



**Financial Report**

**June 30, 2012**

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## Independent Auditors' Report

City Council  
City of Waterville  
Waterville, Maine

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waterville, Maine, as of and for the year ended June 30, 2012, 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, 2012, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2013 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.

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 2 through 8 and the schedule of funding progress on page 38, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in 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.

*Macpage LLC*

South Portland, Maine  
January 9, 2013

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## 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, 2012.

### FINANCIAL HIGHLIGHTS

- Total net assets for year ended June 30, 2012 are \$27,380,807. A portion of that amount, \$15,381,297, is a net investment in capital assets while the next largest portion, \$8,170,184 is unrestricted. Total net assets for the year ended June 30, 2011 were \$26,111,426. A portion of that amount, \$13,405,098, was a net investment in capital assets while the next largest portion, \$9,200,511 was unrestricted.
- Net assets increased by \$1,269,381 and \$118,627 for the years ended June 30, 2012 and 2011 respectively.
- The governmental funds reported combined fund balances of \$12,267,670, a decrease of \$7,099,538 from the prior year. The decrease in fund balance is primarily attributed to bond proceeds for construction projects received in the prior year and spent on construction projects finished in the current year.
- As of June 30, 2012, unassigned fund balance for the general fund was \$6,091,036 or 17% of the total general fund expenditures. The City's policy establishes a goal to maintain an unassigned fund balance of at least 18%.
- Bonds payable decreased to \$22,890,084 as compared to \$23,813,412 from the prior year as a result of regularly scheduled principal payments offset by new debt issued.

### 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, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The accrual basis of accounting is similar to the accounting method used by non-public businesses, in that, revenues and expenditures are recorded in the current year regardless of when the revenue is collected or paid out.

## Government-Wide Financial Statements

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

## Fund Financial Statements

- The Fund Financial Statements provide details of the City's most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, management establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. Examples of funds within the City's Financial Statements follow.
- *General Fund* – This is the primary operating fund for the City. Most of the City's basic services are reported in the general fund. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- *School Renovation Fund* – This is a major fund that accounts for Waterville High School Construction Renovation.
- *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 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 17-36 of this document.

## THE CITY AS A WHOLE

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

	Governmental Activities		Library	
	2012	2011	2012	2011
Current and other assets	<b>\$ 15,811,793</b>	\$ 22,566,753	<b>\$ 1,566,203</b>	\$ 1,997,456
Capital assets, net	<b>38,679,541</b>	31,516,702	<b>89,921</b>	
Total assets	<b>54,491,334</b>	54,083,455	<b>1,656,124</b>	1,997,456
Long-term debt outstanding	<b>24,028,376</b>	24,767,855		
Other liabilities	<b>3,082,151</b>	3,204,177	<b>6,041</b>	
Total liabilities	<b>27,110,527</b>	27,972,032	<b>6,041</b>	
Net assets:				
Invested in:				
Capital assets	<b>15,381,297</b>	13,405,098		
Restricted	<b>3,829,326</b>	3,505,814		526,539
Unrestricted	<b>8,170,184</b>	9,200,511	<b>1,650,083</b>	1,470,917
Total net assets	<b>\$ 27,380,807</b>	\$ 26,111,423	<b>\$ 1,650,083</b>	\$ 1,997,456

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 2012 as significant investment in capital assets at the schools 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 assets reflects its investment in capital assets less any related debt to acquire those assets still outstanding. There were bonds issued in the current year for School renovations in the amount of \$1.4 million. Detail of the activity of capital assets and long-term debt can be found in the notes to the financial statements.

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

	Governmental Activities		Library	
	2012	2011	2012	2011
<b>Program Revenues:</b>				
Charges for services	\$ 3,228,788	\$ 2,865,216	\$ 22,474	\$ 16,623
Operating grants and contributions	17,512,525	17,799,329	403,393	1,030,588
Capital grants and contributions	1,636,642	572,031		
	<u>22,377,955</u>	<u>21,236,576</u>	<u>425,867</u>	<u>1,047,211</u>
<b>General Revenues:</b>				
Property and other taxes	17,399,582	16,259,984		
Licenses, permits and fees	309,206	335,186		
Grants and contributions not restricted to specific programs	2,228,167	2,136,284		
Investment earnings (loss)	102,735	236,112	(77,849)	209,517
Unclassified	263,780	581,392		
Gain on disposition of capital assets		13,484		
	<u>20,303,470</u>	<u>19,562,442</u>	<u>(77,849)</u>	<u>209,517</u>
<b>Total Revenues</b>	<u>42,681,425</u>	<u>40,799,018</u>	<u>348,018</u>	<u>1,256,728</u>
<b>Program Expenses:</b>				
General government	3,068,234	2,981,539		
Public works	4,265,644	4,148,198		
Public safety	5,461,856	5,068,343		
Parks, recreation, and culture	669,298	659,644		
Health and welfare	292,846	281,692		
Education	24,655,586	24,999,726		
Program expenditures	606,922	437,900		
TIF projects	1,105,394	359,110		
Unclassified	744,246	971,096		
Capital outlay	141,985	250,419		
Interest on debt	400,033	522,724		
Library expenses			695,391	1,176,269
<b>Total Expenses</b>	<u>41,412,044</u>	<u>40,680,391</u>	<u>695,391</u>	<u>1,176,269</u>
<b>Change in Net Assets</b>	<b>1,269,381</b>	<b>118,627</b>	<b>(347,373)</b>	<b>80,459</b>
<b>Net Assets, Beginning of Year</b>	<u>26,111,426</u>	<u>25,992,796</u>	<u>1,997,456</u>	<u>1,916,997</u>
<b>Net Assets, End of Year</b>	<u>\$ 27,380,807</u>	<u>\$ 26,111,423</u>	<u>\$ 1,650,083</u>	<u>\$ 1,997,456</u>

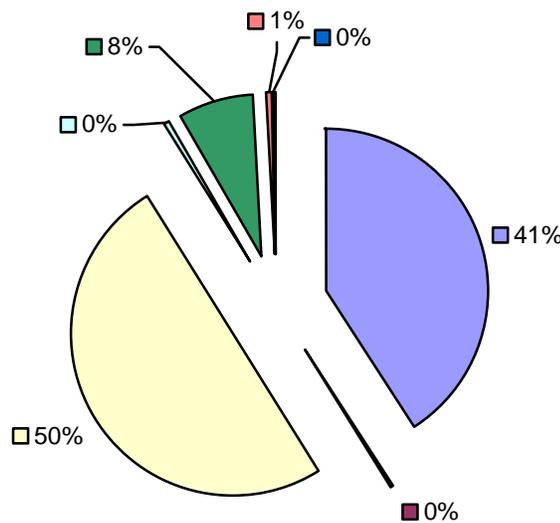
The cost of all governmental activities this year was \$41,412,044, which represents an increase of \$731,653. Of this amount, Waterville taxpayers financed \$17,399,582 through property, personal and excise taxes. Municipal and educational departments have continued to aggressively pursue grant revenue 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

### 2012 Statement of Activities Revenues All Funds

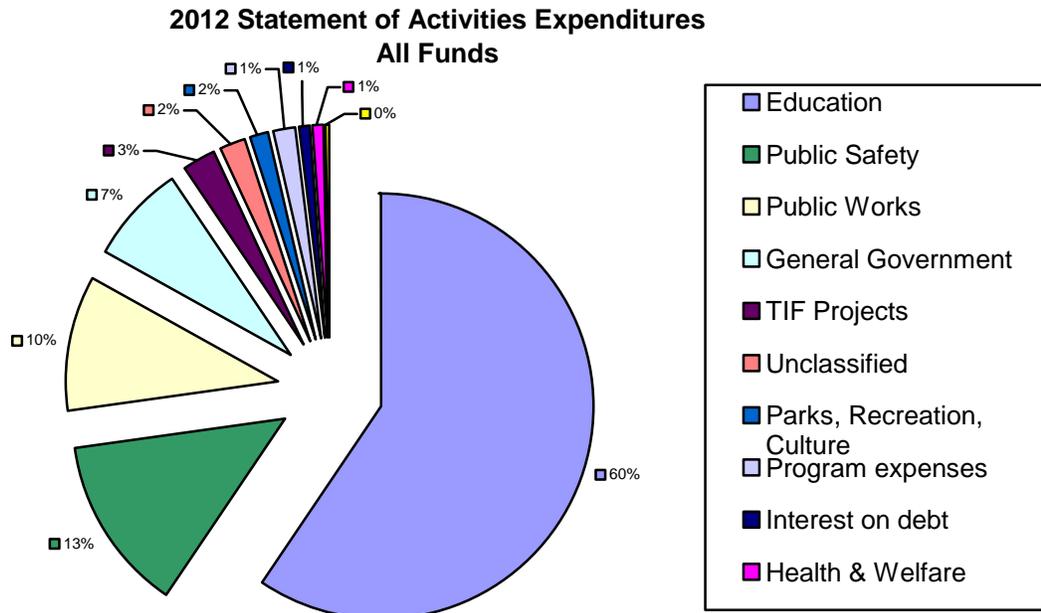


<span style="color: blue;">■</span> Taxes	<span style="color: maroon;">■</span> Licenses and Permits	<span style="color: yellow;">■</span> Intergovernmental	<span style="color: lightblue;">■</span> Fees and Fines
<span style="color: green;">■</span> Charges for Service	<span style="color: red;">■</span> Unclassified	<span style="color: blue;">■</span> 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
Charges for service	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



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 \$36,049,859, which includes \$1,562,999 of budgeted use of fund balance, and actual revenues were \$34,356,247, resulting in a negative variance of \$1,693,612. Excluding the amount of budgeted use of fund balance the variance for revenues was a negative \$130,613. Total budgeted expenditures were \$36,049,859 and actual expenditures were \$35,083,605, resulting in a positive variance of \$966,254. For the year the general fund had a decrease in fund balance of \$727,358.

The City continues to meet its responsibilities for sound financial management. This year the City exceeds a fund balance percentage range preferred by bond rating agencies such as Moody's and Standard & Poor's. Carefully monitoring expenditures, finding non-tax sources of revenue, and setting a debt repayment ceiling have all helped in establishing a favorable fund balance. Having the fund balance at an appropriate level is important when the City goes to bond. The rating agencies also prefer a fund balance that will cover two months of actual appropriations. The City actually can cover about two and a half months. The residents of the City 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 1.1% in Fiscal Year Ending June 30, 2012. Residential valuation increased \$4.8 million or .8% while Personal Property decreased \$2.5 million or 3.7%.

The unemployment rate for Waterville at fiscal year-end was an estimated 7.9% which was the same as the prior year. The rate is above the estimated State average of 7.3% but below the estimated National rate of 8.5%. These figures are from the Maine Center for Workforce Research and Information web site.

The 2012/2013 budget adopted by the City Council resulted in a 1.0 mill increase in the mill rate from the 2011/2012 to 25.65mills. For the 2011/2012 budget year, which is the year this audit covers, the mill rate was 24.65 mills.

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

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

## Statement of Net Assets

June 30, 2012

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Library</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 10,002,192	
Investments	2,897,193	\$ 1,555,114
Receivables:		
Taxes receivable	1,430,084	
Tax liens	15,367	
Other receivables	324,126	11,089
Intergovernmental	998,541	
Inventory	144,290	
Capital assets, net	<u>38,679,541</u>	<u>89,921</u>
<b>Total Assets</b>	<u>54,491,334</u>	<u>1,656,124</u>
<b>LIABILITIES</b>		
Accounts payable	569,134	187
Cash overdraft		5,854
Deferred revenues	791,476	
Accrued wages and benefits payable	1,296,592	
Taxes received in advance	11,052	
Accrued interest	221,301	
Accrued compensated absences	70,773	
Due to agency fund	121,823	
Noncurrent liabilities:		
Due within one year	1,690,827	
Due in more than one year	21,703,769	
Other postemployment benefits liability	260,133	
Accrued compensated absences	<u>373,647</u>	
<b>Total Liabilities</b>	<u>27,110,527</u>	<u>6,041</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	15,381,297	
Restricted for:		
Nonexpendable trust principal	228,800	
Expendable for trust designated uses	793,882	
Tax Incentive Financing (TIF) District	1,123,356	
Work in Process Capital Projects	960,025	
Other purposes	723,263	
Unrestricted	<u>8,170,184</u>	<u>1,650,083</u>
<b>Total Net Assets</b>	<u>\$ 27,380,807</u>	<u>\$ 1,650,083</u>

See independent auditors' report.

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

## Statement of Activities

Year Ended June 30, 2012

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
<b>Primary Government:</b>						
Governmental Activities:						
Mayor	\$ 19,503				\$ (19,503)	
Administration	1,542,949	\$ 36			(1,542,913)	
Assessor	149,714				(149,714)	
Information services	440,991	27,103			(413,888)	
Finance department	341,511	34,105			(307,406)	
City clerk	164,947	56,491			(108,456)	
Planning department	80,889	800			(80,089)	
Economic development	327,730		\$ 184,245		(143,485)	
Public works	4,265,644	198,590	240,260		(3,826,794)	
Parks, recreation and culture	669,298	131,390	34,314		(503,594)	
Police	2,744,336	156,679	53,936		(2,533,721)	
Communication center	468,856	126,374			(342,482)	
Fire	2,165,764	51,275	25,000		(2,089,489)	
Code enforcement	82,900				(82,900)	
Health and welfare	292,846		65,432		(227,414)	
Airport	592,924	488,068			(104,856)	
Unclassified	744,246		245,715		(498,531)	
Program expenses	13,998				(13,998)	
TIF projects	1,105,394				(1,105,394)	
Education	24,655,586	1,957,877	16,663,623	\$ 753,427	(5,280,659)	
Capital outlay recaptured	141,985			883,215	741,230	
Interest on debt	400,033				(400,033)	
<b>Total Governmental Activities</b>	<b>\$ 41,412,044</b>	<b>\$ 3,228,788</b>	<b>\$ 17,512,525</b>	<b>\$ 1,636,642</b>	<b>(19,034,089)</b>	
<b>Component Unit:</b>						
Library	\$ 695,391	\$ 22,474	\$ 403,393			\$ (269,524)
General revenues:						
Property taxes					15,913,494	
Excise taxes					1,486,088	
Licenses and permits					116,408	
Franchise fees					185,628	
Fees and fines					7,170	
Grants and contributions not restricted to specific programs:						
State revenue sharing					1,713,400	
Homestead exemption					257,787	
BETE Reimbursement					256,980	
Investment earnings (loss)					102,735	(77,849)
Unclassified					263,780	
Total general revenues					20,303,470	(77,849)
Change in net assets					1,269,381	(347,373)
Net assets - beginning of year					26,111,426	1,997,456
Net assets - end of year					\$ 27,380,807	\$ 1,650,083

See independent auditors' report.

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

## Balance Sheet Governmental Funds

June 30, 2012

	General	School Renovation Fund	Other Governmental Funds	Total
<b>ASSETS</b>				
Cash	\$ 9,933,059	\$ 61,840	\$ 7,293	\$ 10,002,192
Investments	1,853,973		1,043,220	2,897,193
Receivables:				
Taxes receivable	1,430,084			1,430,084
Tax liens	15,367			15,367
Other receivables	76,117		248,009	324,126
Intergovernmental	25,805		972,736	998,541
Interfund loans receivable	190,549		3,154,908	3,345,457
Inventory	73,063		71,227	144,290
<b>Total Assets</b>	<u>\$ 13,598,017</u>	<u>\$ 61,840</u>	<u>\$ 5,497,393</u>	<u>\$ 19,157,250</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 358,346		\$ 210,788	\$ 569,134
Accrued wages and benefits payable	1,294,470		2,122	1,296,592
Accrued compensated absences	70,773			70,773
Deferred revenue	750,474		724,275	1,474,749
Taxes received in advance	11,052			11,052
Due to agency fund	121,823			121,823
Interfund loans payable	2,759,355	\$ 471,833	114,269	3,345,457
<b>Total Liabilities</b>	<u>5,366,293</u>	<u>471,833</u>	<u>1,051,454</u>	<u>6,889,580</u>
<b>Fund Balances:</b>				
Nonspendable for inventory	73,063		71,227	144,290
Nonspendable for trusts			228,800	228,800
Restricted for trusts			793,882	793,882
Restricted for special revenue funds			1,846,619	1,846,619
Restricted for capital projects			960,025	960,025
General Fund - assigned for subsequent year budget	1,500,000			1,500,000
General Fund - unassigned	6,091,036			6,091,036
General Fund - restricted for education	567,625			567,625
Special Revenues - committed			132,159	132,159
Special Revenues - unassigned			(105,324)	(105,324)
Capital Projects - committed			396,782	396,782
Capital Projects - assigned			156,007	156,007
Capital Project - unassigned		(409,993)	(34,238)	(444,231)
<b>Total Fund Balances (Deficit)</b>	<u>8,231,724</u>	<u>(409,993)</u>	<u>4,445,939</u>	<u>12,267,670</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 13,598,017</u>	<u>\$ 61,840</u>	<u>\$ 5,497,393</u>	
<b>Reconciliation of Fund Balances to Net Assets:</b>				
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.				38,679,541
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.				683,273
Long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds.				
Accrued compensated absences				(373,647)
Accrued interest				(221,301)
Landfill closure liability				(96,352)
Capital leases payable				(408,160)
Other postemployment benefits liability				(260,133)
Bonds payable				(22,890,084)
<b>Net Assets of Governmental Activities</b>				<u>\$ 27,380,807</u>

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

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

Year Ended June 30, 2012

	General	School Renovation Fund	Other Governmental Funds	Total
<b>Revenues:</b>				
Taxes	\$ 16,943,352			\$ 16,943,352
Licenses and permits	116,408			116,408
Intergovernmental	15,637,940	\$ 750,000	\$ 4,338,072	20,726,012
Tuition and other charges - Education	1,739,023	3,427	219,769	1,962,219
Charges for services - City	513,739		605,928	1,119,667
Fees and fines	7,170			7,170
Unclassified	869,015		378,682	1,247,697
Investment earnings	74,990		27,680	102,670
<b>Total Revenues</b>	<u>35,901,637</u>	<u>753,427</u>	<u>5,570,131</u>	<u>42,225,195</u>
<b>Expenditures:</b>				
Current:				
Mayor	19,503			19,503
Administration	1,363,714			1,363,714
Assessor	141,812			141,812
Information services	380,903			380,903
Finance department	341,511			341,511
City Clerk	162,745			162,745
Planning department	80,889			80,889
Economic development	94,915			94,915
Public works	3,661,712			3,661,712
Parks, recreation and culture	440,815		69,232	510,047
Police	2,611,116		54,487	2,665,603
Communication center	468,856			468,856
Fire	1,936,516			1,936,516
Code enforcement	82,900			82,900
Health and welfare	292,846			292,846
Airport			427,625	427,625
Education	21,039,358		3,672,984	24,712,342
County tax	716,887			716,887
Unclassified	27,359		246,813	274,172
TIF projects			1,105,394	1,105,394
Capital outlay		7,314,688	2,685,079	9,999,767
Debt service (excluding education portion)	1,261,025			1,261,025
<b>Total Expenditures</b>	<u>35,125,382</u>	<u>7,314,688</u>	<u>8,261,614</u>	<u>50,701,684</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>776,255</u>	<u>(6,561,261)</u>	<u>(2,691,483)</u>	<u>(8,476,489)</u>
<b>Other Financing Sources (Uses):</b>				
Bond proceeds		1,443,859		1,443,859
Funds returned to State of Maine			(66,908)	(66,908)
Transfers in	61,610	301,653	1,865,223	2,228,486
Transfers out	(1,565,223)		(663,263)	(2,228,486)
<b>Total Other Financing Sources (Uses)</b>	<u>(1,503,613)</u>	<u>1,745,512</u>	<u>1,135,052</u>	<u>1,376,951</u>
<b>Net Change in Fund Balances</b>	<u>(727,358)</u>	<u>(4,815,749)</u>	<u>(1,556,431)</u>	<u>(7,099,538)</u>
<b>Fund Balances, Beginning of Year</b>	<u>8,959,082</u>	<u>4,405,756</u>	<u>6,002,370</u>	<u>19,367,208</u>
<b>Fund Balances, End of Year (Deficit)</b>	<u>\$ 8,231,724</u>	<u>\$ (409,993)</u>	<u>\$ 4,445,939</u>	<u>\$ 12,267,670</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, 2012**

Net change in fund balances - total governmental funds	\$ (7,099,538)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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 (\$9,857,782) exceeded depreciation expense (\$2,694,944) in the current period.</p>	
	7,162,838
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This represents the increase in accrued compensated absences (\$3,826), the increase in OPEB liability (\$73,570) and the decrease in accrued interest (\$10,372).</p>	
	(67,024)
<p>Capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets (\$224,083). 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 (\$117,630).</p>	
	(106,453)
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., property taxes) differ between the two statements. This amount represents the net change in deferred revenue.</p>	
	456,230
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets (\$1,443,859). Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets (\$1,746,395) as does debt forgiven (\$620,792).</p>	
	<u>923,328</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 1,269,381</u></u>

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

Year Ended June 30, 2012

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 16,992,618	\$ 16,992,618	\$ 16,943,352	\$ (49,266)
Licenses and permits	110,700	110,700	116,408	5,708
Intergovernmental	14,226,202	14,226,202	14,030,940	(195,262)
Tuition and other charges for services - Education	1,714,000	1,714,000	1,739,023	25,023
Charges for services - City	508,120	508,120	513,739	5,619
Fees and fines	3,150	3,150	7,170	4,020
Unclassified	730,460	730,460	869,015	138,555
Investment earnings	140,000	140,000	74,990	(65,010)
Transfers in	61,610	61,610	61,610	
Budgeted use of fund balance	1,562,999	1,562,999		(1,562,999)
<b>Total Revenues</b>	<u>36,049,859</u>	<u>36,049,859</u>	<u>34,356,247</u>	<u>(1,693,612)</u>
<b>Expenditures</b>				
Mayor	19,600	19,600	19,503	97
Administration	1,501,550	1,501,550	1,363,714	137,836
Assessor	150,890	150,890	141,812	9,078
Information services	404,370	404,370	380,903	23,467
Finance department	358,100	358,100	341,511	16,589
City Clerk	156,535	156,535	162,745	(6,210)
Planning department	84,600	84,600	80,889	3,711
Economic development	96,390	96,390	94,915	1,475
Public works	3,982,915	3,982,915	3,661,712	321,203
Parks, culture and recreation	448,270	448,270	440,815	7,455
Police	2,642,430	2,642,430	2,611,116	31,314
Communication center	453,580	453,580	468,856	(15,276)
Fire	1,903,870	1,903,870	1,936,516	(32,646)
Code enforcement	83,615	83,615	82,900	715
Health and welfare	297,395	297,395	292,846	4,549
Education	19,867,044	19,867,044	19,432,358	434,686
County tax	750,000	750,000	716,887	33,113
Unclassified	51,100	51,100	27,359	23,741
Debt service (excluding education portion)	1,403,925	1,403,925	1,261,025	142,900
Transfers out	1,393,680	1,393,680	1,565,223	(171,543)
<b>Total Expenditures</b>	<u>36,049,859</u>	<u>36,049,859</u>	<u>35,083,605</u>	<u>966,254</u>
<b>Excess of Expenditures over Revenues</b>	<u>\$ -</u>	<u>\$ -</u>	(727,358)	<u>\$ (727,358)</u>
<b>Fund Balance, Beginning of Year</b>			<u>8,959,082</u>	
<b>Fund Balance, End of Year</b>			<u>\$ 8,231,724</u>	

See independent auditors' report.

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

**Statement of Fiduciary Net Assets  
Fiduciary Funds**

June 30, 2012

	<b>Private- Purpose Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents		\$ 270,010
Investments	\$ 204,632	74,438
Accounts receivable		131,532
Due from other funds		121,823
	<hr/>	<hr/>
<b>Total Assets</b>	<b><u>\$ 204,632</u></b>	<b><u>\$ 597,803</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Due to student groups		\$ 344,448
Amount held for others		253,355
		<hr/>
<b>Total Liabilities</b>		<b><u>\$ 597,803</u></b>
 <b>Net Assets</b>		
Held in trust	<b><u>\$ 204,632</u></b>	

## Statement of Changes in Fiduciary Net Assets Fiduciary Funds

Year Ended June 30, 2012

	<b>Private- Purpose Trust Funds</b>
Investment Income and Donations	\$ 17,686
Scholarships and Related Expenses	<u>4,400</u>
Change in Net Assets	13,286
Net Assets, Beginning of Year	<u>191,346</u>
Net Assets, End of Year	<u><u>\$ 204,632</u></u>

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

## Notes to Financial Statements

June 30, 2012

### 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 Core 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 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 of Waterville. Decisions made by the Disposal Corporation Board are subject to the approval of the City of Waterville. The Disposal Corporation Board functions solely as a steering committee and does not control any financial resources of the landfill or transfer facility. All of the financial activity of the landfill and transfer facility are reported in Public Works in the General Fund of the City and is controlled by the Waterville City Council.

#### **Robert H. Lafleur Airport**

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

## Notes to Financial Statements

June 30, 2012

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Waterville Public Library

Waterville Public Library has a separate Board appointed by the City. The City also funds approximately \$400,000 of the Library's annual expenditures. 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 2012, the City of Waterville contributed \$76,525. Complete financial statements may be obtained from Kennebec Regional Development Authority/FirstPark at P.O. Box 246, Oakland, ME 04963.

#### Government-Wide and Fund Financial Statements

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

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

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

#### 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.

## Notes to Financial Statements

June 30, 2012

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Measurement Focus, Basis of Accounting and Basis of Presentation – Continued

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.

The School Renovation fund accounts for the Waterville Public High School construction renovation.

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 includes amounts in demand deposits as well as short-term investments with an initial maturity date within three months or less. State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S Agencies, commercial paper, corporate bonds and repurchase agreements and certain corporate stocks and bonds. Cash equivalents include certificates of deposits with a longer maturity.

Investments are stated at fair value.

## Notes to Financial Statements

June 30, 2012

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Interfund Receivables/Payables

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

#### Inventories

Inventories are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. The costs of governmental fund-type inventories are generally recorded as expenditures when consumed rather than when purchased. Some items in the special revenue fund have been recorded as assets and the related fund balances are reserved for these amounts because these "inventories" do not constitute expendable available financial resources.

#### Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost, or estimated historical cost when historical cost information is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

For City roads and other infrastructure, maintenance is defined as repairs that are regularly scheduled and are normal for that type of road surface. These costs are generally expensed, even though the cost may exceed the capitalization threshold. However, if the road is "improved" or "rebuilt" by straightening curves, upgrading the surface type, replacing low water crossings, digging up old pavement down to the road base or any other major change, it must be capitalized and depreciated if it exceeds the threshold of \$50,000 (fifty thousand dollars) and adds to the life or capacity of the road or infrastructure.

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

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

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

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

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

## Notes to Financial Statements

June 30, 2012

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Compensated Absences

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

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

<b>Nonspendable fund balance</b>	Nonspendable fund balance represent fund balance amounts that are not in spendable form, such as inventories.
<b>Restricted</b>	Restricted by State or Federal statute as a portion of fund balance such as TIF Fund commitments.  The City also considers amounts as restricted that are from Private or Public Grants. Any matching amounts are also considered Restricted as they cannot be withdrawn due to the outside parties' involvement and commitment.
<b>Committed</b>	Committed is that portion of fund balance that has been approved by the highest level of formal action of the City Council by adoption of a resolution, and remains binding unless removed in the same manner. An example of Committed Funds would be amounts for City initiated only projects or activities in the Recreation and Capital Funds.
<b>Assigned</b>	Assigned is the portion of fund balance that has been approved by formal action of the City Council for appropriation in future budgets. The amounts are not for a highly specified purpose and their use has some discretion by the administration. Special Revenue balances that do not meet the above categories are considered assigned.

## Notes to Financial Statements

June 30, 2012

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Fund Balances – Continued

##### Unassigned

Fund balance that has not been reported in any other classification. Note that in all governmental funds other than the general fund, amounts expended in excess of resources that do not meet the above categories are classified here – i.e. residual deficits.

The City's fund balance policy establishes that an amount equal to at least 16% 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 16% minimum, if any. Use of those undesignated fund balance funds should be dedicated to projects in the capital improvement program or other unanticipated one-time expenses. The Council may vote to establish certain reserve accounts from the undesignated fund balance for the purpose of funding specific capital improvement needs in the future and may, by a two-thirds (2/3) vote, decide to expend or to reserve amounts greater than that listed above based on the immediate or long-term needs of the City.

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

#### Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

#### Use of Estimates

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

#### Recent Accounting Pronouncements

In November 2010, the GASB issued GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". This statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. It applies to financial reporting by primary governments and other stand-alone governments, and to the separately issued financial statements of governmental component units as defined in GASB Statement No. 14. The new statement is effective for financial statement periods beginning after June 15, 2012. The City is currently assessing the impact of this statement on its financial statements.

## Notes to Financial Statements

June 30, 2012

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Recent Accounting Pronouncements – Continued

In June 2011, the GASB issued GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". This statement will require amounts reported as deferred outflows and inflows of resources to be reported in a separate section following assets and liabilities, respectively, in a new statement of net position. The new statement is effective for periods beginning after December 15, 2011. The City is currently assessing the impact of this statement on its financial statements.

In March 2012, the GASB issued GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities". This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. The new statement is effective for periods beginning after December 15, 2012. The City is currently assessing the impact of this statement on its financial statements.

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

### NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### Budgets

Each year the City Manager submits to the City Council a budget for the ensuing fiscal year and an accompanying message. The City Manager's message explains the budget both in fiscal terms and in terms of the work programs. It outlines the proposed financial policies of the City for the 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 City Manager deems desirable. It also describes the tax impact of the proposed budget. The City charter requires that the budget be submitted to the City Council no later than 90 days prior to the beginning of the new fiscal year.

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

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

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. For reporting under 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.

## Notes to Financial Statements

June 30, 2012

### NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – CONTINUED

#### Budgets – Continued

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

#### Deficit Fund Balances

The individual Special Revenue Funds carrying fund deficits as of June 30, 2012 are as follows:

Grant Fund	\$ 86,057
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The individual capital projects funds carrying fund deficits as of June 30, 2012 are as follows:

School Renovation Fund	\$ 409,993
Fire Department Equipment	25,000
Improve First Rangeway Intersection	28,450
Airport Master Plan - AP15	84
Airport Master Plan - AP16	110
Quarry Road Recreational Trails Program	8,455
Ticonic Bridge/Plaza Project Match	381
Police Department New Building	95,271
Snow Dump	2,989
Waterfront Plaza Project	8,272
Two Cent Foot Bridge	62,391

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

### NOTE 3 – CASH AND INVESTMENTS

#### Custodial Credit Risk – Deposits

##### Primary Government – City of Waterville

Custodial credit risk is that in event of a bank failure, the government's deposits may not be returned to it. The City has a policy whereby all deposits are to be insured by FDIC insurance or when the amount of deposit balances exceeds FDIC insurance the balance in excess of FDIC insurance must be collateralized. As of June 30, 2012, none of the City's bank balance of \$11,721,573 was exposed to custodial credit risk.

##### Component Unit – Waterville Public Library

Custodial credit risk is that in event of a bank failure, the government's deposits may not be returned to it. The Library does not have a policy for custodial credit risk. As of June 30, 2012, none of the Library's bank balance of \$38,881 was exposed to custodial credit risk.

## Notes to Financial Statements

June 30, 2012

### NOTE 3 – CASH AND INVESTMENTS – CONTINUED

#### Investments

##### Primary Government – City of Waterville

Maine statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. Agencies, commercial paper, repurchase agreements, and certain corporate stocks and bonds. As of June 30, 2012, 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	\$1,330,659	\$1,330,659			
U.S. Treasuries	320,881	183,039		\$137,842	
U.S. Agencies	530,706	108,745	\$ 421,961		
Common Stock	434,541				\$ 434,541
Mutual Bond Funds	280,406				280,406
Total Investments	<u>\$2,897,193</u>	<u>\$1,622,443</u>	<u>\$ 421,961</u>	<u>\$137,842</u>	<u>\$ 714,947</u>

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

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

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

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

## Notes to Financial Statements

June 30, 2012

### NOTE 3 – CASH AND INVESTMENTS – CONTINUED

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

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

#### Component Unit – Waterville Public Library

	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	No Maturity
Bonds	\$ 516,843	\$ 470,768	\$ 10,251	\$ 35,824	
Common Stock	553,699				\$ 553,699
Mutual Funds	444,664				444,664
Money Market, less than one year	39,908	39,908			
Total Investments	<u>\$ 1,555,114</u>	<u>\$ 510,676</u>	<u>\$ 10,251</u>	<u>\$ 35,824</u>	<u>\$ 998,363</u>

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

**Credit Risk** – The Library's investment policy allows investments to be comprised of stocks, mutual funds and investment grade bonds. As of June 30, 2012 the Library's investment in corporate bonds were rated between Baa3 and Aa3 by Moody's.

**Concentration of Credit Risk** – The Library limits investments to no more than 5% in any one issuer. As of June 30, 2012 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, 2011, 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 \$177,771 for the year ended June 30, 2012.

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, 2012

### NOTE 4 – PROPERTY TAX – CONTINUED

The following summarizes the levy as of and for the year ended June 30, 2012:

Assessed value	\$627,873,184
Tax rate (per \$1,000)	<u>24.65</u>
Commitment	<u>15,477,084</u>
Less:	
Abatements	50,234
Collections	<u>14,328,798</u>
	<u>14,379,032</u>
 Current year taxes receivable at end of year	 <u><u>\$ 1,098,052</u></u>
 Due date(s) - current year	 1/4 October 14, 2011 1/4 December 9, 2011 1/4 March 9, 2012 1/4 June 8, 2012
 Interest rate on delinquent taxes	 7.00%
Collection rate	92.58%
 Taxes receivable - current year	 \$ 1,098,052
Taxes receivable - prior years	<u>332,032</u>
Total taxes receivable	<u><u>\$ 1,430,084</u></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, 2012.

Capital asset activity for the City the year ended June 30, 2012 was as follows:

	Balance 6/30/2011	Adjustments	Increases	Decreases	Balance 6/30/2012
<b>Governmental Activities:</b>					
Capital assets not being depreciated:					
Land	\$ 1,685,335				\$ 1,685,335
Construction in progress	<u>2,684,010</u>		<u>\$2,435,132</u>	<u>\$2,277,532</u>	<u>2,841,610</u>
Total capital assets not being depreciated	<u>4,369,345</u>		<u>2,435,132</u>	<u>2,277,532</u>	<u>4,526,945</u>

## Notes to Financial Statements

June 30, 2012

### NOTE 5 – CAPITAL ASSETS – CONTINUED

	Balance 6/30/2011	Adjustments	Increases	Decreases	Balance 6/30/2012
Capital assets being depreciated:					
Buildings	30,160,615		8,928,328		39,088,943
Improvements	5,718,622				5,718,622
Vehicles	5,477,162		410,373	268,693	5,618,842
Equipment	4,437,089		361,482	389,872	4,408,699
Infrastructure	<u>17,256,711</u>				<u>17,256,711</u>
Total capital assets being depreciated	<u>63,050,199</u>		<u>9,700,183</u>	<u>658,565</u>	<u>72,091,817</u>
Less accumulated depreciation for:					
Buildings	12,978,396		1,299,451		14,277,847
Improvements	3,608,774		251,102		3,859,876
Vehicles	3,789,227		432,360	268,693	3,952,894
Equipment	3,246,032		253,151	389,872	3,109,311
Infrastructure	<u>12,280,413</u>		<u>458,880</u>		<u>12,739,293</u>
Total accumulated depreciation	<u>35,902,842</u>		<u>2,694,944</u>	<u>658,565</u>	<u>37,939,221</u>
Total capital assets being depreciated, net	<u>27,147,357</u>		<u>7,005,239</u>		<u>34,152,596</u>
<b>Governmental Activities Capital Assets, Net</b>	<u><u>\$31,516,702</u></u>	<u><u>\$ -</u></u>	<u><u>\$9,440,371</u></u>	<u><u>\$2,277,532</u></u>	<u><u>\$38,679,541</u></u>

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

Governmental activities:	
Administration	\$ 121,730
Information services	60,088
Public works (includes infrastructure)	603,932
Parks and recreation	159,251
Police	78,733
Fire	229,248
Airport	165,299
Education	1,276,663
Total depreciation expense - governmental activities	<u><u>\$ 2,694,944</u></u>

### NOTE 6 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds and notes payable	\$23,813,412	\$1,443,859	\$2,367,187	\$22,890,084	\$1,573,573
Capital leases	301,707	224,083	117,630	408,160	117,254
Compensated absences	438,855	74,599	69,034	444,420	70,773
Landfill liability closure	96,352			96,352	
Other post employment benefits	<u>186,563</u>	<u>73,570</u>		<u>260,133</u>	
Governmental activity Long-term liabilities	<u><u>\$24,836,889</u></u>	<u><u>\$1,816,111</u></u>	<u><u>\$2,553,851</u></u>	<u><u>\$24,099,149</u></u>	<u><u>\$1,761,600</u></u>

## Notes to Financial Statements

June 30, 2012

### NOTE 6 – CHANGES IN LONG-TERM LIABILITIES - CONTINUED

Upon the final draw down of the 2011 QSCB bond, which took place during the year ended June 30, 2012, \$620,792 of the principal was forgiven as part of the loan program. The amount is reflected in the current year reductions.

### NOTE 7 – CAPITAL LEASES

The Department of Public Schools is engaged in six capital leases, and the City is engaged in two capital leases as of June 30, 2012. The original cost of assets capitalized under these leases total \$604,185. Future minimum capital lease payments are as follows.

Principal	
2013	\$ 117,254
2014	122,214
2015	105,964
2016	60,871
2017	1,857
Total	<u>408,160</u>
Interest	
2013	14,451
2014	9,491
2015	5,016
2016	1,865
2017	12
Total	<u>30,835</u>
Total payments	438,995
Less interest	30,835
Net present value	<u>\$ 408,160</u>

### NOTE 8 – LONG-TERM DEBT

Bonds and notes payable at June 30, 2012 are comprised of the following:

	Date of Issue	Original Amount Issued	Date of Maturity	Interest Rate	Balance End of Year
Long-term debt:					
1997 General Obligation Bond	11/1/97	\$ 3,880,000	2012	4.35-5.00%	\$ 90,000
2002 General Obligation Bond	11/1/02	5,300,000	2032	2.00-5.00%	3,500,000
2005S School Renovation	4/13/05	538,051	2014	0.00%	78,802
2005 General Obligation Bond	6/14/05	5,285,000	2025	3.50-4.00%	3,100,000
2007 QZAB Bond	10/9/07	965,000	2022	1.4407%	727,549
2008 QZAB Bond	7/16/08	516,279	2023	1.84%	424,000
2009 QZAB Bond	11/18/09	4,333,368	2025	1.40%	3,755,586
2011 QSCB Bond	5/26/11	5,000,000	2025	5.692%	4,066,407
2011 General Obligation Bond	5/3/11	3,150,000	2031	2.00-4.00%	3,150,000
2011 General Obligation Bond	5/3/11	3,096,000	2020	1.70-2.85%	3,096,000
2012 QSCB Bond	7/15/11	943,859	2027	5.366%	901,740
Total bonds and notes payable					<u>\$22,890,084</u>

## Notes to Financial Statements

June 30, 2012

### NOTE 8 – LONG-TERM DEBT – CONTINUED

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, 2012 are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 1,573,573	\$ 501,472	\$ 2,075,045
2014	1,837,283	536,386	2,373,669
2015	1,841,222	499,486	2,340,708
2016	1,724,054	473,453	2,197,507
2017	1,728,319	427,585	2,155,904
2018 - 2022	8,102,980	1,548,665	9,651,645
2023 - 2027	4,697,653	724,126	5,421,779
2028 - 2032	1,250,000	175,625	1,425,625
2033 - 2037	135,000	3,375	138,375
	<u>\$ 22,890,084</u>	<u>\$ 4,890,173</u>	<u>\$ 27,780,257</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 \$22,890,084 at June 30, 2012 was within the statutory limit.

In addition to the bonds and notes payable, the City is contingently responsible for the following overlapping debt as of June 30, 2012:

Governmental Unit	Net Debt Outstanding	Applicable to Waterville	City of Waterville's Share of Debt
Kennebec County	<u>\$ 30,000</u>	<u>7.81%</u>	<u>\$ 2,340</u>

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

### NOTE 9 – INTERFUND BALANCES

As of June 30, 2012, the balances of interfund loans receivable/payable were as follows:

	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$ 190,549	\$ 2,881,178
School Renovation Fund		471,833
Other Governmental Funds	3,154,908	114,269
Agency Funds	121,823	
Totals	<u>\$ 3,467,280</u>	<u>\$ 3,467,280</u>

## Notes to Financial Statements

June 30, 2012

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

#### Consolidated Retirement Pension Plan – City and School

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

Funding Policy (City) – Plan members are required to contribute 8% of their annual covered salary and the City is required to contribute an actuarially determined rate. The current rate is 2.9% of annual covered payroll. The contribution rates of plan members and the City are established and may be amended by the Maine State Legislature. The City made \$72,063 of contributions to the Maine State Legislature Consolidated Plan for the year ended June 30, 2012.

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, 2012 was \$127,316, which equals the required contributions for the year.

#### 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 \$1,607,000 (16.36%) for the fiscal year 2011. This amount has been reported as an intergovernmental revenue and retirement expenditure in the financial statements within the education department. There is no contribution required by the School except for federally funded teachers, for which the School contributed 14.32% of their compensation. This cost is charged to the applicable grant.

### NOTE 11 – DEFERRED COMPENSATION PLAN

The City 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.

## Notes to Financial Statements

June 30, 2012

### NOTE 11 – DEFERRED COMPENSATION PLAN – CONTINUED

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

### NOTE 12 – OTHER POST EMPLOYMENT BENEFITS

The Governmental Accounting Standards Board (GASB) recently promulgated its Statement 45, which addressed the reporting and disclosure requirements for other post employment benefits (OPEB). GASB Statement 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions, was implemented as required by the City of Waterville for the year ended June 30, 2012. This pronouncement requires the long-term cost of retirement health care and obligations for other post employment benefits be determined on an actuarial basis and reported similar to pension plans.

The City is a member of the Maine Municipal Employees Health Trust. The Trust contracted with an outside consultant to assist in the determination and valuation of the City's OPEB liability under GASB 45. An OPEB liability actuarial valuation was completed by the consultants in October 2011.

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

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

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

1. The employee must have been employed by the City of Waterville for the last five (5) consecutive years.
2. The employee must be at least 55 years of age on the date of retirement.
3. The employee must be receiving benefits from a retirement plan established by the City of Waterville (i.e. Maine Public Employees Retirement System or ICMA).

**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 post employment benefits. The annual required contribution (ARC), an actuarial determined rate, represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities over a period not to exceed thirty years.

## Notes to Financial Statements

June 30, 2012

### NOTE 12 – OTHER POST EMPLOYMENT BENEFITS – CONTINUED

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

Normal Cost	\$ 40,885
Amortization of Unfunded	42,693
Interest	1,655
Annual Required Contribution	<u>85,233</u>
Offset to Annual Required Contribution	<u>(11,663)</u>
2012 OPEB Liability Expense	73,570
Fiscal Year Ending 2011 OPEB Accrued Liability	<u>186,563</u>
Total Accrued Liability Fiscal Year Ended 2012	<u>\$ 260,133</u>

**Funding Status and Funding Progress** - The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ending December 31, 2011 was as follows:

Annual Required Contribution	\$ 85,233
Actual Contribution	11,663
Percent Contributed	13.68%
Actuarial Accrued Liability	\$ 767,786
Plan Assets	
Unfunded Actuarial Accrued Liability	<u>\$ 767,786</u>
Covered Payroll	\$ 4,950,088
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	15.51%

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

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

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

## Notes to Financial Statements

June 30, 2012

### NOTE 13 – TAX INCREMENT FINANCING DISTRICT

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

The **Kennedy Memorial Drive District** was established in 1992 to finance certain infrastructure improvements. The expenditures for these improvements will be recouped in the future years via an incremental tax levied upon the District's so-called "captured assessed value". The bonds issued to fund the improvements are limited obligations of the City, payable solely from the monies pledged under the indenture consisting of tax increment revenues and an irrevocable funding commitment from Wal-Mart Stores, Inc.

The bonds do not constitute or create any debt or liability of or on behalf of the State of Maine or the City of Waterville. The tax increment will be used expressly for the repayment of principal and interest on the indebtedness created to fund the expenditures of the improvements. Expenditures related to the project have been recorded in the Capital Project Fund.

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

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

## Notes to Financial Statements

June 30, 2012

### NOTE 13 – TAX INCREMENT FINANCING DISTRICT – CONTINUED

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

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

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

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 10, 30% in years 11 through 15, and 20% in years 16 through 20 following the year in which investment is made through the Credit Enhancement Agreement.

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

## Notes to Financial Statements

June 30, 2012

### NOTE 13 – TAX INCREMENT FINANCING DISTRICT – CONTINUED

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

### NOTE 14 – CONTINGENT LIABILITIES

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

### NOTE 15 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws require that the City place a final cover on its landfills when waste is no longer accepted and perform certain maintenance and monitoring functions at the post closure 30 years after closure. Closure and post closure costs are based on landfill capacity used to date. Since the landfill is no longer operational, 100% capacity has been assumed.

The Capital Project Fund - Landfill Closure has been established to provide financial assurance for the closure and post closure care costs. As of June 30, 2012, 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, 2012. 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, 2012.

### NOTE 17 – COMMITMENTS AND CONTINGENCIES AND SUBSEQUENT EVENT

As of June 30, 2012 the City has incurred \$2,841,610 in construction in progress related to several ongoing projects including infrastructure improvements and the opera house. The total cost to complete the construction in progress is expected to be approximately an additional \$1.6 million.

## Notes to Financial Statements

June 30, 2012

### NOTE 17 – COMMITMENTS AND CONTINGENCIES AND SUBSEQUENT EVENT – CONTINUED

The City guarantees a \$1,250,000 million loan obtained by the Waterville Opera House Association for the purpose of completing the expansion and renovation of the Waterville Opera House. The Waterville Opera House's most recent financial statements dated August 31, 2011 reported assets of \$2,957,464 and liabilities of \$51,389 and net assets of \$2,906,075.

In November 2012 the City entered into a contract to construct a new police station. The total cost of the new construction is expected not to exceed \$3,419,615 which will be funded by a new bond issuance. The construction is expected to be started and completed during fiscal year 2013.

### NOTE 18 – NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds payable adding back any unspent proceeds. The City's net assets invested in capital assets, net of related debt was calculated as follows at June 30, 2012:

	Governmental Activities
Capital assets	\$ 76,618,762
Accumulated depreciation	(37,939,221)
Bonds payable and capital leases payable	<u>(23,298,244)</u>
Total invested in capital assets, net of related debt	<u>\$ 15,381,297</u>

## Required Supplementary Information - Schedule of Funding Progress

June 30, 2012 (Unaudited)

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

## Independent Auditors' Report on Additional Information

City Council  
City of Waterville  
Waterville, Maine

We have audited the financial statements of City of Waterville, Maine as of and for the year ended June 30, 2012, and our report thereon dated January 9, 2013, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules on pages 39 through 45 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

*Macpage LLC*

South Portland, Maine  
January 9, 2013

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### Macpage LLC

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## Special Revenue Funds Combining Balance Sheet

June 30, 2012

	410	420	540	550	270	590	800		
	TIF Projects Fund	Loan Fund	Recreation Fund	Airport Fund	Police Grants	Fire Dept Grant Fund	Grant Fund	School Funds	Total
<b>ASSETS</b>									
Cash		\$ 7,293							\$ 7,293
Accounts receivable			\$ 225	\$ 13,509			\$ 116,233	\$ 118,042	248,009
Due from other governments								525,622	525,622
Inventory				54,566				16,661	71,227
Interfund loans receivable	\$ 1,275,610		126,855	4,217	\$ 16,278	\$ 2,500		459,996	1,885,456
<b>Total Assets</b>	<u>\$ 1,275,610</u>	<u>\$ 7,293</u>	<u>\$ 127,080</u>	<u>\$ 72,292</u>	<u>\$ 16,278</u>	<u>\$ 2,500</u>	<u>\$ 116,233</u>	<u>\$ 1,120,321</u>	<u>\$ 2,737,607</u>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Deferred revenues			\$ 41	\$ 6,444			\$ 116,233	\$ 382,598	\$ 505,316
Accounts payable	\$ 152,254		2,173	28,427	\$ 1,760		7,143		191,757
Accrued wages				2,122					2,122
Interfund loans payable							78,914	14,817	93,731
<b>Total Liabilities</b>	<u>152,254</u>		<u>2,214</u>	<u>36,993</u>	<u>1,760</u>		<u>202,290</u>	<u>397,415</u>	<u>792,926</u>
<b>Fund Balances (Deficit):</b>									
Nonspendable - inventory				54,566				16,661	71,227
Restricted Fund Balance	1,123,356				14,518	\$ 2,500		706,245	1,846,619
Committed Fund Balance		\$ 7,293	124,866						132,159
Unassigned Fund Balance				(19,267)			(86,057)		(105,324)
<b>Total Fund Balances (Deficit)</b>	<u>1,123,356</u>	<u>7,293</u>	<u>124,866</u>	<u>35,299</u>	<u>14,518</u>	<u>2,500</u>	<u>(86,057)</u>	<u>722,906</u>	<u>1,944,681</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 1,275,610</u>	<u>\$ 7,293</u>	<u>\$ 127,080</u>	<u>\$ 72,292</u>	<u>\$ 16,278</u>	<u>\$ 2,500</u>	<u>\$ 116,233</u>	<u>\$ 1,120,321</u>	<u>\$ 2,737,607</u>

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

Year Ended June 30, 2012

	410	420	540	550	270	590	800		
	TIF Projects Fund	Loan Fund	Recreation Fund	Airport Fund	Police Grants	Fire Dept Grant Fund	Grant Fund	School Funds	Total
<b>Revenues:</b>									
Federal programs					\$ 53,660		\$ 183,945	\$ 3,358,281	\$ 3,595,886
State programs								76,984	76,984
Local programs							15,905	128,683	144,588
Charges for services			\$ 117,860	\$ 488,068				219,769	825,697
Unclassified	\$ 300	\$ 3,750	6,030						10,080
<b>Total Revenues</b>	<u>300</u>	<u>3,750</u>	<u>123,890</u>	<u>488,068</u>	<u>53,660</u>		<u>199,850</u>	<u>3,783,717</u>	<u>4,653,235</u>
<b>Expenditures:</b>									
Recreation			69,232						69,232
Police					54,487				54,487
Education								2,511,027	2,511,027
Adult education								109,933	109,933
Food services								1,052,024	1,052,024
TIF projects	1,105,394								1,105,394
Cooperation with other entities							232,815		232,815
Unclassified				427,625					427,625
<b>Total Expenditures</b>	<u>1,105,394</u>		<u>69,232</u>	<u>427,625</u>	<u>54,487</u>		<u>232,815</u>	<u>3,672,984</u>	<u>5,562,537</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(1,105,094)</u>	<u>3,750</u>	<u>54,658</u>	<u>60,443</u>	<u>(827)</u>		<u>(32,965)</u>	<u>110,733</u>	<u>(909,302)</u>
<b>Other Financing Sources:</b>									
Transfers in	1,010,997								1,010,997
Transfers out	(300,000)		(24,560)	(37,050)				(301,653)	(663,263)
Funds returned to State of Maine								(66,908)	(66,908)
	<u>710,997</u>		<u>(24,560)</u>	<u>(37,050)</u>				<u>(368,561)</u>	<u>280,826</u>
<b>Net Change in Fund Balances</b>	<u>(394,097)</u>	<u>3,750</u>	<u>30,098</u>	<u>23,393</u>	<u>(827)</u>		<u>(32,965)</u>	<u>(257,828)</u>	<u>(628,476)</u>
<b>Fund Balances (Deficit), Beginning of Year</b>	<u>1,517,453</u>	<u>3,543</u>	<u>94,768</u>	<u>11,906</u>	<u>15,345</u>	<u>\$ 2,500</u>	<u>(53,092)</u>	<u>980,734</u>	<u>2,573,157</u>
<b>Fund Balances (Deficit), End of Year</b>	<u>\$ 1,123,356</u>	<u>\$ 7,293</u>	<u>\$ 124,866</u>	<u>\$ 35,299</u>	<u>\$ 14,518</u>	<u>\$ 2,500</u>	<u>\$ (86,057)</u>	<u>\$ 722,906</u>	<u>\$ 1,944,681</u>

**Capital Projects  
Combining Balance Sheet**

**June 30, 2012**

**ASSETS**

Intergovernmental receivable	\$ 447,114
Interfund loans receivable	<u>1,269,452</u>

<b>Total Assets</b>	<b><u>\$ 1,716,566</u></b>
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**LIABILITIES AND FUND BALANCES**

**Liabilities:**

Deferred revenues	\$ 218,959
Accounts payable	<u>19,031</u>

<b>Total Liabilities</b>	<b><u>237,990</u></b>
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**Fund Balances:**

Restricted	960,025
Committed	396,782
Assigned	156,007
Unassigned	<u>(34,238)</u>

<b>Total Fund Balances</b>	<b><u>1,478,576</u></b>
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<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 1,716,566</u></b>
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## Capital Projects Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2012

	Balance June 30, 2011	Inter- Governmental and Miscellaneous Revenue	Bond Issue	Expenditures	Operating Transfer In (Out)	Balance June 30, 2012
<b>Municipal</b>						
Snow Dump	\$ 31,592			\$ 34,581		\$ (2,989)
Voting Machines	45,500					45,500
Fire Dept Equipment	(25,000)					(25,000)
Public Works Equipment	423,481			395,708		27,773
Improve 1st Rangeway Intersection	(28,450)					(28,450)
Golf Course Irrigation Project	500					500
Campus Drive	401,340			397,007		4,333
North Street Connector Trail	(33,157)	\$ 107,883		46,484		28,242
Maintenance/Mobile Facility	39,861			14,646		25,215
Quarry Road Recreational Trails Program	(8,455)					(8,455)
Waterfront Project	197,196					197,196
Waterfront Plaza Project	17,923			26,195		(8,272)
Two Cent Foot Bridge	77,845			140,236		(62,391)
Ticonic Bridge/Plaza Project Match	(381)					(381)
Other	18					18
Assigned Sources and Uses	104,361	40,972		7,289		138,044
Airport Capital Improvement Fund	82,980			65,035		17,945
Airport Master Plan - AP16	(25,223)	111,797		86,684		(110)
Airport Apron - AP15	(84)					(84)
Airport Plow Truck - AP17	5,574			9,800	\$ 4,226	
Airport Crosswind Runway Design	3,150	122,363		125,500		13
Library Project Commitment	65,688	93,709		159,397		
Landfill	96,352					96,352
Quarry Road Project	778					778
Quarry Trail Project	52,152	89,333		262,044	300,000	179,441
Quarry Road	206,065			63,362		142,703
Downtown Streetscape Project	20,000					20,000
Waterville Opera House Project	497,336	279,004		560,843		215,497
Police Department New Building				95,271		(95,271)
Grover\Water Street		44,155		71,507	300,000	272,648
Pavement Rehab	171,271			123,490	250,000	297,781
<b>Totals</b>	<u>\$ 2,420,213</u>	<u>\$ 889,216</u>	<u>\$ -</u>	<u>\$ 2,685,079</u>	<u>\$ 854,226</u>	<u>\$ 1,478,576</u>

## Permanent Funds Balance Sheet

June 30, 2012

### ASSETS

Investments	\$ 1,043,220
<b>Total Assets</b>	<b><u>\$ 1,043,220</u></b>

### LIABILITIES AND FUND BALANCES

#### Liabilities:

Interfund loans payable	\$ 20,538
<b>Total Liabilities</b>	<b><u>20,538</u></b>

#### Fund Balances:

Nonspendable principal	228,800
Restricted to Charitable or Community Purposes	<u>793,882</u>
<b>Total Fund Balances</b>	<b><u>1,022,682</u></b>

<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 1,043,220</u></b>
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## Permanent Funds Combining Statement of Revenues, Expenses and Changes in Fund Balance

Year Ended June 30, 2012

	Fund Balances Beginning of Year		Contributions and Gifts	Investment Income	Expenditures	Fund Balances End of Year	
	Nonspendable Principal	Restricted Income				Nonspendable Principal	Restricted Income
<b>City Funds:</b>							
Haines Charity	\$ 100,000	\$ 425,886		\$ 24,538	\$ 6,634	\$ 100,000	\$ 443,790
Frank Champlin Teachers Fund	100,000	294,422		(1,334)	5,044	100,000	288,044
Mildred Pray Ware fund	5,000	46,040		2,241	1,960	5,000	46,321
Violet Smith Fund		1,191		52	3		1,240
Marr Charity		217		688	9		896
Boothby Fountain		191		8	1		198
"470" Engine Fund (A)	3,800	3,168		219	98	3,800	3,289
Mary Warren Fund	10,000	2,488		541	207	10,000	2,822
George Mitchell Fund	10,000	6,597		727	42	10,000	7,282
<b>Total City Funds</b>	<b>\$ 228,800</b>	<b>\$ 780,200</b>	<b>\$ -</b>	<b>\$ 27,680</b>	<b>\$ 13,998</b>	<b>\$ 228,800</b>	<b>\$ 793,882</b>

## Private-Purpose Trust Funds - School Funds

### Combining Schedule of Changes in Fiduciary Net Assets

Year Ended June 30, 2012

	Balances Beginning of Year	Additions	Deductions	Balances End of Year
<b>Private Purpose Trust Funds:</b>				
Buford Grant Scholarship	\$ 21,436	\$ 74	\$ 500	\$ 21,010
W. A. Donovan Fund	3,253	2		3,255
Wentworth Fund	21,822	(12)	2,400	19,410
Flora Harriman Small Fund	78,129	(126)	1,000	77,003
Gladys Briggs Walker Fund	10,775	72		10,847
Tina Thompson Poulin Drama Fund	7,741	10		7,751
Rene Plante Scholarship	4,784	175		4,959
Myra Stearns	14,346	55		14,401
Faculty Gowns Account	2,491	12		2,503
Messalonskee Fish and Game	12,110	43		12,153
Ron LaPlante Scholarship Fund	12,257	15	500	11,772
Janice H. & Cynthia V. Scholarship Fund	2,202	9		2,211
Pre Vocational Program		17,357		17,357
	<u>\$ 191,346</u>	<u>\$ 17,686</u>	<u>\$ 4,400</u>	<u>\$ 204,632</u>
<b>Total Private Purpose Trust Funds</b>	<b>\$ 191,346</b>	<b>\$ 17,686</b>	<b>\$ 4,400</b>	<b>\$ 204,632</b>