

City of Waterville, Maine

Financial Report

June 30, 2007

CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – General Fund	14
Statement of Fiduciary Net Assets – Fiduciary Funds	15
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	16
Notes to Financial Statements	17
Independent Auditors' Report on Additional Information	35
Special Revenue Funds:	
Combining Balance Sheet	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	37
Capital Projects:	
Combining Balance Sheet	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	39
Permanent Funds:	
Balance Sheet	41
Combining Statement of Revenues, Expenses and Changes in Fund Balances	42
Private-Purpose Trust Funds – School Funds – Combining Schedule of Changes in Fiduciary Net Assets	43

macdonaldpage & co LLC

Certified Public Accountants and Management Advisors

Independent Auditors' Report

City Council
City of Waterville
Waterville, Maine

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waterville, Maine, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed on the table of contents. These financial statements are the responsibility of the City of Waterville's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waterville, Maine, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Macdonald Page & Co LLC

South Portland, Maine
December 31, 2007

MANAGEMENT'S DISCUSSION & ANALYSIS

As management of the City of Waterville, we offer this narrative overview and analysis of the financial activities of the City of Waterville for the fiscal year ended June 30, 2007.

FINANCIAL HIGHLIGHTS

- Total net assets of the City of Waterville for year ended June 30, 2007 are approximately \$23,387,272. A portion of that amount, \$9,992,626 is a net investment in capital assets while the largest portion, \$13,169,646 remains unrestricted. These numbers do not include another \$1,779,776 of net assets attributed to the City's Library.
- The ending fund balance for the general fund is \$9,074,344. This is an increase of \$2,116,769 over last year. The increase is due to State revenue sharing money and excise tax activity being larger than expected, a growth in investment earnings, and expenditures overall being less for the City than budgeted. Unused departmental appropriated funds also contributed to the fund balance increase.
- The General Funds undesignated & school fund balance of \$9,074,344 equals 25.2% of total revenues for the year or 27.5% of total expenditures. The percentages place the City of Waterville at a strong fund balance amount for bonding purposes. Moody and Standard & Poor's bond rating agencies like to see a fund balance rate in the 14% to 16% range or an amount equal to two months of budgeted expenditures. The City of Waterville's current fund balance exceeds both requirements.
- City-wide governmental revenues include \$16,926,314 of tax revenue, a decrease of \$95,156 from the year ended June 30, 2006 and \$19,095,492 of intergovernmental, program and general revenues.
- City-wide governmental expenses were \$32,979,282, a decrease of \$115,506 for the year ended June 30, 2006.
- The City's Capital Projects Fund Balance was \$2.4 million as of June 30, 2007. This was a reduction of \$1.0 million from the end of the prior fiscal year. It represented investment in Paving, Sidewalks, and new Accounting System, the Airport, and other projects.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-34 of this document.

THE CITY AS A WHOLE

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

	Governmental Activities		Library	
	2007	2006	2007	2006
Current & other assets	\$ 17,738,693	\$ 15,621,561	\$ 1,779,776	\$ 1,448,061
Capital assets, net	26,796,671	24,936,018		
Total assets	<u>44,535,364</u>	<u>40,557,579</u>	<u>1,779,776</u>	<u>1,448,061</u>
Long-term debt outstanding	18,048,635	19,076,175		
Other liabilities	3,099,457	2,769,903		
Total liabilities	<u>21,148,092</u>	<u>21,846,078</u>		
Net assets:				
Invested in:				
Capital assets	9,992,626	7,331,177		
Restricted	225,000	225,000		
Unrestricted	13,169,646	11,155,324	1,779,776	1,448,061
Total net assets	<u>\$ 23,387,272</u>	<u>\$ 18,711,501</u>	<u>\$ 1,779,776</u>	<u>\$ 1,448,061</u>

The increase to net assets in the City's governmental activities is due mostly to the addition of the infrastructure fixed assets and intergovernmental receivable increasing. 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. By far the largest portion of the City's net assets reflects its cash and investments and its investment in capital assets less any related debt to acquire those assets still outstanding.

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

Changes in Net Assets:

	Governmental Activities		Library	
	2007	2006	2007	2006
Program revenues:				
Charges for services	\$ 2,257,890	\$ 2,133,355	\$ 24,741	\$ 26,225
Operating grants and contributions	17,963,919	16,991,188	634,327	508,542
Capital grants and contributions	71,599	27,550		
	<u>20,293,408</u>	<u>19,152,093</u>	<u>659,068</u>	<u>534,767</u>
General revenues:				
Property and other taxes	16,871,220	16,902,015		
Licenses, permits and fees	339,513	366,044		
Grants and contributions not restricted to specific programs	3,199,807	2,874,700		
Investment earnings	519,091	279,269	221,915	126,617
Unclassified	784,456	1,372,088		
Gain (loss) on disposition of capital assets	(14,232)	(210,744)		
	<u>21,699,855</u>	<u>21,583,372</u>	<u>221,915</u>	<u>126,617</u>
Total revenues	41,993,263	40,735,465	880,983	661,384
Program expenses:				
General government	2,796,205	2,960,473		
Public works	3,800,518	4,133,844		
Public safety	4,504,461	4,529,030		
Parks, recreation, and culture	532,916	682,880		
Health and welfare	232,520	221,293		
Education	22,822,907	23,638,554		
Program expenditures	180,293	387,022		
TIF projects	541,896	532,448		
Unclassified	744,331	744,182		
Capital outlay	103,720	915,640		
Interest on debt	618,237	681,641		
Library expenses			549,268	556,640
Total expenses	<u>36,878,004</u>	<u>39,427,007</u>	<u>549,268</u>	<u>556,640</u>
Change in net assets	5,115,259	1,308,458	331,715	104,744
Net assets, beginning of year	<u>18,272,013</u>	<u>17,403,043</u>	<u>1,448,061</u>	<u>1,343,317</u>
Net assets, end of year	\$ 23,387,272	\$ 18,711,501	\$ 1,779,776	\$ 1,448,061

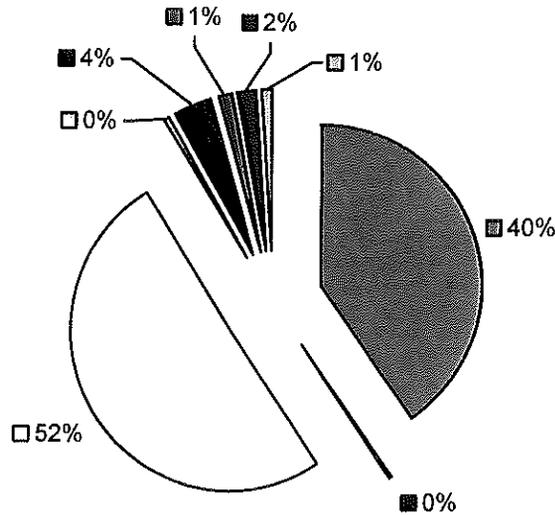
The cost of all governmental activities this year was \$36,878,004 which represents almost a \$2,549,003 decrease. Of this amount, Waterville taxpayers financed \$16,871,220 through property, personal and excise taxes. Municipal and educational departments have aggressively pursued grant revenue to cover programs and services and to help reduce the tax burden to Waterville residents.

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

Capital outlay represents the net amount paid out of the general fund for capital items. Interest on debt indicates the debt service amounts paid from the City and School general fund and the TIF fund.

Governmental Activities

2007 Governmental Fund Revenues



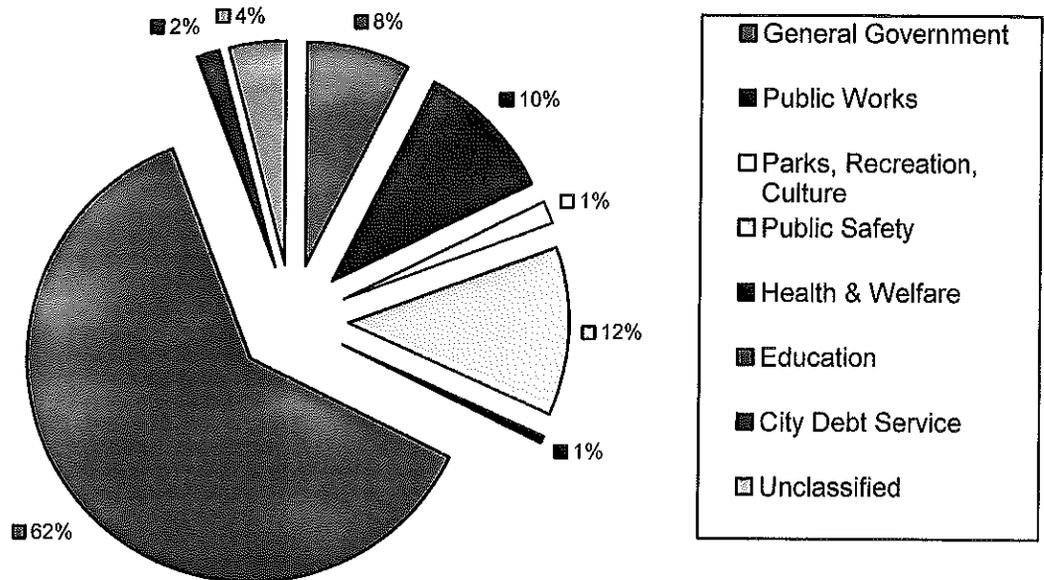
■ Taxes	■ Licenses and Permits	□ Intergovernmental	□ Fees and Fines
■ Education-other	■ City Charges for Service	■ Unclassified	□ Investment Earnings

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

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

Governmental Activities Continued

2007 General Fund Expenditures



As the above chart indicates, education is the department with the largest expenditure with public safety and public works in second and third place.

GENERAL FUND BUDGETARY HIGHLIGHTS

The majority of changes to the original budget approved by the City Council, during the fiscal year, were transfers to other funds. The changes amounted to an increase of 0.36% to the budget.

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

ECONOMIC FACTORS AND THE CITY'S BUDGET

The valuation for the City increased by \$7.3 million or 1.2%. Residential valuation increased \$3.1 million or 0.6% while Personal Property increased \$4.2 million or 6.7%. Although this is lower than expected the City hopes to see a significant increase in fiscal year 07/08 and beyond with the development of the Lockwood Mills property.

The unemployment rate for Waterville at fiscal year end was an estimated 4.7% as compared with an estimated 4.8% for the year prior. The rate is above the State average of 4.2% and seasonally adjusted National Rate of 4.5%.

The 2006/2007 budget adopted by the City Council resulted in a decrease of 3.7% in the mill rate from 26.90 the previous year to 25.90 mills. This is the fourth year the mill rate remained flat or decreased. For the 2007/2008 budget year the mill rate decreased another 3.9% from the 2006/2007 year to 24.90. mills

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

- A budgeted increase of \$350,000 in State Revenue Sharing.
- The school budget funded by the City remained flat and therefore this money was directed toward lowering the property tax rate as intended by LD 1.
- The increased valuation as specified above.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Statement of Net Assets

June 30, 2007

	<u>Primary Governmental Governmental Activities</u>	<u>Component Unit Library</u>
ASSETS		
Cash and cash equivalents	\$ 5,227,492	\$ 203,656
Investments	8,996,227	1,423,795
Receivables:		
Taxes receivable	1,443,013	
Tax liens	15,823	
Other receivables	15,182	152,325
Intergovernmental	2,021,021	
Inventory	19,935	
Capital assets, net	26,796,671	
Total Assets	<u>44,535,364</u>	<u>1,779,776</u>
LIABILITIES		
Accounts payable	1,247,855	
Deferred revenues	269,801	
Accrued wages and benefits payable	1,290,525	
Taxes collected in advance	9,522	
Accrued interest	213,487	
Due to agency fund	68,267	
Noncurrent liabilities:		
Due within one year	1,471,885	
Due in more than one year	16,226,836	
Accrued compensated absences	349,914	
Total Liabilities	<u>21,148,092</u>	
NET ASSETS		
Invested in capital assets, net of related debt	9,992,626	
Restricted for:		
Nonexpendable trust principal	225,000	
Unrestricted	13,169,646	1,779,776
Total Net Assets	<u>\$ 23,387,272</u>	<u>\$ 1,779,776</u>

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

Statement of Activities

Year Ended June 30, 2007

Functions/programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit Library
Primary Government:						
Governmental Activities:						
Council	\$ 12,000				\$ (12,000)	
Mayor	23,854				(23,854)	
Administration	1,432,611				(1,432,611)	
Assessor	135,935				(135,935)	
Information services	357,088				(357,088)	
Finance department	390,236	\$ 34,063			(356,173)	
City clerk	135,806	30,583			(105,223)	
Planning department	79,305	3,650			(75,655)	
Economic development	229,370				(229,370)	
Public works	3,800,518	210,400	\$ 235,082		(3,355,036)	
Parks, recreation and culture	532,916	107,366			(425,550)	
Police	2,344,991	80,966	9,926		(2,254,099)	
Communication center	319,980	80,000			(239,980)	
Safety committee	922				(922)	
Fire	1,762,115	1,000			(1,761,115)	
Code enforcement	76,453				(76,453)	
Health and welfare	232,520				(232,520)	
Airport	132,696	10,097			(122,599)	
Unclassified	744,331				(744,331)	
Program expenses	47,597				(47,597)	
TIF projects	541,896				(541,896)	
Education	22,822,907	1,699,765	17,718,911		(3,404,231)	
Capital outlay	103,720			\$ 71,599	(32,121)	
Interest on debt	618,237				(618,237)	
Total Governmental Activities	\$ 36,878,004	\$ 2,257,890	\$ 17,963,919	\$ 71,599	(16,584,596)	
Component Unit:						
Library	\$ 549,268	\$ 24,741	\$ 634,327			\$ 109,800
General revenues:						
Property taxes					15,343,120	
Excise taxes					1,528,100	
Licenses and permits					183,778	
Franchise fees					149,665	
Fees and fines					6,070	
Grants and contributions not restricted to specific programs:						
State revenue sharing					2,819,612	
Homestead exemption					380,195	
Investment earnings					519,091	221,915
Unclassified					784,456	
Loss on disposal of capital assets					(14,232)	
Total general revenues					21,699,855	221,915
Change in net assets					5,115,259	331,715
Net assets - beginning (restated)					18,272,013	1,448,061
Net assets - ending					\$ 23,387,272	\$ 1,779,776

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

Balance Sheet Governmental Funds

June 30, 2007

	General	Landfill Closure	Other Governmental Funds	Total
ASSETS				
Cash	\$ 5,227,492			\$ 5,227,492
Investments	7,923,351		\$ 1,072,876	8,996,227
Receivables:				
Taxes receivable	1,443,013			1,443,013
Tax liens	15,823			15,823
Other receivables	14,193		281	14,474
Intergovernmental	6,993		2,014,736	2,021,729
Interfund loans receivable	306,515	\$ 868,676	2,056,581	3,231,772
Inventory			19,935	19,935
Total Assets	<u>\$ 14,937,380</u>	<u>\$ 868,676</u>	<u>\$ 5,164,409</u>	<u>\$ 20,970,465</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 688,211		\$ 559,644	\$ 1,247,855
Accrued wages and benefits payable	1,290,525			1,290,525
Accrued compensated absences	74,420			74,420
Deferred revenue	810,451		269,801	1,080,252
Taxes received in advance	9,522			9,522
Due to agency fund	68,267			68,267
Interfund loans payable	2,921,640		310,132	3,231,772
Total Liabilities	<u>5,863,036</u>		<u>1,139,577</u>	<u>7,002,613</u>
Fund Balances:				
Reserved for inventory			19,935	19,935
Reserved for nonexpendable principal			225,000	225,000
Reserved for capital projects		868,676	1,185,335	2,054,011
Unreserved, reported in:				
General fund - undesignated	8,150,277			8,150,277
General fund - school	924,067			924,067
Special revenues			1,461,629	1,461,629
Capital projects			331,703	331,703
Permanent funds			801,230	801,230
Total Fund Balances	<u>9,074,344</u>	<u>868,676</u>	<u>4,024,832</u>	<u>13,967,852</u>
Total Liabilities and Fund Balances	<u>\$ 14,937,380</u>	<u>\$ 868,676</u>	<u>\$ 5,164,409</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	26,796,671
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	810,451
Long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds.	
Accrued compensated absences	(275,494)
Accrued interest	(213,487)
Landfill closure liability	(868,676)
Capital leases payable	(906,569)
Bonds payable	(15,923,476)
Net Assets of Governmental Activities	<u>\$ 23,387,272</u>

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

Year Ended June 30, 2007

	General	Landfill Closure	Other Governmental Funds	Total
Revenues:				
Taxes	\$ 16,926,314			\$ 16,926,314
Licenses and permits	183,778			183,778
Intergovernmental	16,074,664		\$ 4,853,980	20,928,644
Tuition and other charges - Education	933,281		332,061	1,265,342
Charges for services - City	356,815		79,175	435,990
Fees and fines	6,070			6,070
Unclassified	1,144,361		652,999	1,797,360
Investment earnings	396,523		122,568	519,091
Total Revenues	<u>36,021,806</u>		<u>6,040,783</u>	<u>42,062,589</u>
Expenditures:				
Current:				
Council	12,000			12,000
Mayor	23,854			23,854
Administration	1,300,466			1,300,466
Assessor	131,026			131,026
Information services	327,495			327,495
Finance department	380,366			380,366
City Clerk	132,295			132,295
Planning department	79,305			79,305
Economic development	221,678		25,093	246,771
Public works	3,426,582			3,426,582
Parks and recreation	331,586		60,300	391,886
Police	2,246,941		49,828	2,296,769
Communication center	319,806			319,806
Safety committee	922			922
Fire	1,611,150			1,611,150
Code enforcement	76,453			76,453
Health and welfare	225,242			225,242
Education	20,052,956		3,340,879	23,393,835
County tax	687,502			687,502
Unclassified	45,321			45,321
TIF projects			100,677	145,998
Capital outlay			541,896	541,896
Debt service (excluding education)	1,346,336		2,967,812	2,967,812
Total Expenditures	<u>32,979,282</u>		<u>7,231,998</u>	<u>40,211,280</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,042,524</u>		<u>(1,191,215)</u>	<u>1,851,309</u>
Other Financing Sources (Uses):				
Transfers in	702,895		3,528,357	4,231,252
Transfers out	<u>(1,628,650)</u>	<u>\$ (26,000)</u>	<u>(2,576,602)</u>	<u>(4,231,252)</u>
Total Other Financing Sources (Uses)	<u>(925,755)</u>	<u>(26,000)</u>	<u>951,755</u>	
Net Change in Fund Balances	2,116,769	(26,000)	(239,460)	1,851,309
Fund Balances, Beginning of Year (Restated)	<u>6,957,575</u>	<u>894,676</u>	<u>4,264,292</u>	<u>12,116,543</u>
Fund Balances, End of Year	<u>\$ 9,074,344</u>	<u>\$ 868,676</u>	<u>\$ 4,024,832</u>	<u>\$ 13,967,852</u>

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

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

Year Ended June 30, 2007

Net change in fund balances - total governmental funds	\$ 1,851,309
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 (\$3,997,074) exceeded depreciation expense (\$1,769,619) in the current period.	2,227,453
In the statement of activities, the loss on disposal of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balance by the cost of the assets disposed of \$39,552, net of related accumulated depreciation of \$25,320.	(14,232)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(55,094)
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 change in accrued compensated absences (\$41,661) and the change in accrued interest (\$13,364).	55,025
Landfill closure expenses in the statement of activities that are not current uses of financial resources are not reported as expenditures in the funds.	26,000
Capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets (\$348,736). Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets (\$152,814).	(195,922)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	<u>1,220,720</u>
Change in Net Assets of Governmental Activities	<u>\$ 5,115,259</u>

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

Year Ended June 30, 2007

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 16,497,882	\$ 16,497,882	\$ 16,932,262	\$ 434,380
Licenses and permits	196,350	196,350	183,778	(12,572)
Intergovernmental	13,897,442	13,897,442	14,296,316	398,874
Tuition and other charges for services - Education	870,537	870,537	933,281	62,744
Charges for services - City	396,700	396,700	356,815	(39,885)
Fees and fines	5,500	5,500	6,070	570
Unclassified	1,146,866	1,256,366	1,138,413	(117,953)
Investment earnings	125,000	125,000	396,523	271,523
Transfers in	150,000	155,071	702,895	547,824
Budgeted use of fund balance - City	375,000	382,735		(382,735)
Total Revenues	<u>33,661,277</u>	<u>33,783,583</u>	<u>34,946,353</u>	<u>1,162,770</u>
Expenditures				
Council	11,380	11,380	12,000	(620)
Mayor	30,690	30,690	23,854	6,836
Administration	1,541,045	1,443,282	1,300,466	142,816
Assessor	138,455	140,389	131,026	9,363
Information services	333,800	333,800	327,495	6,305
Finance department	414,185	418,057	380,366	37,691
City Clerk	142,355	142,355	132,295	10,060
Planning department	87,270	89,038	79,305	9,733
Economic development	267,300	270,443	221,678	48,765
Public works	3,980,500	4,020,032	3,426,582	593,450
Parks and recreation	363,485	370,946	331,586	39,360
Police	2,203,460	2,248,083	2,246,941	1,142
Communication center	338,610	338,610	319,806	18,804
Safety committee	1,250	1,250	922	328
Fire	1,664,340	1,664,340	1,611,150	53,190
Code enforcement	78,205	78,205	76,453	1,752
Health and welfare	269,295	269,295	225,242	44,053
Education	18,291,802	18,291,802	18,274,608	17,194
County tax	687,500	687,500	687,502	2
Unclassified	72,600	72,600	45,321	27,279
Debt service (excluding education)	1,346,285	1,346,285	1,346,336	(51)
Transfers out	1,397,465	1,515,201	1,628,650	(113,449)
Total Expenditures	<u>33,661,277</u>	<u>33,783,583</u>	<u>32,829,584</u>	<u>953,999</u>
Excess of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	2,116,769	<u>\$ 2,116,769</u>
Fund Balance, Beginning of Year (Restated)			6,957,575	
Fund Balance, End of Year			<u>\$ 9,074,344</u>	

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

**Statement of Fiduciary Net Assets
Fiduciary Funds**

June 30, 2007

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 9,953	\$ 270,019
Investments	164,635	
Accounts receivable		916
Due from other funds		<u>101,811</u>
Total Assets	<u>\$ 174,588</u>	<u>\$ 372,746</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Due to student groups		\$ 270,019
Amount held for others		<u>102,727</u>
Total Liabilities		<u>\$ 372,746</u>
 Net Assets		
Held in trust	<u>\$ 174,588</u>	

Statement of Changes in Fiduciary Net Assets Fiduciary Funds

Year Ended June 30, 2007

	<u>Private-Purpose Trust Funds</u>
Additions	\$ 24,231
Deductions	<u>6,064</u>
Change in Net Assets	18,167
Net Assets, Beginning of Year	<u>156,421</u>
Net Assets, End of Year	<u><u>\$ 174,588</u></u>

Notes to Financial Statements

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

In evaluating how to define the reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Application of this criterion and determination of type of presentation involves considering whether the activity benefits the government and is generally available to its citizens. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity.

Included within the reporting entity:

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

Waterville/ Winslow Solid Waste Disposal Core

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

Robert H. Lafleur Airport

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

Notes to Financial Statements

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Waterville Public Library

Waterville Public Library has a separate Board appointed by the City. The City also funds approximately \$350,000 of the Library's annual expenditures of approximately \$550,000. In addition to general operation, the Library Board controls a substantial amount of trust funds held for the benefit of the Library. The Library is considered a component unit and is included in the government-wide financial statements.

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

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

The Authority derives the bulk of its revenue from the participants, but also receives some grant revenues from the State of Maine. In fiscal year 2007, the City of Waterville contributed \$57,266. Complete financial statements may be obtained from Kennebec Regional Development Authority/FirstPark at P.O. Box 246, Oakland, ME 04963.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been eliminated from these statements. Governmental activities are primarily supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City has elected not to allocate indirect costs among the programs, functions and segments. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

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

Notes to Financial Statements

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as certain compensated absences and claims and judgments, are recorded only when the payment is due.

Those revenues susceptible to accrual are property taxes, interest, and charges for services. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

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

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Landfill Closure is a major fund. It accounts for landfill closure costs.

Additionally, the City reports the following fund type:

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

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

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. The funds are used to account for assets that the City holds for others in an agency capacity.

Notes to Financial Statements

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City. State statutes authorize the City to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements.

Investments are stated at fair value.

Interfund Receivables/Payables

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

Inventories

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

Capital Assets

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

The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the assets' estimated useful lives ranging from 5 to 40 years.

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

Notes to Financial Statements

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets - Continued

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

Compensated Absences

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

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs if material to the basic financial statements, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

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

Notes to Financial Statements

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Use of Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

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

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

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

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

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

Notes to Financial Statements

June 30, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - CONTINUED

Excess of Expenditures Over Appropriations

For the year ended June 30, 2007, expenditures exceeded appropriations in the following departments. These amounts will lapse to fund balance at year-end.

Council	\$ 620
Debt Service	51

Deficit Fund Balances

The individual Special Revenue Funds carrying fund deficits as of June 30, 2007 are as follows:

Downtown Job Sinking Retention Fund	\$ 34,376
Airport Fund	146,551
Police	79,506

All will be funded by future program income.

The individual Capital Projects Funds carrying fund deficits as of June 30, 2007 are as follows:

Fire Engine	\$ 20,000
Muskie Roof	2,384
School Revolving Renovation Loan Fund	43,784
North Street Connector Trail	14,544
Central Office Facility	900
City Hall boiler	57,117
Housing Rehabilitation	7,373
Downtown lights	3,107
Silver Street Project	1,537
Silver Street Project	1,900
Silver Street Community Enterprise	1,401
Sidewalks – Downtown CDBG	23,910

Capital Projects Funds will be funded by future bond proceeds and/or future transfers from the general fund.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk - Deposits

Primary Government – City of Waterville

Custodial credit risk is that in event of a bank failure, the government's deposits may not be returned to it. The City has a policy whereby all deposits are to be insured by FDIC insurance or when the amount of deposit balances exceeds FDIC insurance the balance in excess of FDIC insurance must be collateralized. The City does not have a policy for custodial credit risk. As of June 30, 2007, \$200,000 of the City's bank balance of \$5,314,654 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$200,000
--------------------------------	-----------

The above custodial credit risk resulted from a timing difference in the redemption of the City's certificate of deposits. As of July 2007, the City was no longer exposed to custodial credit risk.

Notes to Financial Statements

June 30, 2007

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Concentration of Credit Risk – The City places no limit on the amount the City may invest in any one issuer. 11.7% of the City's investments are invested with Federal Home Loan Bank (FHLB), and 12.8% of the City's investments are invested with Federal National Mortgage Association (FNMA).

Component Unit – Waterville Public Library

	Fair Value	Investment Maturities (in Years)			
		1 - 5	6 - 10	More Than 10	No Maturity
Corporate Bonds	\$ 150,346	\$ 100,422	\$ 48,425	\$ 1,499	
Common Stock	1,100,304				\$ 1,100,304
Mutual Funds	165,072				165,072
Money Market, less than 1 year	8,073				8,073
Total Investments	\$ 1,423,795	\$ 100,422	\$ 48,425	\$ 1,499	\$ 1,273,449

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

Credit Risk - The Library has no investment policy. As of June 30, 2007 the Library's investment in corporate bonds were rated between BAA2 and AA3 by Moody's and between AA- and AA3 by Standard & Poor's.

Concentration of Credit Risk – The Library places no limit on the amount the Library may invest in any one issuer. The following concentration credit risks exist for the following common stock holdings as of June 30, 2007, Exxon Mobil – 9%; Bank of America – 6%; Kimberly-Clark – 6% and JP Morgan – 5%.

NOTE 4 - PROPERTY TAX

Property taxes for the current year were committed on August 15, 2006, 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 \$330,108 for the year ended June 30, 2007.

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

Property taxes levied during the year were recorded as receivables at the time the levy was made. The receivables collected during the year and in the first sixty days following the end of the fiscal year have been recorded as revenues. The remaining receivables have been recorded as deferred revenues.

Notes to Financial Statements

June 30, 2007

NOTE 4 - PROPERTY TAX - CONTINUED

The following summarizes the levy as of and for the year ended June 30, 2007:

Assessed value	\$624,939,040
Tax rate (per \$1,000)	25.90
Commitment	\$15,426,055
Supplemental taxes assessed	<u>2,626</u>
	<u>15,428,681</u>
Less:	
Abatements	7,562
Discounts	
Collections	<u>14,252,713</u>
	<u>14,260,275</u>
Current year taxes receivable at end of year	<u>\$ 1,168,406</u>
Due date(s) – current year	¼ October 6, 2006 ¼ December 1, 2006 ¼ March 2, 2007 ¼ June 1, 2007
Interest rate on delinquent taxes	11.0%
Collection rate	92.4%
Taxes receivable – current year	\$1,168,406
Taxes receivable – prior years	<u>274,607</u>
Total taxes receivable	<u>\$1,443,013</u>

NOTE 5 - CAPITAL ASSETS

In accordance with GASB Statement No. 34, the City has reported all capital assets in the Government-Wide Statement of Net Assets. All capital assets were reported using the basic approach whereby accumulated depreciation and depreciation expense has been recorded. The table below presents summary information on capital assets for the year ended June 30, 2007.

Notes to Financial Statements

June 30, 2007

NOTE 5 - CAPITAL ASSETS - CONTINUED

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance 6/30/2006	Adjustments	Increases	Decreases	Balance 6/30/2007
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 1,549,278	\$ 4,109			\$ 1,553,387
Construction in progress			\$ 2,152,008		2,152,008
Total capital assets not being depreciated	<u>1,549,278</u>	<u>4,109</u>	<u>2,152,008</u>		<u>3,705,395</u>
Capital assets being depreciated:					
Buildings	23,792,196	(436,923)	708,800		24,064,073
Improvements	5,206,886				5,206,886
Vehicles	4,404,656	111,330	225,261	39,552	4,701,695
Equipment	2,866,268	130,711	377,532		3,374,511
Infrastructure	17,381,017	(3,394,869)	533,473		14,519,621
Total capital assets being depreciated	<u>53,651,023</u>	<u>(3,589,751)</u>	<u>1,845,066</u>	<u>39,552</u>	<u>51,866,786</u>
Less accumulated depreciation for:					
Buildings	10,579,164	(850,674)	713,223		10,441,713
Improvements	1,947,807	367,397	247,958		2,563,162
Vehicles	3,192,264	(161,431)	254,062	25,320	3,259,575
Equipment	2,264,119	883	189,439		2,454,441
Infrastructure	12,280,929	(2,589,247)	364,937		10,056,619
Total accumulated depreciation	<u>30,264,283</u>	<u>(3,233,072)</u>	<u>1,769,619</u>	<u>25,320</u>	<u>28,775,510</u>
Total capital assets being depreciated, net	<u>23,386,740</u>	<u>(356,679)</u>	<u>75,447</u>	<u>14,232</u>	<u>23,447,955</u>
Governmental Activities Capital Assets, Net	<u>\$ 24,936,018</u>	<u>\$ (352,570)</u>	<u>\$ 2,227,455</u>	<u>\$ 14,232</u>	<u>\$ 26,796,671</u>

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

Governmental activities:	
Administration	\$ 121,079
Information services	16,137
Public works (includes infrastructure)	508,854
Parks and recreation	139,969
Police	75,922
Fire	142,679
Program expenditures	65,287
Education	699,692
Total depreciation expense - governmental activities	<u>\$1,769,619</u>

Notes to Financial Statements

June 30, 2007

NOTE 6 - CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds and notes payable	\$17,144,194		\$1,220,718	\$15,923,476	\$1,228,268
Capital leases	710,647	\$348,736	152,814	906,569	243,617
Compensated absences	326,658	103,510	80,254	349,914	74,420
Landfill liability closure	<u>894,676</u>	<u>-</u>	<u>26,000</u>	<u>868,676</u>	<u>-</u>
Governmental activity					
Long-term liabilities	<u>\$19,076,175</u>	<u>\$452,246</u>	<u>\$1,479,786</u>	<u>\$18,048,635</u>	<u>\$1,546,304</u>

NOTE 7 - CAPITAL LEASE

The Department of Public Schools is engaged in two capital leases, and the City is engaged in one capital lease as of June 30, 2007. The amount of assets capitalized under this leases total \$2,199,186. Future minimum capital lease payments are as follows:

Principal	
2008	\$ 243,617
2009	252,416
2010	262,194
2011	74,184
2012	<u>74,157</u>
Total	<u>906,568</u>
Interest	
2008	37,924
2009	29,125
2010	19,347
2011	9,038
2012	<u>6,689</u>
Total	<u>102,123</u>
Total payments	1,008,691
Less interest	<u>102,123</u>
Present value	<u>\$ 906,568</u>

Notes to Financial Statements

June 30, 2007

NOTE 8 - LONG-TERM DEBT

Bonds and notes payable at June 30, 2007 are comprised of the following:

	Date of Issue	Original Amount Issued	Date of Maturity	Interest Rate	Balance June 30, 2007
Long-term debt:					
1993 TIF Limited Obligation	11/1/93	\$ 500,000	2007	5.85-6.00%	\$ 50,000
1997 General Obligation Bond	11/1/97	3,880,000	2012	4.35-5.00%	840,000
1999 General Obligation Bond	7/1/99	4,970,000	2019	3.50-5.50%	3,445,000
2001 State Street Capital Bond	2/1/01	2,021,000	2021	4.25-5.00%	1,421,000
2002S MMBB SRRLF-Loan 1	4/29/02	1,000,000	2011	0.00%	228,100
2002S MMIBB SRB.LF-Loan 2	5/8/02	975,000	2011	0.00%	192,954
2002S MMBB SRRLF-Loan 3	4/29/02	907,000	2011	0.00%	179,496
2002S MMBB SRRF	10/2/02	994,000	2012	0.00%	151,785
2002 General Obligation Bond	11/1/02	5,300,000	2032	2.00-5.00%	4,500,000
2005S School Renovation	4/13/05	538,051	2014	0.00%	210,141
2005 General Obligation Bond	6/14/05	5,285,000	2025	3.50%-4.00%	<u>4,705,000</u>
Total bonds and notes payable					<u>\$15,923,476</u>

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

The annual requirements to amortize all long-term debt outstanding as of June 30, 2007 are as follows:

	Principal	Interest	Total
June 30, 2008	\$ 1,228,268	\$ 629,353	\$ 1,857,621
2009	1,248,268	587,842	1,836,110
2010	1,253,268	545,531	1,798,799
2011	1,224,396	502,183	1,726,579
2012	1,101,927	458,179	1,560,106
2013-2017	4,383,804	1,725,835	6,109,639
2018-2022	3,316,000	846,596	4,162,596
2023-2027	1,385,000	324,731	1,709,731
2028-2032	675,000	118,125	193,125
2033-2035	<u>107,545</u>	<u>3,375</u>	<u>110,920</u>
Total	<u>\$15,923,476</u>	<u>\$5,741,750</u>	<u>\$21,065,226</u>

The City is subject to a statutory limitation, by the State of Maine, of its general long-term debt equal to 15% of the State's valuation of the City. The City's outstanding long-term debt of \$15,923,476 at June 30, 2007 was within the statutory limit.

Notes to Financial Statements

June 30, 2007

NOTE 8 - LONG-TERM DEBT - CONTINUED

In addition to the bonds and notes payable, the City is contingently responsible for the following overlapping debt as of June 30, 2007:

Governmental Unit	Net Debt Outstanding	Applicable To Waterville	City of Waterville's Share of Debt
Kennebec County	\$1,783,688	8.19%	\$146,037

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

NOTE 9 - INTERFUND BALANCES

As of June 30, 2007, the balances of interfund loans receivable/payable were as follows:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$ 306,515	\$2,921,640
Landfill Closure Fund	868,676	
Other Governmental Funds	<u>2,056,581</u>	<u>310,132</u>
Totals	<u>\$3,231,772</u>	<u>\$3,231,772</u>

NOTE 10 - MAINE STATE RETIREMENT SYSTEM (MSRS)

Consolidated Retirement Pension Plan - City and School

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

Funding Policy (City) - Plan members are required to contribute 8% of their annual covered salary and the City is required to contribute an actuarially determined rate. The current rate is 2.9% of annual covered payroll. The contribution rates of plan members and the City are established and may be amended by the Maine State Legislature. The City's contribution to the Maine State Legislature Consolidated Plan for the year ended June 30, 2007 was \$63,122, which equals the required contributions for the year.

Funding Policy (School Department) - The contribution rates of plan members and the Public Schools are established and may be amended by the Maine State Retirement System Board of Trustees. The School's contribution to the Maine State Retirement System Consolidated Plan for the year ended June 30, 2007 was \$149,870, which equals the required contributions for the year.

Notes to Financial Statements

June 30, 2007

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

Maine State Retirement - Teachers Group

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

Funding Policy - Plan members are required to contribute 7.65% of their compensation to the retirement system. The State of Maine Department of Education is required, by the same statute, to contribute the employer contribution which amounts to \$1,778,348 (19.14%) for the fiscal year 2007. This amount has been reported as an intergovernmental revenue and retirement expenditure in the financial statements. There is no contribution required by the School except for federally funded teachers, for which the School contributed 19.14% of their compensation. This cost is charged to the applicable grant.

NOTE 11 - DEFERRED COMPENSATION PLAN

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

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

NOTE 12 - TAX INCREMENT FINANCING DISTRICT

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

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

Notes to Financial Statements

June 30, 2007

NOTE 12 - TAX INCREMENT FINANCING DISTRICT - CONTINUED

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

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

In July 2000, the City established **The Chinnet Company Tax Increment Financing District**. The purpose of the District is to secure the City of Waterville's industrial job base and to ensure the long-term economic stability and well being of the 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 of Waterville. Chinnet will finance the improvements within the District. The City will not assume any financial liability within the District. Under the T.I.F. District Credit Enhancement Agreement, the appropriate percentages of new tax revenues will be reinvested into the District to support the cost of capital investment. The design is intended to capture the appropriate percentage of new investment above the current base value of \$2,320,230. For municipal assessed values in excess of this amount from investment made in the first five years of the T.I.F. ending April 1, 2005, the resulting tax revenue will be distributed 75% to the Chinnet Company for the first ten years following the year in which the investment is made and 50% in years ten through fifteen following the year in which investment is made through the Credit Enhancement Agreement.

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

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

Notes to Financial Statements

June 30, 2007

NOTE 12 - TAX INCREMENT FINANCING DISTRICT - CONTINUED

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

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

NOTE 13 - CONTINGENT LIABILITIES

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

Other Contingent Liabilities - The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's management, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

NOTE 14 - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

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

The Capital Project Fund - Landfill Closure has been established to provide financial assurance for the closure and post closure care costs. As of June 30, 2007, the Landfill Closure Fund had a fund balance of \$868,676, 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, 2007. Actual cost may be higher due to inflation, changes in technology, and changes in laws or regulations.

Notes to Financial Statements

June 30, 2007

NOTE 15 - 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, 2007.

NOTE 16 - RESTATEMENT OF BEGINNING FUND BALANCE/NET ASSETS

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Fund balance, beginning of year, as previously stated:	\$ 7,012,582	\$ 4,296,403
Decrease due to a difference in the valuation of the due to/due from accounts recorded in the general ledger and what was actually paid or received.	(55,007)	
Decrease due to reclassification of funds between special revenue and trust and agency.		(31,911)
Fund balance, beginning of year, as restated	<u>\$ 6,957,575</u>	<u>\$ 4,264,492</u>

The following discloses the restatement of government wide net assets as of the beginning of the fiscal year:

Net assets, beginning of year, as previously stated:	\$ 18,711,501
Decrease due to a difference in the valuation of the due to/due from accounts recorded in the general ledger and what was actually paid or received.	(55,007)
Decrease due to reclassification of funds between special revenue and trust and agency.	(31,911)
Decrease due to cumulative error in the valuation of capital assets which included state owned roads.	(352,570)
Net assets, beginning of year, as restated	<u>\$ 18,272,013</u>

macdonaldpage & co LLC

Certified Public Accountants and Management Advisors

Independent Auditors' Report on Additional Information

City Council
City of Waterville
Waterville, Maine

Our report on our audit of the basic financial statements of the City of Waterville as of and for the year ended June 30, 2007 appears on page 1. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Waterville's basic financial statements. The accompanying schedules on pages 36 through 43 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Macdonald Page & Co LLC

South Portland, Maine
December 31, 2007

**Special Revenue Funds
Combining Balance Sheet**

June 30, 2007

	400	410	730 Downtown Job	540	550	260	270		
	Community Development Program	TIF Projects Fund	Sinking Retention Fund	Recreation Fund	Airport Fund	Archives Clerk	Police Grants	School Funds	Total
ASSETS									
Accounts receivable					\$ 280				\$ 280
Investments							\$ 12,695		12,695
Due from other governments	\$ 708							\$ 368,788	369,496
Inventory								19,935	19,935
Interfund loans receivable	369,156	\$ 368,755		\$ 47,956		\$ 4,828		821,351	1,612,046
Total Assets	\$ 369,864	\$ 368,755	\$ -	\$ 47,956	\$ 280	\$ 4,828	\$ 12,695	\$ 1,210,074	\$ 2,014,452
LIABILITIES AND FUND BALANCES									
Liabilities:									
Deferred revenues								\$ 269,801	\$ 269,801
Interfund loans payable			\$ 34,376		\$ 136,510		\$ 92,201		263,087
Total Liabilities			34,376		136,510		92,201	269,801	532,888
Fund Balances (Deficit):									
Reserved for inventory								19,935	19,935
Unreserved:									
Undesignated	\$ 369,864	\$ 368,755	(34,376)	\$ 47,956	(136,230)	\$ 4,828	(79,506)	920,338	1,461,629
Total Fund Balances (Deficit)	369,864	368,755	(34,376)	47,956	(136,230)	4,828	(79,506)	940,273	1,481,564
Total Liabilities and Fund Balances	\$ 369,864	\$ 368,755	\$ -	\$ 47,956	\$ 280	\$ 4,828	\$ 12,695	\$ 1,210,074	\$ 2,014,452

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

Year Ended June 30, 2007

	400	410	730	540	550	260	270			
	Community Development Program	TIF Projects Fund	Downtown Job Sinking Retention Fund	Recreation Fund	Airport Fund	Archives Clerk	Police Grants	School Funds	Total	
Revenues:										
Federal programs							\$ 9,926	\$ 2,658,194	\$ 2,668,120	
State programs	402,392							185,185	185,185	
Local programs	402,392							181,645	181,645	
Charges for services				\$ 63,705	\$ 10,097	\$ 15,470		332,061	421,333	
Unclassified				63,705	10,097	15,470	67,382	3,357,085	469,774	
Total Revenues	<u>402,392</u>			<u>63,705</u>	<u>10,097</u>	<u>15,470</u>	<u>77,308</u>	<u>3,357,085</u>	<u>3,926,057</u>	
Expenditures:										
Community services	25,093								25,093	
Recreation				60,300					60,300	
Police							49,828		49,828	
Education								2,116,269	2,116,269	
Adult education								333,462	333,462	
Food services								891,148	891,148	
TIF projects		\$ 532,340							532,340	
Debt service		145,513							145,513	
Unclassified			\$ 9,556						9,556	
Total Expenditures	<u>25,093</u>	<u>677,853</u>	<u>9,556</u>	<u>60,300</u>	<u>66,672</u>	<u>11,502</u>	<u>49,828</u>	<u>3,340,879</u>	<u>4,241,683</u>	
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>377,299</u>	<u>(677,853)</u>	<u>(9,556)</u>	<u>3,405</u>	<u>(56,575)</u>	<u>3,968</u>	<u>27,480</u>	<u>16,206</u>	<u>(315,626)</u>	
Other Financing Sources:										
Transfers in		766,835			172,465				939,300	
Transfers out		766,835			172,465				939,300	
Net Change in Fund Balances	<u>377,299</u>	<u>88,982</u>	<u>(9,556)</u>	<u>3,405</u>	<u>115,890</u>	<u>3,968</u>	<u>27,480</u>	<u>16,206</u>	<u>623,674</u>	
Fund Balances (Deficit), Beginning of Year (Restated)	<u>(7,435)</u>	<u>279,773</u>	<u>\$ (24,820)</u>	<u>44,551</u>	<u>(252,120)</u>	<u>860</u>	<u>(106,986)</u>	<u>924,067</u>	<u>857,890</u>	
Fund Balances (Deficit), End of Year	<u>\$ 369,864</u>	<u>\$ 368,755</u>	<u>\$ (34,376)</u>	<u>\$ 47,956</u>	<u>\$ (136,230)</u>	<u>\$ 4,828</u>	<u>\$ (79,506)</u>	<u>\$ 940,273</u>	<u>\$ 1,481,564</u>	

See accompanying independent auditors' report on additional information.

**Capital Projects
Combining Balance Sheet**

June 30, 2007

ASSETS

Accounts receivable	\$ 1,645,240
Interfund loans receivable	<u>1,313,210</u>
Total Assets	<u>\$ 2,958,450</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$ 559,644
Interfund loans payable	<u>13,092</u>
Total Liabilities	<u>572,736</u>

Fund Balances:

Reserved	2,054,011
Unreserved:	
Designated	158,658
Undesignated	<u>173,045</u>
Total Fund Balances	<u>2,385,714</u>

Total Liabilities and Fund Balances	<u>\$ 2,958,450</u>
--	----------------------------

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

Year Ended June 30, 2007

	Balance June 30, 2006	Inter- Governmental and Miscellaneous Revenue	Bond Issue	Expenditures	Operating Transfer In (Out)	Balance June 30, 2007
School						
Jr. High Air Quality II	\$ 22,088					\$ 22,088
Albert Hall Air	5,023					5,023
George Mitchell Athletic Field	4,481					4,481
School Revolving Renovation Fund	(43,784)					(43,784)
Central Office Facility	(900)					(900)
Municipal						
1997 Bond Issue	(55,702)				\$ 55,702	
1998 Bond Issue	(41,303)				41,303	
2000/2001 Bond Issue	31,151				(31,151)	
2002 Adj Council Order	(200,000)				200,000	
Bond Proceeds	52,002				(52,002)	
Fire Station	(292,595)				315,000	22,405
Soccer Field	1,935				(1,935)	
City Hall Improvements	(119,646)	\$ 38,292		\$ 11,930	147,500	54,216
Topographic Map Update	(15,849)			17,119	41,000	8,032
Muskie Roof	(77,384)				75,000	(2,384)
Records Management	(5,699)				50,000	44,301
Voting Machines	30,000					30,000
Recodify Ordinances	15,000					15,000
City Hall Boiler	(84,028)			43,125	70,036	(57,117)
Downtown Lights	(38,607)				35,500	(3,107)
Fuel Island	1,827					1,827
Silver Street Project	(81,537)				80,000	(1,537)
Public Works Equipment	(14,049)			98,890	248,173	135,234
Fire Engine	(100,000)	20,000			60,000	(20,000)
Waterfront Project	611,462			10,393		601,069
Police/Fire Study	(12,677)	20,435		7,438		320
North Street Connector Trail	(32,919)	33,220		14,845		(14,544)
Two Cent Bridge	(57,622)				57,622	
Other	(51,659)	17			51,660	18
Unallocated	15,268	6,499			184,352	206,119
Gilman Street	4,851				(4,851)	
Balances - Forward	(530,872)	118,463		203,740	1,622,909	1,006,760

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

Year Ended June 30, 2007

	Balance June 30, 2006	Inter- Governmental and Miscellaneous Revenue	Bond Issue	Expenditures	Operating Transfer In (Out)	Balance June 30, 2007
Balances - Forwarded	\$ (530,872)	\$ 118,463	\$ -	\$ 203,740	\$ 1,622,909	\$ 1,006,760
Housing Rehabilitation	(7,373)					(7,373)
Public Works Salt/Shed	174,968					174,968
Fire Station Phase II	315,000				(315,000)	
Airport Apron	126,062	1,527,701		1,632,187		21,576
Recreational Courts	48,684			15,852		32,832
Pavement Management	1,452,876	508		776,911	(588,912)	87,561
Sidewalks - Downtown CDBG		135,047		158,957		(23,910)
Community Gateway		7,800				7,800
Airport Parking Apron		117,539		20,578		96,961
North Street Construction	(184,434)				184,434	
North Street Rec Trail		20,000		19,564		436
Main Street Project	110,290				(110,290)	
Main Street Revitalization					50,000	50,000
Silver Street Project				1,900		(1,900)
Silver Street Community Enterprise				1,401		(1,401)
Accounting System				136,702	140,000	3,298
Landfill	894,676				(26,000)	868,676
Armory Road	(21,954)				21,954	
Elm Street Project	(70,795)				70,795	
South End Project	88,976				(88,976)	
Granite Sign	(8,337)				8,337	
North Street Project	27,897				(27,897)	
DOT RD Reimbursement	44,012				(44,012)	
Community Enterprise	10				(10)	
Community Outreach	(1,962)				1,962	
Misc Rev.	38,333				(38,333)	
Mayflower Hill	2,526				(2,526)	
Airport Purchase	(75,000)				75,000	
Airport Capital Improvement Fund		65,100		20	4,350	69,430
Other	167,000				(167,000)	
Infrastructure IT	1,000				(1,000)	
Colby College	60,000				(60,000)	
Capital Improvement Reserve Fund	723,330				(723,330)	
Totals	<u>\$ 3,374,913</u>	<u>\$ 1,992,158</u>	<u>\$ -</u>	<u>\$ 2,967,812</u>	<u>\$ (13,545)</u>	<u>\$ 2,385,714</u>

Permanent Funds Balance Sheet

June 30, 2007

ASSETS

Investments	<u>\$ 1,060,183</u>
Total Assets	<u><u>\$ 1,060,183</u></u>

LIABILITIES AND FUND BALANCES

Liabilities:

Interfund loans payable	<u>\$ 33,953</u>
Total Liabilities	<u>33,953</u>

Fund Balances:

Reserved for nonexpendable principal	225,000
Unreserved	<u>801,230</u>
Total Fund Balances	<u>1,026,230</u>

Total Liabilities and Fund Balances	<u><u>\$ 1,060,183</u></u>
--	----------------------------

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

Year Ended June 30, 2007

	Fund Balances Beginning of Year		Contributions and Gifts	Investment Income	Expenditures	Fund Balances End of Year	
	Principal	Unexpended Income				Principal	Unexpended Income
City Funds:							
Haines Charity	\$ 100,000	\$ 405,377		\$ 79,387	\$ 16,380	\$ 100,000	\$ 468,384
Frank Champlin Teachers Fund	100,000	243,785		38,119	2,327	100,000	279,577
Sarah Pray Fund		1,403		89	4		1,488
Mildred Pray Ware fund	5,000	43,946		3,132	1,842	5,000	45,236
Violet Smith Fund		1,002		61	3		1,060
Marr Charity		(370)		68	1,502		(1,804)
Boothby Fountain		160		10			170
"470" Engine Fund		606		139	8		737
Mary Warren Fund	10,000	1,283		705	389	10,000	1,599
George Mitchell Fund	10,000	3,973		858	48	10,000	4,783
Total City Funds	\$ 225,000	\$ 701,165		\$ 122,568	\$ 22,503	\$ 225,000	\$ 801,230

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

For the Year Ended June 30, 2007

	Balances Beginning of Year	Additions	Deductions	Balances End of Year
Private Purpose Trust Funds:				
Buford Grant Scholarship	\$ 16,474	\$ 917	\$ 500	\$ 16,891
W. A. Donovan Fund	3,690	165	500	3,355
Wentworth Fund	21,131	1,169	1,500	20,800
Flora Harriman Small Fund	61,977	3,713	1,000	64,690
Gladys Briggs Walker Fund	9,232	501	495	9,238
Tina Thompson Poulin Drama Fund	6,480	341		6,821
Rene Plante Scholarship	4,085	301		4,386
Myra Stearns	11,096	594	547	11,143
Faculty Gowns Account	1,866	85	22	1,929
Messalonskee Fish and Game	8,944	810	500	9,254
Track Resurfacing	9,924	4,688		14,612
Ron LaPlante Scholarship Fund		10,879	1,000	9,879
Janice H. & Cynthia V. Scholarship Fund	1,522	68		1,590
	<u>156,421</u>	<u>24,231</u>	<u>6,064</u>	<u>174,588</u>
Total Private Purpose Trust Funds	<u>\$ 156,421</u>	<u>\$ 24,231</u>	<u>\$ 6,064</u>	<u>\$ 174,588</u>