Financial Statements

CITY OF CARIBOU, MAINE

as of

DECEMBER 31, 2009

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Caribou, Maine as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Caribou Maine's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements referred to above do not include the financial activities of Cary Medical Center and Caribou Utilities District, which should be included in order to conform with accounting principles generally accepted in the United States of America. The financial statements of the component units have been or are being audited and reported on by other independent auditors. The effects on the financial statements of these omissions are not reasonably determinable.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Caribou, Maine, as of December 31, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2010 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the City Council of the
City of Caribou, Maine

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and Modified Approach for City Capital Assets 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Caribou, Maine's basic financial statements as a whole. 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 of the City of Caribou, Maine. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Felch & Company, LLC

May 28, 2010

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2009

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, 2009. Management's discussion and analysis should be viewed as a tool to aid the reader in their 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 2009.

- 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.

This audit report consists of two distinct series of financial statements: City-wide and Fund.

The City-wide reports are designed to show the City as a sum of its significant fund activities. The *Statement of Net Assets* 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-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 Assets presents information on the City's assets and liabilities, with the difference between the two reported as net assets. 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 assets changed during the last calendar year on a department-by-department basis. All changes in net assets 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 and Industry, Section 8 housing, capital projects and other activities. Enterprise activities, or business-type activities are the ambulance operations.

Historically, the Caribou School Department was reported separately throughout the statements for the City of Caribou as a Department. However, on July 1, 2009 the Caribou School Department consolidated with Limestone and Stockholm School Departments to form Eastern Aroostook Regional School Unit (RSU) #39. In order to enhance comparability of 2009 to 2008 MDA financial data, certain items have been restated or omitted. School department revenues have been omitted and the only education expenditure included is the appropriation from the general fund. The change in net assets for 2009 and 2008 in Table II includes only the change for the City post-formation of the RSU.

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 funds and fiduciary funds.

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, and previously the School Lunch Programs. These two activities are maintained as enterprise accounts the same as business activities and are reported separately to better demonstrate the cash flows and net of operational activity that is generated from each of these 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 earlier 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 Assets (Exhibit A) reports total net assets of $17,076,389 from the combined operations of the Governmental and Business-type activities, excluding School activities. 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 Assets, Investments in Capital Assets and Unrestricted.

The reader should refer to Table I as a comparison of Exhibit A of the net changes from 2008 to 2009. Total Current Assets increased by $848,470 for 2009. The change in assets is comprised of an increase in Cash and Temporary Investments of $1,228,386 largely due to the transfer from Caribou School Department upon formation of the RSU, pursuant to MRSA Title 20-A §1463 (3). Taxes Receivable and Tax Acquired Property decreased from 2008 by $47,958, with 13.7% of the commitment outstanding at the end of 2009 as compared to 14.3% for the prior year. Notes receivable also decreased by $291,681. Total Noncurrent Assets increased by $47,510 as improvements exceeded depreciation.

Table I indicates Current Liabilities decreased by $59,975 with positive reductions in Accounts Payable and Deferred Taxes, and an increase in Deferred Compensation. Noncurrent Liabilities decreased by $279,566 as the Note Payable for the construction of the Wellness Center, net of current portion. Net Assets increased for 2009 by $1,235,521, attributed in large part to the reclassification of prior School Department reserves to City reserves from the Caribou School Department, formerly a department and now an independent Regional School Unit, or RSU. Management recognizes this significant change as being a one-time event and is reflective of the retention of net operations due to the School department during its years of operations.

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 assets 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 2009 and 2008 Government Activities Expenses. These pie charts should aid the reader to make a visual comparison in changes from 2008 to 2009.

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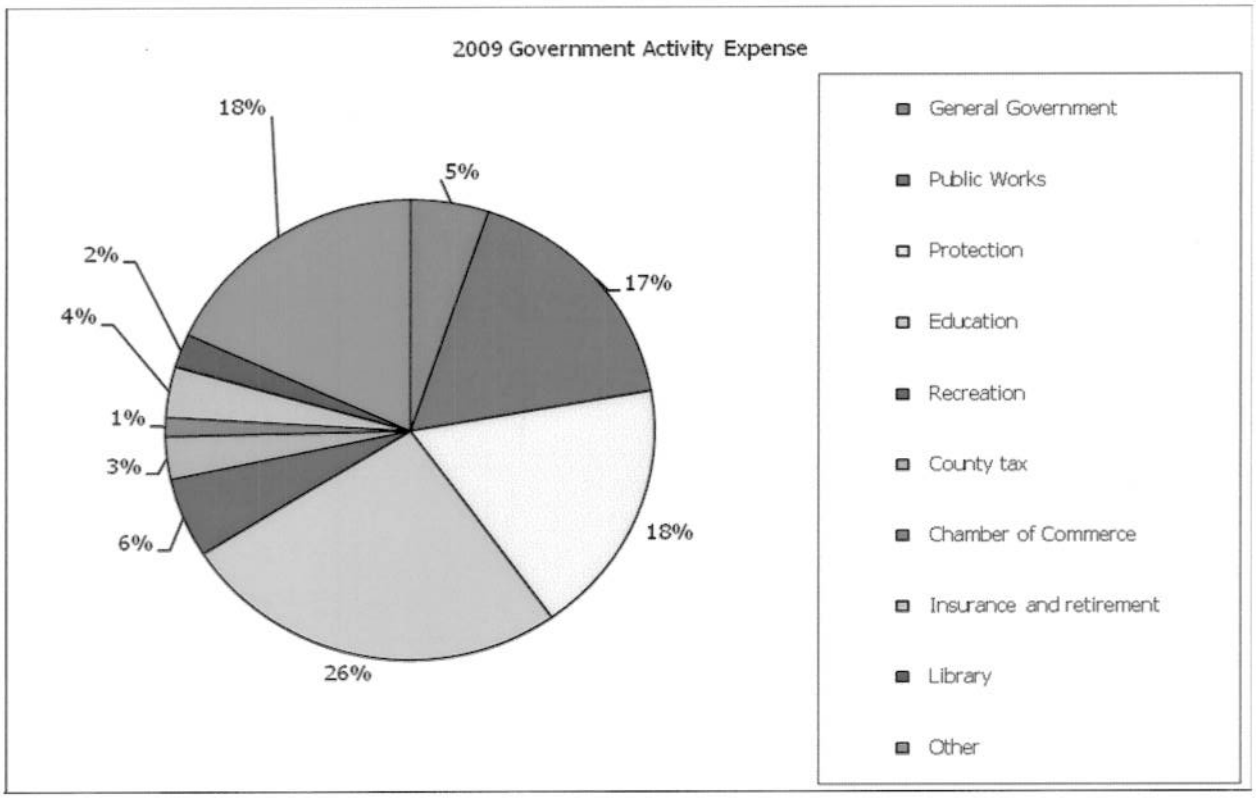
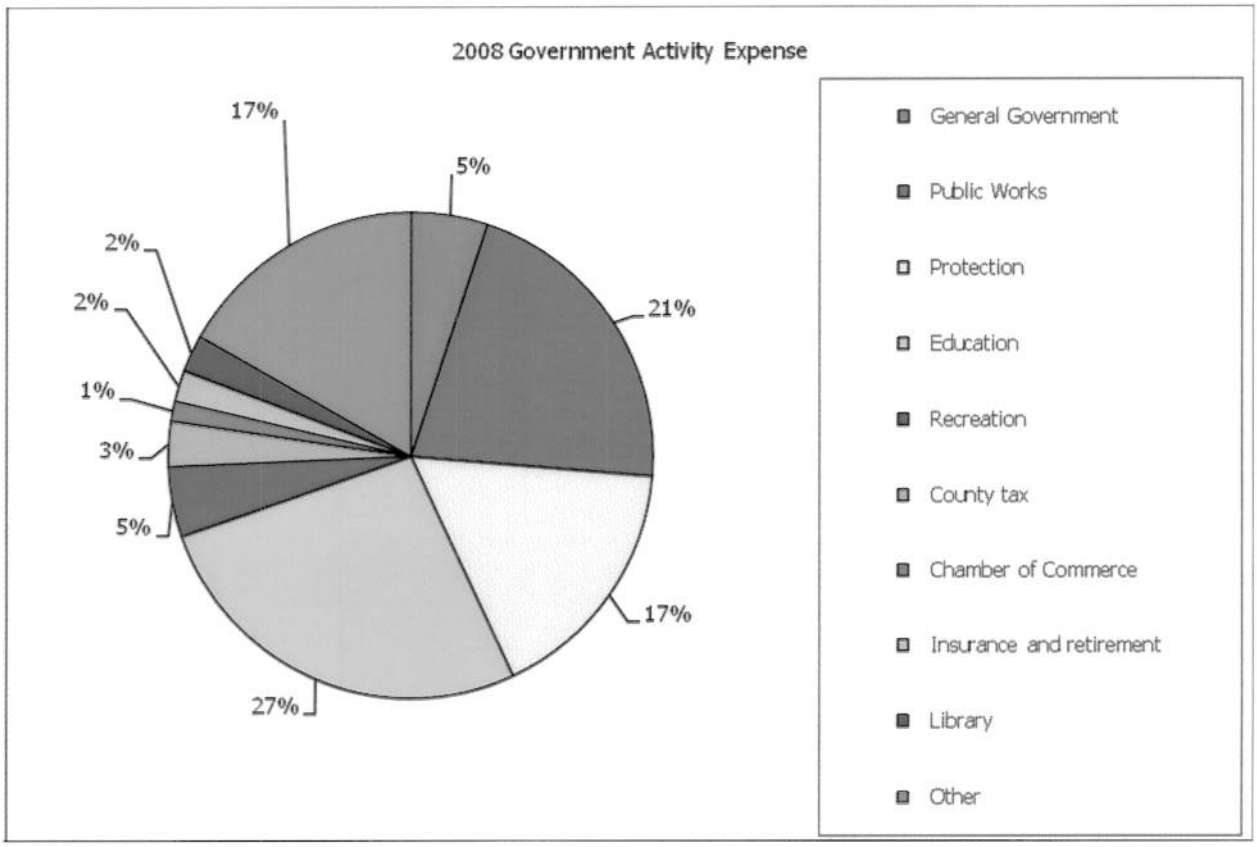
Table I provides data for the Governmental Activities for the years ended 2009 and 2008.

Table I
Net Assets

	2009	2008
Current Assets		
Cash and temporary investments	$ 4,810,396	$ 3,582,010
Taxes receivable	874,943	922,901
Notes receivable	452,184	476,006
Other receivables	547,054	838,735
Due from other funds	-	-
Other current assets	101,967	118,422
Total Current Assets	6,786,544	5,938,074
Noncurrent Assets		
Capital assets, net of depreciation	12,360,137	12,312,627
Total Assets	19,146,681	18,250,701
Current Liabilities		
Accounts payable and accrued expenses	142,951	238,387
Deferred compensation	682,941	619,039
Deferred taxes	685,268	713,709
Current portion note payable	279,566	279,566
	1,790,726	1,850,701
Noncurrent Liabilities		
Note payable, net of current portion	279,566	559,132
Net Assets		
Investment in capital assets, net of related debt	11,801,005	11,473,929
Unrestricted net assets	5,275,384	4,366,939
TOTAL NET ASSETS	$17,076,389	$15,840,868


2009 Government Activity Expense
18%
5%
17%
2%
4%
1%
3%
6%
18%
26%
General Government
Public Works
Protection
Education
Recreation
County tax
Chamber of Commerce
Insurance and retirement
Library
Other


2008 Government Activity Expense
17%
5%
2%
2%
1%
3%
5%
21%
17%
27%
General Government
Public Works
Protection
Education
Recreation
County tax
Chamber of Commerce
Insurance and retirement
Library
Other

The reader should refer to Table II as a comparison of the changes in Net Assets from 2008 to 2009. Table II has been adjusted for comparative purposes with the removal of the six months partial operations of the School department in 2009, (the RSU starting in the second six months), and for prior year to focus on the municipal operations comparison. Total City net Expenditures for Governmental and Business-type activities combined was $10,061,269, as compared to $9,980,711 for 2008. The major components of the $80,558 change in Expenditures are a $486,329 decrease in Public Works expenditures due to a reduction in capital projects and greatly reduced snow removal activity for 2009. A major change in Insurance and Retirement from 2008 to 2009 is due to the credit of past reserves from the former defined pension plan being closed and changing to a defined contribution plan effective in 2009. The 2008 credit of the reserve funding being $145,648 accounted for the larger than normal differential. Capital Projects also increased by $248,811 for the year.

For 2009 the total General Revenues were $9,423,607 compared to 2008 General Revenues of $9,457,175, a decrease of $33,568, from all sources excluding Caribou School Department. The net decrease is comprised of an increase in Property taxes of $244,581, a decrease in Federal and State Assistance of $166,389, increased Excise tax of $11,825, and a decrease in Other Revenues (non-property tax) of $123,585. Management notes the impact to property taxation in 2009 due to the significant combined losses of non-property tax revenues as reflective of the economic downturn affecting the entire nation starting in mid-2009. This is foreseen as a trend that may continue to impact the City for another 1 to 3 years. Pie charts follow to give the reader a visual indication of these sources of City Revenues for 2009 as compared to 2008.

For Business-type activities, Table II shows the Ambulance Service expending $1,345,269 while generating revenues of $1,350,713 from billings and $118,057 from operational grants producing a net income of $123,501 for 2009 compared to a net income of $20,470 in 2008. The Ambulance Service also transferred $81,725 to the General Fund in 2009 as part of their positive change in receivables thereby contributing to the General Fund. See Exhibit H for full details of this Business-type Activity. The Service receives no support from property taxation and increased its net assets by $41,776 for the year, also illustrated in Exhibit H of this report.

Table II also compares the change in Net Assets being a positive increase of $1,235,521 comprised of an increase of $123,501 from business-type activities, ambulance, and a net increase of $1,112,020 from governmental activities. The large increase from governmental activities is due to the categorization of prior fund balance from the operations of the School department to City fund balance as of the formation of the RSU, an amount of $1,749,682.

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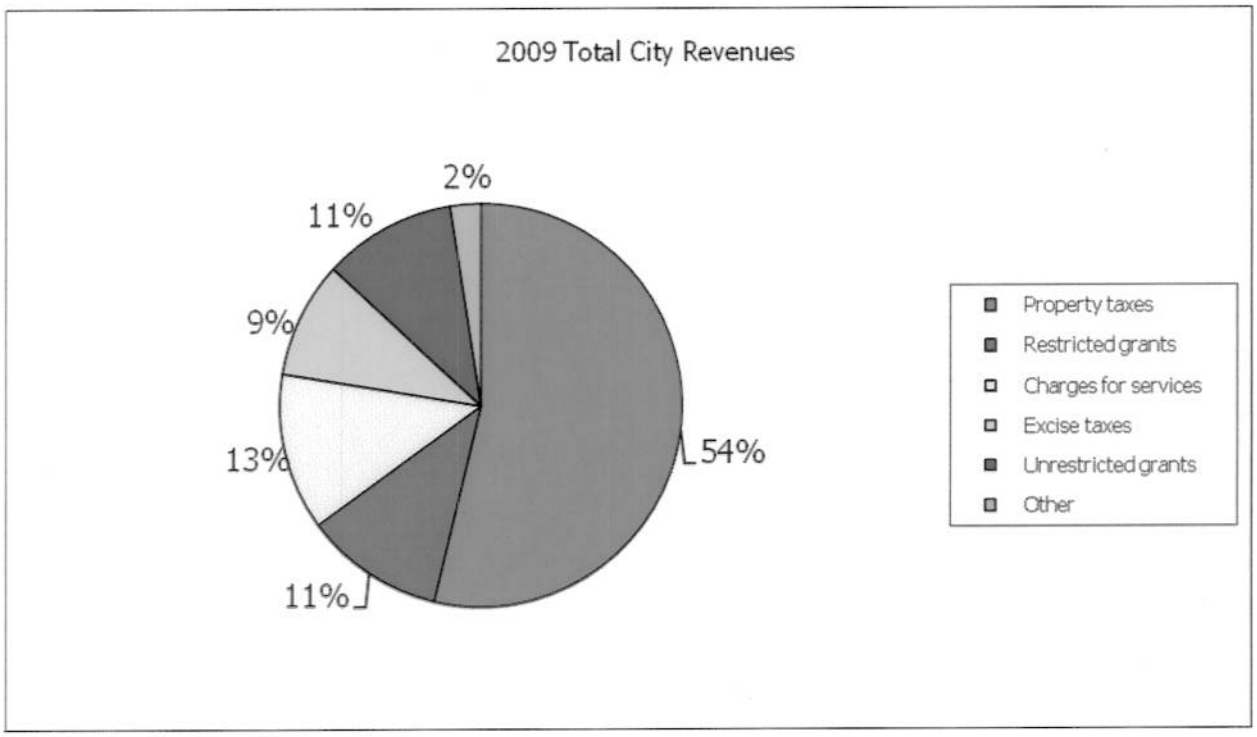
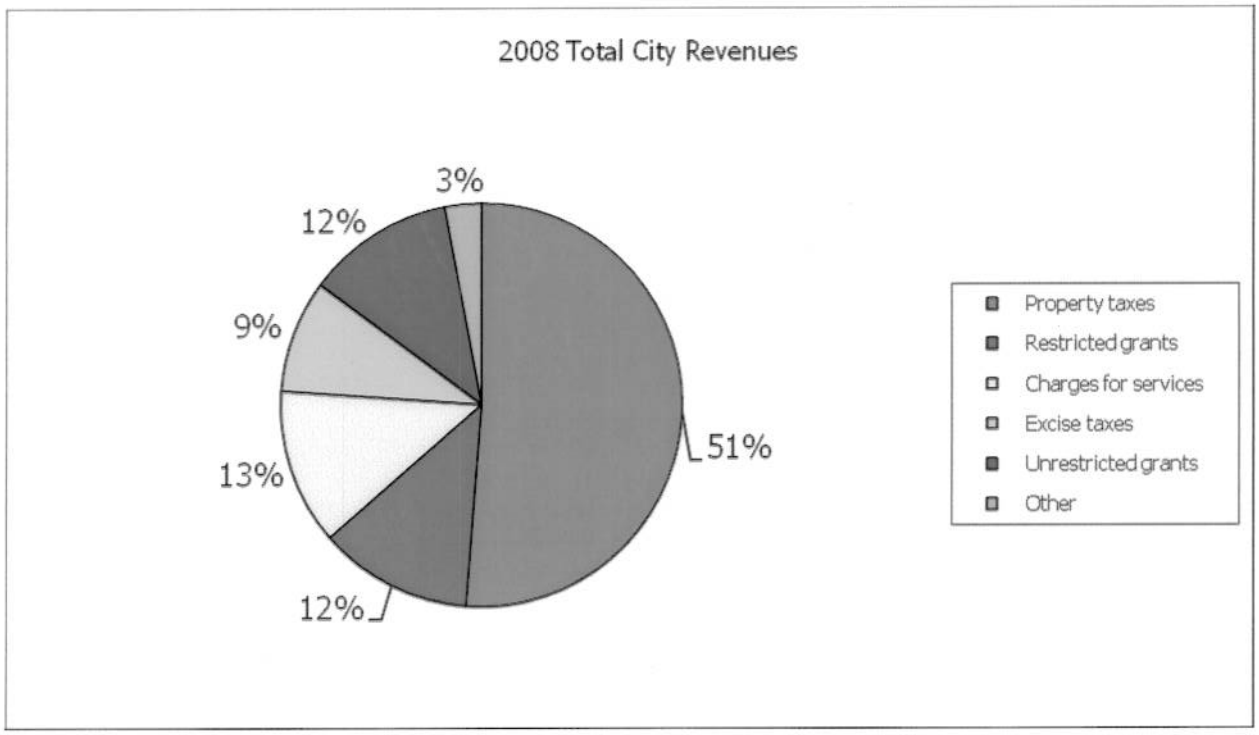
Table II shows the changes in net assets for the years 2009 and 2008.

Table II
Change in Net Assets

	2009	2008
Governmental Activities:		
General Revenues		
Taxes	$ 6,696,219	$ 6,451,638
Federal and state assistance	1,326,559	1,492,948
Excise taxes	1,152,993	1,141,168
Other revenues	247,836	371,421
Total general revenues	9,423,607	9,457,175
General Expenses, net of related revenues		
General Government	478,384	487,734
Public Works	1,831,721	2,318,050
Protection	1,898,848	1,864,079
Education	2,990,387	3,119,847
Recreation	552,549	476,962
County tax	351,859	355,272
Chamber of Commerce	155,000	155,000
Insurance and retirement	411,590	242,504
Library	269,745	287,448
Capital projects	50,301	(198,510)
Other	1,070,885	872,325
Total general activities expenses	10,061,269	9,980,711
Change in net assets before extraordinary item	(637,662)	(523,536)
Transfer from Caribou School Department	1,749,682	-
Change in Net Assets from general governmental activities	1,112,020	(523,536)
Business-Type Activities:		
Revenues		
Charges for services	1,350,713	1,380,987
Operational grants	118,057	-
Total business-type activity revenues	1,468,770	1,380,987
Expenses	1,345,269	1,360,517
Change in Net Assets from business-type activities	123,501	20,470
Change in Net Assets from governmental activities	1,235,521	(503,066)
Net Assets January 1	15,840,868	16,343,934
Net Assets December 31	$ 17,076,389	$ 15,840,868

Management has produced Table III to further assist the reader in assessing the major changes in Revenues for the City comparing the 2009 current year to that of 2008. Total Governmental Revenues decreased from 2008 to 2009 by $134,607. This is reflective of the major changes associated with the ongoing economic conditions. There were major reductions in Restricted Grants, Charges for Services, Unrestricted Grants, and Other non-property tax revenues for a reduction of $391,013. The only offsetting increase in non-property tax revenue was an increase of $11,825 in Excise Tax. The net increase of $244,581 in Property Taxes is reflective of the increased burden upon this revenue source as other non-property tax and intergovernmental revenues continue to decline. The sharpest decline in 2009 was the loss of State Revenue Sharing due to a reduction of the percentage set aside by the State, reduced economic activity statewide, and the State Legislature reducing the fund by over $35 million to offset State losses. Refer to the Charts of Total City Revenues for a visual comparison.


2009 Total City Revenues
2%
11%
9%
13%
54%
11%
Property taxes
Restricted grants
Charges for services
Excise taxes
Unrestricted grants
Other


2008 Total City Revenues
3%
12%
9%
13%
51%
12%
Property taxes
Restricted grants
Charges for services
Excise taxes
Unrestricted grants
Other

UNAUDITED

Table III shows the percentage of revenue sources for governmental activities for the years 2009 and 2008.

Table III
Percentage of Revenue Sources

	2009 Revenues	2009 (by percentage)	2008 Revenues	2008 (by percentage)
Governmental Revenues:				
Property taxes	$ 6,696,219	54%	$ 6,451,638	51%
Restricted grants	1,399,310	11%	1,557,396	12%
Charges for services	1,576,828	13%	1,580,176	13%
Excise taxes	1,152,993	9%	1,141,168	9%
Unrestricted grants	1,326,559	11%	1,492,948	12%
Other	309,974	2%	373,164	3%
Total City Revenues	$ 12,461,883	100%	$ 12,596,490	100%

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Management has produced Table IV to illustrate any significant changes within the Governmental Expenditures from 2008 to 2009 as a percentage of total expenditures for each year followed by pie charts illustrating the same. Total Governmental Expenses decreased for the year by $183,907. The Reader will note two significant changes, a decrease of $129,460 in Education expenses due to credits from the formation of the RSU, and a decrease in Public Works of $518,372 due to a reduction in capital programs and a greatly reduced cost for winter snow removal. Major increases fell under Protection due to Fire and Police services with increased cost of training, especially police academy. Despite the positive reduction in overall expenditures, very little change in the percentage by category is reported for 2009 with the exception of Protection and Education.

UNAUDITED

Table IV shows the percentage of expenses for governmental activities for the years 2009 and 2008.

Table IV
Percentage of Expenses

	2009 Expenses	2009 (by percentage)	2008 Expenses	2008 (by percentage)
Governmental Expenses:				
General Government	$ 596,019	5%	$ 595,791	5%
Public Works	1,974,071	15%	2,492,443	19%
Protection	2,077,496	16%	1,968,514	15%
Education	2,990,387	23%	3,119,847	24%
Recreation	647,766	5%	550,462	4%
County tax	351,859	3%	355,272	3%
Chamber of Commerce	155,000	1%	155,000	1%
Insurance and retirement	411,590	3%	242,504	2%
Library	269,745	2%	287,448	2%
Capital projects	115,508	1%	45,570	0%
Ambulance	1,345,269	10%	1,360,517	10%
Other	1,979,196	16%	1,924,445	15%
Total Governmental Expenses	$ 12,913,906	100%	$ 13,097,813	100%

A balance sheet of the City's Governmental Fund is provided in Exhibit C. The general fund ended 2009 with Fund Assets of $5,642,410. This represents an increase of $1,057,685 in City Assets compared to the prior year. Of this positive change, Liabilities ended at $686,448, down by $28,055. Total Fund Balance increased by $1,085,740 to $4,955,962 largely due to School Fund balance transfer.

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 2009. Exhibit D summarizes the City, School, Section 8 Housing, 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 2009 were $18,261,345 and Expenditures were $18,433,642, a deficiency of $172,297. This deficiency does not include the business-type activity that offsets the losses isolated solely to the governmental funds. There was a net decrease in the overall Fund Balance in 2009 of $1,116,820 due to the substantial activity during the formation and transfer of resources between the City and newly formed RSU. The decrease in overall fund balance is comprised of operating deficit of $172,297, transfer from other sources of $132,875, capital outlays in excess of current year appropriations and transfers totaling $777,507, and a net of $299,891 in extraordinary transfers to the RSU all totaling $1,116,820 in net fund reduction for the year.

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. The Reader will note the extraordinary change in Fixed Assets due to the transfer of assets to the newly formed RSU #39 as of July 2009.

The Reader may refer to Supplemental 1 as the best report comparing the City's Governmental Fund and Business-type Fund activity for the year as they compare to budget. Total Expenditures for the year, excluding Ambulance, were $10,179,367, $182,442 less than budget. Revenues, excluding Ambulance, were $10,095,573, $89,274 greater than budget, but $83,794 less than expenditures for the Governmental Funds. The Ambulance Service revenue of $1,669,109 fell $212,896 short of budget due to significant volume reductions in 2009. However, the Ambulance expenditures were $1,513,578 for the year, $17,093 greater than budget, yet revenues exceed expenditures by $155,531 for the year. The City's net of operations, governmental and ambulance funds combined, was a positive $71,737 before accounting for transfers and other uses.

The overall change in Fund Balance from the combined operations under Governmental Funds and Ambulance Funds was a net reduction of $463,622. This reduction is predominantly due to Capital Outlays in excess of appropriations of $342,080, Debt Service, and the reduction of the net offset in the transfer of funds from Ambulance operations that fell far short of projections. Management notes the loss of Ambulance revenues anticipated as reflective of the economic downturn and resulting loss of volume. Management further recognizes the capital outlay in excess of appropriations as a matter of timing of the approved number of projects and equipment purchases authorized for the given year. However, the recent trend in reductions of appropriations to capital outlays versus the long-term identified program needs cannot be sustained long-term without future modifications.

A more complete understanding of the capital outlay is summarized in Note 9 of this report. Note 9 indicates the City's capital assets net of depreciation started the year at $11,893,935 and ended the year at $11,887,577, a reduction of $6,358. This is the first time in many years that capital outlay was not greater than depreciation. Note 9 also outlines the additions and reclassifications of assets from the City's former School Department to the RSU #39, a transfer of assets of $3,561,634.

The City of Caribou continues to be fiscally strong. The City strives towards greater participation in currently regionalized services such as Ambulance, Fire, Protections Services, Schools, back office functions, dispatch, and other areas as possible. The City continues to maximize non-property tax revenue sources to lower the overall burden on property taxation. City operations continue in a positive trend as the City Council, RSU #39 Board of Education, Planning Board, Sub-committees and Trustees, engaged residents, and administration strive towards a balance of service level provisions in a most cost effective means possible. Budgetary development continues with individual service costs scrutinized against comparables, economies of scale and near zero based budgeting decisions exercised annually. Management concludes this section of the 2009 audit with the continued pledge of applying these practices and principles to ensure Caribou remains a Dynamic Community that is economically, culturally and socially inviting.

This concludes the Management Discussion and Analysis Statement for the calendar year of 2009. A complete copy of the 2009 audited financials for the City of Caribou may be viewed at the Caribou City Office, 25 High Street during normal business hours of 8:00 a.m. to 5:00 p.m. Monday through Friday.

CITY OF CARIBOU, MAINE

EXHIBIT A

STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash and temporary investments (Note 7)	$ 1,147,090	$ -	$ 1,147,090
Investments	3,663,306	-	3,663,306
Uncollected taxes	798,965	-	798,965
Tax acquired property	75,978	-	75,978
Accounts receivable	66,940	178,439	245,379
Due from other governmental agencies	77,178	-	77,178
Pledges receivable (Note 3)	242,283	-	242,283
Allowance for uncollectibles	(17,786)	-	(17,786)
Inventories	13,453	-	13,453
Prepaid expenses	51,994	-	51,994
Notes receivable (Notes 5 and 6)	452,184	-	452,184
Restricted cash	34,566	-	34,566
Other assets	1,954	-	1,954
	6,608,105	178,439	6,786,544
NONCURRENT ASSETS			
Capital assets (Note 9)			
Non-depreciable	5,901,433	-	5,901,433
Depreciable	11,400,160	765,659	12,165,819
Less allowance for depreciation	(5,414,016)	(293,099)	(5,707,115)
	11,887,577	472,560	12,360,137
Total assets	18,495,682	650,999	19,146,681
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	135,792	-	135,792
Accrued payroll	73,817	-	73,817
Accrued interest	7,159	-	7,159
Deferred revenues - property taxes	685,268	-	685,268
Current portion, notes payable	279,566	-	279,566
Compensated absences	469,943	139,181	609,124
Total current liabilities	1,651,545	139,181	1,790,726
NONCURRENT LIABILITIES (Note 10)			
Notes payable, net of current portion	279,566	-	279,566
Total liabilities	1,931,111	139,181	2,070,292
NET ASSETS			
Investment in capital assets, net of related debt	11,328,445	472,560	11,801,005
UNRESTRICTED			
Board designated			
Capital	2,151,257	-	2,151,257
Non-capital	713,322	-	713,322
Undesignated	2,371,547	39,258	2,410,805
Total net assets	$16,564,571	$ 511,818	$17,076,389

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

CITY OF CARIBOU, MAINE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2009

EXHIBIT B

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets: Governmental Activities	Net (Expenses) Revenue and Changes in Net Assets: Business-type Activities	Net (Expenses) Revenue and Changes in Net Assets: Total
Primary Government							
Governmental Activities:							
General government	$ 596,019	$ 117,635	$ -	$ -	$ (478,384)		$ (478,384)
Community development	78,922	-	-	-	(78,922)		(78,922)
Health and sanitation	266,220	-	-	-	(266,220)		(266,220)
Public works	1,974,071	-	142,350	-	(1,831,721)		(1,831,721)
Protection	2,077,496	96,127	82,521	-	(1,898,848)		(1,898,848)
Insurance and retirement	411,590	-	-	-	(411,590)		(411,590)
Recreation	647,766	-	-	95,217	(552,549)		(552,549)
Library	269,745	-	-	-	(269,745)		(269,745)
County tax	351,859	-	-	-	(351,859)		(351,859)
General assistance	270,658	-	-	-	(270,658)		(270,658)
Education	9,880,807	270,534	1,115,039	-	(8,495,234)		(8,495,234)
Chamber of Commerce and Industry	155,000	-	-	-	(155,000)		(155,000)
Section 8 Housing	866,356	12,353	895,958	-	41,955		41,955
Capital projects	115,508	-	-	65,207	(50,301)		(50,301)
Interest expense	33,178	-	-	-	(33,178)		(33,178)
Other	463,862	-	-	-	(463,862)		(463,862)
Total governmental activities	18,459,057	496,649	2,235,868	160,424	(15,566,116)		(15,566,116)
Business-type Activities:							
Ambulance service	1,345,269	1,350,713	118,057	-		$123,501	123,501
School department - Enterprise fund	319,100	163,733	157,863	-		2,496	2,496
Total business-type activities	1,664,369	1,514,446	275,920	-		125,997	125,997
Total City	$20,123,426	$2,011,095	$ 2,511,788	$ 160,424	(15,566,116)	125,997	(15,440,119)
General revenues:							
Taxes							
Property taxes, levied for general purposes					6,400,220	-	6,400,220
Homestead reimbursement and other property tax related					294,410	-	294,410
Supplemental taxes					1,589	-	1,589
Excise					1,152,993	-	1,152,993
Interest on delinquent taxes and lien fees					76,981	-	76,981
Payments in lieu of taxes					54,628	-	54,628
Federal and state aid not restricted to specific purposes							
City					1,326,559	-	1,326,559
School					4,938,860	-	4,938,860
Tuition, fees and assessments					661,266	-	661,266
Interest on deposits and notes					77,154	-	77,154
Cable TV franchise					53,548	-	53,548
Miscellaneous revenues					47,663	-	47,663
Net transfers governmental and business-type funds from operations					52,378	(52,378)	-
Subtotal, general revenues and transfers					15,138,249	(52,378)	15,085,871
Change in net assets before extraordinary items					(427,867)	73,619	(354,248)
Extraordinary items:							
Transfers to RSU #39					(299,891)	(63,271)	(363,162)
Transfer of fixed assets to RSU #39					(3,561,634)	-	(3,561,634)
Change in net assets					(4,289,392)	10,348	(4,279,044)
NET ASSETS - JANUARY 1, 2009					20,853,963	501,470	21,355,433
NET ASSETS - DECEMBER 31, 2009					$ 16,564,571	$511,818	$ 17,076,389

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

CITY OF CARIBOU, MAINE

EXHIBIT C

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2009

	General Fund City	Section 8 Housing Program	Special Revenue Funds (Schedule 5)	Total Governmental Funds
ASSETS				
Cash and temporary investments (Note 7)	$ 718,893	$338,113	$ 90,084	$1,147,090
Investments	3,663,306	-	-	3,663,306
Uncollected taxes	798,965	-	-	798,965
Tax acquired property	75,978	-	-	75,978
Accounts receivable	49,340	-	-	49,340
Pledges receivable (Note 3)	-	-	242,283	242,283
Allowance for uncollectibles	(17,786)	-	-	(17,786)
Due from other governments	-	-	16,037	16,037
Due from other funds	16,037	-	-	16,037
Inventories	13,453	-	-	13,453
Notes receivable (Notes 5 and 6)	324,224	-	127,960	452,184
Restricted cash	-	34,566	-	34,566
Other assets	-	1,954	-	1,954
Total assets	$5,642,410	$374,633	$ 476,364	$6,493,407
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 1,180	$100,711	$ -	$ 101,891
Due to other funds	-	-	16,037	16,037
Deferred revenue - property taxes	685,268	-	-	685,268
Total liabilities	686,448	100,711	16,037	803,196
Fund balances:				
Unreserved:				
Designated for subsequent years' expenditures -				
Capital (Schedule 3)	2,151,257	-	-	2,151,257
Non-capital (Schedule 4)	713,322	-	-	713,322
Undesignated, reported in:				-
General fund	1,977,686	-	-	1,977,686
Special revenue funds	-	273,922	460,327	734,249
Deferred property taxes	113,697	-	-	113,697
Total fund balances	4,955,962	273,922	460,327	5,690,211
Total liabilities and fund balances	$5,642,410	$374,633	$ 476,364	$6,493,407

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

CITY OF CARIBOU, MAINE

EXHIBIT D

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	General Fund		Section 8 Housing Program	Special Revenue Funds (Schedule 6)	Total Governmental Funds
	City	School			
REVENUES					
Local property taxes	$ 4,840,296	$ 1,559,924	$ -	$ -	$ 6,400,220
Homestead reimbursement	294,410	-	-	-	294,410
Supplemental taxes	1,589	-	-	-	1,589
Abatements	(6,023)	-	-	-	(6,023)
Federal assistance	2,755	-	863,027	982,939	1,848,721
State assistance	1,326,559	4,938,860	32,931	83,848	6,382,198
Donations and pledges	-	-	-	39,589	39,589
Other revenues (Schedule 1)	2,076,063	1,210,574	13,106	898	3,300,641
TOTAL REVENUES	8,535,649	7,709,358	909,064	1,107,274	18,261,345
EXPENDITURES					
General government	574,620	-	-	-	574,620
Community development	54,442	-	-	-	54,442
Health and sanitation	266,220	-	-	-	266,220
Public works	1,875,874	-	-	-	1,875,874
Protection	1,959,631	-	-	-	1,959,631
Insurance and retirement	411,590	-	-	-	411,590
Recreation	565,064	-	-	-	565,064
Library	263,822	-	-	-	263,822
County tax	351,859	-	-	-	351,859
General assistance	116,866	-	153,792	-	270,658
Education - instruction	1,430,463	5,930,510	-	733,415	8,094,388
- support services	-	1,928,241	-	272,173	2,200,414
Appropriations to capital outlays	68,823	-	-	46,685	115,508
Interest expense	36,819	-	-	-	36,819
Chamber of Commerce and Industry	155,000	-	-	-	155,000
Other (Schedule 2)	525,169	-	712,564	-	1,237,733
TOTAL EXPENDITURES	8,656,262	7,858,751	866,356	1,052,273	18,433,642
EXCESS OF REVENUES OVER EXPENDITURES (EXPENDITURES OVER REVENUES)	(120,613)	(149,393)	42,708	55,001	(172,297)
OTHER SOURCES					
Transfer from ambulance reserve	81,725	-	-	-	81,725
Transfer from general fund	-	-	-	51,150	51,150
TOTAL OTHER SOURCES	81,725	-	-	51,150	132,875
OTHER USES					
Capital outlays in excess of appropriations	342,080	-	-	-	342,080
Transfer to grant funds	126,514	-	-	-	126,514
Transfer to school lunch	-	29,347	-	-	29,347
Payments on long-term debt	156,460	-	-	123,106	279,566
TOTAL OTHER USES	625,054	29,347	-	123,106	777,507
EXTRAORDINARY ITEMS					
Transfer to RSU #39	-	(100,000)	-	(199,891)	(299,891)
Transfer to City General Fund from Caribou School Department	1,749,682	(1,749,682)	-	-	-
TOTAL EXTRAORDINARY ITEMS	1,749,682	(1,849,682)	-	(199,891)	(299,891)
NET INCREASE (DECREASE) IN FUND BALANCE	1,085,740	(2,028,422)	42,708	(216,846)	(1,116,820)
FUND BALANCE - JANUARY 1, 2009	3,870,222	2,028,422	231,214	677,173	6,807,031
FUND BALANCE - DECEMBER 31, 2009	$ 4,955,962	$ -	$ 273,922	$ 460,327	$ 5,690,211

The accompanying notes are integral part of this financial statement.

CITY OF CARIBOU, MAINE

EXHIBIT E

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
DECEMBER 31, 2009

Total fund balance - governmental funds		$ 5,690,211
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds		
The cost of capital assets is	17,301,593	
Accumulated depreciation is	(5,414,016)	
		11,887,577
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:		
Notes payable		(559,132)
Accounts receivable		78,741
Prepaid expenses		51,994
Accounts payable		(33,901)
Accrued payroll		(73,817)
Accrued interest		(7,159)
Compensated absences		(469,943)
Total net assets - governmental activities		$16,564,571

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, 2009

Total net change in fund balances - governmental funds		$(1,116,820)
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 assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.		
Capital outlays	514,761	
Depreciation expense	(457,227)	57,534
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.		(16,501)
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.		(37,777)
Only the revenue from other sources that is budgeted to be received in the current year is recognized in the governmental funds as revenue. Revenue is recognized when earned in the governmental activities.		
Decrease in accounts receivable for governmental activities		(273,669)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities.		279,566
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.		(27,470)
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		357,479
Decrease in accrued interest payable		3,641
Purchases for governmental funds are expensed under the purchase method. Items are expensed as paid for. Purchases for governmental activities are reported using the accrual method of accounting. Therefore, expenses are recorded as they are incurred and a corresponding payable is recorded for these expenses.		46,259
Extraordinary item:		
Transfer of fixed assets to RSU #39		(3,561,634)
Change in net assets of governmental activities		$(4,289,392)

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

CITY OF CARIBOU, MAINE

EXHIBIT G

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2009

	Business-type Activities Enterprise Funds		
	City	School Department	
	Ambulance Service	School Lunch	Total
ASSETS			
CURRENT ASSETS			
Cash and temporary investments (Note 7)	$ -	$ -	$ -
Accounts receivable, net of allowance of $19,987	178,439	-	178,439
Total current assets	178,439	-	178,439
NONCURRENT ASSETS			
Land, buildings and improvements	223,065	-	223,065
Vehicles and equipment	542,594	-	542,594
Total noncurrent assets	765,659	-	765,659
Accumulated depreciation	(293,099)	-	(293,099)
Net noncurrent assets	472,560	-	472,560
Total assets	650,999	-	650,999
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	139,181	-	139,181
NET ASSETS			
Invested in capital assets	472,560	-	472,560
Unrestricted	39,258	-	39,258
Total net assets	$ 511,818	$ -	$ 511,818

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 ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-type Activities Enterprise Funds		
	City	School Department	
	Ambulance Service	School Lunch	Total
Operating revenues			
Fees, tuition and other	$1,345,830	$163,733	$1,509,563
Less contractual allowances	(200,339)	-	(200,339)
Internal service - Caribou	81,042	-	81,042
Outside service - Other Municipalities	45,336	-	45,336
Federal subsidies	118,057	157,863	275,920
Veterans' Administration contracts	48,237	-	48,237
Other	30,607	-	30,607
Total operating revenues	1,468,770	321,596	1,790,366
Operating expenses			
Salaries and benefits	848,556	148,262	996,818
Transport expenses	231,243	-	231,243
Occupancy	37,381	-	37,381
Equipment and vehicle expense	46,047	-	46,047
Food and supplies	-	167,644	167,644
Supplies and materials	18,085	-	18,085
Depreciation	59,485	3,194	62,679
Uncollectible	97,920	-	97,920
Other	6,552	-	6,552
Total operating expenses	1,345,269	319,100	1,664,369
Operating income	123,501	2,496	125,997
OTHER SOURCES (USES)			
Transfer (to) from general fund	(81,725)	29,347	(52,378)
EXTRAORDINARY ITEMS			
Transfer to RSU 39	-	(63,271)	(63,271)
Change in net assets	41,776	(31,428)	10,348
TOTAL NET ASSETS - JANUARY 1, 2009	470,042	31,428	501,470
TOTAL NET ASSETS - DECEMBER 31, 2009	$ 511,818	$ -	$ 511,818

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

CITY OF CARIBOU, MAINE

EXHIBIT I

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-type Activities Enterprise Funds		
	City	School	
	Ambulance Service	School Lunch	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from government assistance	$ 118,057	$ 211,596	$ 329,653
Cash received from fees and tuition	1,342,646	157,953	1,500,599
Cash payments for salaries and benefits	(828,397)	(148,262)	(976,659)
Cash payments for transportation	(231,243)	-	(231,243)
Cash payments for food and supplies	-	(223,962)	(223,962)
Cash payments for other operating costs	(205,985)	-	(205,985)
Net cash provided by (used in) operating activities	195,078	(2,675)	192,403
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(113,353)	-	(113,353)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Advance (to) from other funds	(81,725)	2,675	(79,050)
Net increase in cash and cash equivalents	-	-	-
Cash and cash equivalents - January 1, 2009	-	-	-
Cash and cash equivalents - December 31, 2009	$ -	$ -	$ -
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	$ 123,501	$ 2,496	$ 125,997
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:			
Depreciation	59,485	3,194	62,679
Changes in assets and liabilities:			
Receivables	(8,067)	47,953	39,886
Inventory	-	(39,410)	(39,410)
Accounts payable	20,159	(16,908)	3,251
Net cash provided by (used in) operating activities	$ 195,078	$ (2,675)	$ 192,403

NONCASH NONCAPITAL FINANCING ACTIVITIES
During the year, the School Department received $23,575 of food commodities from the U.S. Department of Agriculture

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

CITY OF CARIBOU, MAINE

EXHIBIT J

STATEMENT OF FIDUCIARY NET ASSETS
AS OF DECEMBER 31, 2009

	Private-Purpose Trusts	
	City (Schedule 7)	School
ASSETS		
Cash	$ 220,005	$ 38
Temporary investments	-	149,854
Marketable securities	-	208,992
Total assets	$ 220,005	$358,884
NET ASSETS		
Reserved for endowments	$ -	$328,249
Undesignated	220,005	(61,543)
Total net assets	$ 220,005	$266,706

CITY OF CARIBOU, MAINE

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009

ADDITIONS		
Donations	$ -	$ 895
Dividends and interest	7,892	12,623
	7,892	13,518
DEDUCTIONS		
Expenses	4,024	20,960
Bank fees	-	2,427
Unrealized capital loss	-	82,309
	4,024	105,696
CHANGE IN NET ASSETS	3,868	(92,178)
NET ASSETS - JANUARY 1, 2009	216,137	358,884
NET ASSETS - DECEMBER 31, 2009	$ 220,005	$266,706

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

(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.

Through June 30, 2009, the City also had an independent school board. This department of the City is reported in a separate column to emphasize that it was legally separate from the City. The governing board of the School Department was elected by the voters of the City; however, the School Department was fiscally dependent on the City because the School Department's operational and capital budgets were approved by the City Council.

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 assets 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 assets 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 assets presents the financial condition of the governmental and business-type activities 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 activities 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.

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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 School Department.

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 FUNDS

Proprietary funds are 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 activities are accounted for through proprietary funds. The City's enterprise funds are all classified as enterprise funds. 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 funds, 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 assets and changes in net assets. The City's only fiduciary funds are agency funds. The City's agency funds account for trust and scholarship 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 assets.

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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Like the City-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets 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 activities.

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, is 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 appropriations lapse at fiscal year-end except for that portion related to

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 funds, 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.

(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 $17,786 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 $19,987. 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, 2009, 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 assets 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 assets 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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Description	Governmental Activities Estimated Lives	Business-type Activities Estimated Lives
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 Assets

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

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. For the School, these revenues are sales of food services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

Designations of Fund Balance

Designations of unreserved fund balances in governmental funds indicate City management's tentative plans for use of financial resources in a future period. Any designation held open for three years without any activity is considered dormant and is closed into fund balance.

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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 assets of the City-wide financial statements.

(2) EMPLOYEES' RETIREMENT PLANS

Maine State Retirement System

Local teachers and employees of participating local government units are eligible to participate in the City's defined benefit plan provided by the Maine State Employees' Retirement System. Approximately $5,000,000 or 64% of the payroll of the City (including the school department through June 30, 2009) qualified for this plan for the year ended December 31, 2009.

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 Maine State Retirement System 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, 2009 was approximately $69,000.

(3) PLEDGES RECEIVABLE

The City has accepted pledges toward the construction of the Wellness Center. Approximately $200,000 of the pledges receivable are from one donor and are anticipated to be collected in quarterly installments of $25,000 through December 2011. In the opinion of management, all receivables are collectible.

(4) 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.

Financial statements for this joint venture were issued and reported on by us in a separate report dated February 10, 2010. These financial statements are available from the City's Finance Department.

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

A summary of the facility's activity for 2009 is as follows:

	Amount
Total assets	$10,863,957
Total liabilities	8,514,118
Total net assets	$ 2,349,839
Total revenue	$ 2,235,950
Less total expenditures	2,556,906
Decrease in net assets	$ (320,956)

The City has guaranteed, together with the other member towns, a note payable of $3,000,000 for the Tri-Community Recycling and Sanitary Landfill. As of December 31, 2009, the balance owed was $155,844.

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, 2009, the estimated total cost of closure and post-closure care was approximately $16,530,000 of which $4,232,000 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 2009 financial statements of the Tri-Community Recycling and Sanitary Landfill.

(5) NOTES RECEIVABLE - REVOLVING LOAN FUND

The Revolving Loan Fund had the following notes receivable as of December 31, 2009:

4% Note receivable in monthly installments of $144 principal and interest commencing January 2008 through September 2012.	$ 290
0% Note receivable in monthly installments of $833 principal with a balloon payment in April 2011.	112,500
6.5% Note receivable in monthly installments of $218 principal and interest through June 2012.	15,170
	$127,960

As of December 31, 2009, the notes receivable matures as follows:

Year	Amount
2010	$ 11,730
2011	104,140
2012	12,090
	$127,960

(6) NOTES RECEIVABLE

As of December 31, 2009, 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 $420 principal and interest through June 2013.	8,750
2% Note receivable in annual installments of $7,365 principal and interest through December 2028.	115,474
	$324,224

As of December 31, 2009, the notes receivable matures as follows:

Year	Amount
2010	$ 7,200
2011	7,445
2012	7,700
2013	6,725
2014	5,985
2015-2019	229,045
2020-2024	32,070
2025-2028	28,054
	$324,224

Notes receivable of $324,224 above are with the Caribou Chamber of Commerce and Industry (CCCI) which has made various loans under the same terms noted above. These notes are secured by the applicable notes held by the CCCI.

(7) CASH AND INVESTMENTS

As of December 31, 2009, cash and investments consisted of the following:

	Carrying Amount
Deposits with financial institutions	$4,842,451

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, 2009, the bank balance, including the various fiduciary accounts, was $4,842,451 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.

(8) 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 9 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.

(9) 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 Assets. 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. Other nondepreciable assets include construction in progress for the Wellness Center project and 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, 2009 was as follows:

	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Governmental Activities				
City				
Nondepreciable:				
Land	$ 498,100	$ -	$ -	$ 498,100
Infrastructure	5,403,333	-	-	5,403,333
Total nondepreciable	5,901,433	-	-	5,901,433
Land improvements	1,006,354	-	-	1,006,354
Buildings	6,071,411	10,723	-	6,082,134
Vehicles	3,368,446	189,263	134,201	3,423,508
Equipment	753,351	134,813	-	888,164
Totals at historical cost	17,100,995	334,799	134,201	17,301,593
Less accumulated depreciation for:				
Land improvements	984,144	2,184	-	986,328
Buildings	1,023,928	128,246	-	1,152,174
Vehicles	2,710,002	138,306	117,700	2,730,608
Equipment	488,986	55,920	-	544,906
Total accumulated depreciation	5,207,060	324,656	117,700	5,414,016
City capital assets, net	11,893,935	10,143	16,501	11,887,577

(9) CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
School				
Land	511,927	-	511,927	-
Land and building improvements	2,051,067	140,839	2,191,906	-
Buildings	4,980,549	-	4,980,549	-
Vehicles	1,849,005	-	1,849,005	-
Equipment	772,181	39,123	811,304	-
Totals at historical cost	10,164,729	179,962	10,344,691	-
Less accumulated depreciation for:				
Land and building improvements	980,045	6,061	986,106	-
Buildings	3,978,862	29,093	4,007,955	-
Vehicles	1,265,836	72,018	1,337,854	-
Equipment	425,743	25,399	451,142	-
Total accumulated depreciation	6,650,486	132,571	6,783,057	-
School capital assets, net	3,514,243	47,391	3,561,634	-
Governmental activities capital assets, net	$15,408,178	$ 57,534	$ 3,578,135	$11,887,577
Business-type Activities				
Land	$ 31,600	$ -	$ -	$ 31,600
Land improvements	4,673	-	-	4,673
Buildings	186,792	-	-	186,792
Vehicles	361,966	62,739	63,728	360,977
Equipment	212,989	79,379	110,751	181,617
Totals at historical cost	798,020	142,118	174,479	765,659
Less accumulated depreciation for:				
Land improvements	4,673	-	-	4,673
Buildings	115,821	3,736	-	119,557
Vehicles	102,341	43,090	34,963	110,468
Equipment	120,228	15,853	77,680	58,401
Total accumulated depreciation	343,063	62,679	112,643	293,099
Business-type activities capital assets, net	$ 454,957	$ 79,439	$ 61,836	$ 472,560

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
General	$ 17,209
Library	6,301
Protection	89,556
Ambulance	59,485
Public works	98,003
Recreation and parks	87,602
School	132,571
Other	29,179
	$519,906

(10) GENERAL LONG-TERM DEBT

As of December 31, 2009, long-term debt consisted of a general obligation bond payable annually at $279,566 principal plus interest of 4.34%

As of December 31, 2009, long-term obligations mature as follows:

Fiscal Year	Principal	Interest
2010 (included in current liabilities)	$279,566	$24,546
2011	279,566	12,273
	$559,132	$36,819

Long-term debt activity during the year ended December 31, 2009, was as follows:

Balance January 1, 2009	Additions	Reductions	Balance December 31, 2009	Due Within One Year
$838,698	$ -	$279,566	$559,132	$279,566

(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.

(12) EXTRAORDINARY ITEM

During January 2009, voters approved the Caribou School Department to become part of Regional School Unit #39. Effective July 1, 2009, the Caribou School Department has consolidated with the Limestone School Department and the Stockholm School Department to form the Eastern Aroostook RSU #39. The fixed assets of the Caribou School Department along with the designated and special revenue funds have been transferred to the RSU #39.

(13) CONTINGENCIES

The City is liable for its proportional share of any defaulted debt issued by entities of which it is a member. The overlapping bonded debt applicable to the City as of December 31, 2009 consisted of the Tri-Community Recycling and Sanitary Landfill as disclosed in Note 4.

The United States environmental Protection Agency in May of 1991 gave notice to the City and to approximately 400 other Potentially Responsible Parties (PRPs) of EPA's demand for its past costs incurred in connection with an environmental "removal" action at the Hows Corner Site in Plymouth, Maine. Subsequently in 2001, the City entered into a Consent Decree with the United States Environmental Protection Agency resolving its share of liability to the EPA and to the State of Maine for past clean-up costs at the site.

(13) CONTINGENCIES (Continued)

A group of PRPs organized for the purpose of pursuing efforts to perform a private Remedial Investigation/Feasibility Study (RI/FS Study) and have completed the remedial investigation, feasibility study, implementation of the institutional controls, and the remedial design of the final remedy of the site. In April 2004, the City entered into an Administrative Order on Consent regarding the remedial design actions at the site. In October of 2006, EPA issued a final Record of Decision (ROD) detailing the final remedy required at the site.

The final Consent Decree was signed by the City, EPA, and Maine DEP and filed with the US District Court of Maine and received final approval and entered by the Court on January 25, 2010. The Consent Decree resolves the liability of the City for the future remedy, State and Federal natural Resource Damages, and all State and EPA past and future response and oversight costs.

Under the Consent Decree, DEP and EPA reserve the right to pursue the City in the future only in the event of the discovery of "unknown conditions" or "new information" at the site. Management assesses this future risk to be minimal based upon the past assessments/studies of the site making it one of the most studied Superfund Sites on record.

The settlement set forth within the Consent Decree utilized funding from a bond issuance, which was issued pursuant to 10 MRSA §1020-A, Waste Motor Oil disposal site Remediation Program, and was used to pay the entire settlement payment owned by the City in the amount of $150,809. The City had past settlement assessments of $63,305, which is in the form of a 0% FAME loan with two certificates of deposit of equal value in the City and FAME names' jointly used as security for the loan. The original intent of 10 MRSA §1020-A was to pay the future and past settlement costs. The fund failed to yield sufficient resources for both and to date has reimbursed the City $2,068 of the past assessments. The PRP Group, including the City, continues to work with FAME and the State Legislature to amend the fund proceeds in the near future to fully reimburse all qualifying PRPs for their full past assessment costs. If the fund is not amended, it is likely that the City will release the balance of the certificates of deposit, $61,237, to FAME by the fall of 2011, the anticipated date of completion of the remedial design.

(14) SUBSEQUENT EVENTS

Management has reviewed subsequent events through May 28, 2010, the date of these financial statements and determined that no additional adjustments or disclosures are required in order for these financial statements to be fairly stated.

CITY OF CARIBOU, MAINE

SUPPLEMENT 1

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND AND AMBULANCE SERVICE
FOR THE YEAR ENDED DECEMBER 31, 2009

	General Fund			Ambulance Service		
	Budgeted Amounts			Budgeted Amounts		
	Original	Final	Actual Budgetary Basis	Original	Final	Actual Budgetary Basis
REVENUES						
Local property taxes	$ 6,371,779	$ 6,371,779	$ 6,400,220	$ -	$ -	$ -
Homestead exemption reimbursement	294,410	294,410	294,410	-	-	-
Supplemental taxes	8,000	8,000	1,589	-	-	-
Abatements	(25,000)	(25,000)	(6,023)	-	-	-
Federal assistance	-	-	2,755	118,000	118,000	118,057
State assistance	1,250,000	1,250,000	1,326,559	-	-	-
Fees	-	-	-	1,602,640	1,602,640	1,345,829
Charge to towns - Caribou	-	-	-	81,042	81,042	81,042
- Other	-	-	-	45,323	45,323	93,791
Other (Schedule 1)	2,107,110	2,107,110	2,076,063	35,000	35,000	30,390
TOTAL REVENUES	10,006,299	10,006,299	10,095,573	1,882,005	1,882,005	1,669,109
EXPENDITURES						
General government	583,646	583,646	574,620	-	-	-
Education	2,990,387	2,990,387	2,990,387	-	-	-
Community development	55,696	55,696	54,442	-	-	-
Health and sanitation	266,250	266,250	266,220	-	-	-
Public works	1,996,385	1,996,385	1,875,874	-	-	-
Protection	1,965,714	1,965,714	1,959,631	-	-	-
Ambulance	-	-	-	1,496,485	1,496,485	1,513,578
Insurance and retirement	424,729	424,729	411,590	-	-	-
Recreation	565,954	565,954	565,064	-	-	-
Library	272,618	272,618	263,822	-	-	-
County tax	351,859	351,859	351,859	-	-	-
General assistance	118,198	118,198	116,866	-	-	-
Appropriations to capital outlays	68,850	68,850	68,823	-	-	-
Chamber of Commerce and Industry	155,000	155,000	155,000	-	-	-
Other (Schedule 2)	546,523	546,523	525,169	-	-	-
TOTAL EXPENDITURES	10,361,809	10,361,809	10,179,367	1,496,485	1,496,485	1,513,578
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(355,510)	(355,510)	(83,794)	385,520	385,520	155,531
OTHER SOURCES						
Transfer from surplus	340,184	340,184	-	-	-	-
Transfer from ambulance fund, net	385,520	385,520	155,531	-	-	-
TOTAL OTHER SOURCES	725,704	725,704	155,531	-	-	-
OTHER USES						
Debt service	205,226	205,226	193,279	-	-	-
Capital outlays in excess of appropriations	-	-	342,080	-	-	-
Transfers to other funds	-	-	-	-	-	155,531
TOTAL OTHER USES	205,226	205,226	535,359	-	-	155,531
NET INCREASE (DECREASE) IN FUND BALANCE	164,968	164,968	(463,622)	385,520	385,520	-
FUND BALANCE - JANUARY 1, 2009	-	-	3,755,160	-	-	-
FUND BALANCE - DECEMBER 31, 2009	$ 164,968	$ 164,968	$ 3,291,538	$ 385,520	$ 385,520	$ -

CITY OF CARIBOU, MAINE

SUPPLEMENT 2

MODIFIED APPROACH FOR CITY CAPITAL ASSETS
DECEMBER 31, 2009

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".

Condition	Rating	Asset Management System Rating
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, 2009, the City's street and sidewalk systems were rated at an index of 82 and 77, respectively. The detail of the condition assessments are as follows:

Condition	% of Roads	% of Sidewalks	Asset Management System Rating
Good	66%	56%	1
Fair	28%	38%	2
Poor to Substandard	6%	6%	3 and 4

As of December 31, 2009, the City had 10,500,517 square feet of roads with a historical cost of $5,159,583. As of December 31, 2009, the City had 432,740 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 $399,000 to maintain infrastructure at the desired condition level. Actual expenditures for the year ended December 31, 2009 were $381,906.

CITY OF CARIBOU, MAINE

SCHEDULE 1

SCHEDULE OF OTHER REVENUES - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Excise taxes	$1,144,000	$1,152,993	$ 8,993
Interest on deposits	70,000	74,180	4,180
City clerk's fees	23,550	27,228	3,678
Fire protection, other towns	88,945	90,258	1,313
Police dispatching	5,500	5,869	369
Payments in lieu of taxes	47,500	54,628	7,128
Income from City-owned property	50,000	69,755	19,755
Section 8 Housing Program Administration	90,000	90,407	407
Department of Transportation - Road Funds	175,318	139,595	(35,723)
Interest on delinquent taxes	55,000	64,650	9,650
Cable TV franchise	56,600	53,548	(3,052)
Interest on notes receivable	3,300	2,974	(326)
Lien collection fees	10,000	12,331	2,331
Tri-Community dividends	158,217	158,217	-
Miscellaneous	129,180	79,430	(49,750)
	$2,107,110	$2,076,063	$ (31,047)

CITY OF CARIBOU, MAINE

SCHEDULE 2

SCHEDULE OF OTHER EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Municipal building	$ 67,979	$ 65,849	$ 2,130
Tax assessment office	159,997	155,980	4,017
Code enforcement office	108,660	108,660	-
Nylander Museum	46,281	49,046	(2,765)
Airport	51,578	46,432	5,146
Cemeteries	5,800	5,800	-
Trailer Park	(8,583)	(9,921)	1,338
Contributions	60,041	60,038	3
Tax increment financing	43,927	24,451	19,476
Unclassified	10,843	18,834	(7,991)
	$546,523	$525,169	$ 21,354

CITY OF CARIBOU, MAINE

SCHEDULE 3a

SCHEDULE OF CAPITAL OUTLAYS - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Balances January 1	Appropri-ations	Grants/ Transfers	Other	Total Available	Expendi-tures	Balances December 31
Community Pool Improvements	$ 6,112	$ 1,800	$ -	$ -	$ 7,912	$ -	$ 7,912
Nylander Museum	10,069	4,500	-	-	14,569	1,382	13,187
Library Memorial Fund	14,320	-	-	12,031	26,351	6,004	20,347
Library Computer Reserve	1,865	900	-	-	2,765	812	1,953
Police Department Donated Funds	19,299	-	-	1,956	21,255	-	21,255
Police Department Equipment	43,579	4,500	-	20,825	68,904	10,561	58,343
Recreation Center Improvements	(9,097)	5,850	-	26,534	23,287	-	23,287
Land Acquisitions	33,990	1,800	-	-	35,790	-	35,790
Rails to Trails Program	8,848	-	41,500	110	50,458	39,615	10,843
Park Improvement Reserve	48,614	9,900	-	-	58,514	-	58,514
Property Assessment	72,401	30,000	-	-	102,401	-	102,401
Fire Equipment Reserve	298,414	54,000	2,574	461	355,449	-	355,449
Fire Hose Reserve	1,559	450	-	-	2,009	852	1,157
Fire Station Foam Reserve	2,607	450	-	-	3,057	-	3,057
Fire Training Building Reserve	7,999	-	-	400	8,399	1,772	6,627
PW Equipment Reserve	112,175	94,500	-	6,075	212,750	181,670	31,080
Police Car Reserve	10,708	19,710	-	13,276	43,694	32,734	10,960
Rec. Nonapprop. Spec. Projects	10,114	-	-	24,040	34,154	21,390	12,764
Recreation Equipment Reserve	11,253	6,750	-	-	18,003	-	18,003
Recreation Lawn Mower Reserve	11,022	1,620	-	-	12,642	-	12,642
Snowmobile Reserve	13,661	-	53,717	-	67,378	47,643	19,735
Hockey Boards Maintenance	928	-	-	-	928	-	928
Recreation - Collins Pond	19,241	-	-	-	19,241	-	19,241
Creative Playground Reserve	171	-	-	-	171	-	171
Trail Groomer Reserve	112,440	18,000	-	-	130,440	64,590	65,850
Caribou Community Band	1,549	-	-	-	1,549	-	1,549
Recreation Van Reserve	15,791	-	-	-	15,791	224	15,567
Community Development Match	31,831	-	-	-	31,831	-	31,831
Airport Reserve	(6,869)	4,500	-	2,764	395	3,305	(2,910)
Septic System Replacement	(465)	-	-	-	(465)	-	(465)
Streets/Roads Drainage	290,308	135,000	-	-	425,308	150,272	275,036
Curbing Reserve	5,178	-	-	-	5,178	-	5,178
Fuel Tank Reserve	20,611	-	-	8,671	29,282	267	29,015
Legal Fees Reserve	1,130	-	-	-	1,130	-	1,130
Planning/Engineering Reserve	9,444	4,500	-	-	13,944	2,003	11,941
MMF/CUD Digester	28,876	-	-	-	28,876	-	28,876
Airport/Weather Bureau Reserve	946	-	-	-	946	-	946
Computer/Typewriter Reserve	2,090	9,000	-	1,020	12,110	5,994	6,116
Comprehensive Plan	(1,679)	-	-	-	(1,679)	-	(1,679)
Municipal Building Reserve	23,768	6,750	-	-	30,518	800	29,718
Parking Lot Maintenance Reserve	13,572	1,800	-	-	15,372	-	15,372
Industrial Park Improvements	12,441	-	-	-	12,441	-	12,441
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	-	63,306
Trailer Park Reserve	15,182	-	-	1,338	16,520	15,218	1,302
Caribou Housing Reserve	18,873	-	-	5,445	24,318	495	23,823
Civic Beautification Reserve	5,918	4,500	-	-	10,418	6,765	3,653
	1,663,444	420,780	97,791	124,946	2,306,961	594,368	1,712,593

CITY OF CARIBOU, MAINE

SCHEDULE 3b

SCHEDULE OF CAPITAL OUTLAYS - GENERAL FUND (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

	Balances January 1	Appropri-ations	Grants/ Transfers	Other	Total Available	Expendi-tures	Balances December 31
Lions Community Center Reserve	8,147	-	-	-	8,147	-	8,147
Community Gateway Grant	79	-	-	-	79	-	79
Ambulance Small Equipment	(19,162)	9,000	35,016	-	24,854	37,910	(13,056)
Ambulance/Fire EDP Reserve	5,843	900	-	599	7,342	1,238	6,104
Aerial Photography	11,200	-	-	-	11,200	-	11,200
Library Handicapped	(419)	-	-	-	(419)	-	(419)
Airport Improvements	(56,952)	4,500	208,670	-	156,218	220,422	(64,204)
EMA Equipment Reserve	2,012	-	-	-	2,012	-	2,012
Nylander Museum Reserve	1,540	-	-	-	1,540	1,540	-
Caribou Community Wellness	55,289	-	-	121,864	177,153	123,106	54,047
Council Room Sound System	1,400	-	-	-	1,400	834	566
Trails Grant	(4,366)	-	-	-	(4,366)	-	(4,366)
Welcome to Caribou Signs	2,000	-	-	-	2,000	-	2,000
Homeland Security	2,279	-	-	-	2,279	-	2,279
Maine Military Authority	28,813	-	-	-	28,813	-	28,813
Ambulance Stair Chairs	2,250	-	-	-	2,250	-	2,250
Ambulance Bay	2,066	-	(2,066)	-	-	-	-
DEP Small Community Grant	(129)	-	-	-	(129)	-	(129)
Wellness Construction	-	-	-	-	-	1,500	(1,500)
TIF	18,211		43,927	-	62,138	24,451	37,687
Cadet Reserve	157	-	-	413	570	-	570
Downtown Infrastructure	(277)	1,350	-	-	1,073	-	1,073
Debt Service	(122,218)	-	205,226	-	83,008	193,278	(110,270)
Fire Department Kitchen Remodel	5,070	7,000	-	-	12,070	12,458	(388)
Police Garage Roof Repair	556	-	-	-	556	-	556
Police Camera System	(91)	-	-	-	(91)	-	(91)
150th Anniversary	-	15,000	-	-	15,000	15,000	-
Christmas Lights	-	5,500	-	-	5,500	5,542	(42)
Fire Dispatch Model	-	3,500	-	-	3,500	2,800	700
Tax Acquired Property Remediation	-	-	-	4,200	4,200	-	4,200
Boat Launch	-	-	-	-	-	81,521	(81,521)
Fire Department Training	-	-	-	1,050	1,050	1,964	(914)
RSU 39 Commitment	-	-	553,281	-	553,281	-	553,281
Subtotal	(56,702)	46,750	1,044,054	128,126	1,162,228	723,564	438,664
TOTAL	$ 1,606,742	$ 467,530	$ 1,141,845	$ 253,072	$ 3,469,189	$ 1,317,932	$ 2,151,257

CITY OF CARIBOU, MAINE

SCHEDULE 4

SCHEDULE OF NON-CAPITAL OUTLAYS - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Balances January 1	Appropri-ations	Transfers	Other	Total Available	Expendi-tures	Balances December 31
Compensated Absences	$186,153	$ -	$ 25,000	$ -	$211,153	$ 5,929	$ 205,224
Revolving Loan Fund - Cash	299,525	-	-	6,452	305,977	-	305,977
Revolving Loan Fund - Loans Receivable	130,676	-	-	-	130,676	6,453	124,223
Wage and classification	1,124	-	-	-	1,124	1,124	-
City retirement	1,080	-	-	-	1,080	-	1,080
Retirement reserves	145,648	-	(66,500)	-	79,148	5,009	74,139
Fire/Ambulance Overtime	2,679	-	-	-	2,679	-	2,679
	$766,885	$ -	$(41,500)	$6,452	$731,837	$18,515	$ 713,322

CITY OF CARIBOU, MAINE

SCHEDULE 5

BALANCE SHEET
FOR ALL SPECIAL REVENUE FUNDS
DECEMBER 31, 2009

	Wellness Center	Revolving Loan Fund #10	Airport Improvement Program	School Special Revenue Funds	Total Special Revenue Funds
ASSETS					
Cash	$ -	$ 90,084	$ -	$ -	$ 90,084
Pledges receivable (Note 3)	242,283	-	-	-	242,283
Note receivable (Note 5)	-	127,960	-	-	127,960
Due from other governments	-	-	16,037	-	16,037
	$242,283	$218,044	$ 16,037	$ -	$476,364
LIABILITIES, SURPLUS AND FUND BALANCE					
LIABILITIES					
Accounts payable	$ -	$ -	$ -	$ -	$ -
DUE TO GENERAL FUND	-	-	16,037	-	16,037
FUND BALANCE	242,283	218,044	-	-	460,327
	$242,283	$218,044	$ 16,037	$ -	$476,364

CITY OF CARIBOU, MAINE

SCHEDULE 6

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR ALL SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Wellness Center	Revolving Loan Fund #10	Airport Improvement Program	School Special Revenue Funds	Total Special Revenue Funds
REVENUES					
Grants - Federal	$ -	$ -	$ 12,650	$ 970,289	$ 982,939
- State	-	-	318	83,530	83,848
Interest income	-	898	-	-	898
Other income	39,589	-	-	-	39,589
Total Revenues	39,589	898	12,968	1,053,819	1,107,274
EXPENDITURES					
Construction and improvements	-	-	46,685	-	46,685
Education	-	-	-	1,005,588	1,005,588
Total Expenditures	-	-	46,685	1,005,588	1,052,273
EXCESS OF REVENUES OVER EXPENDITURES (EXPENDITURES OVER REVENUES)	39,589	898	(33,717)	48,231	55,001
OTHER SOURCES					
Transfer from general fund	-	-	51,150	-	51,150
OTHER USES					
Payments on long-term debt	123,106	-	-	-	123,106
EXTRAORDINARY ITEMS					
Transfer to RSU 39	-	-	-	(199,891)	(199,891)
NET INCREASE (DECREASE) IN FUND BALANCE	(83,517)	898	17,433	(151,660)	(216,846)
FUND BALANCE - JANUARY 1	325,800	217,146	(17,433)	151,660	677,173
FUND BALANCE - DECEMBER 31	$242,283	$218,044	$ -	$ -	$ 460,327

CITY OF CARIBOU, MAINE

SCHEDULE 7

SCHEDULE OF TRUST AND AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Total	Hospital Memorial Funds	Cemetery Trust Funds	Library Trust Funds	Memorial Funds
CASH AND FUND BALANCE, JANUARY 1	$216,137	$43,510	$1,388	$54,404	$116,835
INTEREST INCOME	7,892	1,435	10	1,482	4,965
EXPENDITURES	(4,024)	-	(24)	-	(4,000)
CASH AND FUND BALANCE, DECEMBER 31	$220,005	$44,945	$1,374	$55,886	$117,800

CITY OF CARIBOU, MAINE

SCHEDULE 8

SCHEDULE OF PROPERTY TAXES - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Total	2010 Taxes	2009 Taxes	2008 Taxes and Liens	Prior Taxes
UNCOLLECTED AT JANUARY 1	$ 830,319	$ (1,500)	$ (10,988)	$607,019	$235,788
2009 COMMITMENT ($265,490,800 @.024)	6,371,779	-	6,371,779	-	-
SUPPLEMENTAL TAX	1,589	-	1,589	-	-
	6,373,368	-	6,373,368	-	-
COLLECTIONS	6,378,224	8,868	5,810,746	462,686	95,924
TAX-ACQUIRED PROPERTY	22,926	-	-	-	22,926
ABATEMENTS	3,572	-	2,863	240	469
	6,404,722	8,868	5,813,609	462,926	119,319
UNCOLLECTED AT DECEMBER 31	$ 798,965	$(10,368)	$ 548,771	$144,093	$116,469
REPRESENTED BY					
Real Estate Taxes	$ 661,449	$(10,330)	$ 533,685	$135,518	$ 2,576
Personal Property Taxes	137,516	(38)	15,086	8,575	113,893
	$ 798,965	$(10,368)	$ 548,771	$144,093	$116,469

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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 the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Caribou, Maine as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 28, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Caribou, Maine's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Caribou, Maine's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

To the City Council of the
City of Caribou, Maine

This report is intended solely for the information and use of the City Council, School Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Felch & Company, LLC

May 28, 2010

FELCH & COMPANY, LLC
Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the City Council of the
City of Caribou, Maine

Compliance

We have audited the compliance of the City of Caribou, Maine with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 the City'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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Caribou, Maine complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

To the City Council of the
City of Caribou, Maine

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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Felch & Company, LLC

May 28, 2010

CITY OF CARIBOU, MAINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: *qualified*

Internal control over financial reporting:		
Material weakness(es) identified?	___ yes	_X_ no
Significant deficiencies identified that are not considered to be material weaknesses?	___ yes	_X_ none reported
Noncompliance material to financial statements noted?	___ yes	_X_ no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	___ yes	_X_ no
Significant deficiencies identified that are not considered to be material weakness(es)?	___ yes	_X_ 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	_X_ no

Identification of major programs:

Department of Housing and Urban Development	
Section 8 Housing Choice Voucher Program	CFDA #14.871
Department of Education	
IASA Title I - Local Educational Agencies	CFDA #84.010

Dollar threshold used to distinguish between type A and type B programs:	$300,000	
Auditee qualified as low-risk auditee?	___ yes	_X_ no

SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

CITY OF CARIBOU, MAINE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Receipts	Disbursements
U.S. Department of Housing and Urban Development				
Direct Award - Section 8 Housing Choice Vouchers	14.871	N/A	$ 863,027	$ 866,356
U.S. Department of Transportation				
Direct Award - Airport Improvement Program	20.106	N/A	12,650	12,650
U.S. Department of Agriculture				
Passed through State of Maine Department of Education:				
Lunch Section 4	10.555	013-05A-8121-05	20,176	20,176
Lunch Section 11	10.555	013-05A-8123-05	106,869	106,869
Food Distribution/Food Donation Program	10.560	013-05A-6134-05	23,575	23,575
Special Milk Program for Children	10.556	013-05A-7129-05	179	179
School Breakfast Program	10.553	013-05A-7127-05	29,454	29,454
Total - U.S. Department of Agriculture			180,253	180,253
U.S. Department of Education				
Passed through State of Maine Department of Education:				
NCLB Title I - Local Educational Agencies Disadvantaged IASA	84.010A	013-05A-6334-13	282,314	251,120
Improving Teacher Quality State Grants	84.367A	013-05A-1138-11	72,113	74,853
Carl Perkins Act of 1984 - Basic Grants Title I, Part C - Basic Grants	84.048A	013-05A-5159-08	14,000	27,171
Special Education - State Grants Individuals with Disabilities Act - Local Entitlement	84.027A	013-05A-6317-12	184,578	163,756
Education Technology State Grant	84.318X	013-05A-1086-02	112	2,852
Twenty-first Century Grant	84.287C	013-05A-1103-13	250,000	294,722
Rural and Low Income Schools	84.358B	013-05A-1078-03	40,858	34,048
Adult Education State Grant - Subsidies	84.002A	013-05A-6296-64	56,088	32,398
Title I - Program Improvements Grant	84.010A	013-05A-6332-13	51,047	25,176
Stabilization funds (ARRA)	84.394A	N/A	69,660	69,660
Passed through State of Maine Department of Health and Human Services:				
Safe and Drug-free Schools and Communities - State Grants Drug and Violence Education	84.186A	013-05A-7153-57	1,617	559
Total - U.S. Department of Education			1,022,387	976,315
			$2,078,317	$2,035,574

Note - The Schedule of Federal Awards is presented on the cash basis of accounting.

CITY OF CARIBOU, MAINE

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2009

There were no audit findings reported for the year ended December 31, 2008 that require follow-up in the December 31, 2009 report.