2,566,697	\$ 565,307	\$ -	\$ 2,102,805	\$ 78,050	\$ 1,107,249

Combining Balance Sheet Permanent Funds

January 00, 1900

ASSETS

Cash	\$ 164,229
Investments	2,251,251
Interfund loans receivable	33,123
Total Assets	<u><u>\$ 2,448,603</u></u>

LIABILITIES AND FUND BALANCES

Liabilities:

Interfund loans payable	\$ 52,554
Accounts payable	332
Total Liabilities	<u><u>52,886</u></u>

Fund Balances:

Nonspendable principal	1,310,897
Restricted to charitable or community purposes	1,084,820
Total Fund Balances	<u><u>2,395,717</u></u>

Total Liabilities and Fund Balances	<u><u>\$ 2,448,603</u></u>
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Combining Statement of Revenues, Expenses and Changes in Fund Balances Permanent Funds

Year Ended June 30, 2014

	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	\$ 481,985		\$ 84,388	\$ 22,511	\$ 100,000	\$ 543,862
Frank Champlin Teachers Fund	100,000	304,995		39,191	6,142	100,000	338,044
Mildred Pray Ware fund	5,000	45,285		973	3,005	5,000	43,253
Violet Smith Fund		1,238		24	4		1,258
Marr Charity		1,443		3,579	19		5,003
Pine Grove Cemetery	1,082,097	40,747	\$ 11,091	181,219	89,506	1,082,097	143,551
Boothby Fountain		198		4	1		201
"470" Engine Fund (A)	3,800	3,194		90	4,000	3,800	(716)
Mary Warren Fund	10,000	2,620		233	36	10,000	2,817
George Mitchell Fund	10,000	7,253		343	49	10,000	7,547
Total City Funds	\$ 1,310,897	\$ 888,958	\$ 11,091	\$ 310,044	\$ 125,273	\$ 1,310,897	\$ 1,084,820

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

Year Ended June 30, 2014

	Balances Beginning of Year	Additions	Deductions	Balances End of Year
Private Purpose Trust Funds:				
Buford Grant Scholarship	\$ 23,519	\$ 4,293	\$ 500	\$ 27,312
W. A. Donovan Fund	3,637	608		4,245
Wentworth Fund	20,461	3,963	3,500	20,924
Flora Harriman Small Fund	86,598	14,294	5,000	95,892
Gladys Briggs Walker Fund	11,914	1,976		13,890
Tina Thompson Poulin Drama Fund	8,236	1,494	300	9,430
Rene Plante Scholarship	4,832	823	300	5,355
Myra Stearns	16,447	2,821	1,764	17,504
Faculty Gowns Account	2,699	344		3,043
Messalonskee Fish and Game	13,872	2,460	500	15,832
Ron LaPlante Scholarship Fund	13,512	2,429	1,000	14,941
Janice H. & Cynthia V. Scholarship Fund	2,391	311		2,702
Pre Vocational Program	15,392	2,749		18,141
Carol Shapiro Scholarship	6,537	2,987		9,524
	<u>\$ 230,047</u>	<u>\$ 41,552</u>	<u>\$ 12,864</u>	<u>\$ 258,735</u>
Total Private Purpose Trust Funds				