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Financial Statements

CITY OF CARIBOU, MAINE

as of

DECEMBER 31, 2012

together with

INDEPENDENT AUDITORS' REPORT

CITY OF CARIBOU, MAINE

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CITY OF CARIBOU, MAINE

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INDEPENDENT AUDITORS' REPORT

To the City Council of the
City of Caribou, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Caribou, Maine as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

To the City Council of the
City of Caribou, Maine

Basis for Qualified Opinion

The financial statements referred to above include only the primary government of the City of Caribou, Maine, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include the financial data for the City's legally separate component units of Cary Medical Center and Caribou Utilities District. Accounting principles generally accepted in the United States of America require financial data for the City's legally separate component units to be reported with the financial data of the City's primary government. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the government-wide financial statements has not been determined.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Caribou, Maine as of December 31, 2012, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Caribou, Maine, as of December 31, 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary information on Pages I through XV and Supplements 1 and 2, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the City Council of the
City of Caribou, Maine

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Caribou's basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The supplementary schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements themselves, and certain additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2013 on our consideration of the City of Caribou's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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* in considering City of Caribou's internal control over financial reporting and compliance.

Felix & Company, LLC

Caribou, Maine
July 23, 2013

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2012

UNAUDITED

The following narrative is an overview and discussion of the financial activities of the City of Caribou for the financial year ending December 31, 2012. Management's discussion and analysis should be viewed as a tool to aid the reader in understanding of the City's financial performance along with an enhanced insight to the attached financial statements and notes to the financials.

Financial highlights:

- The City of Caribou, Maine adheres to the standards of GASB 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Under these standards management has prepared statements of comparison indicating the relative changes within the City's organizational and financial structures. Much of the detail as well as the summary presented within this text can be found in Exhibit D that highlights the end results of operations for the City in 2012.
- The Financial Administrators of the City have implemented a modified approach towards valuing its infrastructure. This approach includes the establishment of condition statements for much of the City's infrastructure and a plan of capital actions to maintain and improve assets in accordance with prudent financial practices.
- The City has also implemented infrastructure management and measurement tools as a result of these standards. The City has implemented and integrated a full depreciation basis of all capital infrastructures in a further effort to measure the ability of appropriately maintaining the existing infrastructure as well as accounting for future needs.

The Financial Statements

The discussion and analysis is intended to provide an introduction to the City's basic financial statements, which are comprised of three major components: 1) City-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements. Supplementary information to the basic financial statement is also provided to fulfill mandatory requirements and clarification to the base report.

The City-wide reports are designed to show the City as a sum of its significant fund activities. The *Statement of Net Position* and *Statement of Activities* provide information about the government-type and business-type activities of the whole City, presenting both as an aggregate view of City department finances and a longer-term view of those finances.

Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column. For the City of Caribou, the General Fund is the most significant fund.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2012

UNAUDITED

City-Wide Financial Statements

The City-wide financial statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting, similar in manner to private sector accounting statements. The statements present governmental activities and enterprise type activities separately. The enterprise activities are those services provided by the governmental unit that are largely supported by fees charged for the service or revenues generated by the performance of such activity. These statements also include all assets of the City (including infrastructure) as well as the liabilities with certain interfund activities eliminated.

The Statement of Net Position presents information on the City's assets and liabilities, with the difference between the two reported as net position. These statements are used as tools to assess the trends in the City's overall financial health allowing the reader an indication of improving or deteriorating financial resources. The capital assets reported under the non-current assets are based upon historical values less the total amount of depreciation accumulated to date. The City has implemented the modified approach for infrastructure assets allowing this statement to yield a more reflective position of the actual maintenance of the City's capital assets.

The Statement of Activities presents information demonstrating how the City's net position changed during the last calendar year on a department-by-department basis. All changes in net position are reported as soon as the activity occurs, regardless of the timing of the related cash flow relevant to the event. Therefore, revenues and expenses are reported in this statement for some items that will only result in a change in cash in future fiscal periods.

Both of these statements within the City-wide financials distinguish between governmental-type functions, principally supported by taxes, and intergovernmental revenues for the City. These activities are separated from those enterprise activities or business-type activities whose functions and activities are primarily supported by user fees and charges generated from performing the related activities within the City. Governmental Activities for Caribou are defined as general government, community development, health and sanitation, public works, protection, insurance and retirement, recreation, library, County tax, general assistance, education (School), Chamber of Commerce, Section 8 housing, capital projects and other activities. The enterprise activity, or business-type activity, is the ambulance operations.

Fund Financial Statements

The fund financial statements are a grouping of related accounts that are used to maintain control over the resources that have been segregated through the budgetary process for specific activities or objectives. The City of Caribou utilizes fund accounting practices to ensure compliance with finance-related legal requirements as well as performance measures to monitor activity throughout the year. All of the funds of the City can be divided into three categories: governmental funds, proprietary fund and fiduciary funds.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2012

UNAUDITED

Governmental funds are synonymous with the activities reported as governmental activities under the City-wide financial statements. The governmental funds define how money flows into and out of those funds and the balances left at year-end that are further available. These funds use modified accrual accounting to measure the cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed shorter-term view of the City's general government operations and the basic services they provide. Governmental fund information aids in determining whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs and services. The differences in the governmental funds statements and those of the City-wide statements are defined in the reconciliation statements as part of the audit.

Proprietary funds are those revenues gained from activities and services that are primarily supported by user fees or charges for those related activities. The City maintains one proprietary fund, the Ambulance Service. This activity is maintained as an enterprise account and is reported separately to better demonstrate the cash flows and net of operational activity that is generated from the services throughout the year.

Notes to the financial statements are provided as additional information that is essential for the reader's full understanding of the data provided within the statements. The notes include schedules of significant activities including Property Taxes, Other Revenues, Capital Outlays, Non-Capital Outlays, Trust and Agency Funds, Fixed Assets and Other Expenses. Schedules are also included detailing the receipt and expenditures of State and Federal Financial Assistance. These schedules detail the total anticipated receipts, receipts and expenditures to date and the outstanding balances not yet encumbered at the time of the statements.

The Statement of Net Position (Exhibit A) reports total net position of \$16,419,614 from the combined operations of the Governmental and Business-type activity. This aggregate amount consists of total assets less depreciation and liabilities for these combined operations. Exhibit A is delineated into Assets: Current and Non-current, Liabilities: Current and Non-current, and Net Position: Investment in Capital Assets, Restricted and Unrestricted.

The reader should refer to Table I as a comparison of Exhibit A of the net changes from 2011 to 2012. Total Current Assets increased by \$173,767 in 2012 primarily due to changes in receivables with increases in Taxes Receivables of \$137,121 or 16% from the prior year. Outstanding taxes represented 13.3% as compared to 11.6% for 2011. Capital Assets, net of depreciation, increased by \$1,517,750 primarily from construction in the removal of obstructions at the airport and the boiler project.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2012

UNAUDITED

Table I indicates Current Liabilities increased by \$281,697. Increases in accounts payable, deferred taxes and current portion of the note payable were offset by a decrease in deferred compensation. The Note Payable for the construction of the boiler is new for 2012 which increases Noncurrent Liabilities by \$941,948. Net Position increased by \$467,872 for 2012 as Total Assets increased by \$1,691,517 and Liabilities increased by \$1,223,645.

The Statement of Activities Exhibit B combines the Expenses, Charges for Services, and Revenues associated with each governmental activity and business-type activity on a department by department basis. All changes in net position are reported as soon as the activity occurs, regardless of the timing of the related cash flow relevant to the event. Therefore, revenues and expenses are reported in this statement for some items that will only result in a change in cash in future fiscal periods. Expenses by governmental activity are displayed graphically for comparison for both 2012 and 2011 as Government Activities Expenses. These pie charts should aid the reader to make a visual comparison in changes from 2011 to 2012.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2012

UNAUDITED

Table I provides data for the Governmental Activities for the years ended 2012 and 2011.

Table I
Net Position

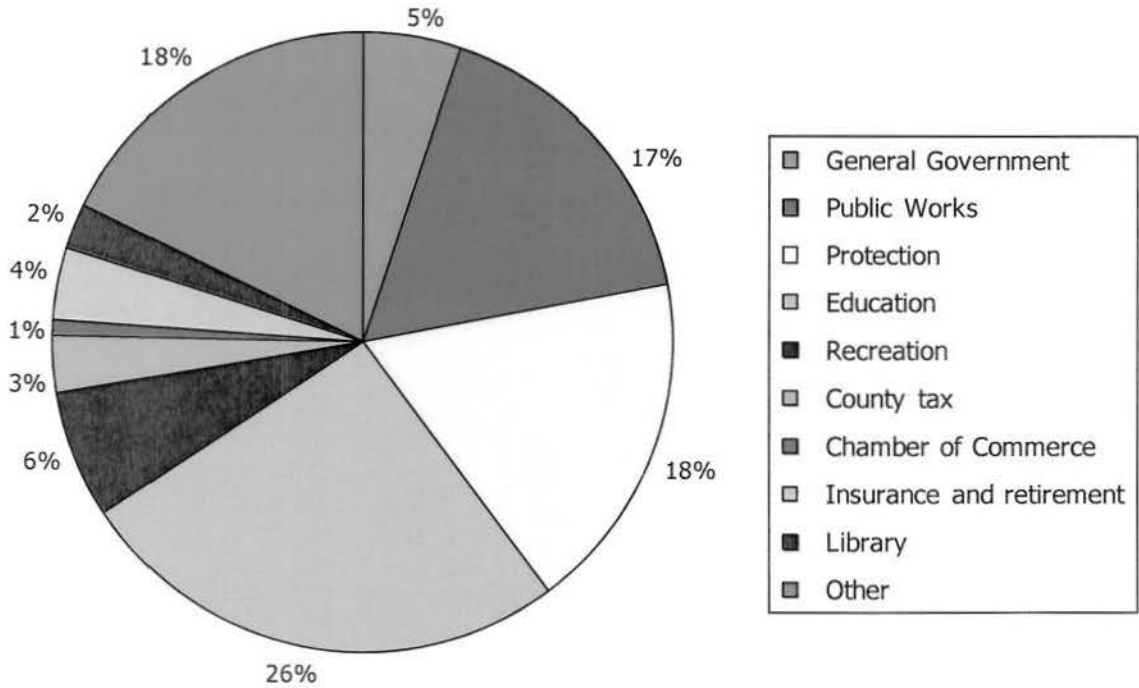
	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and temporary investments	\$ 3,375,039	\$ 3,317,777
Taxes receivable	992,308	855,187
Notes receivable	312,720	321,420
Other receivables	253,652	236,976
Other current assets	<u>196,119</u>	<u>224,711</u>
Total Current Assets	<u>5,129,838</u>	<u>4,956,071</u>
Noncurrent Assets		
Capital assets, net of depreciation	<u>13,957,305</u>	<u>12,439,555</u>
Total Assets	<u>19,087,143</u>	<u>17,395,626</u>
Current Liabilities		
Accounts payable and accrued expenses	254,154	76,712
Deferred compensation	680,651	726,194
Deferred taxes	746,456	640,978
Current portion note payable	<u>44,320</u>	<u>-</u>
	<u>1,725,581</u>	<u>1,443,884</u>
Noncurrent Liabilities		
Note payable, net of current portion	<u>941,948</u>	<u>-</u>
Net Position		
Investment in capital assets, net of related debt	12,971,037	12,439,555
Restricted for special revenue funds	227,325	219,975
Unrestricted	<u>3,221,252</u>	<u>3,292,212</u>
TOTAL NET POSITION	<u>\$ 16,419,614</u>	<u>\$ 15,951,742</u>

City of Caribou, Maine

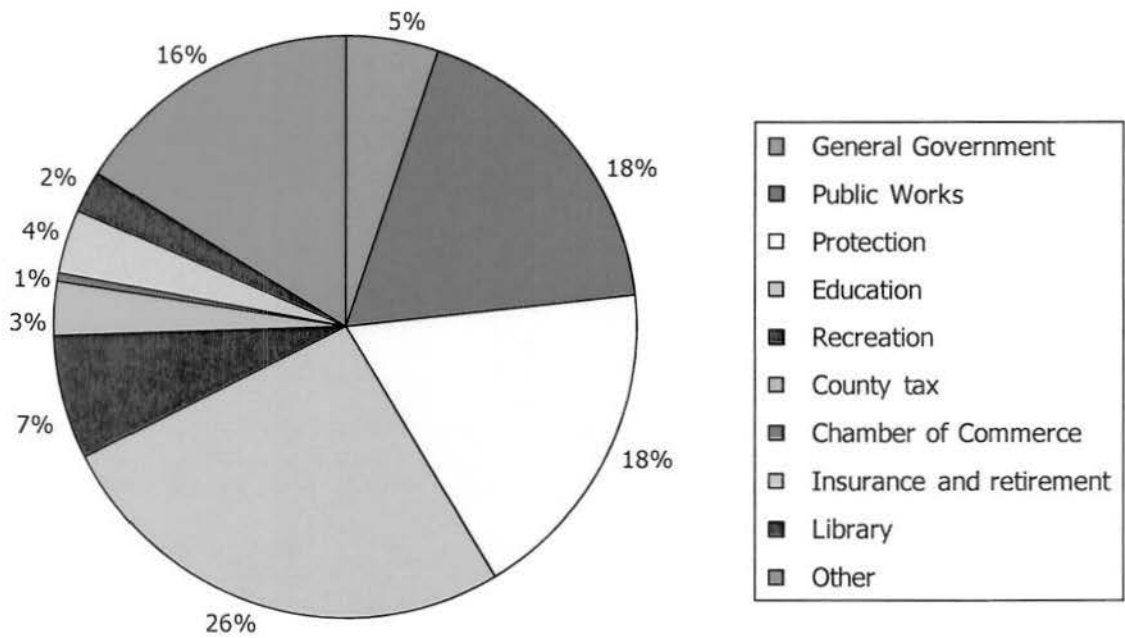
Management's Discussion and Analysis
For the Year Ended December 31, 2012

UNAUDITED

2012 Government Activity Expense



2011 Government Activity Expense



City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2012

UNAUDITED

The reader should refer to Table II as a comparison of the changes in Net Position from 2011 to 2012. Total City net Expenditures for Governmental activities combined was \$10,375,395, as compared to \$10,056,561 for 2011. The major components of the \$319,000 increase in Expenditures were \$121,149 in Education and \$234,736 in other activities.

For 2012 the total General Revenues were \$10,137,684 as compared to \$10,206,215 for 2011, a decrease of \$68,531. Taxes increased by \$70,103 due to rising costs and losses of other non-property tax revenue. Federal and State Assistance decreased by \$73,148 wholly comprised of losses in State Revenue Sharing and Urban Rural Improvements Program (MDOT) pass through funding. Other revenues decreased by \$85,222 combined. There was a slight increase in Excise tax of \$19,736. Management recognizes these significant losses of broad based taxation, non-property tax revenue, as a negative trend that will impact property taxation and service level provisions in future years. This is foreseen as a trend that may continue to impact the City for another 2 to 3 years. Pie charts follow to give the reader a visual indication of these sources of City Revenues for 2012 as compared to 2011.

Table II also compares the change in Net Position being a negative \$237,711 from Governmental Activities in 2012, as compared to a positive \$149,654 in 2011

For Business-type activities, Table II shows the Ambulance Service expending \$1,560,353 while generating revenues of \$2,265,936 from billings producing a net income of \$467,872 for 2012 compared to a net income of \$379,645 in 2011. The Ambulance also transferred \$135,997 to the General Fund due to operations and change in receivables. See Exhibit H for full details of this Business-type Activity. The Service receives no net support from property taxation.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2012

UNAUDITED

Table II shows the changes in net assets for the years 2012 and 2011.

Table II
Change in Net Position

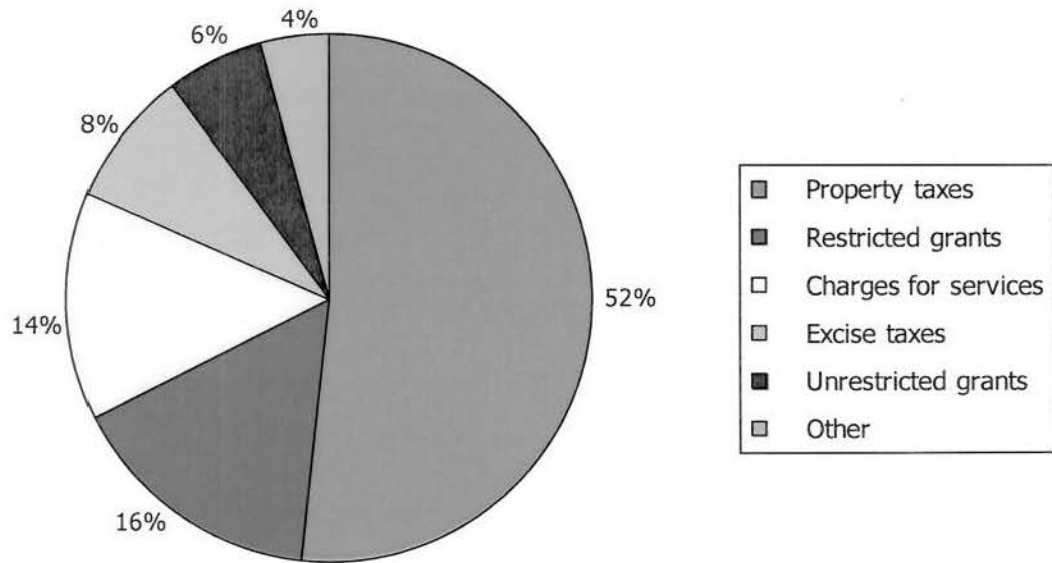
	<u>2012</u>	<u>2011</u>
Governmental Activities:		
<u>General Revenues</u>		
Taxes	\$ 7,467,596	\$ 7,397,493
Federal and state assistance	860,004	933,152
Excise taxes	1,199,933	1,180,197
Other revenues	610,151	695,373
Total general revenues	<u>10,137,684</u>	<u>10,206,215</u>
<u>General Expenses, net of related revenues</u>		
General Government	513,788	487,925
Public Works	1,901,324	1,983,285
Protection	1,976,021	1,986,397
Education	3,213,918	3,092,769
Recreation	763,307	751,326
County tax	364,644	356,052
Chamber of Commerce	101,383	54,162
Insurance and retirement	466,639	422,695
Library	295,855	274,313
Capital projects	(456,232)	(352,375)
Other	1,234,748	1,000,012
Total general activities expenses	<u>10,375,395</u>	<u>10,056,561</u>
Change in Net Position from general governmental activities	<u>(237,711)</u>	<u>149,654</u>
Business-type Activity:		
Revenues		
Charges for services	1,714,337	1,812,263
Capital grants and contributions	551,599	-
Total business-type activity revenues	<u>2,265,936</u>	<u>1,812,263</u>
Expenses	<u>1,560,353</u>	<u>1,582,272</u>
Change in Net Position from business-type activity	<u>705,583</u>	<u>229,991</u>
Change in Net Position	467,872	379,645
Net Position January 1	<u>15,951,742</u>	<u>15,572,097</u>
Net Position December 31	<u>\$ 16,419,614</u>	<u>\$ 15,951,742</u>

City of Caribou, Maine

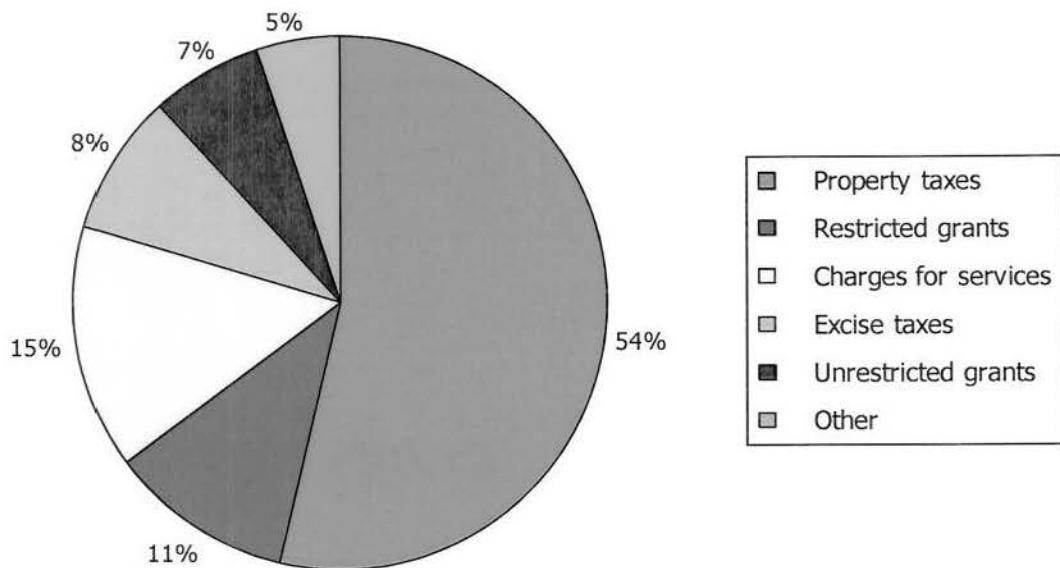
Management's Discussion and Analysis
For the Year Ended December 31, 2012

UNAUDITED

2012 Government Activity Revenue



2011 Government Activity Revenue



City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2012

UNAUDITED

Management has produced Table III to further assist the reader in assessing the major changes in Revenues for the City comparing the 2012 current year to that of 2011. Total City Revenues for 2012 were \$14,426,684, an increase of \$645,064 compared to 2011. Property Taxes increased by \$70,103 due to increased expenditures for both municipal and school operations coupled with the loss of prior revenues. Restricted Grants increased by \$746,856 due to ongoing work at the Airport funded 95% by FAA, 2.5% State, and 2.5% Local. Unrestricted Grants decreased by \$73,148 due to losses of State Revenue Sharing. Management recognizes the need to reduce revenue from property taxes by maximizing other non-property tax revenues provided charges for services are reasonable and customary or fall within State allowances. Management also recognizes the continued detrimental impacts upon property taxation stemming from the State's reduction of Municipal Revenue Sharing by over \$42 million in 2011, reducing the City's share from broad based taxation specifically set within Title 30-A §5681 to stabilize the municipal property tax burden. A graphic representation has been provided.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2012

UNAUDITED

Table III shows the percentage of revenue sources for governmental activities for the years 2012 and 2011.

Table III
Percentage of Revenue Sources

	2012 <u>Revenues</u>	2012 (by <u>percentage</u>)	2011 <u>Revenues</u>	2011 (by <u>percentage</u>)
<u>Governmental Revenues:</u>				
Property taxes	\$ 7,467,596	52%	\$ 7,397,493	53%
Restricted grants	2,281,945	16%	1,535,089	11%
Charges for services	2,007,055	14%	2,040,316	15%
Excise taxes	1,199,933	8%	1,180,197	9%
Unrestricted grants	860,004	6%	933,152	7%
Other	<u>610,151</u>	<u>4%</u>	<u>695,373</u>	<u>5%</u>
Total City Revenues	<u>\$ 14,426,684</u>	<u>100%</u>	<u>\$ 13,781,620</u>	<u>100%</u>

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2012

UNAUDITED

Management has produced Table IV to illustrate any significant changes within the Governmental Expenditures from 2012 to 2011 as a percentage of total expenditures for each year. Please refer to page VI for pie charts illustrating the same. Total Governmental Expenses increased by \$556,837 comprised of notable changes as follows: Education \$121,149 due to the loss of prior ARRA funds, and Other of \$291,204. The remaining categories produced a net increase of \$144,484 of additional expense in 2012.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2012

UNAUDITED

Table IV shows the percentage of expenses for governmental activities for the years 2012 and 2011.

Table IV
Percentage of Expenses

	2012 <u>Expenses</u>	2012 (by <u>percentage</u>)	2011 <u>Expenses</u>	2011 (by <u>percentage</u>)
<u>Governmental Expenses:</u>				
General Government	\$ 628,111	4%	\$ 603,914	5%
Public Works	2,096,615	15%	2,142,036	16%
Protection	2,207,125	16%	2,147,376	16%
Education	3,213,918	23%	3,092,769	23%
Recreation	820,492	6%	813,913	6%
County tax	364,644	3%	356,052	3%
Chamber of Commerce	101,383	1%	54,162	0%
Insurance and retirement	466,639	3%	422,695	3%
Library	295,855	2%	274,313	2%
Ambulance	1,560,353	11%	1,582,272	12%
Other	<u>2,203,677</u>	<u>16%</u>	<u>1,912,473</u>	<u>14%</u>
Total Governmental Expenses	<u>\$ 13,958,812</u>	<u>100%</u>	<u>\$ 13,401,975</u>	<u>100%</u>

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2012

UNAUDITED

A balance sheet of the City's Governmental Fund is provided in Exhibit C. Total Assets ended 2012 at \$4,872,927, an increase of \$118,183. Total Liabilities ended the year at \$956,854, an increase of \$238,073. Fund Balances ended 2012 at \$3,916,073, a decrease of \$119,890. Capital Outlays were more than total appropriations, Grants, Transfers, or Other Resources with starting balances exceeding the end of the year by \$118,370, see Schedules 3a and 3b. Further Fund Balance reduction was from Non-capital Outlays, see Schedule 4, of \$44,339. Exhibit D is a reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance for the Governmental Funds, excluding business-type funds, for 2012. Exhibit D summarizes the City, Section 8 Housing, Boiler Project and Special Revenue Funds comprising the Total Governmental Funds. The major components are summarized as follows:

Exhibit D indicates that Total Governmental Revenues available in 2012 were \$12,171,233 and Expenditures were \$13,413,412, an excess of Expenditures over Revenue \$1,242,179. This excess of expenditures of revenue does not include the business-type activity of the Ambulance contributing \$135,997 or proceeds from long-term debt of \$986,268 for a combined increase to Fund Balance of \$1,122,265. Fund Balance ending December 31, 2012 was \$3,916,073, a net reduction of \$119,890.

Further reconciliation of the Government Funds Statement of Revenues, Expenditures and Changes in Fund Balances for the City-wide Statement of Activities is displayed in Exhibit F.

Exhibits G, H and I are Proprietary Funds and all pertain to the business-type activity of the Ambulance stating Net Position, changes in fund Net Position, and Cash Flows due to operations respectively.

The Reader may refer to Supplement 1 as the best report comparing the City's Governmental Fund and Business-type Fund activity for the year as they compared to budget. Total Expenditures for the year, excluding Ambulance, were \$10,919,626, \$94,682 less than budgeted. Revenues, excluding Ambulance, were \$10,554,370, \$62,671 more than budgeted. Expenditures exceeded Revenues by \$365,256 for the year. Total Other Sources of \$221,780 came from the ambulance fund. Capital outlays of \$439,142 further reduced fund balance. The resulting net decrease in Fund Balance General Fund from Governmental Operations was \$582,618.

The Ambulance Service on Supplement 1 had Total Revenues of \$2,035,796, \$24,238 less than budgeted, and Total Expenditures of \$1,814,016, \$289,908 greater than budgeted. The Ambulance Service had a net of operations of just \$221,780 for the year as compared to a budgeted \$535,926. Ambulance volumes met expectations but reimbursements continued to lag the interruption of billing when the Federal Resolution to fund Medicare was not passed, the Super Rural Fees were delayed and then unfunded, and 2010 retro-payments on Medicare provisions remain outstanding for final processing. The uncertainty of the State and Federal reimbursement and processing continues to detrimentally impact Ambulance receipts.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2012

UNAUDITED

A more complete understanding of the capital outlay is summarized in Note 7 of this audit. Note 7 indicates that the City's capital assets, net of depreciation, increased by \$968,505 in total. Additions to construction-in-process, buildings, vehicles and equipment totaled \$1,375,839 while depreciation across land improvements, buildings, vehicles and equipment totaled \$396,825, depreciation being less than additions by \$979,014. Management recognizes this relationship as one of timing as the annualized rate of contribution supporting capital assets can be greater or less than a given year's replacements or upgrades. Management does, however, recognize the trend over the past decade has been a positive input greater than depreciation, an indication of prudent maintenance of the City's capital assets. Note 7 also indicates that the Business-type Activity of the Ambulance had depreciation of \$131,081 with additions of \$722,999, a net increase of \$591,918 for the year.

The City of Caribou continues to be fiscally strong. The City continues to maximize non-property tax revenue sources to lower the overall burden on property taxation. Management recognizes the future difficulties of funding municipal operations as Federal and State distributions continue to decline for the foreseeable near term with potential increased burden upon property taxation.

Management concludes this section of the 2012 Audit with the continued pledge of researching and applying where possible economies of scale, regionalized services, best practices and efficiencies to minimize these pending impacts. This concludes the Management Discussion and Analysis Statement for the calendar year of 2012. A complete copy of the 2012 audited financials for the City of Caribou may be viewed at the Caribou City Office, 25 High Street during normal business hours of 8:00AM to 5:00PM Monday through Friday.

CITY OF CARIBOU, MAINE
STATEMENT OF NET POSITION
DECEMBER 31, 2012

EXHIBIT A

	Governmental <u>Activities</u>	Business- type <u>Activity</u>	<u>Total</u>
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and temporary investments (Note 2)	\$ 2,694,024	\$ -	\$ 2,694,024
Investments	681,015	-	681,015
Uncollected taxes	887,973	-	887,973
Tax acquired property	104,335	-	104,335
Accounts receivable	151,686	196,966	348,652
Allowance for uncollectibles	(95,000)	-	(95,000)
Inventories	29,889	-	29,889
Prepaid expenses	60,399	-	60,399
Notes receivable (Notes 3 and 4)	312,720	-	312,720
Restricted cash (Note 5)	104,543	-	104,543
Other assets	1,288	-	1,288
	<u>4,932,872</u>	<u>196,966</u>	<u>5,129,838</u>
NONCURRENT ASSETS			
Capital assets (Note 7)			
Non-depreciable	6,866,110	-	6,866,110
Depreciable	11,970,856	1,468,729	13,439,585
Less allowance for depreciation	(5,880,695)	(467,695)	(6,348,390)
	<u>12,956,271</u>	<u>1,001,034</u>	<u>13,957,305</u>
Total assets	<u>17,889,143</u>	<u>1,198,000</u>	<u>19,087,143</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	193,520	32,469	225,989
Accrued payroll	49,955	-	49,955
Accrued interest	11,741	-	11,741
Escrow (Note 5)	16,424	-	16,424
Deferred revenues - property taxes	746,456	-	746,456
Compensated absences (Note 1)	540,935	89,761	630,696
Current portion, notes payable	44,320	-	44,320
Total current liabilities	<u>1,603,351</u>	<u>122,230</u>	<u>1,725,581</u>
NONCURRENT LIABILITIES (Note 8)			
Notes payable, net of current portion	941,948	-	941,948
Total liabilities	<u>2,545,299</u>	<u>122,230</u>	<u>2,667,529</u>
<u>NET POSITION</u>			
Investment in capital assets, net of related debt	11,970,003	1,001,034	12,971,037
Restricted for:			
Special revenue funds	227,325	-	227,325
Unrestricted	3,146,516	74,736	3,221,252
Total net position	<u>\$ 15,343,844</u>	<u>\$ 1,075,770</u>	<u>\$ 16,419,614</u>

The accompanying notes are an integral part of this financial statement.

CITY OF CARIBOU, MAINE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

EXHIBIT B

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (Expenses) Revenue and Changes in Net Position		
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activity	Total
Primary Government							
Governmental Activities:							
General government	\$ 628,111	\$ 114,323	\$ -	\$ -	\$ (513,788)		\$ (513,788)
Community development	84,292	-	-	-	(84,292)		(84,292)
Health and sanitation	269,528	-	-	-	(269,528)		(269,528)
Public works	2,096,615	42,169	153,122	-	(1,901,324)		(1,901,324)
Protection	2,207,125	117,074	114,030	-	(1,976,021)		(1,976,021)
Insurance and retirement	466,639	-	-	-	(466,639)		(466,639)
Recreation	820,492	19,152	-	38,033	(763,307)		(763,307)
Library	295,855	-	-	-	(295,855)		(295,855)
County tax	364,644	-	-	-	(364,644)		(364,644)
General assistance	49,913	-	-	-	(49,913)		(49,913)
Education	3,213,918	-	-	-	(3,213,918)		(3,213,918)
Chamber of Commerce	101,383	-	-	-	(101,383)		(101,383)
Section 8 Housing	978,678	-	968,929	-	(9,749)		(9,749)
Capital projects	-	-	-	456,232	456,232		456,232
Interest expense	11,741	-	-	-	(11,741)		(11,741)
Other	809,525	-	-	-	(809,525)		(809,525)
Total governmental activities	12,398,459	292,718	1,236,081	494,265	(10,375,395)		(10,375,395)
Business-type Activity:							
Ambulance service	1,560,353	1,714,337	-	551,599	-	\$ 705,583	705,583
Total City	\$ 13,958,812	\$ 2,007,055	\$ 1,236,081	\$ 1,045,864	(10,375,395)	705,583	(9,669,812)
General revenues:							
Taxes							
Property taxes, levied for general purposes					7,175,919	-	7,175,919
Homestead reimbursement and other property tax related					212,574	-	212,574
Supplemental taxes					79,103	-	79,103
Excise					1,199,933	-	1,199,933
Interest on delinquent taxes and lien fees					52,210	-	52,210
Payments in lieu of taxes					59,023	-	59,023
Federal and state aid not restricted to specific purposes					860,004	-	860,004
Interest on deposits and notes					7,240	-	7,240
Cable TV franchise					60,641	-	60,641
Miscellaneous revenues					431,037	-	431,037
Net transfers governmental and business-type funds from operations					135,997	(135,997)	-
Subtotal, general revenues and transfers					10,273,681	(135,997)	10,137,684
Change in net position					(101,714)	569,586	467,872
NET POSITION - JANUARY 1, 2012					15,445,558	506,184	15,951,742
NET POSITION - DECEMBER 31, 2012					\$ 15,343,844	\$ 1,075,770	\$ 16,419,614

The accompanying notes are an integral part of this financial statement.

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2012

	General Fund	Section 8 Housing Program	Boiler Project	Special Revenue Funds (Schedule 5)	Total Governmental Funds
<u>ASSETS</u>					
Cash and temporary investments (Note 2)	\$ 2,164,945	\$ 36,148	\$ -	\$ 492,931	\$ 2,694,024
Investments	39,938	-	641,077	-	681,015
Uncollected taxes	887,973	-	-	-	887,973
Tax acquired property	104,335	-	-	-	104,335
Accounts receivable	151,686	-	-	-	151,686
Allowance for uncollectibles	(95,000)	-	-	-	(95,000)
Due from other funds	454	-	-	-	454
Inventories	29,889	-	-	-	29,889
Notes receivable (Notes 3 and 4)	301,520	-	-	11,200	312,720
Restricted cash (Note 5)	-	104,543	-	-	104,543
Other assets	-	1,288	-	-	1,288
Total assets	<u>\$ 3,585,740</u>	<u>\$141,979</u>	<u>\$641,077</u>	<u>\$ 504,131</u>	<u>\$ 4,872,927</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 44,830	\$ 750	\$147,940	\$ -	\$ 193,520
Escrow (Note 5)	-	16,424	-	-	16,424
Due to other funds (Note 6)	-	454	-	-	454
Deferred revenue - property taxes	746,456	-	-	-	746,456
Total liabilities	<u>791,286</u>	<u>17,628</u>	<u>147,940</u>	<u>-</u>	<u>956,854</u>
Fund balances:					
Nonspendable					
Inventory	29,889	-	-	-	29,889
Restricted					
Special revenue funds	-	124,351	-	227,325	351,676
Unrestricted					
Assigned					
Capital (Schedule 3)	871,679	-	493,137	276,806	1,641,622
Non-capital (Schedule 4)	569,883	-	-	-	569,883
Unassigned					
General fund	1,163,030	-	-	-	1,163,030
Deferred property taxes	159,973	-	-	-	159,973
Total fund balances	<u>2,794,454</u>	<u>124,351</u>	<u>493,137</u>	<u>504,131</u>	<u>3,916,073</u>
Total liabilities and fund balances	<u>\$ 3,585,740</u>	<u>\$141,979</u>	<u>\$641,077</u>	<u>\$ 504,131</u>	<u>\$ 4,872,927</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General Fund	Section 8 Housing Program	Boiler Project	Special Revenue Funds (Schedule 6)	Total Governmental Funds
REVENUES					
Local property taxes	\$ 7,202,884	\$ -	\$ -	\$ -	\$ 7,202,884
Homestead reimbursement	212,574	-	-	-	212,574
Supplemental taxes	79,103	-	-	-	79,103
Abatements	(26,965)	-	-	-	(26,965)
Federal assistance	76,631	968,929	-	452,487	1,498,047
State assistance	878,220	-	-	60,961	939,181
Other revenues	2,264,273	142	3	1,991	2,266,409
TOTAL REVENUES	10,686,720	969,071	3	515,439	12,171,233
EXPENDITURES					
General government	635,227	166,095	-	-	801,322
Community development	84,857	-	-	-	84,857
Health and sanitation	269,528	-	-	-	269,528
Public works	2,275,780	-	-	-	2,275,780
Protection	2,078,526	-	-	61,649	2,140,175
Insurance and retirement	466,639	-	-	-	466,639
Recreation	768,441	-	-	-	768,441
Library	288,455	-	-	-	288,455
County tax	364,644	-	-	-	364,644
General assistance	49,913	812,583	-	-	862,496
Education	3,213,918	-	-	-	3,213,918
Chamber of Commerce	105,583	-	-	-	105,583
Construction and improvements	-	-	493,134	510,474	1,003,608
Other (Schedule 2)	767,966	-	-	-	767,966
TOTAL EXPENDITURES	11,369,477	978,678	493,134	572,123	13,413,412
EXCESS OF (EXPENDITURES OVER REVENUES)	(682,757)	(9,607)	(493,131)	(56,684)	(1,242,179)
OTHER SOURCES					
Transfer from ambulance reserve	135,997	-	-	-	135,997
Proceeds from long-term debt	-	-	986,268	-	986,268
Transfer from other funds	24	-	-	202,855	202,879
TOTAL OTHER SOURCES	136,021	-	986,268	202,855	1,325,144
OTHER USES					
Transfer to other funds	202,855	-	-	-	202,855
NET INCREASE (DECREASE) IN FUND BALANCE	(749,591)	(9,607)	493,137	146,171	(119,890)
FUND BALANCE - JANUARY 1, 2012	3,544,045	133,958	-	357,960	4,035,963
FUND BALANCE - DECEMBER 31, 2012	\$ 2,794,454	\$ 124,351	\$ 493,137	\$ 504,131	\$ 3,916,073

CITY OF CARIBOU, MAINE

EXHIBIT E

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET POSITION
DECEMBER 31, 2012

Total fund balance - governmental funds (Exhibit C)		\$ 3,916,073
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds:		
The cost of capital assets is	\$ 18,836,966	
Accumulated depreciation is	<u>5,880,695</u>	
		12,956,271
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:		
Notes payable		(986,268)
Prepaid expenses		60,399
Accrued payroll		(49,955)
Accrued interest		(11,741)
Compensated absences		<u>(540,935)</u>
Total net position - governmental activities (Exhibit A)		<u>\$ 15,343,844</u>

The accompanying notes are an integral part of this financial statement.

CITY OF CARIBOU, MAINE

EXHIBIT F

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES WITH THE CITY-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Total net change in fund balances - governmental funds (Exhibit D) \$ (119,890)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceed depreciation expense in the period.

Capital outlays	\$ 1,375,839	
Depreciation expense	<u>(396,825)</u>	979,014

In the statement of activities, only the gain on the sale of fixed assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. Therefore, the change in net assets differs from the change in fund balance by the depreciated value of assets sold. (10,509)

Expenses paid prior to the period due are accounted for under the non-allocated method and are, therefore, reported as expenses in the current period in governmental funds. However, for governmental activities, these amounts are recorded as prepaid expenses and are expensed when the item is consumed. 2,137

Compensation for accrued vacation and sick pay not yet paid is accumulated using the governmental activities fund to the extent that amounts would be paid to the employees upon retirement. These funds are not accumulated for the governmental activities fund. 63,217

Proceeds from long-term debt is a source of financing in governmental funds. However, proceeds from long-term debt are not revenue in statement of activities, but constitute long-term liabilities in the statement of activities. (986,268)

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:

Decrease in accrued payroll	(17,674)
(Increase) in accrued interest payable	<u>(11,741)</u>

Change in net position of governmental activities (Exhibit B) \$ (101,714)

The accompanying notes are an integral part of this financial statement.

CITY OF CARIBOU, MAINE
STATEMENT OF NET POSITION
PROPRIETARY FUND
AS OF DECEMBER 31, 2012

EXHIBIT G

ASSETS

CURRENT ASSETS

Cash and temporary investments (Note 7)	\$ -
Accounts receivable, net of allowance of \$37,044	<u>196,966</u>
Total current assets	<u>196,966</u>

NONCURRENT ASSETS

Land, buildings and improvements	223,065
Vehicles and equipment	<u>1,245,664</u>
Total noncurrent assets	1,468,729
Accumulated depreciation	<u>(467,695)</u>
Net noncurrent assets	<u>1,001,034</u>
Total assets	<u>1,198,000</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued liabilities	<u>122,230</u>
--	----------------

NET POSITION

Invested in capital assets	1,001,034
Unrestricted	<u>74,736</u>
Total net position	<u>\$ 1,075,770</u>

The accompanying notes are an integral part of this financial statement.

CITY OF CARIBOU, MAINE

EXHIBIT H

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

Ambulance
Service

Operating revenues	
Fees	\$ 1,730,447
Less contractual allowances	(304,532)
Internal service - Caribou	88,032
Outside service - Other Municipalities	43,813
Veterans' Administration contracts	94,713
Billing services	49,077
Other	12,787
Total operating revenues	<u>1,714,337</u>
Operating expenses	
Salaries and benefits	916,557
Transport expenses	290,437
Occupancy	41,127
Equipment and vehicle expense	32,392
Supplies and materials	12,451
Depreciation	131,081
Uncollectible	118,686
Other	17,622
Total operating expenses	<u>1,560,353</u>
Operating income	<u>153,984</u>
OTHER SOURCES (USES)	
Donation of surplus equipment	551,599
Transfer to general fund	(135,997)
	<u>415,602</u>
Change in net position	569,586
TOTAL NET POSITION - JANUARY 1, 2012	<u>506,184</u>
TOTAL NET POSITION - DECEMBER 31, 2012	<u>\$ 1,075,770</u>

The accompanying notes are an integral part of this financial statement.

CITY OF CARIBOU, MAINE

EXHIBIT I

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from fees	\$ 1,680,843
Cash payments for salaries and benefits	(903,404)
Cash payments for transportation	(290,437)
Cash payments for other operating costs	<u>(222,278)</u>
Net cash provided by operating activities	<u>264,724</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	<u>(128,727)</u>
----------------------------	------------------

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Advance (to) general fund	<u>(135,997)</u>
---------------------------	------------------

Net increase in cash and cash equivalents

-

Cash and cash equivalents - January 1, 2012

-

Cash and cash equivalents - December 31, 2012

\$ -Reconciliation of operating income to net cash
provided by operating activities:

Operating income	\$ 153,984
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	131,081
Changes in assets and liabilities:	
Receivables	(33,494)
Accounts payable and accrued expenses	<u>13,153</u>

Net cash provided by operating activities

\$ 264,724

NONCASH CAPITAL FINANCING ACTIVITIES

During the year, the City received \$551,599
 of equipment donated from the Defense
 Reutilization and Marketing Office.

The accompanying notes are an integral part of this financial statement.

CITY OF CARIBOU, MAINE

EXHIBIT J

STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2012

	<u>Total</u>	<u>Hospital Memorial Funds</u>	<u>Cemetery Trust Funds</u>	<u>Library Trust Funds</u>	<u>Memorial Funds</u>
ASSETS					
Cash	<u>\$213,691</u>	<u>\$47,520</u>	<u>\$1,314</u>	<u>\$61,151</u>	<u>\$103,706</u>
NET POSITION					
Undesignated	<u>\$213,691</u>	<u>\$47,520</u>	<u>\$1,314</u>	<u>\$61,151</u>	<u>\$103,706</u>

CITY OF CARIBOU, MAINE

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Total</u>	<u>Hospital Memorial Funds</u>	<u>Cemetery Trust Funds</u>	<u>Library Trust Funds</u>	<u>Memorial Funds</u>
REVENUE					
Interest income	\$ 2,961	\$ 588	\$ 3	\$ 1,556	\$ 814
Contributions	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,000</u>
	<u>17,961</u>	<u>588</u>	<u>3</u>	<u>1,556</u>	<u>15,814</u>
DEDUCTIONS					
Expenses	15,000	-	-	-	15,000
Transfer to other funds	<u>24</u>	<u>-</u>	<u>24</u>	<u>-</u>	<u>-</u>
	<u>15,024</u>	<u>-</u>	<u>24</u>	<u>-</u>	<u>15,000</u>
NET CHANGE IN NET POSITION	2,937	588	(21)	1,556	814
NET POSITION - JANUARY 1	<u>210,754</u>	<u>46,932</u>	<u>1,335</u>	<u>59,595</u>	<u>102,892</u>
CASH AND NET POSITION - DECEMBER 31	<u>\$213,691</u>	<u>\$47,520</u>	<u>\$1,314</u>	<u>\$61,151</u>	<u>\$103,706</u>

The accompanying notes are an integral part of this financial statement.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Caribou, Maine incorporated and adopted its first charter in 1967, which allows for a Council-Manager form of government. The Council consists of seven members elected by the voters with individual terms of three years.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The authority establishing the standards for governmental accounting principles is the Governmental Accounting Standards Board (GASB).

The accompanying financial statements include all governmental and expendable fiduciary fund types and account groups except for Cary Medical Center and Caribou Utilities District. The financial statements of these component units have been or are being audited and reported on by other independent auditors.

The City of Caribou's basic financial statements include City-wide statements, including a statement of net position and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

City-wide Financial Statements - The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activity of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each department or function of the City's governmental activities and for the business-type activity of the City. Direct expenses are those that are specifically associated with a service or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods or services offered by the department, grants and contributions that are restricted to meeting the operational or capital requirements of a particular department and interest earned on grants that is required to be used to support a particular department. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenue of the City. The effect of significant interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. Each fund

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

is accounted for by a separate set of self-balancing accounts that comprise its assets and account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The various funds are summarized by type in the financial statements.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed.

General Fund - The general fund accounts for financial resources in use for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for services, and interest income. A significant part of the General Fund's revenues are used principally to finance the operations of the City of Caribou.

Special Revenue Fund - This fund accounts for revenues derived from specific sources that are restricted by legal and regulatory provisions to finance specific activities. The special revenue fund is the aggregate of other funds for financial reporting purposes.

PROPRIETARY FUND

The proprietary fund is used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, and expenses relating to the government's business activity are accounted for through a proprietary fund. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. Relative to its proprietary fund, the City has elected to apply all relevant Financial Accounting Standards Board (FASB) pronouncements issued on or after November 30, 1989 unless those pronouncements conflict with GASB pronouncements, in which case, GASB prevails.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The City's only fiduciary funds are agency funds. The City's agency funds account for trust funds donated to the City for those purposes.

Measurement Focus

City-wide Financial Statements - The City-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included in the statement of net position.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the City-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the City-wide statements and the statements for governmental funds.

Like the City-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and all

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

liabilities associated with the operation of this fund are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activity.

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. City-wide financial statements, together with proprietary and fiduciary funds are prepared using the accrual basis of accounting.

Governmental funds use the modified accrual basis of accounting. On the accrual basis of accounting, expenses are recognized at the time they are incurred. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue and in the presentation of expenses versus expenditures.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within 60 days of fiscal year-end. Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues are recorded as revenues when received in cash. General property taxes, self-assessed taxes and investment earnings are recorded when they become both measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for expenditures for debt service, prepaid expenses and other long-term obligations, which are recognized when paid.

Nonexchange transactions, in that the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

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 fund balance, is utilized in the governmental fund types. In the general fund, for budgetary purposes

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

appropriations lapse at fiscal year-end except for that portion related to encumbered amounts. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The encumbrances are subject to re-appropriation by the City council in any succeeding fiscal year.

Budgetary Data

Formal budgetary accounting is employed as a management control for all funds of the City. Annual operating budgets are adopted each year through passage of an annual budget ordinance and amended as required for the General Fund. In accordance with generally accepted accounting principles, these budgets use the same accounting basis to reflect actual revenues and expenditures. Budgets for the Special Revenue Funds are made on a project basis, sometimes spanning over more than one fiscal year. Budgetary control is exercised at the departmental level or by project. All unencumbered budget appropriations, except reserve budgets, lapse at the end of each fiscal year.

The general operating fund is legally required to be budgeted and appropriated. The major document prepared is the tax budget, which separates these funds by function and estimated appropriation needed to fund each function. The tax budget demonstrates a need for existing or increased tax rates. This budget is approved by the Caribou City Council and may be amended during the year if projected increases or decreases in revenues or expenditures are identified by the City. The amounts reported as the original budget amounts in the budgetary statements (Supplement 1) reflect the amounts in the legally adopted budget. Changes, if any, are reflected in the final budget column.

Cash and Temporary Investments

Available cash is deposited in interest-bearing accounts to as great a degree as possible. These residual investments are classified for reporting purposes as cash. Earnings from these investments are reported by the applicable funds. The City's policy is to invest in regional banks and federal securities and to insure the funds to as great a degree as possible. Deposits with a maturity of three months or less are included in cash and temporary investments for financial reporting purposes.

Monies for all funds, including the proprietary fund, are maintained in a pool. Individual funds are maintained through the City's accounting records to allow proper segregation of cash for each fund.

Investments

In accordance with GASB Statement No. 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report non-participating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit outstanding of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of three months or less at time of purchase. The term "non-participating" means that the investment's value does not vary with market interest rate changes.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Taxes are levied as of April 1 and are used to finance the operations of the City for the calendar budget year beginning January 1. Taxes are committed for collection on July 1 and are due and payable on or before September 30. In accordance with Maine law, taxes not collected within eight months following the date of commitment are secured by liens.

The City has adopted the standard established by GASB No. 33 regarding the recognition of property taxes. The criterion for this standard is to recognize property tax revenue as it becomes both "measurable and available". Measurable is defined as the amount that the City can reasonably expect to receive of the property taxes assessed for the current year. Available is defined as the amount that will be collected of current and past due taxes during the current period or expected to be collected shortly thereafter to pay current liabilities. For the purposes of this report, 60 days is used as the collection period after year-end. Accordingly, a liability has been established on the combined balance sheet for the taxes considered collectible but not available for current liabilities.

Allowance for uncollectible receivables

Taxes receivable are recorded at estimated net realizable value. Therefore, an allowance for uncollectible taxes of \$95,000 has been established. Tax revenue is recorded net of the allowance for uncollectible taxes.

The ambulance service also reports accounts receivable net of the allowance for uncollectible accounts of \$37,044. Revenues have been netted to reflect the allowance.

Prepaid Expense

Payments made benefiting future periods under the governmental fund basis are recorded under the non-allocated method and are currently expensed as paid. Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepaid items using the consumption method for City-wide activities. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

Inventories

The City of Caribou inventories are valued at cost. Cost is determined on the first-in, first-out basis.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the City-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the City-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair value as of the date received. The City maintains a capitalization threshold of \$3,000 for all assets other than infrastructure assets. The capitalization threshold for infrastructure assets is \$50,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Buildings and Improvements	20-50 years	N/A
Furniture and Equipment	5-20 years	10-15 years
Vehicles	8-10 years	N/A

Pursuant to GASB Statement No. 34, an extended period of deferral (until 2006) is available before the requirement to record and depreciate infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) acquired before the implementation date becomes effective. The City developed an implementation to determine the value of and included infrastructure cost in 2006. Infrastructure acquired prior to December 2002 has not been recorded. GASB Statement No. 34 requires the reporting of new infrastructure expenditures effective with the beginning of the implementation year (2002).

The City has elected to account for their infrastructure assets using the modified approach as opposed to depreciating them. See Supplement 2 for further details.

Accounts Payable, Accrued Expenses and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the City-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues and expenses consist of amounts generated directly from the primary activity of the City's proprietary funds. For the City, these sales are ambulance service charges.

Budgets and Budgetary Accounting

The Budgetary Comparison Schedule for the General Fund (Supplement 1) presents comparisons of legally adopted budgets with actual data on a budgetary basis. This differs from the Statement of Revenues, Expenditures and Changes in Fund Balance (Exhibit D) since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. A reconciliation is presented below:

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	<u>General Fund</u>
Fund Balance (budgetary basis) - Supplement 1	\$3,070,806
Add: Due from other funds	454
Less: Reserve activity reported as special revenue	<u>(276,806)</u>
Fund Balance (GAAP basis) - Exhibit C	<u>\$2,794,454</u>

Fund Balance Classifications

The City has implemented GASB No. 54. Prior to this implementation, the fund balance was classified as Reserved and Unreserved, with Unreserved being Designated or Undesignated by City management for intended purposes. GASB No. 54 requires the classification to be Nonspendable, Restricted or Unrestricted. Unrestricted is then determined to be Committed, Assigned, or Unassigned by the City's management. The City considers expenditures that are incurred for purposes where restricted and unrestricted fund balances are available, to be expended in the following order - Restricted, Committed, Assigned and Unassigned. In the 2012 fiscal year there were no unrestricted committed funds.

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form or are contractually required to be maintained intact. The City reports fuel inventory as nonspendable.

Restricted Fund Balance

Restricted fund balance includes amounts that can only be used for specific purposes and includes grand funds and certain donations.

Unrestricted Assigned Fund Balance

Unrestricted assigned fund balance includes amounts assigned by the authority of the City Council for which they intend to use them for specific purposes. Any assignments held open for three years without activity is closed in unrestricted unassigned fund balance.

Unrestricted Unassigned Fund Balance

The remaining fund balance that is not restricted, committed or assigned is considered unassigned. These funds are spendable funds in the ordinary course of government operations.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated Absences

City employees are entitled to certain compensated absences based on their length of employment and their department's individual contract negotiated with the City. Administration and all other employees not under a departmental contract receive twelve days sick leave per year and one to five weeks of vacation depending on the number of years of service. Unused vacation and sick pay are accumulated at the employee's current rate of pay and is included as a liability in the net position of the City-wide financial statements.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012(2) CASH AND INVESTMENTS

As of December 31, 2012, cash and investments consisted of the following:

	<u>Carrying Amount</u>
Deposits with financial institutions	\$3,127,234

Deposits with financial institutions are subject to custodial risk, which is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy is to invest in regional banks and to insure the funds to as great a degree as possible. As of December 31, 2012, the bank balance, including the various fiduciary accounts, was \$3,127,234 of which all was insured or collateralized.

The above information does not include any amounts on deposit for Cary Medical Center or Caribou Utilities District.

(3) NOTE RECEIVABLE - REVOLVING LOAN FUND

The Revolving Loan Fund had a 6.5% note receivable in monthly installments of \$218 principal and interest through December 2017 with a balance of \$11,200 as of December 31, 2012.

(4) NOTES RECEIVABLE

As of December 31, 2012, the City's General Fund had the following notes receivable:

0% Note receivable with a balloon payment due in 2016.	\$200,000
6.5% Note receivable in monthly installments of \$220 principal and interest through June 2013.	1,905
2% Note receivable in annual installments of \$7,365 principal and interest through December 2028.	<u>99,615</u>
	<u>\$301,520</u>

As of December 31, 2012, the notes receivable mature as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 7,274
2014	5,476
2015	5,586
2016	205,698
2017	5,812
2018-2022	30,848
2023-2027	34,059
2028	<u>6,767</u>
	<u>\$301,520</u>

Notes receivable of \$301,520 are with the Caribou Economic Growth Council which has made various loans under the same terms noted above. These notes are secured by the applicable notes held by the Caribou Economic Growth Council.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012(5) ACTIVITIES OF THE CITY OF CARIBOU SECTION 8 HOUSING PROGRAM

The City operates a Voucher Program which enables up to one hundred ninety-three recipients to be granted housing assistance under the Section 8 Housing Program but does not restrict their living to the Caribou area.

The Section 8 Program has a family self-sufficiency program that permits families to stay in the program even if their income increases. This increase in payments is collected by the program and deposited into an escrow account for the families involved to use upon their successful completion of the program. This money is listed as restricted cash in the balance sheet of the special revenue fund.

(6) INTERFUND BALANCES

The balance of \$454 due to the general fund from the Section 8 Housing Program consists of amounts paid for operations on a reimbursement basis.

(7) CAPITAL ASSETS

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-wide Statement of Net Position. The City elected to use the "modified approach" as defined by GASB Statement No. 34 for infrastructure reporting. As a result, no accumulated depreciation or depreciation expense has been recorded for infrastructure. Other nondepreciable assets include land. All other capital assets were reported using the basic approach whereby accumulated depreciation and depreciation expense has been recorded.

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Retire- ments/ Transfers	Ending Balance
Governmental Activities				
Nondepreciable:				
Land	\$ 498,100	\$ -	\$ -	\$ 498,100
Construction-in-process	-	964,677	-	964,677
Infrastructure	5,403,333	-	-	5,403,333
Total nondepreciable	5,901,433	964,677	-	6,866,110
Land improvements	1,315,967	-	-	1,315,967
Buildings	6,086,865	4,200	-	6,091,065
Vehicles	3,669,219	356,272	306,333	3,719,158
Equipment	836,016	50,690	42,040	844,666
Totals at historical cost	17,809,500	1,375,839	348,373	18,836,966
Less accumulated depreciation for:				
Land improvements	996,372	14,717	-	1,011,089
Buildings	1,409,349	128,871	-	1,538,220
Vehicles	2,867,238	191,689	295,824	2,763,103
Equipment	548,775	61,548	42,040	568,283
Total accumulated depreciation	5,821,734	396,825	337,864	5,880,695
Governmental activities capital assets, net	\$11,987,766	\$ 979,014	\$ 10,509	\$12,956,271

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

(7) CAPITAL ASSETS (Continued)

Reclassification

Certain amounts in the beginning balance of land have been reclassified to land improvements in order to conform to the current presentation. These reclassifications have no effect on the change in net position.

	Beginning Balance	Additions	Retire- ments/ Transfers	Ending Balance
Business-type Activity				
Land	\$ 31,600	\$ -	\$ -	\$ 31,600
Land improvements	4,673	-	-	4,673
Buildings	186,792	-	-	186,792
Vehicles	475,871	171,400	67,878	579,393
Equipment	178,672	551,599	64,000	666,271
Totals at historical cost	<u>877,608</u>	<u>722,999</u>	<u>131,878</u>	<u>1,468,729</u>
Less accumulated depreciation for:				
Land improvements	4,673	-	-	4,673
Buildings	127,029	3,736	-	130,765
Vehicles	212,689	61,114	53,479	220,324
Equipment	<u>81,428</u>	<u>66,231</u>	<u>35,726</u>	<u>111,933</u>
Total accumulated depreciation	<u>425,819</u>	<u>131,081</u>	<u>89,205</u>	<u>467,695</u>
Business-type activity capital assets, net	<u>\$451,789</u>	<u>\$591,918</u>	<u>\$ 42,673</u>	<u>\$1,001,034</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
General	\$ 19,615
Library	6,528
Protection	127,586
Public works	114,987
Recreation and parks	86,550
Other	<u>41,559</u>
	<u>\$396,825</u>
Business-type Activity	<u>\$131,081</u>

(8) GENERAL LONG-TERM DEBT

As of December 31, 2012, long-term debt consisted of one 3.591% note payable in semi-annual payments ranging from \$44,205 to \$61,565 principal and interest through June 2025.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012(8) GENERAL LONG-TERM DEBT (Continued)

As of December 31, 2012, long-term obligations mature as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013 (included in current liabilities)	\$ 44,320	\$ 44,090
2014	54,954	33,336
2015	59,895	31,319
2016	65,129	29,121
2017	70,671	26,733
2018-2022	448,358	90,356
2023-2025	<u>242,941</u>	<u>11,617</u>
	<u>\$986,268</u>	<u>\$266,572</u>

Long-term debt activity during the year ended December 31, 2012, was as follows:

<u>Balance January 1, 2012</u>	<u>Additions</u>	<u>Reduc- tions</u>	<u>Balance December 31, 2012</u>	<u>Due Within One Year</u>
\$ <u>-</u>	<u>\$986,268</u>	\$ <u>-</u>	<u>\$986,268</u>	<u>\$44,320</u>

(9) EMPLOYEES' RETIREMENT PLANSMaine Public Employees Retirement System (MainePERS)

Some employees of participating local government units are eligible to participate in the City's defined benefit plan provided by the Maine Public Employees Retirement System (MainePERS). Approximately \$1,038,000 or 31% of the payroll of the City qualified for this plan for the year ended December 31, 2012.

Participants contribute between 6.5% and 7.65% of their wages to the plan. The State also contributes to fund future retirement benefits. All other employees are covered by the Social Security System.

Employees covered under this plan become vested after ten years of service. The calculation of benefits is based on the highest three years of earnings that the employee earned under the plan.

Complete information concerning the City's funding of the plan and obligation is available at the MainePERS office in Augusta.

Defined Contribution Plan

The City has established for its employees a voluntary deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salaries until future years. The City will match employee contributions up to 3.5% of their wages. The employer contribution for the year ended December 31, 2012 was approximately \$70,000.

(10) JOINT VENTURE - TRI-COMMUNITY RECYCLING AND SANITARY LANDFILL

The Tri-Community Recycling and Sanitary Landfill is owned jointly by the City of Caribou and the Towns of Fort Fairfield and Limestone. The Board of Directors consists of four members residing in the three communities; two from the City of Caribou and one from each of the other communities.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

(10) JOINT VENTURE - TRI-COMMUNITY RECYCLING AND SANITARY LANDFILL (Continued)

Financial statements for this joint venture were issued and reported on by us in a separate report dated March 1, 2013. These financial statements are available from the City's Finance Department.

A summary of the facility's activity for 2012, is as follows:

	<u>Amount</u>
Total assets	\$16,080,317
Total liabilities	<u>13,092,281</u>
Total net position	\$ <u>2,988,036</u>
 Total revenue	 \$ 2,164,166
Less total expenditures	2,126,405
Add change in accounting estimate	<u>452,000</u>
 Increase in net position	 \$ <u>489,761</u>

The City has guaranteed, together with the other member towns, two notes and a bond payable totaling \$8,537,000 for the Tri-Community Recycling and Sanitary Landfill. As of December 31, 2012, the balance owed was \$7,636,287.

The State of Maine Department of Environmental Protection requires the Landfill to place a final cover on its landfill once it is closed and perform certain maintenance and monitoring functions at the site for twenty years after closure. These estimated closure and post-closure care costs are being recognized in the financial statements referred to above at the rate of utilization of the landfill site. As of December 31, 2012, the estimated total cost of closure and post-closure care was approximately \$18,170,000 of which \$5,300,000 was recognized. The management of the landfill expects to use future earnings to cover the costs of closure and post-closure care. More information regarding the accounting for closure and post-closure care costs is available in the 2012 financial statements of the Tri-Community Recycling and Sanitary Landfill.

(11) TAX INCREMENT FINANCING (TIF) DISTRICT

During March 2006, the City created the Caribou Downtown Tax Increment Financing District, in which the City can use 100% of tax revenue from incremental new assessed value of property located in the District to promote private development. The City entered into an agreement with a developer in order to provide for the consolidation of a state agency. Under the terms of the TIF, incremental tax revenue over the next 15 years resulting from improvements to the developer's building will be returned to the developer. The revenue will then be used to reduce the state agency's rental expense. The total benefit to the developer and state agency is expected to be approximately \$410,000 over the 15-year period.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012

(11) TAX INCREMENT FINANCING (TIF) DISTRICT

During September 2012, the City created the RC-2 District to use tax revenue from incremental new assessed value of property located in the District to promote private development. The total benefit to the developer is expected to be approximately \$24,000 over a five-year period. Tax increment captured above that amount can be utilized for costs of public safety improvements, city-wide trails and other District improvements.

(12) SUBSEQUENT EVENTS

Management has reviewed subsequent events through July 23, 2013, the date these financial statements were available to be issued and determined that no additional adjustments or disclosures are required in order for these financial statements to be fairly stated.

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND AND AMBULANCE SERVICE
FOR THE YEAR ENDED DECEMBER 31, 2012

	General Fund			Ambulance Service		
	Budgeted Amounts		Actual Budgetary Basis	Budgeted Amounts		Actual Budgetary Basis
	Original	Final		Original	Final	
REVENUES						
Local property taxes	\$ 7,170,185	\$ 7,170,185	\$ 7,202,884	\$ -	\$ -	\$ -
Homestead exemption reimbursement	212,574	212,574	212,574	-	-	-
Supplemental taxes	1,000	1,000	79,103	-	-	-
Abatements	(25,000)	(25,000)	(26,965)	-	-	-
Federal assistance	58,119	58,119	56,814	-	-	-
State assistance	914,151	890,351	861,832	-	-	-
Fees	-	-	-	1,797,301	1,797,301	1,747,487
Charge to towns - Caribou	-	-	-	88,032	88,032	88,032
- Other	-	-	-	111,101	111,101	138,630
Billing services	-	-	-	48,600	48,600	49,077
Other (Schedule 1)	2,174,470	2,184,470	2,168,128	15,000	15,000	12,570
TOTAL REVENUES	10,505,499	10,491,699	10,554,370	2,060,034	2,060,034	2,035,796
EXPENDITURES						
General government	620,616	620,616	617,785	-	-	-
Education	3,213,918	3,213,918	3,213,918	-	-	-
Community development	89,764	89,764	84,857	-	-	-
Chamber of Commerce	98,277	98,277	95,861	-	-	-
Health and sanitation	279,646	269,547	269,528	-	-	-
Public works	2,155,736	2,155,736	2,146,041	-	-	-
Protection	2,140,261	2,140,261	2,126,332	-	-	-
Insurance and retirement	424,885	424,885	425,570	-	-	-
Recreation	681,198	681,198	664,498	-	-	-
Library	298,041	298,041	291,767	-	-	-
County tax	364,644	364,644	364,644	-	-	-
General assistance	63,509	63,509	49,913	-	-	-
Appropriations to capital outlays	19,500	19,500	19,500	-	-	-
Ambulance	-	-	-	1,560,544	1,524,108	1,814,016
Other (Schedule 2)	574,412	574,412	549,412	-	-	-
TOTAL EXPENDITURES	11,024,407	11,014,308	10,919,626	1,560,544	1,524,108	1,814,016
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(518,908)	(522,609)	(365,256)	499,490	535,926	221,780
OTHER SOURCES						
Transfer from ambulance fund, net	499,490	535,926	221,780	-	-	-
OTHER USES						
Capital outlays in excess of appropriations	-	-	439,142	-	-	-
Transfers to other funds	-	-	-	-	-	221,780
TOTAL OTHER USES	-	-	439,142	-	-	221,780
NET INCREASE (DECREASE) IN FUND BALANCE	(19,418)	13,317	(582,618)	499,490	535,926	-
FUND BALANCE - JANUARY 1, 2012	-	-	3,653,424	-	-	-
FUND BALANCE - DECEMBER 31, 2012	\$ (19,418)	\$ 13,317	\$ 3,070,806	\$ 499,490	\$ 535,926	\$ -

MODIFIED APPROACH FOR CITY CAPITAL ASSETS
DECEMBER 31, 2012

In accordance with GASB Statement No. 34, the City is required to account for and report infrastructure capital assets. The City developed an implementation to determine the value of and included infrastructure cost in 2006.

The City has elected to account for their infrastructure assets using the modified approach as opposed to depreciating them. GASB No. 34 does not require municipalities to depreciate infrastructure if they can provide the following:

An asset management system employed that:

- Has an up-to-date inventory of eligible infrastructure assets
- Performs condition assessments of the assets and summarizes the results using a "measurable scale"
- Estimates, on an annual basis, the annual amount needed to "maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government"

The City documents that the eligible infrastructure assets are being "preserved approximately at (or above) a condition level established and disclosed by the government".

<u>Condition</u>	<u>Rating</u>	<u>Asset Management System Rating</u>
Good	100-80	1
Fair	79-65	2
Poor	64-50	3
Substandard	49-0	4

The City established a condition level of 70% which is a 2 rating. The assessment itself may be made either by the governmental entity directly or by external parties. The condition assessment may be performed annually or on a cyclical basis. A condition assessment will be performed every 3 years commencing in 2006. As of December 31, 2012, the City's street and sidewalk systems were rated at an index of 85 and 74, respectively. The detail of the condition assessments are as follows:

<u>Condition</u>	<u>% of Roads</u>	<u>% of Sidewalks</u>	<u>Asset Management System Rating</u>
Good	71%	36%	1
Fair	26%	53%	2
Poor to Substandard	3%	11%	3 and 4

As of December 31, 2012, the City had 10,317,822 square feet of roads with a historical cost of \$5,159,583. As of December 31, 2012, the City had 109,189 square feet of sidewalks with a historical cost of \$243,750.

All expenditures related to infrastructure maintenance will be recognized as a current expense since they are not depreciated. Expenditures relating to infrastructure that are capital in nature (additions and improvements) will be capitalized as part of the infrastructure assets because they increase the capacity or efficiency of the related infrastructure asset.

The City had estimated expenditures of \$440,807 to maintain infrastructure at the desired condition level. Actual expenditures for the year ended December 31, 2012 were \$446,721.

CITY OF CARIBOU, MAINE

SCHEDULE 1

SCHEDULE OF OTHER REVENUES - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Excise taxes	\$ 1,180,000	\$ 1,199,933	\$ 19,933
Interest on deposits	6,300	4,964	(1,336)
City clerk's fees	32,500	33,579	1,079
Fire protection, other towns	107,984	99,351	(8,633)
Police dispatching	7,442	6,090	(1,352)
Payments in lieu of taxes	44,000	59,023	15,023
Income from City-owned property	66,200	94,007	27,807
Section 8 Housing Program Administration	82,000	80,720	(1,280)
Department of Transportation - Road Funds	159,164	153,122	(6,042)
Interest on delinquent taxes	50,500	41,175	(9,325)
Cable TV franchise	62,400	60,641	(1,759)
Interest on notes receivable	2,500	2,276	(224)
Lien collection fees	12,000	11,035	(965)
Caribou Chamber of Commerce	67,750	49,694	(18,056)
Miscellaneous	<u>303,730</u>	<u>272,518</u>	<u>(31,212)</u>
Other revenues - budgetary (Supplement 1)	<u>\$ 2,184,470</u>	2,168,128	<u>\$ (16,342)</u>
Adjustments to modified accrual		<u>96,145</u>	
Other revenues - modified accrual (Exhibit D)		<u>\$ 2,264,273</u>	

CITY OF CARIBOU, MAINE

SCHEDULE 2

SCHEDULE OF OTHER EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Municipal building	\$ 74,133	\$ 74,288	\$ (155)
Tax assessment office	183,584	181,771	1,813
Code enforcement office	110,247	106,328	3,919
Nylander Museum	29,478	24,875	4,603
Airport	51,199	41,767	9,432
Cemeteries	5,800	5,800	-
Trailer Park	16,030	16,030	-
Contributions	64,991	61,539	3,452
Tax increment financing	26,030	26,030	-
Unclassified	<u>12,920</u>	<u>10,984</u>	<u>1,936</u>
Other expenditures - budgetary (Supplement 1)	<u>\$574,412</u>	549,412	<u>\$ 25,000</u>
Adjustments to modified accrual		<u>218,554</u>	
Other expenditures - modified accrual (Exhibit D)		<u>\$767,966</u>	

SCHEDULE OF CAPITAL OUTLAYS - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Balances January 1	Appropri- ations	Grants/ Transfers	Other	Total Available	Expendi- tures	Balances December 31
Community Pool Improvements	\$ 7,656	\$ 2,000	\$ -	\$ -	\$ 9,656	\$ -	\$ 9,656
Nylander Museum	12,661	-	-	-	12,661	-	12,661
Library Roofing	-	16,500	92,182	-	108,682	3,420	105,262
Library Memorial Fund	25,402	-	-	11,627	37,029	9,968	27,061
Library Computer Reserve	3,073	900	-	-	3,973	700	3,273
Chamber Reserve	55,916	-	-	-	55,916	4,200	51,716
Police Department Donated Funds	24,256	-	-	5,562	29,818	-	29,818
Police Department Equipment	7,118	6,000	-	26,620	39,738	11,865	27,873
Recreation Center Improvements	30,329	5,000	-	6,733	42,062	17,065	24,997
Land Acquisitions	39,590	-	-	-	39,590	-	39,590
Rails to Trails Program	21,155	-	-	37,245	58,400	51,607	6,793
Grimes Mill Road Engineering	14,577	-	-	-	14,577	14,577	-
Grimes Mill Road Construction	139,425	-	-	-	139,425	24,354	115,071
Park Improvement Reserve	66,746	-	(20,690)	-	46,056	9,820	36,236
Property Assessment	74,855	45,467	-	-	120,322	209,014	(88,692)
Fire Equipment Reserve	220,733	55,000	-	2,145	277,878	-	277,878
Fire Hose Reserve	569	1,000	-	488	2,057	1,420	637
Fire Station Foam Reserve	2,943	400	-	-	3,343	-	3,343
Fire Training Building Reserve	6,627	-	-	-	6,627	-	6,627
PW Equipment Reserve	125,581	56,300	-	-	181,881	39,669	142,212
Police Car Reserve	21,619	18,000	-	10,233	49,852	31,309	18,543
Let's Move	-	-	-	858	858	1,473	(615)
Recreation/Parks Computer Reserve	(600)	-	-	-	(600)	-	(600)
Rec. Nonapprop. Spec. Projects	5,509	-	-	1,400	6,909	2,475	4,434
Recreation Equipment Reserve	24,926	7,500	-	-	32,426	20,000	12,426
Recreation Lawn Mower Reserve	16,062	1,800	-	-	17,862	-	17,862
Trail Maintenance Reserve	22,289	-	-	-	22,289	20,492	1,797
Hockey Boards Maintenance	458	-	-	-	458	-	458
Recreation - Collins Pond	19,241	-	-	-	19,241	-	19,241
Creative Playground Reserve	171	-	-	-	171	-	171
Trail Groomer Reserve	119,839	10,000	-	-	129,839	-	129,839
Caribou Community Band	1,482	-	-	-	1,482	234	1,248
Recreation Van Reserve	15,897	-	-	-	15,897	311	15,586
Community Development Match	31,831	-	-	-	31,831	-	31,831
Airport Reserve	4,390	5,000	366,043	-	375,433	214,253	161,180
Septic System Replacement	(465)	-	465	-	-	-	-
Streets/Roads Drainage	304,904	60,000	(175,000)	-	189,904	65,649	124,255
Curbing Reserve	5,178	-	-	-	5,178	-	5,178
Fuel Tank Reserve	45,523	-	-	10,969	56,492	5,520	50,972
Fire Department Furnace	-	12,000	-	-	12,000	-	12,000
Planning/Engineering Reserve	8,814	-	-	-	8,814	2,573	6,241
MMF/CUD Digester	28,876	-	(28,876)	-	-	-	-
Airport/Weather Bureau Reserve	946	-	-	-	946	-	946
Computer Reserve	10,052	10,000	-	-	20,052	23,433	(3,381)
Comprehensive Plan	(1,679)	-	-	-	(1,679)	-	(1,679)
Municipal Building Reserve	36,322	5,000	-	-	41,322	916	40,406
Preregistration Arts & Crafts	5,522	-	-	-	5,522	5,522	-
Parking Lot Maintenance Reserve	16,793	2,000	-	-	18,793	-	18,793
Industrial Park Improvements	12,441	-	-	-	12,441	-	12,441
	<u>1,635,553</u>	<u>319,867</u>	<u>234,124</u>	<u>113,880</u>	<u>2,303,424</u>	<u>791,839</u>	<u>1,511,585</u>

SCHEDULE OF CAPITAL OUTLAYS - GENERAL FUND (Continued)
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Balances January 1	Appropri- ations	Grants/ Transfers	Other	Total Available	Expendi- tures	Balances December 31
Public Works Paint Booth	9,351	-	-	-	9,351	-	9,351
CDC Economic Development	240,000	-	-	-	240,000	-	240,000
Plymouth Waste Oil Loan	63,306	-	(63,306)	-	-	-	-
Trailer Park Reserve	4,241	-	-	8,006	12,247	-	12,247
Caribou Housing Reserve	52,919	-	-	14,319	67,238	1,868	65,370
Civic Beautification Reserve	1,426	5,000	-	-	6,426	4,660	1,766
Lions Community Center Reserve	1,784	-	-	-	1,784	-	1,784
Community Gateway Grant	79	-	(79)	-	-	-	-
Ambulance Small Equipment	10,883	-	-	27,750	38,633	27,892	10,741
Ambulance/Fire EDP Reserve	2,719	300	700	-	3,719	-	3,719
Aerial Photography	2,700	-	-	-	2,700	-	2,700
Library Handicapped	(419)	-	419	-	-	-	-
Airport Improvements	(12,344)	5,000	265,189	-	257,845	257,290	555
EMA Equipment Reserve	2,012	-	-	-	2,012	-	2,012
Nylander Donations	2,000	-	-	-	2,000	-	2,000
Caribou Community Wellness	25,090	-	(25,090)	-	-	-	-
Library Bathroom Renovations	268	-	(268)	-	-	-	-
Trails Grant	(4,366)	-	-	-	(4,366)	-	(4,366)
Welcome to Caribou Signs	(400)	-	400	-	-	-	-
Homeland Security	2,279	-	-	-	2,279	-	2,279
Ski Rental	3,860	-	-	5,895	9,755	5,156	4,599
CDBG Housing Rehabilitation	3,880	-	-	-	3,880	-	3,880
Maine Military Authority	28,813	-	-	-	28,813	-	28,813
Ambulance Stair Chairs	2,250	-	-	-	2,250	-	2,250
Charter Commission	(3,422)	-	-	-	(3,422)	-	(3,422)
DEP Small Community Grant	(129)	-	129	-	-	-	-
Wellness Construction	(1,500)	-	1,184	-	(316)	-	(316)
TIF	105,813	-	-	25,051	130,864	20,242	110,622
Cadet Reserve	1,458	-	-	500	1,958	1,040	918
Downtown Infrastructure	3,508	1,500	-	-	5,008	565	4,443
Debt Service	(23,906)	-	23,906	-	-	-	-
Fire Department Kitchen Remodel	(388)	-	388	-	-	-	-
Police Garage Roof Repair	556	-	(556)	-	-	-	-
Police Camera System	(91)	-	91	-	-	-	-
Christmas Lights	5,766	4,000	-	-	9,766	5,988	3,778
Fire Dispatch Model	700	-	-	-	700	-	700
Tax Acquired Property Remediation	4,200	-	-	1,224	5,424	105	5,319
Boat Launch	(20,690)	-	20,690	-	-	-	-
RSU 39 Commitment	(874,841)	3,213,918	-	-	2,339,077	3,213,919	(874,842)
EECBG Program	(8,063)	-	8,063	-	-	-	-
Subtotal	(368,698)	3,229,718	231,860	82,745	3,175,625	3,538,725	(363,100)
Subtotal Schedule 3a	1,635,553	319,867	234,124	113,880	2,303,424	791,839	1,511,585
TOTAL	\$ 1,266,855	\$ 3,549,585	\$ 465,984	\$196,625	\$ 5,479,049	\$ 4,330,564	\$ 1,148,485

SCHEDULE OF NON-CAPITAL OUTLAYS - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Balances <u>January 1</u>	Appropri- <u>ations</u>	<u>Transfers</u>	<u>Other</u>	Total <u>Available</u>	Expendi- <u>tures</u>	Balances <u>December 31</u>
Compensated Absences	\$156,340	\$ -	\$25,000	\$ -	\$181,340	\$ 66,069	\$ 115,271
Revolving Loan Fund - Cash	315,627	-	-	12,862	328,489	-	328,489
Revolving Loan Fund - Loans Receivable	114,573	-	-	-	114,573	12,670	101,903
City Retirement	1,080	-	-	-	1,080	-	1,080
Police Underage Drinking Grant	(2,648)	-	2,648	-	-	-	-
Retirement Reserves	4,139	-	-	-	4,139	-	4,139
Fire/Ambulance Overtime	2,679	-	(2,679)	-	-	-	-
HRA Contribution Reserve	22,312	-	-	18,600	40,912	22,071	18,841
Community Bulletin Board	120	-	-	40	160	-	160
	<u>\$614,222</u>	<u>\$ -</u>	<u>\$24,969</u>	<u>\$31,502</u>	<u>\$670,693</u>	<u>\$100,810</u>	<u>\$ 569,883</u>

BALANCE SHEET
FOR ALL SPECIAL REVENUE FUNDS
DECEMBER 31, 2012

	Grimes Mill Road	Revolving Loan Fund #10	Airport Improvement Program	Drink Grant Personnel	EECBG Program	Total Special Revenue Funds
<u>ASSETS</u>						
Cash	\$115,071	\$210,766	\$ 161,735	\$ 5,359	\$ -	\$492,931
Note receivable (Note 5)	-	11,200	-	-	-	11,200
	<u>\$115,071</u>	<u>\$221,966</u>	<u>\$ 161,735</u>	<u>\$ 5,359</u>	<u>\$ -</u>	<u>\$504,131</u>
<u>LIABILITIES AND FUND BALANCE</u>						
LIABILITIES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FUND BALANCE	<u>115,071</u>	<u>221,966</u>	<u>161,735</u>	<u>5,359</u>	<u>-</u>	<u>504,131</u>
	<u>\$115,071</u>	<u>\$221,966</u>	<u>\$ 161,735</u>	<u>\$ 5,359</u>	<u>\$ -</u>	<u>\$504,131</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR ALL SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Grimes Mill Road	Revolving Loan Fund #10	Airport Improvement Program	Drink Grant Personnel	EECBG Program	Total Special Revenue Funds
REVENUES						
Grants - Federal	\$ -	\$ -	\$ 452,487	\$ -	\$ -	\$452,487
- State	-	-	3,745	57,216	-	60,961
Interest income	-	1,991	-	-	-	1,991
Total Revenues	-	1,991	456,232	57,216	-	515,439
EXPENDITURES						
Program expenditures	-	-	-	61,649	-	61,649
Construction and improvements	38,931	-	471,543	-	-	510,474
	38,931	-	471,543	61,649	-	572,123
EXCESS OF REVENUES OVER EXPENDITURES (EXPENDITURES OVER REVENUES)	(38,931)	1,991	(15,311)	(4,433)	-	(56,684)
OTHER SOURCES						
Transfer from general fund	-	-	185,000	9,792	8,063	202,855
NET INCREASE (DECREASE) IN FUND BALANCE	(38,931)	1,991	169,689	5,359	8,063	146,171
FUND BALANCE - JANUARY 1	154,002	219,975	(7,954)	-	(8,063)	357,960
FUND BALANCE - DECEMBER 31	<u>\$115,071</u>	<u>\$221,966</u>	<u>\$ 161,735</u>	<u>\$ 5,359</u>	<u>\$ -</u>	<u>\$504,131</u>

CITY OF CARIBOU, MAINE

SCHEDULE 7

SCHEDULE OF PROPERTY TAXES - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Total</u>	<u>2013 Taxes</u>	<u>2012 Taxes</u>	<u>2011 Taxes and Liens</u>	<u>Prior Taxes</u>
UNCOLLECTED AT JANUARY 1	\$ 762,817	\$ -	\$ (11,333)	\$578,667	\$195,483
2012 COMMITMENT (\$371,512,200 @.0193)	7,170,186	-	7,170,186	-	-
SUPPLEMENTAL TAX	79,103	-	79,103	-	-
	<u>7,249,289</u>	<u>-</u>	<u>7,249,289</u>	<u>-</u>	<u>-</u>
COLLECTIONS	7,060,026	25,499	6,511,983	442,186	80,358
TAX-ACQUIRED PROPERTY	37,142	-	13,923	12,345	10,874
ABATEMENTS	26,965	-	26,430	535	-
	<u>7,124,133</u>	<u>25,499</u>	<u>6,552,336</u>	<u>455,066</u>	<u>91,232</u>
UNCOLLECTED AT DECEMBER 31	\$ 887,973	\$ (25,499)	\$ 685,620	\$123,601	\$104,251
REPRESENTED BY					
Real Estate Taxes	\$ 802,269	\$ (25,434)	\$ 641,756	\$110,562	\$ 75,385
Personal Property Taxes	85,704	(65)	43,864	13,039	28,866
	<u>\$ 887,973</u>	<u>\$ (25,499)</u>	<u>\$ 685,620</u>	<u>\$123,601</u>	<u>\$104,251</u>

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council of the
City of Caribou, Maine

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Caribou, Maine as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Caribou, Maine's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Caribou, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Caribou, Maine's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the City Council of the
City of Caribou, Maine

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Caribou, Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Felch & Company, LLC

Caribou, Maine
July 23, 2013

FELCH & COMPANY, LLC

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the City Council of the
City of Caribou, Maine

Report on Compliance for Each Major Federal Program

We have audited the City of Caribou, Maine's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2012. The City of Caribou, Maine's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of City of Caribou, Maine's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Caribou, Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the City of Caribou, Maine complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

To the City Council of the
City of Caribou, Maine

Report on Internal Control Over Compliance

Management of the City of Caribou, Maine is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Felch & Company, LLC

Caribou, Maine
July 23, 2013

CITY OF CARIBOU, MAINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: *qualified*

Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiencies identified
that are not considered to be material
weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial
statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiencies identified
that are not considered to be material
weakness(es)? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs: *unqualified*

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? ☐ yes ☒ no

Identification of major programs:

Department of Housing and Urban Development

Section 8 Housing Choice Voucher Program CFDA #14.871
Airport Improvement Program CFDA #20.106

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass- through Grantor's Number	Receipts	Disbursements
<u>U.S. Department of Housing and Urban Development</u>				
* Direct Award - Section 8 Housing Choice Vouchers	14.871	N/A	\$ 968,929	\$ 978,536
Subtotal - U.S. Department of Housing and Urban Development			<u>968,929</u>	<u>978,536</u>
<u>U.S. Department of Transportation</u>				
* Direct Award - Airport Improvement Program	20.106	N/A	452,487	452,487
Passed through the State of Maine Department of Conservation Recreational Trails Program	20.219	N/A	<u>19,817</u>	<u>19,817</u>
Subtotal - U.S. Department of Transportation			<u>472,304</u>	<u>472,304</u>
<u>U.S. Department of Homeland Security</u>				
Passed through State of Maine Department of Emergency Management Homeland Security Grant Programs	97.067	N/A	11,733	11,733
Grimes Mill Road Construction	97.036	N/A	<u>-</u>	<u>38,931</u>
Subtotal - U.S. Department of Homeland Security			<u>11,733</u>	<u>50,664</u>
<u>U.S. Department of Justice</u>				
Enforcing Underage Drinking Laws Program	16.727	N/A	7,971	3,944
Public Safety Partnership and Community Policing Grants	16.710	N/A	<u>59,246</u>	<u>59,246</u>
Subtotal - U.S. Department of Justice			<u>67,217</u>	<u>63,190</u>
Total			<u>\$ 1,520,183</u>	<u>\$ 1,564,694</u>

* Tested as major program

CITY OF CARIBOU, MAINE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Caribou, Maine and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation, of the basic financial statements.

NOTE B - BASIS OF PRESENTATION

Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal financial assistance programs administered by the City, an entity as defined in the notes to the financial statements.

Pass-Through Programs

Where the City receives funds from a government entity other than the federal government (pass-through), the funds are accumulated based upon the Catalog of Federal Domestic Assistance (CFDA) number advised by the pass-through grantor.

NOTE C - INDIRECT COSTS

Indirect costs are included in the reported expenditures to the extent such costs are included in the federal financial reports used as the source for the data presented.

NOTE D - MATCHING COSTS

Matching costs that represent the City's share of certain program costs, if any, are not included in the Schedule of Expenditures of Federal Awards.

CITY OF CARIBOU, MAINE

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2012

There were no audit findings reported for the year ended December 31, 2011 that require follow-up in the December 31, 2012 report.