

**CITY OF WATERVILLE,
MAINE**

FINANCIAL REPORT

June 30, 2015

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CERTIFIED PUBLIC ACCOUNTANTS

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, 2015, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely-presented component unit, each major fund, and the aggregate remaining fund information of the City of Waterville, Maine as of June 30, 2015, 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, the schedule of funding progress on Page 42, the schedule of proportionate share of the net pension liability and related ratios on page 43, and the schedule of employer contributions on page 44 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 December 11, 2015, on our consideration of the 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 the City of Waterville, Maine's internal control over financial reporting and compliance.

Nicholson, Michael & Company

Waterville, Maine
December 11, 2015

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, 2015.

FINANCIAL HIGHLIGHTS

- Total net position for the year ended June 30, 2015 of \$28,737,730. A portion of that amount, \$21,483,500, is a net investment in capital assets while the next largest portion, \$3,693,737 is unrestricted. Total net position for the year ended June 30, 2014, as restated to recognize the City's proportionate share of the net pension liability, was \$26,103,479. A portion of that amount, \$18,070,669, was a net investment in capital assets while the next largest portion, \$4,745,835 was unrestricted.
- Net position increased by \$2,634,251 for the year ended June 30, 2015. The net position increase for the year ended June 30, 2014, restated as a result of the City's recognition of its proportionate share of the net pension liability, was \$746,075.
- The governmental funds reported combined fund balances of \$12,194,092, an increase of \$855,135 from the prior year. The increase in fund balance is attributed to a decrease in the General Fund fund balance of \$964,161 combined with an increase in the Capital Projects and Other Governmental Funds fund balances of \$1,819,296 primarily related to bond proceeds for construction projects received in the current year that were not spent during this year.
- As of June 30, 2015, unassigned fund balance for the General Fund was \$4,401,342 or 12% of the total general fund expenditures. The City's policy establishes a goal to maintain an unassigned fund balance of at least 12%.
- Bonds payable increased to \$25,638,008 as compared to \$24,997,961 from the prior year as a result of regularly scheduled principal repayments of \$2,139,955 offset by new debt issued.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The City's Basic Financial Report has three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. All of the funds of the City are reported using the economic resources measurement focus and the accrual basis of accounting. The accrual basis of accounting is similar to the accounting method used by non-public businesses, in that revenues and expenditures are recorded in the current year regardless of when the revenue is collected or paid out.

Government-Wide Financial Statements

- Government-wide financial statements report information on all of the non-fiduciary activities of the City's Governmental activities which are normally supported by taxes and intergovernmental revenues.
- The City's financial statements are comprised of a series of statements such as the statement of net position and the statement of activities. These statements provide an overview of the activities of the government as a whole.
- The statement of net position provides a picture of the difference between assets, deferred outflows of resources and liabilities and deferred inflows of resources (including infrastructure). This is called *net position*. The statement of activities provides a look at how the net position has changed from the prior year to the current year. Increases or decreases in net position can show whether the City is improving or deteriorating. Other factors such as changes in the City's property tax base and the condition of the roads also need to be considered to assess the overall health of the City.

Fund Financial Statements

- The fund financial statements provide details of the City's most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, management establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. Examples of funds within the City's financial statements follow.
- *General Fund* – This is the primary operating fund for the City. Most of the City's basic services are reported in the general fund. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps to 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 17-41 of this document.

THE CITY AS A WHOLE

The following information is a condensed version of the statement of net position. Note that governmental activities for 2014 were restated to recognize the City's proportionate share of the net pension liability.

| | Governmental Activities | | Library | |
|----------------------------|-------------------------|----------------------|---------------------|---------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Current and other assets | \$ 18,630,013 | \$ 15,178,349 | \$ 1,517,320 | \$ 1,729,409 |
| Capital assets, net | 44,675,156 | 42,081,119 | | |
| Total assets | <u>\$ 63,305,169</u> | <u>\$ 57,259,468</u> | <u>\$ 1,517,320</u> | <u>\$ 1,729,409</u> |
| Long-term debt outstanding | \$ 28,192,149 | \$ 28,660,141 | | |
| Other liabilities | 6,375,290 | 2,495,848 | \$ 1,072 | \$ 874 |
| Total liabilities | <u>34,567,439</u> | <u>31,155,989</u> | <u>1,072</u> | <u>874</u> |
| Net position: | | | | |
| Invested in: | | | | |
| Capital assets | 21,483,500 | 18,070,669 | | |
| Restricted | 3,560,493 | 3,286,975 | | |
| Unrestricted | 3,693,737 | 4,745,835 | 1,516,248 | 1,728,535 |
| Total net position | <u>\$ 28,737,730</u> | <u>\$ 26,103,479</u> | <u>\$ 1,516,248</u> | <u>\$ 1,728,535</u> |

City of Waterville, Maine

Current and other assets are substantially all comprised of cash and investments. Capital assets, which include property, plant, equipment, and infrastructure, are generally defined by the City as assets with an initial, individual cost of greater than or equal to \$5,000 (five thousand dollars) and an estimated useful life in excess of one year. Capital assets increased in 2015 as significant investment in capital assets at the Airport and various road repair projects exceeded depreciation. The governmental activities increase in total net assets is due primarily to revenues raised being consistent with the budget and expenditures were kept below anticipated budget amounts. By far the largest portion of the City's net position reflects its investment in capital assets less any related debt to acquire those assets still outstanding. There were bonds issued in the current year totaling \$5,250,000, which included the refunding of the outstanding 2005 General Obligation Bonds in the amount of \$2,470,000. 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. Note that governmental activities for 2014 were restated to recognize the City's proportionate share of the net pension liability.

| | Governmental Activities | | Library | |
|--|-----------------------------|-----------------------------|----------------------------|----------------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Program Revenues: | | | | |
| Charges for services | \$ 3,596,719 | \$ 3,331,077 | \$ 65,968 | \$ 25,647 |
| Operating grants and contributions | 17,112,794 | 16,595,943 | 451,622 | 464,945 |
| Capital grants and contributions | 3,313,312 | 565,308 | | |
| | <u>24,022,825</u> | <u>20,492,328</u> | <u>517,590</u> | <u>490,592</u> |
| General Revenues: | | | | |
| Property and other taxes | 18,854,102 | 19,010,348 | | |
| Licenses, permits and fees | 264,301 | 489,102 | | |
| Grants and contributions not restricted to specific programs | 1,632,236 | 1,648,146 | | |
| Investment earnings | 151,128 | 366,753 | (6,164) | 217,079 |
| Transfer | | 89,921 | | (89,921) |
| Unclassified | 238,378 | 201,563 | | |
| | <u>21,140,145</u> | <u>21,805,833</u> | <u>(6,164)</u> | <u>127,158</u> |
| Total Revenues | <u>45,162,970</u> | <u>42,298,161</u> | <u>511,426</u> | <u>617,750</u> |
| Program Expenses: | | | | |
| General government | 3,540,568 | 3,247,359 | | |
| Public works | 4,152,123 | 4,036,527 | | |
| Public safety | 6,405,582 | 6,230,312 | | |
| Parks, recreation and culture | 571,014 | 550,738 | | |
| Health and welfare | 261,341 | 282,300 | | |
| Education | 25,493,936 | 24,715,877 | | |
| Program expenses | 126,822 | 125,273 | | |
| TIF projects | 737,275 | 790,139 | | |
| Unclassified | 833,646 | 844,568 | | |
| Capital outlay | 44,276 | 247,398 | | |
| Interest on debt | 362,136 | 481,595 | | |
| Library expenses | | | 723,713 | 627,575 |
| Total Expenses | <u>42,528,719</u> | <u>41,552,086</u> | <u>723,713</u> | <u>627,575</u> |
| Change in Net Position | 2,634,251 | 746,075 | (212,287) | (9,825) |
| Net Position, Beginning of Year | 26,103,479 | 25,357,404 | 1,728,535 | 1,738,360 |
| Net Position, End of Year | <u>\$ 28,737,730</u> | <u>\$ 26,103,479</u> | <u>\$ 1,516,248</u> | <u>\$ 1,728,535</u> |

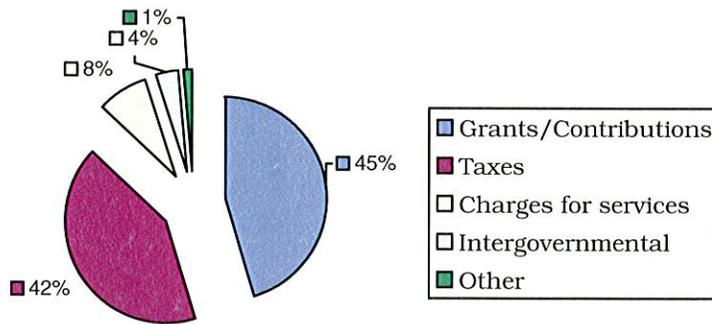
The cost of all governmental activities this year was \$42,528,719, which represents an increase of \$976,633 from prior year. Of this amount, Waterville taxpayers financed \$18,854,102 through property, personal and excise taxes. Municipal and educational departments have continued to aggressively pursue 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

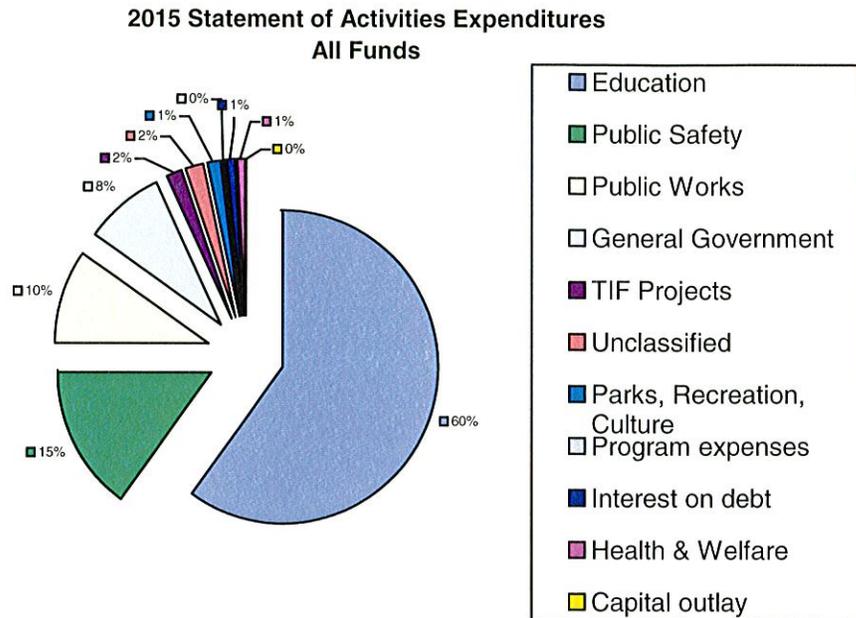
**2015 Statement of Activities Revenues
All Funds**



| | |
|----------------------|---|
| Grants/Contributions | Includes operating and capital grants and contributions |
| Taxes | Includes real property, personal property and excise taxes |
| Charges for service | Includes revenue from the various departments for services |
| Intergovernmental | Includes State revenue sharing, homestead, veterans and welfare reimbursement, State road grant |
| Other | Includes license and permit revenue, franchise fees and fines, miscellaneous revenue, and investment earnings from general fund investments |

As the revenue chart shows, the major sources of revenue for the City of Waterville are operating and capital grants and contributions, taxes, charges for services and intergovernmental revenue.

Governmental Activities – Continued



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

GENERAL FUND BUDGETARY HIGHLIGHTS

Total budgeted revenues were \$36,087,322, and actual revenues were \$36,509,923, resulting in a positive variance of \$422,601. Total budgeted expenditures were \$37,835,958 and actual expenditures were \$37,474,084, resulting in a positive variance of \$361,874. For the year, the General Fund had a decrease in fund balance of \$964,161.

The City continues to meet its responsibilities for sound financial management. This year the City meets 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.

ECONOMIC FACTORS AND THE CITY'S BUDGET

The valuation for the City decreased by approximately \$1.6 million or .3% in fiscal year ended June 30, 2015. Residential valuation increased by approximately \$3.2 million or .6% while Personal Property decreased approximately \$4.9 million or 7.6%.

The unemployment rate for the City at fiscal year-end was an estimated 5.7% which was down from 5.9% from the prior year. The rate is above the estimated State average of 4.6% and the estimated National rate of 5.5%. These figures are from the Maine Center for Workforce Research and Information website.

The 2015/2016 budget adopted by the City Council resulted in a \$0.50 increase in the mill rate from the 2014/2015 rate of 27.4 mills. For the 2014/2015 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, 2015

| | Primary Government Governmental Activities | Component Unit Library |
|---|---|--|
| ASSETS | | |
| Cash and cash equivalents | \$ 3,282,448 | \$ 22,607 |
| Investments | 11,416,473 | 1,485,927 |
| Receivables: | | |
| Taxes receivable | 1,205,839 | |
| Tax liens | 319,751 | |
| Other receivables | 1,823,402 | 8,786 |
| Intergovernmental | 430,458 | |
| Inventory | 151,642 | |
| Capital assets, net of accumulated depreciation | 44,675,156 | |
| Total Assets | <u>63,305,169</u> | <u>1,517,320</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows of resources related to pensions | 785,889 | |
| Total Deferred Outflows of Resources Related to Pensions | <u>785,889</u> | |
| LIABILITIES | | |
| Accounts payable | 3,004,223 | 1,072 |
| Accrued wages and benefits payable | 1,323,350 | |
| Accrued compensated absences | 223,983 | |
| Unearned revenue | 415,997 | |
| Deposits | 639,240 | |
| Taxes received in advance | 15,847 | |
| Due to agency fund | 112,738 | |
| Accrued interest | 201,136 | |
| Noncurrent liabilities: | | |
| Due within one year | 1,945,971 | |
| Due in more than one year | 25,548,442 | |
| Other post employment benefits liability | 470,917 | |
| Accrued compensated absences | 245,335 | |
| Total Liabilities | <u>34,147,179</u> | <u>1,072</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows of resources related to pensions | 1,206,149 | |
| Total Deferred Inflows of Resources Related to Pensions | <u>1,206,149</u> | |
| NET POSITION | | |
| Net investment in capital assets | 21,483,500 | |
| Restricted for: | | |
| Nonexpendable for inventory | 48,063 | |
| Nonexpendable trust principal | 1,310,897 | |
| Expendable for trust designated uses | 1,072,009 | |
| Special revenue funds | 802,402 | |
| Work in Process Capital Projects | 327,122 | |
| Unrestricted | 3,693,737 | 1,516,248 |
| Total Net Position | <u>\$ 28,737,730</u> | <u>\$ 1,516,248</u> |

See independent auditors' report.

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

Statement of Activities

Year Ended June 30, 2015

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | |
|---|----------------------|----------------------|------------------------------------|----------------------------------|---|----------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Governmental Activities | Component Unit |
| Primary Government: | | | | | | |
| Governmental Activities: | | | | | | |
| Mayor | \$ 22,243 | | | | \$ (22,243) | |
| Administration | 1,642,995 | | | | (1,642,995) | |
| Assessor | 156,911 | | | | (156,911) | |
| Information services | 401,390 | \$ 39,483 | | | (361,907) | |
| Finance department | 358,290 | 34,441 | | | (323,849) | |
| City clerk | 196,544 | 38,620 | | | (157,924) | |
| Planning department | 62,303 | | | | (62,303) | |
| Economic development | 699,892 | | \$ 416,123 | | (283,769) | |
| Public works | 4,152,123 | 627,237 | | | (3,524,886) | |
| Parks, recreation and culture | 571,014 | 129,641 | 33,641 | | (407,732) | |
| Police | 3,024,802 | 162,438 | 74,432 | | (2,787,932) | |
| Communication center | 530,976 | 135,387 | | | (395,589) | |
| Fire | 2,121,694 | 47,120 | 190 | | (2,074,384) | |
| Code enforcement | 77,431 | | | | (77,431) | |
| Health and welfare | 261,341 | | 40,495 | | (220,846) | |
| Airport | 650,679 | 334,194 | | \$ 1,781,149 | 1,464,664 | |
| Unclassified | 833,646 | | 205,959 | | (627,687) | |
| Program expenses | 126,822 | | | | (126,822) | |
| TIF projects | 737,275 | | | | (737,275) | |
| Education | 25,493,936 | 2,048,158 | 16,341,954 | | (7,103,824) | |
| Capital outlay recaptured | 44,276 | | | 1,532,163 | 1,487,887 | |
| Interest on debt | 362,136 | | | | (362,136) | |
| Total Governmental Activities | \$ 42,528,719 | \$ 3,596,719 | \$ 17,112,794 | \$ 3,313,312 | (18,505,894) | |
| Component Unit: | | | | | | |
| Library | \$ 723,713 | \$ 65,968 | \$ 451,622 | | | \$ (206,123) |
| General revenues: | | | | | | |
| Property taxes | | | | | 17,118,199 | |
| Excise taxes | | | | | 1,735,903 | |
| Licenses and permits | | | | | 82,155 | |
| Franchise fees | | | | | 171,347 | |
| Fees and fines | | | | | 10,799 | |
| Grants and contributions not restricted to specific programs: | | | | | | |
| State revenue sharing | | | | | 1,096,886 | |
| Homestead exemption | | | | | 308,549 | |
| BETE reimbursement | | | | | 226,801 | |
| Investment earnings | | | | | 151,128 | (6,164) |
| Unclassified | | | | | 238,378 | |
| Total general revenues | | | | | 21,140,145 | (6,164) |
| Change in net position | | | | | 2,634,251 | (212,287) |
| Net position - beginning of year | | | | | 26,103,479 | 1,728,535 |
| Net position - end of year | | | | | \$ 28,737,730 | \$ 1,516,248 |

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

Balance Sheet - Governmental Funds

June 30, 2015

| | General | Capital Projects | Other Governmental Funds | Total |
|--|----------------------|---------------------|--------------------------------|----------------------|
| ASSETS | | | | |
| Cash | \$ 3,002,189 | | \$ 280,259 | \$ 3,282,448 |
| Investments | 9,258,952 | | 2,157,521 | 11,416,473 |
| Receivables: | | | | |
| Taxes receivable | 1,205,839 | | | 1,205,839 |
| Tax liens | 319,751 | | | 319,751 |
| Other receivables | 32,921 | \$1,781,149 | 9,332 | 1,823,402 |
| Intergovernmental | 24,131 | 4,026 | 402,301 | 430,458 |
| Interfund loans receivable | 305,078 | 3,855,575 | 1,267,859 | 5,428,512 |
| Inventory | 103,579 | | 48,063 | 151,642 |
| Total Assets | \$ 14,252,440 | \$ 5,640,750 | \$ 4,165,335 | \$ 24,058,525 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 220,566 | \$ 2,031,519 | \$ 752,138 | \$ 3,004,223 |
| Accrued wages and benefits payable | 1,320,726 | | 2,624 | 1,323,350 |
| Accrued compensated absences | 222,096 | | 1,887 | 223,983 |
| Unearned revenue | 315,941 | 4,946 | 95,110 | 415,997 |
| Deposits | 639,240 | | | 639,240 |
| Taxes received in advance | 15,847 | | | 15,847 |
| Due to agency fund | 112,738 | | | 112,738 |
| Interfund loans payable | 4,793,468 | 491,431 | 143,613 | 5,428,512 |
| Total Liabilities | 7,640,622 | 2,527,896 | 995,372 | 11,163,890 |
| DEFERRED INFLOW OF RESOURCES | | | | |
| Unavailable revenue - property taxes | 700,543 | | | 700,543 |
| Fund Balances (Deficits): | | | | |
| Nonspendable for inventory | 103,579 | | 48,063 | 151,642 |
| Nonspendable for trusts | | | 1,310,897 | 1,310,897 |
| Restricted for trusts | | | 1,072,009 | 1,072,009 |
| Restricted for special revenue funds | | | 802,402 | 802,402 |
| Restricted for capital projects | | 2,872,833 | | 2,872,833 |
| General Fund - assigned for subsequent year budget | 904,000 | | | 904,000 |
| General Fund - unassigned | 4,401,342 | | | 4,401,342 |
| General Fund - assigned for subsequent year school budget | 250,000 | | | 250,000 |
| General Fund - restricted for education | 252,354 | | | 252,354 |
| Special Revenues - unassigned | | | (63,408) | (63,408) |
| Capital Projects - committed | | 753,263 | | 753,263 |
| Capital Projects - unassigned | | (513,242) | | (513,242) |
| Total Fund Balances | 5,911,275 | 3,112,854 | 3,169,963 | 12,194,092 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 14,252,440 | \$ 5,640,750 | \$ 4,165,335 | |
| 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. | | | | 44,675,156 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | | | | 700,543 |
| Long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds. | | | | |
| Accrued compensated absences | | | | (245,335) |
| Accrued interest | | | | (201,136) |
| Landfill closure liability | | | | (96,352) |
| Capital leases payable | | | | (99,361) |
| Other post employment benefits liability | | | | (470,917) |
| Net pension liability, including related deferred outflows and inflows of resources | | | | (1,838,452) |
| Bonds payable | | | | (25,880,508) |
| Net Position of Governmental Activities | | | | \$ 28,737,730 |

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, 2015

| | General | Capital Projects | Other Governmental Funds | Total |
|---|---------------------|---------------------|--------------------------------|----------------------|
| Revenues: | | | | |
| Taxes | \$ 18,954,918 | | | \$ 18,954,918 |
| Licenses and permits | 82,155 | | | 82,155 |
| Intergovernmental | 14,809,523 | \$3,189,241 | \$ 3,718,892 | 21,717,656 |
| Tuition and other charges - Education | 1,858,767 | | 189,391 | 2,048,158 |
| Charges for services - City | 1,217,375 | | 334,194 | 1,551,569 |
| Fees and fines | 10,799 | | | 10,799 |
| Unclassified | 417,809 | 124,071 | 205,525 | 747,405 |
| Investment earnings | 58,640 | | 92,488 | 151,128 |
| Total Revenues | <u>37,409,986</u> | <u>3,313,312</u> | <u>4,540,490</u> | <u>45,263,788</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Mayor | 22,243 | | | 22,243 |
| Administration | 1,467,022 | | | 1,467,022 |
| Assessor | 151,869 | | | 151,869 |
| Information services | 393,016 | | | 393,016 |
| Finance department | 358,290 | | | 358,290 |
| City clerk | 194,342 | | | 194,342 |
| Planning department | 62,303 | | | 62,303 |
| Economic development | 267,881 | | | 267,881 |
| Public works | 3,809,820 | | | 3,809,820 |
| Parks, recreation and culture | 525,050 | | | 525,050 |
| Police | 2,908,964 | | 76,626 | 2,985,590 |
| Communication center | 530,976 | | | 530,976 |
| Fire | 1,952,214 | | | 1,952,214 |
| Code enforcement | 77,431 | | | 77,431 |
| Health and welfare | 261,341 | | | 261,341 |
| Airport | | | 434,977 | 434,977 |
| Education | 22,055,439 | | 3,406,213 | 25,461,652 |
| County tax | 795,323 | | | 795,323 |
| Unclassified | 38,323 | | 558,835 | 597,158 |
| TIF projects | | | 737,275 | 737,275 |
| Capital outlay | | 4,776,689 | | 4,776,689 |
| Debt service (excluding education portion) | 1,568,691 | | | 1,568,691 |
| Total Expenditures | <u>37,440,538</u> | <u>4,776,689</u> | <u>5,213,926</u> | <u>47,431,153</u> |
| Deficiency of Revenues Over Expenditures | <u>(30,552)</u> | <u>(1,463,377)</u> | <u>(673,436)</u> | <u>(2,167,365)</u> |
| Other Financing Sources (Uses): | | | | |
| Bond proceeds | | 3,022,500 | | 3,022,500 |
| Transfers in | 444,937 | 533,823 | 1,206,540 | 2,185,300 |
| Transfers out | (1,378,546) | (87,341) | (719,413) | (2,185,300) |
| Total Other Financing Sources (Uses) | <u>(933,609)</u> | <u>3,468,982</u> | <u>487,127</u> | <u>3,022,500</u> |
| Net Change in Fund Balances | (964,161) | 2,005,605 | (186,309) | 855,135 |
| Fund Balances, Beginning of Year | <u>6,875,436</u> | <u>1,107,249</u> | <u>3,356,272</u> | <u>11,338,957</u> |
| Fund Balances, End of Year | <u>\$ 5,911,275</u> | <u>\$ 3,112,854</u> | <u>\$ 3,169,963</u> | <u>\$ 12,194,092</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, 2015

| | |
|---|---------------------|
| Net change in fund balances - total governmental funds | \$ 855,135 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. | |
| However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which the cost of assets (\$4,956,580) exceeded depreciation expense (\$2,362,543) in the current period. | |
| | 2,594,037 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This represents the increase in accrued compensated absences (\$84,976), the increase in OPEB liability (\$68,607), the decrease in accrued interest (\$8,555) and change in net pension liability including deferred outflows and inflows (\$308,261). | |
| | 163,233 |
| Capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position (\$88,264). Repayment of capital lease principal is an expenditure in the the governmental funds, but the repayment reduces long-term liabilities in the statement of net position (\$93,471). | |
| | 5,207 |
| 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. | |
| | (100,816) |
| Bond proceeds provide current financial resources to governmental funds, but issuing debt and unamortized premium on bonds increases long-term liabilities in the statement of net position (\$3,022,500). Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position (\$2,139,955) | |
| | <u>(882,545)</u> |
| Change in Net Position of Governmental Activities | <u>\$ 2,634,251</u> |

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

Year Ended June 30, 2015

| | Budget | | Actual | Variance With Final Budget Positive (Negative) |
|---|--------------------|--------------------|---------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 18,739,455 | \$ 18,739,455 | \$ 18,954,918 | \$ 215,463 |
| Licenses and permits | 185,700 | 185,700 | 82,155 | (103,545) |
| Intergovernmental | 13,434,779 | 13,434,779 | 13,464,523 | 29,744 |
| Tuition and other charges for services - Education | 1,695,893 | 1,695,893 | 1,858,767 | 162,874 |
| Charges for services - City | 1,138,380 | 1,243,380 | 1,217,375 | (26,005) |
| Fees and fines | 5,700 | 5,700 | 10,799 | 5,099 |
| Unclassified | 368,750 | 368,750 | 417,809 | 49,059 |
| Investment earnings | 20,000 | 20,000 | 58,640 | 38,640 |
| Transfers in | 420,745 | 393,665 | 444,937 | 51,272 |
| Total Revenues | 36,009,402 | 36,087,322 | 36,509,923 | 422,601 |
| Expenditures | | | | |
| Mayor | 22,835 | 22,835 | 22,243 | 592 |
| Administration | 1,467,430 | 1,452,680 | 1,467,022 | (14,342) |
| Assessor | 165,025 | 165,025 | 151,869 | 13,156 |
| Information services | 404,655 | 404,655 | 393,016 | 11,639 |
| Finance department | 363,450 | 363,450 | 358,290 | 5,160 |
| City clerk | 190,415 | 190,415 | 194,342 | (3,927) |
| Planning department | 89,550 | 89,550 | 62,303 | 27,247 |
| Economic development | 270,165 | 270,165 | 267,881 | 2,284 |
| Public works | 3,880,595 | 3,880,595 | 3,809,820 | 70,775 |
| Parks, culture and recreation | 471,910 | 549,830 | 525,050 | 24,780 |
| Police | 2,963,605 | 2,963,605 | 2,908,964 | 54,641 |
| Communication center | 543,490 | 543,490 | 530,976 | 12,514 |
| Fire | 2,001,965 | 2,016,715 | 1,952,214 | 64,501 |
| Code enforcement | 83,160 | 83,160 | 77,431 | 5,729 |
| Health and welfare | 323,150 | 323,150 | 261,341 | 61,809 |
| Education | 20,721,208 | 20,721,208 | 20,710,439 | 10,769 |
| County tax | 797,000 | 797,000 | 795,323 | 1,677 |
| Unclassified | 51,100 | 51,100 | 38,323 | 12,777 |
| Debt service (excluding education portion) | 1,621,585 | 1,621,585 | 1,568,691 | 52,894 |
| Transfers out | 1,325,745 | 1,325,745 | 1,378,546 | (52,801) |
| Total Expenditures | 37,758,038 | 37,835,958 | 37,474,084 | 361,874 |
| Deficiency of Revenues Over Expenditures | (1,748,636) | (1,748,636) | (964,161) | \$ 784,475 |
| Beginning Fund Balance Utilized | 1,748,636 | 1,748,636 | | |
| Fund Balance, Beginning of Year | | | 6,875,436 | |
| Fund Balance, End of Year | \$ - | \$ - | \$ 5,911,275 | |

See independent auditors' report.

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

Statement of Fiduciary Net Position - Fiduciary Funds

June 30, 2015

| | Private- Purpose Trust Funds | Agency Funds |
|---|---|-------------------------|
| ASSETS | | |
| Cash and cash equivalents | | \$ 333,887 |
| Investments | \$ 282,532 | 88,285 |
| Accounts receivable | | 22,890 |
| Due from other funds | | 112,738 |
| | | |
| Total Assets | \$ 282,532 | \$ 557,800 |
| LIABILITIES AND NET POSITION | | |
| Liabilities: | | |
| Due to student groups | | \$ 422,172 |
| Amount held for others | | 135,628 |
| | | |
| Total Liabilities | | \$ 557,800 |
| Net Position | | |
| Held in trust | \$ 282,532 | |
| | | |

See independent auditors' report.

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

Statement of Changes in Fiduciary Net Position - Fiduciary Funds

Year Ended June 30, 2015

| | Private- Purpose Trust Funds |
|--|---|
| Investment Income and Donations | \$ 31,507 |
| Scholarships and Related Expenses | <u>7,710</u> |
| Change in Net Position | 23,797 |
| Net Position, Beginning of Year | <u>258,735</u> |
| Net Position, End of Year | <u><u>\$ 282,532</u></u> |

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

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Waterville (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 a 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:

The 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 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.

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.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 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 revenue from the State of Maine. During fiscal year 2015, the City contributed \$73,896. 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 segments 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.

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.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus, Basis of Accounting and Basis of Presentation - Continued

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 include 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.

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.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 cost 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 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 process 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.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The deferred outflows of resources reported in the governmental activities column in the government-wide financial statements relate to the net pension liability, which include the City and School's pension plan contributions made subsequent to the measurement date, which are recognized as a reduction of the net pension liability in the subsequent year. They also include differences between expected and actual experience, changes in assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions. See Note 10 for additional disclosures related to pension plans.

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 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.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred Inflows of Resources

In addition to liabilities, the statement of net position 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 an inflow of resources (revenue) until that time. The City's governmental funds have one type of item that arises under a modified accrual basis of accounting that qualifies for reporting in this category, unavailable revenue from property taxes. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The deferred inflows of resources reported in the governmental activities column in the government-wide financial statements relate to the net pension liability and include differences between expected and actual experience, changes in proportion and differences between employer contributions and proportionate share of contributions and differences between projected and actual investment earnings on pension plan investments. See Note 10 for additional disclosures related to pension plans.

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 statement, 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 represents 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 fund balance represents resources with constraints placed on the use of resources which are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. An example of restricted funds would be TIF Fund commitments.

Committed - committed is the portion of fund balance which is subject to limitations the government imposes on itself at its highest level of decision making authority, and that remain binding unless removed in the same manner. An example of committed funds would be amounts for City initiated only projects of activities in the Recreation and Capital Funds.

Assigned - assigned is the portion of fund balance that is constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. 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.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Balances – Continued

The City's fund balance policy established 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 improvements 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 balances 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, pension expense, and information about the fiduciary net position of the Maine Public Employees Retirement System PLD Consolidated Plan (PLD plan) and the Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan) and additions to/deductions from both Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. See Note 10 for additional disclosures related to pension plans.

Use of Estimates

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

Recently Adopted Accounting Pronouncements

During the year ended June 30, 2015, the City adopted the provisions of 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 and requires a state or local government employer to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Adopted Accounting Pronouncements - Continued

During the year ended June 30, 2015, the City adopted the provisions of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This statement relates to amounts associated with contributions, if any, made by a state or local government employer to a defined pension plan after the measurement date of the government's beginning net pension liability. If a state or local government employer makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, this statement requires that the government recognize its contribution as a deferred outflow of resources.

See Note 10 for additional disclosures related to pension plans.

Recent Accounting Pronouncements

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The new statement is effective for financial statements for periods beginning after June 15, 2015. The City is currently assessing the impact of this statement on its financial statements.

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*. The requirements of this statement extend the approach to accounting and financial reporting established in GASB Statement No. 68 to all pensions. It also clarifies the application of certain provisions of GASB Statements No. 67 and 68 with regard to information that is required to be presented as notes to the 10-year schedules as required supplementary information about investment-related factors that significantly affect trends in the amounts reported, accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployers contributing entities for defined benefit pensions and the timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation. The requirements of this statement for pension plans that are within the scope of GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2015. The City is currently assessing the impact of this statement on its financial statements.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify, in the context of the current governmental reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The GAAP hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The new statement is effective for financial statements for periods beginning after June 15, 2015. The City is currently assessing the impact of this statement on its financial statements.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

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 budgets; 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. Encumbrances 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 Public Employees Retirement System State Employee and Teacher Plan (SET Plan) made by the State of Maine on-behalf of the School Department, are recorded as revenue and expense under GAAP and have been excluded from both revenue and expenditures on the budgetary basis of accounting.

Deficit Fund Balances

The individual special revenue funds carrying fund deficits as of June 30, 2015 are as follows:

| | |
|--------------|----------|
| Airport Fund | \$37,981 |
| Grant Fund | 7,417 |

The individual capital projects funds carrying fund deficits as of June 30, 2015 are as follows:

| | |
|-------------------------------------|----------|
| Improve First Rangeway Intersection | \$29,357 |
| Airport Runway Design | 26,289 |
| Waterville Opera House Project | 507 |
| Mayflower Hill | 90,747 |
| Spring/Water/Main/Front | 36,377 |
| School Improvement | 329,965 |

Deficits in 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 general fund.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

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, 2015, \$281,806 of the City's bank balances of \$4,290,401 was exposed to custodial credit risk. The remaining bank balance is covered by FDIC insurance or is collateralized.

The Public School does not have a deposit policy for custodial credit risk. As of June 30, 2015, \$13,952 of the Public Schools' bank balances of \$807,091 was exposed to custodial credit risk. The remaining bank balance is covered by FDIC insurance or is collateralized.

Component Unit – Waterville Public Library

The Library does not have a policy for custodial credit risk. As of June 30, 2015, none of the Library's bank balance of \$57,721 was exposed to custodial credit risk.

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, 2015, 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 | \$ 9,258,952 | \$9,258,952 | | | |
| U.S. Treasuries | 131,258 | | \$131,258 | | |
| Common Stock | 1,543,880 | | | \$10,072 | \$1,533,808 |
| Mutual Bond Funds | 853,200 | | | | 853,200 |
| Total Investments | \$11,787,290 | \$9,258,952 | \$131,258 | \$10,072 | \$2,387,088 |

Investments are categorized by fund as follows:

| | Public Schools | City | Total |
|-----------------------------|------------------|---------------------|---------------------|
| General Fund | | \$ 9,258,952 | \$ 9,258,952 |
| Fiduciary Funds: | | | |
| Private-Purpose Trust Funds | \$282,532 | | 282,532 |
| Agency Funds | 88,285 | | 88,285 |
| Permanent Fund | | 2,157,521 | 2,157,521 |
| Total Investments | \$370,817 | \$11,416,473 | \$11,787,290 |

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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, to 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.

Credit Risk

Credit risk is the risk that 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 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 of 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, 2015 the City's investments were sufficiently diversified according to their policy.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 3 – CASH AND INVESTMENTS – CONTINUED

Concentration of Credit Risk – Continued

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 \$370,817 invested in open-end mutual funds, which are sufficiently diversified; therefore as of June 30, 2015 none of the Public Schools' investments were exposed to concentration of credit risk.

Component Unit – Waterville Public Library

As of June 30, 2015, Waterville Public Library had the following investments and maturities:

| | Fair Value | Investment Maturities (in Years) | | | |
|--------------------------|--------------------|----------------------------------|--------------|-----------------|--------------------|
| | | Less Than 1 | 1 – 5 | 6 – 10 | No Maturity |
| Bonds | \$ 53,664 | | \$794 | \$52,870 | |
| Common Stock | 288,578 | | | | \$ 288,578 |
| Mutual Funds | 1,125,308 | | | | 1,125,308 |
| Money Market | 18,377 | \$18,377 | | | |
| Total Investments | \$1,485,927 | \$18,377 | \$794 | \$52,870 | \$1,413,886 |

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, 2015 the Library's investments 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, 2015 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, 2014, 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 \$316,968 for the year ended June 30, 2015.

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 in the City's governmental funds as a deferred inflow of resources, unavailable revenue – property taxes.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 4 - PROPERTY TAX - CONTINUED

The following summarizes the levy as of and for the year ended June 30, 2015:

| | |
|--|---------------------|
| Assessed value | \$636,827,372 |
| Tax rate (per \$1,000) | <u>27.40</u> |
| Commitment | <u>17,449,070</u> |
| Less: | |
| Abatements | 68,966 |
| Collections | <u>16,195,246</u> |
| | <u>16,264,212</u> |
| Current year taxes receivable at end of year | <u>\$1,184,858</u> |
| Due date(s) - current year | ¼ October 10, 2014 |
| | ¼ December 12, 2014 |
| | ¼ March 13, 2015 |
| | ¼ June 12, 2015 |
| Interest rate on delinquent taxes | 7.00% |
| Collection rate | 92.81% |
| Taxes receivable - current year | \$1,184,858 |
| Taxes receivable - prior year | <u>20,981</u> |
| Total taxes receivable | <u>\$1,205,839</u> |

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

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, 2015.

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|--------------------|------------------|---------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,986,644 | | | \$ 1,986,644 |
| Construction in progress | 5,500,945 | \$4,654,414 | \$958,726 | 9,196,633 |
| Total capital assets not being depreciated | <u>7,487,589</u> | <u>4,654,414</u> | <u>958,726</u> | <u>11,183,277</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 43,391,825 | | | 43,391,825 |
| Improvements | 5,774,494 | 958,726 | | 6,733,220 |
| Vehicles | 6,227,167 | 253,534 | 75,097 | 6,405,604 |
| Equipment | 4,606,350 | 48,022 | | 4,654,372 |
| Infrastructure | 17,256,711 | | | 17,256,711 |
| Total capital assets being depreciated | <u>77,256,547</u> | <u>1,260,282</u> | <u>75,097</u> | <u>78,441,732</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 17,042,389 | 1,438,758 | | 18,481,147 |
| Improvements | 4,155,092 | 155,627 | | 4,310,719 |
| Vehicles | 4,502,352 | 391,581 | 75,706 | 4,818,227 |
| Equipment | 3,443,616 | 171,769 | | 3,615,385 |
| Infrastructure | 13,519,568 | 204,807 | | 13,724,375 |
| Total accumulated depreciation | <u>42,663,017</u> | <u>2,362,542</u> | <u>75,708</u> | <u>44,949,853</u> |
| Total capital assets being depreciated, net | <u>34,593,530</u> | <u>(1,102,260)</u> | <u>(609)</u> | <u>33,491,879</u> |
| Governmental Activities Capital Assets, Net | <u>\$42,081,119</u> | <u>\$3,552,154</u> | <u>\$958,117</u> | <u>\$44,675,156</u> |

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

| | |
|--|--------------------|
| Governmental activities: | |
| Administration | \$ 109,038 |
| Assessor | 5,042 |
| Information services | 8,374 |
| City Clerk | 2,202 |
| Public works (includes infrastructure) | 342,303 |
| Parks, recreation and culture | 45,964 |
| Police | 140,224 |
| Fire | 180,105 |
| Airport | 215,702 |
| Education | 1,313,588 |
| Total depreciation expense - governmental activities | <u>\$2,362,542</u> |

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 6 - CHANGES IN LONG-TERM LIABILITIES

The following summarizes changes in long-term liabilities for governmental activities for the year ended June 30, 2015:

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|--|----------------------|--------------------|--------------------|---------------------|------------------------|
| Bonds and notes payable | \$24,997,963 | \$5,250,000 | \$4,609,955 | \$25,638,008 | \$1,889,054 |
| Premium on bonds | | 242,500 | | 242,500 | 11,548 |
| Capital leases | 104,568 | 88,263 | 93,470 | 99,361 | 45,369 |
| Accrued compensated absences | 382,390 | 86,928 | | 469,318 | 223,983 |
| Landfill closure liability | 96,352 | | | 96,352 | |
| Other post-employment benefits liability | 402,310 | 68,607 | | 470,917 | |
| Net pension liability | | <u>1,418,192</u> | | <u>1,418,192</u> | |
| Long-term liabilities | <u>\$25,983,583</u> | <u>\$7,154,490</u> | <u>\$4,703,425</u> | <u>\$28,434,648</u> | <u>\$2,169,954</u> |

NOTE 7 - CAPITAL LEASES

The Department of Public Schools is engaged in five capital leases, and the City is engaged in one capital lease as of June 30, 2015. The original cost of assets capitalized under these leases total \$440,584. Future minimum capital lease payments are as follows:

| | |
|-------------------|-----------------|
| Principal | |
| 2016 | \$45,369 |
| 2017 | 18,118 |
| 2018 | 17,662 |
| 2019 | <u>18,213</u> |
| | <u>99,362</u> |
| Interest | |
| 2016 | 3,078 |
| 2017 | 1,675 |
| 2018 | 1,119 |
| 2019 | <u>568</u> |
| | <u>6,440</u> |
| Total payments | 105,802 |
| Less interest | <u>6,440</u> |
| Net present value | <u>\$99,362</u> |

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 – LONG-TERM DEBT

Bonds payable at June 30, 2015 are comprised of the following:

| | Date of Issue | Original Amount Issued | Date of Maturity | Interest Rate | Ending Balance |
|------------------------------|---------------|------------------------|------------------|---------------|----------------------------|
| 2007 QZAB Bond | 10/9/07 | \$965,000 | 2022 | 1.4407% | \$540,336 |
| 2008 QZAB Bond | 7/16/08 | 516,279 | 2023 | 1.84% | 326,532 |
| 2009 QZAB Bond | 11/18/09 | 4,333,368 | 2025 | 1.40% | 2,888,913 |
| 2011 QSCB Bond | 5/26/11 | 5,000,000 | 2025 | 5.692% | 3,440,806 |
| 2011 General Obligation Bond | 5/3/11 | 3,150,000 | 2031 | 2.00-4.00% | 2,580,000 |
| 2011 General Obligation Bond | 5/3/11 | 3,096,000 | 2020 | 1.70-2.85% | 1,986,000 |
| 2012 QSCB Bond | 7/15/11 | 943,859 | 2027 | 5.366% | 810,421 |
| 2013 General Obligation Bond | 11/1/12 | 3,300,000 | 2033 | 1.00-2.75% | 2,910,000 |
| 2013 General Obligation Bond | 4/1/13 | 5,831,120 | 2038 | 2.00-3.50% | 5,260,000 |
| 2015 General Obligation Bond | 5/1/15 | 5,250,000 | 2036 | 2.00-4.00% | <u>4,895,000</u> |
| Total bonds payable | | | | | <u>\$25,638,008</u> |

In May 2015, the City issued \$5,250,000 in general obligation bonds with interest rates ranging from 2.00-4.00%. The net proceeds (including premium) were used to advance refund 2005 general obligation bonds with a face amount outstanding of \$2,470,000. On June 1, 2015, the 2005 general obligation bonds were fully redeemed and as a result were removed from the statement of net position.

The 2015 General Obligation Bond is subject to mandatory redemption in part prior to maturity on June 1 in each of the years 2026-2036 from mandatory sinking fund installments which will be required to be made by the City in amounts sufficient to redeem the principal amount of such bonds. All other bonds may be prepaid or redeemed prior to their respective scheduled due dates as per provisions in the bond agreements.

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 requirements.

The annual requirements to amortize all long-term debt outstanding as of June 30, 2015 are as follows:

| Year Ending | Principal | Interest | Total |
|-------------|---------------------|------------------|---------------------|
| 2016 | \$1,889,054 | \$589,677 | \$2,478,731 |
| 2017 | 2,243,319 | 565,865 | 2,809,184 |
| 2018 | 2,252,758 | 533,786 | 2,786,544 |
| 2019 | 2,242,380 | 363,443 | 2,605,823 |
| 2020 | 2,252,164 | 541,895 | 2,794,059 |
| 2021-2025 | 8,916,918 | 1,149,995 | 10,066,913 |
| 2026-2030 | 3,426,415 | 333,771 | 3,760,186 |
| 2031-2035 | 1,915,000 | 78,022 | 1,993,022 |
| 2036-2040 | 500,000 | 2,600 | 502,600 |
| | <u>\$25,638,008</u> | <u>4,159,054</u> | <u>\$29,797,062</u> |

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 - LONG-TERM DEBT - CONTINUED

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 \$25,638,008 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.

NOTE 9 - INTERFUND BALANCES

As of June 30, 2015, the balances of interfund loan receivable/payable were as follows:

| | Interfund Loans Receivable | Interfund Loans Payable | Due to Agency Funds |
|--------------------------|----------------------------------|-------------------------------|---------------------------|
| General fund | \$305,078 | \$4,793,468 | \$112,738 |
| Other governmental funds | 5,123,434 | 635,044 | |
| Agency funds | <u>112,738</u> | | |
| Total | <u>\$5,541,250</u> | <u>\$5,428,512</u> | <u>\$112,738</u> |

NOTE 10 - MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (MPERS)

PLD Consolidated Plan

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 PLD Consolidated Plan (PLD 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 at www.maineopers.org.

Funding Policy (City) - Plan members are required to contribute 8.5% of their annual covered salary and the City is required to contribute an actuarially determined rate. The current rate is 6.1% of annual covered payroll. The contribution rates of plan members and the City are established and may be amended by the Maine State Legislature. The City had a credit balance of \$62,836 which was fully utilized during 2015 to fund required contributions to the PLD Plan. During 2015, contributions to the Consolidated Plan by the City were \$159,810.

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

State Employee and Teacher Plan

Description of the Plan - All school teachers and other qualified educators participate in the Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan). The SET Plan 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 at www.maineopers.org.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 – MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (MPERS) – CONTINUED

State Employee and Teacher Plan – Continued

Funding Policy – Plan members are required to contribute 7.65% of their compensation to the retirement system. The School's contractually required contribution rate for the year ended June 30, 2015 was 15.68%, of which 2.65% was required from the School and 13.03% was required from the State of Maine. Contributions to the pension plan from the School and the State of Maine were \$273,440 and \$1,344,501 during the year ended June 30, 2015, respectively. The amount contributed by the State of Maine (on-behalf payments) has been reported as an intergovernmental revenue and retirement expenditure in the financial statements within the education department. The School is also required to contribute for those positions that are federally funded. This contribution amounted to \$114,319 for the year ended June 30, 2015. The cost is chargeable to the applicable grant.

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

During the year ended June 30, 2015, the City adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. GASB Statement No. 68 requires employers who participate in defined benefit pension plans to recognize a net pension liability on their financial statements. The net pension liability is defined as the total pension liability minus the pension plan's fiduciary net position. Cost-sharing employers are required to report their proportionate share of the net pension liability for the plan as a whole.

At June 30, 2015, the City reported a liability for its proportionate share of the net pension liability. The amount recognized by the City as its proportionate share of the net pension liability was as follows:

| | | |
|---|-------------|--|
| City's proportionate share of net pension liability | \$ 674,190 | |
| School's proportionate share of net pension liability | 744,002 | |
| Total net pension liability | \$1,418,192 | |

As discussed above, the State of Maine participates in the SET Plan as a non-employer contributing entity. At June 30, 2015, the portion of the State of Maine's net pension liability associated with the School was \$9,109,871. This amount is not required to be recognized in the City's financial statements.

The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportionate share of the net pension liability recognized in the financial statements was based on a projection of the City and School's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, as determined by an actuarial valuation. At June 30, 2014, the City's proportion was 0.438124% and the School's proportion was 0.068868%.

For the year ended June 30, 2015, the City recognized pension expense of \$176,472.

At June 30, 2015, the City reported deferred outflows of resources related to the pension plans in the government-wide financial statements from the following sources:

| | | |
|---|-----------|--|
| Difference between expected and actual experience | \$ 84,658 | |
| Change of assumptions | 51,239 | |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 165,259 | |
| Total contributions subsequent to the measurement date | 484,733 | |
| Total | \$785,889 | |

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (MPERS) - CONTINUED

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

Contributions made during the reporting period were \$484,733. During the year ended June 30, 2015, the City adopted the provisions of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. GASB Statement No. 71 requires that if an employer makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, the government must recognize its contribution as a deferred outflow of resources.

At June 30, 2015, the City reported deferred inflows of resources related to the pension plans in the government-wide financial statements from the following sources:

| | |
|---|--------------------|
| Difference between expected and actual experience | \$3,720 |
| Difference between projected and actual investment earnings on pension plan investments | 1,034,418 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 168,011 |
| Total | <u>\$1,206,149</u> |

Other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pensions will be recognized in pension expense as follows during the years ended June 30:

| | |
|------|-------------|
| 2016 | \$(187,087) |
| 2017 | (187,087) |
| 2018 | (272,214) |
| 2019 | (258,604) |

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

| | |
|-------------------|---------------------------------------|
| Inflation | 3.5% |
| Salary increases | 3.50%-13.50% per year |
| Investment return | 7.125% per annum, compounded annually |
| COLA increases | 2.55% per annum |

Mortality rates - for active state employee members and non-disabled retirees of the SET and PLD Plans, the RP Combined Mortality Table projected forward to 2015 using Scale AA are used; for active members and non-disabled retirees of the teachers' plan, the ages are set back two years; for all recipients of disability benefits, the Revenue Ruling 96-7 Disabled Mortality Table for Males and Females is used.

The long-term expected rate of return on pension plan assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 – MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (MPERS) – CONTINUED

Actuarial Assumptions – Continued

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------|----------------------|--|
| US Equities | 20% | 2.5% |
| Non-US Equities | 20 | 5.5 |
| Private Equity | 10 | 7.6 |
| Real Assets: | | |
| Real Estate | 10 | 3.7 |
| Infrastructure | 10 | 4.0 |
| Hard Assets | 5 | 4.8 |
| Fixed Income | 25 | 0.0 |

The discount used to measure the collective total pension liability was 7.125% for the SET Plan and 7.25% for the PLD Plan. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and nonemployer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine net pension liability.

The following table shows how the City's proportionate share of net pension liability as of June 30, 2014 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rates are 7.125% for the SET Plan and 7.25% for the PLD Plan.

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|----------------|-----------------------------|----------------|
| City's proportionate share of the net pension liability | \$2,103,275 | \$674,190 | \$(520,357) |
| School's proportionate share of the net pension liability | 1,425,071 | 744,002 | 174,103 |

Changes in Net Pension Liability

Changes in net pension liability are recognized in pension expense for the year ended June 30, 2014 with the following exceptions.

Differences between Expected and Actual Experience

The difference between expected and actual experience with regard to economic or demographic factors were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. For 2014, this was 3 years for the SET Plan and 4 years for the PLD Plan.

Differences between Projected and Actual Investment Earnings

Differences between projected and actual investment earnings were recognized in pension expense using a straight-line amortization method over a closed five-year period.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (MPERS) - CONTINUED

Changes in Net Pension Liability - Continued

Changes in Assumptions

Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. There were no changes in assumptions in the PLD Plan. For the SET Plan, the change in discount rate from 7.25% to 7.125% was the only change in assumption in the 2014 actuarial valuation.

Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions

Differences resulting from a change in proportionate share of contributions and differences between total employer contributions and the employer's proportionate share of contributions were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. Differences between total employer contributions and the employer's proportionate share of contributions may arise when an employer has a contribution requirement for an employer specific liability.

Additional Financial and Actuarial Information

Additional financial and actuarial information with respect to the Plans can be found in the MPERS' 2014 Comprehensive Annual Financial Report available online at www.maineipers.org or by contacting the System at (207) 512-3100.

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 POSTEMPLOYMENT BENEFITS (OPEB)

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).

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Funding Policy and Annual OPEB Cost - GASB Statement 45 does not mandate the prefunding of postemployment benefits liability. The City currently plans to fund these benefits on a pay-as-you-go basis. No assets have been restricted to provide postemployment 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 | 85,990 |
| Offset to annual required contribution | (17,383) |
| 2015 OPEB liability expense | 68,607 |
| Fiscal year ending 2014 OPEB accrued liability | 402,310 |
| Total accrued liability fiscal year ended 2015 | \$470,917 |

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, 2014 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 | \$725,027 |
| | |
| Covered payroll | \$5,202,858 |
| Unfunded actuarial accrued liability as a percentage of covered payroll | 13.94% |

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 expectation 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.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 12 - OTHER POSTEMPLOYMENT 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, 2015.

In August 1996, the City established **The Upper Main Street Tax Increment Financing and Development District**. The District is designed to provide incentives for the revitalization of a major retail corridor in the City. By using a mechanism known as a credit enhancement agreement (CEA), the City will return a portion of new tax revenues generated within the District to the developer as new taxable value is created. Under the agreement, the City returns 75% of newly generated tax revenues to the developer in years 1 through 5 of the project, and 50% in years 6 through 20 of the project.

In July 2000, the City established **The Chinnet Company Tax Increment Financing District**. The purpose of the District is to secure the City's industrial job base and to ensure the long-term economic stability and well-being of the Chinnet Company Plant. The project provides the City with additional tax revenues and a potential long-term increase in employment without an increase in demand for local service. The overhauling of machinery and equipment at the Chinnet Company Plant added approximately \$8,157,301 of new tax base to the City. Chinnet will finance the improvements within the District. The City will not assume any financial liability within the District. Under the District CEA, the appropriate percentages of new tax revenues will be reinvested into the District to support the cost of capital investment. The design is intended to capture the appropriate percentage of new investment above the current base value of \$2,320,230. For municipal assessed values in excess of this amount from investment made in the first five years of the TIF ending April 1, 2005, the resulting tax revenue will be distributed 75% to the Chinnet Company for the first 10 years following the year in which the investment is made and 50% in years 10 through 15 following the year in which investment is made through the CEA.

In October 2002, the City established the **Airport Park Tax Increment Financing and Development District**. The District is designed to create and save jobs, and improve infrastructure (Century Drive and Airport Road). The City will retain 100% of the captured assessed value. This will be used to fund the Airport Park TIF District Development Program Sinking Fund. The Sinking Fund shall consist of the captured assessed value earnings less the monies necessary for repayment of debt incurred from the initial construction of Century Drive and the continuation of Airport Road and less the monies to fund the enhancement reimbursements as may be required. Credit enhancement reimbursements may not exceed 75% for years 1 through 5, and 50% for years 6 through 15 for the manufacturing sector. The non-manufacturing sector may receive credit enhancement reimbursements not exceeding 50% for years 1 through 10.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

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

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

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

In February 2007, the City established the **Mid-State Machine Products Tax Increment Financing District**. The purpose of the District is to secure the City's industrial job base and to ensure the long-term economic stability and well-being of Mid-State Machine Products. The project provides the City with additional tax revenues and a potential long-term increase in employment without an increase in demand for local service. Mid-State Machine Products will finance the improvements within the District. The City will not assume any financial liability within the District.

Under the District CEA, the appropriate percentages of new tax revenues will be reinvested into the District to support the cost of capital investment. The design is intended to capture the appropriate percentage of new investment above the current base value of \$1,275,000. For municipal assessed values in excess of this amount from investment made in the first five years of the TIF ending February 20, 2012, the resulting tax revenue will be distributed 50% to Mid-State Machine Products for the first five years following the year in which the investment is made, 40% in years 6 through 10, 30% in years 11 through 15, and 20% in years 16 through 20 following the year in which investment is made through the CEA.

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

In March 2015, the City established the **Natural Gas Municipal Development and Tax Increment Financing District**. The purpose of the District is to develop new and expanded employment opportunities in the City, encourage and promote economic development that will broaden the City's tax base, improve the general economy of the City, finance the acquisition, installation, design, and construction of public safety projects, expand natural gas infrastructure in the City and to assist businesses with converting to natural gas and/or receiving natural gas services and to fund the City's economic development program. The City has designated approximately 75.16 acres under this municipal development and tax increment financing district. The tax increment revenues generated by the captured value attributable to the taxable property with the district will be retained by the City and used to pay directly (or reimburse the City) for costs of the municipal TIF improvements. Although the City expects to expend all TIF revenues allocated to and retained by the City on the municipal TIF improvements, to the extent the City elects not to expend such TIF revenues on municipal TIF improvements, then such monies will be deposited into the City's general fund. The district and development program shall be in effect for thirty years, commencing with the City's 2015-16 fiscal year and continuing through the City's 2044-2045 fiscal year.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 14 – CONTINGENT LIABILITIES

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, 2015, 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, 2015. 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, 2015.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The City guarantees a \$1,250,000 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, 2014 and reported assets of \$4,573,090 and liabilities of \$666,138 and net assets of \$3,906,952.

The City has incurred approximately \$9.2 million of construction in progress as of June 30, 2015. The most significant projects include the Quarry Road Recreation Area, Airport Runway Reconstruction and Pavement Projects which collectively comprise approximately \$6.3 million of the total projects in process at June 30, 2015. The total cost of all projects when completed is expected to be approximately \$11.6 million.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2015

NOTE 18 – NET POSITION AND RESTATEMENT

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 restriction imposed by creditors, grantors, or laws or regulation of other governments.

The City's net position invested in capital assets, net of related debt for governmental activities was calculated as follows at June 30, 2015:

| | |
|---|---------------------|
| Capital assets | \$89,625,009 |
| Accumulated depreciation | (44,949,853) |
| Bonds payable and capital leases payable | (25,737,370) |
| Unspent bond proceeds | <u>2,545,714</u> |
| Total invested in capital assets, net of related debt | <u>\$21,483,500</u> |

During the year ended June 30, 2015, the City adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This statement required the City to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. As a result, the City has restated beginning net position in the government-wide financial statements to account for the City and School's proportionate share of the net pension liability of \$2,676,558 and deferred outflows for the City and School's contributions subsequent to the measurement date (June 30, 2013) of \$529,845, which effectively decreased the City's net position as of July 1, 2014 by \$2,146,713. See Note 10 for additional disclosures related to the pension plans.

Required Supplementary Information - Schedule of Funding Progress

June 30, 2015 (Unaudited)

Other Postemployment Benefits (OPEB)

| 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 |
|--------------------|---------------------------------|----------------------------------|--|---------------------|---------------------|------------------------|---|
| 2015 | January 1, 2014 | \$0 | \$ 725,027 | \$ 725,027 | 0% | \$ 5,202,858 | 13.9% |
| 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% |

Required Supplementary Information - Schedule of Proportionate Share of the Net Pension Liability and Related Ratios

June 30, 2015 (Unaudited)

| Year Ended | Plan | Proportion of the Net Pension Liability | Proportionate Share of the Net Pension Liability | Actual Covered Member Payroll | Net Pension Liability as a Percentage of Covered Payroll | Fiduciary Net Position as a Percentage of Total Pension Liability |
|------------------|-----------------|---|--|-------------------------------|--|---|
| 6/30/2015 | PLD Plan | 0.438124% | \$674,190 | \$ 2,619,833 | 25.73% | 94.10% |
| | SET Plan | 0.068868% | \$744,002 | \$ 10,318,500 | 7.21% | 83.91% |

Notes:

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The data provided in the schedule is based as of the measurement date of the Maine Public Employees Retirement System PLD Consolidated Plan (PLD Plan) and the State Employee and Teacher Plan's (SET Plan) net pension liability, which is as of the beginning of the City's fiscal year.

There were no changes of benefit terms during the year ended June 30, 2015.

There were no changes in assumptions in the PLD Plan. For the SET Plan, the change in discount rate from 7.25% to 7.125% was the only change in assumption in the 2014 actuarial valuation.

Required Supplementary Information - Schedule of Employer Contributions

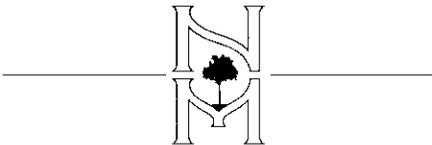
June 30, 2015 (Unaudited)

| Year Ending | Plan | Statutorily Required Contributions | Actual Employer Contributions | Contribution Excess/(Deficiency) | Actual Covered Member Payroll | Contributions as a Percentage of Covered Payroll |
|-------------|-------------|------------------------------------|-------------------------------|----------------------------------|-------------------------------|--|
| 6/30/2015 | PLD Plan | \$ 159,810 | 159,810 | \$ - | 2,619,833 | 6.10% |
| | SET Plan | 273,440 | 273,440 | - | 10,318,500 | 2.65% |
| | SET Plan ** | 114,319 | 114,319 | - | 846,806 | 13.50% |
| 6/30/2014 | PLD Plan | 118,277 | 118,277 | - | 2,628,368 | 4.50% |
| | SET Plan | 271,194 | 271,194 | - | 10,233,718 | 2.65% |
| | SET Plan ** | 106,731 | 106,731 | - | 790,602 | 13.50% |

Notes:

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

*** The School is required to contribute for those positions that are federally funded.*



NICHOLSON, MICHAUD
& COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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, 2015, and our report thereon dated December 11, 2015, 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 46 through 52 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.

Nicholson, Michaud & Company

Waterville, Maine
December 11, 2015

**Combining Balance Sheet
Special Revenue Funds**

June 30, 2015

| | TIF Projects Fund | Loan Fund | Airport Fund | Police Grants | Fire Dept Grant Fund | Grant Fund | School Funds | Total |
|--|-------------------------|------------------|------------------|------------------|-------------------------|-----------------|-------------------|---------------------|
| ASSETS | | | | | | | | |
| Cash | | \$ 13,806 | | | | | | \$ 13,806 |
| Accounts receivable | | | \$ 9,332 | | | | | 9,332 |
| Intergovernmental receivable | | | 25,427 | | | | \$ 402,301 | 402,301 |
| Inventory | | | | | | | 22,636 | 48,063 |
| Interfund loans receivable | \$ 960,055 | | | \$ 12,819 | \$ 2,500 | \$ 8,083 | 251,226 | 1,234,683 |
| Total Assets | \$ 960,055 | \$ 13,806 | \$ 34,759 | \$ 12,819 | \$ 2,500 | \$ 8,083 | \$ 676,163 | \$ 1,708,185 |
| LIABILITIES AND FUND BALANCES | | | | | | | | |
| Liabilities: | | | | | | | | |
| Unearned revenues | | | | | | | | |
| Accounts payable | \$ 733,326 | \$ 140 | \$ 2,135 | | | \$ 15,500 | \$ 95,110 | \$ 95,110 |
| Accrued wages | | | 2,624 | | | | | 2,624 |
| Accrued compensated absences | | | 1,887 | | | | | 1,887 |
| Interfund loans payable | | 4,312 | 66,094 | | | | | 70,406 |
| Total Liabilities | 733,326 | 4,452 | 72,740 | | | 15,500 | 95,110 | 921,128 |
| Fund Balances (Deficit): | | | | | | | | |
| Nonspendable - inventory | | | 25,427 | | | | | |
| Restricted fund balance | 226,729 | 9,354 | | \$ 12,819 | \$ 2,500 | (7,417) | 22,636 | 48,063 |
| Unassigned fund balance | | | (63,408) | | | | 558,417 | 802,402 |
| Total Fund Balances (Deficit) | 226,729 | 9,354 | (37,981) | 12,819 | 2,500 | (7,417) | 581,053 | (63,408) |
| Total Liabilities and Fund Balances | \$ 960,055 | \$ 13,806 | \$ 34,759 | \$ 12,819 | \$ 2,500 | \$ 8,083 | \$ 676,163 | \$ 1,708,185 |

See independent auditors' report on additional information.

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

Year Ended June 30, 2015

| | TIF Projects Fund | Loan Fund | Recreation Fund | Airport Fund | Police Grants | Fire Dept Grant Fund | Grant Fund | School Funds | Total |
|--|-------------------------|-----------------|--------------------|--------------------|------------------|-------------------------|-------------------|-------------------|-------------------|
| Revenues: | | | | | | | | | |
| Federal programs | | | | | \$ 53,779 | | \$ 404,123 | \$ 2,787,107 | \$ 3,245,009 |
| State programs | | | | | 17,503 | | | 456,380 | 473,883 |
| Local programs | | | | | | | 12,000 | 167,633 | 179,633 |
| Charges for services | | | | \$ 334,194 | | | | 189,391 | 523,585 |
| Unclassified | | \$ 1,219 | | | 3,150 | | | | 4,369 |
| Total Revenues | | <u>1,219</u> | | <u>334,194</u> | <u>74,432</u> | | <u>416,123</u> | <u>3,600,511</u> | <u>4,426,479</u> |
| Expenditures: | | | | | | | | | |
| Recreation | | | | | | | | | |
| Police | | | | | | | | | |
| Education | | | | | | | | | |
| Adult education | | 2,545 | | | 76,626 | | | 2,158,164 | 2,158,164 |
| Food services | | 2,545 | | | 76,626 | | | 129,343 | 129,343 |
| TIF projects | \$ 737,275 | | | | | | | 1,118,706 | 1,118,706 |
| Cooperation with other entities | | | | | | | 429,466 | | 737,275 |
| Unclassified | | | | | | | | | 429,466 |
| Total Expenditures | <u>737,275</u> | <u>2,545</u> | | <u>434,977</u> | <u>76,626</u> | | <u>429,466</u> | <u>3,406,213</u> | <u>5,087,102</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(737,275)</u> | <u>(1,326)</u> | | <u>(100,783)</u> | <u>(2,194)</u> | | <u>(13,343)</u> | <u>194,298</u> | <u>(660,623)</u> |
| Other Financing Sources: | | | | | | | | | |
| Transfers in | 1,117,338 | | | 89,200 | | | | | 1,206,538 |
| Transfers out | (349,865) | | | | | | | (190,000) | (719,413) |
| | <u>767,473</u> | | | <u>89,200</u> | | | | <u>(190,000)</u> | <u>487,125</u> |
| Net Change in Fund Balances | <u>30,198</u> | <u>(1,326)</u> | | <u>(11,583)</u> | <u>(2,194)</u> | | <u>(13,343)</u> | <u>4,298</u> | <u>(173,498)</u> |
| Fund Balances (Deficit), Beginning of Year | <u>196,531</u> | <u>10,680</u> | | <u>(26,398)</u> | <u>15,013</u> | | <u>5,926</u> | <u>576,755</u> | <u>960,555</u> |
| Fund Balances (Deficit), End of Year | <u>\$ 226,729</u> | <u>\$ 9,354</u> | | <u>\$ (37,981)</u> | <u>\$ 12,819</u> | | <u>\$ (7,417)</u> | <u>\$ 581,053</u> | <u>\$ 787,057</u> |

**Combining Balance Sheet
Capital Projects**

June 30, 2015

ASSETS

| | |
|------------------------------|------------------|
| Grants receivable | \$ 1,781,149 |
| Intergovernmental receivable | 4,026 |
| Interfund loans receivable | <u>3,855,575</u> |

| | |
|---------------------|---------------------|
| Total Assets | \$ 5,640,750 |
|---------------------|---------------------|

LIABILITIES AND FUND BALANCES

Liabilities:

| | |
|--------------------------|-------------------------|
| Unearned revenue | \$ 4,946 |
| Interfund loans payable | 491,431 |
| Accounts payable | <u>2,031,519</u> |
| Total Liabilities | <u>2,527,896</u> |

Fund Balances:

| | |
|----------------------------|-------------------------|
| Restricted | 2,872,833 |
| Committed | 753,263 |
| Assigned | - |
| Unassigned | <u>(513,242)</u> |
| Total Fund Balances | <u>3,112,854</u> |

| | |
|--|---------------------|
| Total Liabilities and Fund Balances | \$ 5,640,750 |
|--|---------------------|

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

Year Ended June 30, 2015

| | Beginning Balance | Inter- Governmental and Miscellaneous Revenue | Bond Issue | Expenditures | Operating Transfer In (Out) | Ending Balance |
|--|----------------------|---|---------------------|---------------------|-----------------------------------|---------------------|
| Municipal | | | | | | |
| Voting Machines/Storage Equipment | \$ 5,931 | | | \$ 3,365 | | \$ 2,566 |
| Cemetery Chapel Repairs | 2,032 | | | 7 | | 2,025 |
| Parks and Recreation Equipment | 1,979 | | \$ 87,500 | 58,109 | | 31,370 |
| Fire Dept Equipment | | | 150,000 | | | 150,000 |
| Public Works Equipment | 27,777 | | 940,000 | | \$ (27,777) | 940,000 |
| Improve First Rangeway Intersection | (28,450) | | | 907 | | (29,357) |
| Golf Course Irrigation Project | 500 | | | 469 | | 31 |
| Campus Drive | 4,333 | | | | (4,333) | |
| North Street Connector Trail | 31,945 | | | | (31,945) | |
| Maintenance/Mobile Facility/Washbay | 64,775 | | | 24,525 | | 40,250 |
| Waterfront Projects | 25,582 | | | 5,206 | | 20,376 |
| Assigned Sources and Uses | 153,347 | \$ 4,071 | | 11,916 | 1,949 | 147,451 |
| Airport Capital Improvement Fund | 2,164 | | | | (2,164) | |
| Runway Reconstruction | (11,740) | 75,668 | | 75,668 | 11,740 | |
| Airport Runway Design | 1,658 | | | 27,947 | | (26,289) |
| Airport Main Runway Construction | (898) | 2,763,053 | 265,000 | 2,852,812 | | 174,343 |
| Airport Equipment/Pavement Maintenance | 32,729 | | 25,000 | 38,494 | | 19,235 |
| Landfill Closure | 96,352 | | | | | 96,352 |
| Quarry Road Projects | (6,115) | 75,000 | | 7,152 | | 61,733 |
| Waterville Opera House Project | (4,204) | 5,000 | | 1,303 | | (507) |
| Downtown Sidewalk Repairs | 18,477 | | | | | 18,477 |
| City Hall | 31,208 | | | 23,468 | | 7,740 |
| City Hall Roof Repair | | | 125,000 | | | 125,000 |
| Laser Shot | | 10,000 | | 19,874 | 9,874 | |
| Grove/Water Street | 21,572 | | | | (21,572) | |
| Bonded Paving Projects | 986,877 | 350,520 | 1,000,000 | 1,431,336 | 13,328 | 919,389 |
| Mayflower Hill | (120,747) | 30,000 | | | | (90,747) |
| Spring/Water/Main/Front | | | | 61,377 | 25,000 | (36,377) |
| Pavement Rehab | 140,130 | | | 36,972 | 254,333 | 357,491 |
| Property Valuation Equilization | | | 305,000 | 94,965 | | 210,035 |
| Traffic Signal Airport Road | | | 125,000 | | | 125,000 |
| Pool Maintenance | | | | 817 | 178,049 | 177,232 |
| School Improvement | (369,965) | | | | 40,000 | (329,965) |
| Totals | \$ 1,107,249 | \$ 3,313,312 | \$ 3,022,500 | \$ 4,776,689 | \$ 446,482 | \$ 3,112,854 |

**Combining Balance Sheet
Permanent Funds**

June 30, 2015

ASSETS

| | |
|----------------------------|---------------------|
| Cash | \$ 266,453 |
| Investments | 2,157,521 |
| Interfund loans receivable | 33,176 |
| Total Assets | \$ 2,457,150 |

LIABILITIES AND FUND BALANCES

Liabilities:

| | |
|--------------------------|---------------|
| Interfund loans payable | \$ 73,207 |
| Accounts payable | 1,037 |
| Total Liabilities | 74,244 |

Fund Balances:

| | |
|--|------------------|
| Nonspendable principal | 1,310,897 |
| Restricted to charitable or community purposes | 1,072,009 |
| Total Fund Balances | 2,382,906 |

| | |
|--|---------------------|
| Total Liabilities and Fund Balances | \$ 2,457,150 |
|--|---------------------|

**Combining Statement of Revenues, Expenses and Changes in Fund Balances
Permanent Funds**

Year Ended June 30, 2015

| | 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 | \$ 543,862 | \$ | 19,844 | \$ 23,566 | \$ 100,000 | \$ 540,140 |
| Frank Champlin Teachers Fund | 100,000 | 338,044 | | 3,300 | 5,009 | 100,000 | 336,335 |
| Mildred Pray Ware Fund | 5,000 | 43,253 | | (334) | 601 | 5,000 | 42,318 |
| Violet Smith Fund | | 1,258 | | (7) | 3 | | 1,248 |
| Marr Charity | | 5,003 | | 284 | 20 | | 5,267 |
| Pine Grove Cemetery | 1,082,097 | 143,551 | \$ 21,523 | 69,662 | 97,413 | 1,082,097 | 137,323 |
| Boothby Fountain | | 201 | | (1) | | | 200 |
| "470" Engine Fund (A) | 3,800 | (716) | | (66) | 134 | 3,800 | (916) |
| Mary Warren Fund | 10,000 | 2,817 | | (101) | 32 | 10,000 | 2,684 |
| George Mitchell Fund | 10,000 | 7,547 | | (93) | 44 | 10,000 | 7,410 |
| Total City Funds | \$ 1,310,897 | \$ 1,084,820 | \$ 21,523 | \$ 92,488 | \$ 126,822 | \$ 1,310,897 | \$ 1,072,009 |

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

Year Ended June 30, 2015

| | Balances Beginning of Year | Additions | Deductions | Balances End of Year |
|--|---|------------------|-------------------|-------------------------------------|
| Private Purpose Trust Funds: | | | | |
| Buford Grant Scholarship | \$ 27,312 | \$ 217 | \$ 500 | \$ 27,029 |
| W. A. Donovan Fund | 4,245 | (50) | 1,000 | 3,195 |
| Wentworth Fund | 20,924 | 484 | 1,200 | 20,208 |
| Flora Harriman Small Fund | 95,892 | (314) | 1,000 | 94,578 |
| Gladys Briggs Walker Fund | 13,890 | (96) | 500 | 13,294 |
| Tina Thompson Poulin Drama Fund | 9,430 | 99 | 300 | 9,229 |
| Rene Plante Scholarship | 5,355 | 45 | 500 | 4,900 |
| Myra Stearns | 17,504 | 208 | | 17,712 |
| Faculty Gowns Account | 3,043 | (149) | | 2,894 |
| Messalonskee Fish and Game | 15,832 | 118 | 500 | 15,450 |
| Ron LaPlante Scholarship Fund | 14,941 | 138 | 1,000 | 14,079 |
| Janice H. & Cynthia V. Scholarship Fund | 2,702 | (136) | | 2,566 |
| Pre Vocational Program | 18,141 | 40 | | 18,181 |
| Carol Shapiro Scholarship | 9,524 | 1,257 | 1,000 | 9,781 |
| Bridge Years | | 29,436 | | 29,436 |
| | <u>\$ 258,735</u> | <u>\$ 31,297</u> | <u>\$ 7,500</u> | <u>\$ 282,532</u> |
| Total Private Purpose Trust Funds | \$ 258,735 | \$ 31,297 | \$ 7,500 | \$ 282,532 |