

Financial Statements

CITY OF CARIBOU, MAINE

as of

DECEMBER 31, 2010

together with

INDEPENDENT AUDITORS' REPORT

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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 activity, each major fund, and the aggregate remaining fund information of the City of Caribou, Maine as of and for the year ended December 31, 2010, 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, 2010, 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 June 17, 2011 on our consideration of the City of Caribou, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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. 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

June 17, 2011

Management's Discussion and Analysis
For the Year Ended December 31, 2010

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, 2010. Management's discussion and analysis should be viewed as a tool to aid the reader in understanding of the City's financial performance along with an enhanced insight to the attached financial statements and notes to the financials.

Financial highlights:

- The City of Caribou, Maine adheres to the standards of GASB 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Under these standards management has prepared statements of comparison indicating the relative changes within the City's organizational and financial structures. Much of the detail as well as the summary presented within this text can be found in Exhibit D that highlights the end results of operations for the City in 2010.
- The Financial Administrators of the City have implemented a modified approach towards valuing its infrastructure. This approach includes the establishment of condition statements for much of the City's infrastructure and a plan of capital actions to maintain and improve assets in accordance with prudent financial practices.
- The City has also implemented infrastructure management and measurement tools as a result of these standards. The City has implemented and integrated a full depreciation basis of all capital infrastructures in a further effort to measure the ability of appropriately maintaining the existing infrastructure as well as accounting for future needs.

The Financial Statements

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

The City-wide reports are designed to show the City as a sum of its significant fund activities. The *Statement of Net 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.

Management's Discussion and Analysis
For the Year Ended December 31, 2010

UNAUDITED

City-Wide Financial Statements

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

The Statement of Net 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. 2010 is the first year absent any School expenses or revenue with only the educational appropriation authorized by referendum vote made part of the statements. There is the extraordinary expenditure the reader should note to the RSU #39 transferring a prior fund balance expressed as an extraordinary transfer in Exhibit B.

Management's Discussion and Analysis
For the Year Ended December 31, 2010

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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. This activity is maintained as an enterprise account and is reported separately to better demonstrate the cash flows and net of operational activity that is generated from the services throughout the year.

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

The Statement of Net Assets (Exhibit A) reports total net assets of \$15,572,097 from the combined operations of the Governmental and Business-type activity. This aggregate amount consists of total assets less depreciation and liabilities for these combined operations. Exhibit A is delineated into Assets, Current and Non-current, Liabilities, Current and Non-current, and Net Assets, Investments in Capital Assets and Unrestricted.

Management's Discussion and Analysis
For the Year Ended December 31, 2010

UNAUDITED

The reader should refer to Table I as a comparison of Exhibit A of the net changes from 2009 to 2010. Total Current Assets decreased significantly in 2010 primarily due to the extraordinary transfer of prior fund balances from the City's School Department to RSU #39, pursuant to MRSA Title 20-A §1463 (3), in the form of cash. Total Current Assets decreased by \$1,567,346, of which the extraordinary transfer to RSU #39 was \$1,749,682. Absent this extraordinary transfer, management would have noted a net gain in Total Current Assets of \$182,336 and a positive increase of cash of \$248,994. Taxes Receivable increased by \$68,756 or 8.2% from prior year. Outstanding taxes represented 13.3% as compared to 12.4% for 2009. Notes and Other Receivables decreased by a combined total of \$307,500 and Other Current Assets increased by \$172,086, a positive adjustment offsetting the transfer to the RSU #39 and increase in taxes receivable.

Table I indicates Current Liabilities decreased by \$22,640 with positive reductions in Accounts Payable and Deferred Taxes, but an increase in Deferred Compensation due to an increase in Compensated Absences. Noncurrent Liabilities decreased by \$279,566 as the Note Payable for the construction of the Wellness Center only the current portion remaining for 2011. Net Assets decreased for 2010 as there was an extraordinary credit from the RSU #39 to the City in 2009, returned to the RSU in the form of cash in 2010. Total Net Assets, Total Assets less Current and Noncurrent Liabilities decreased by \$1,458,938 for the year. Management recognizes this significant change as being a one-time event and is reflective of the transfer of prior fund balances due from the former City School department to RSU #39 as required under State law.

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 2010 and 2009 as Government Activities Expenses. These pie charts should aid the reader to make a visual comparison in changes from 2009 to 2010.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2010

UNAUDITED

Table I provides data for the Governmental Activities for the years ended 2010 and 2009.

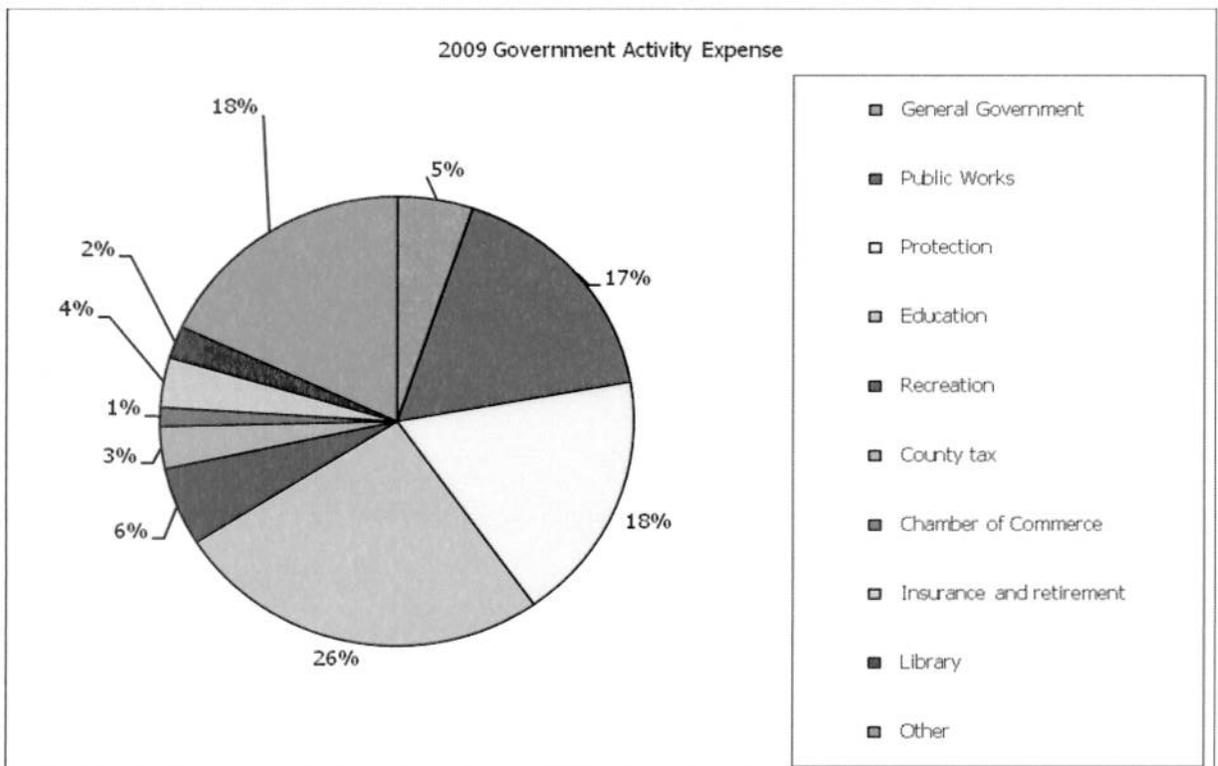
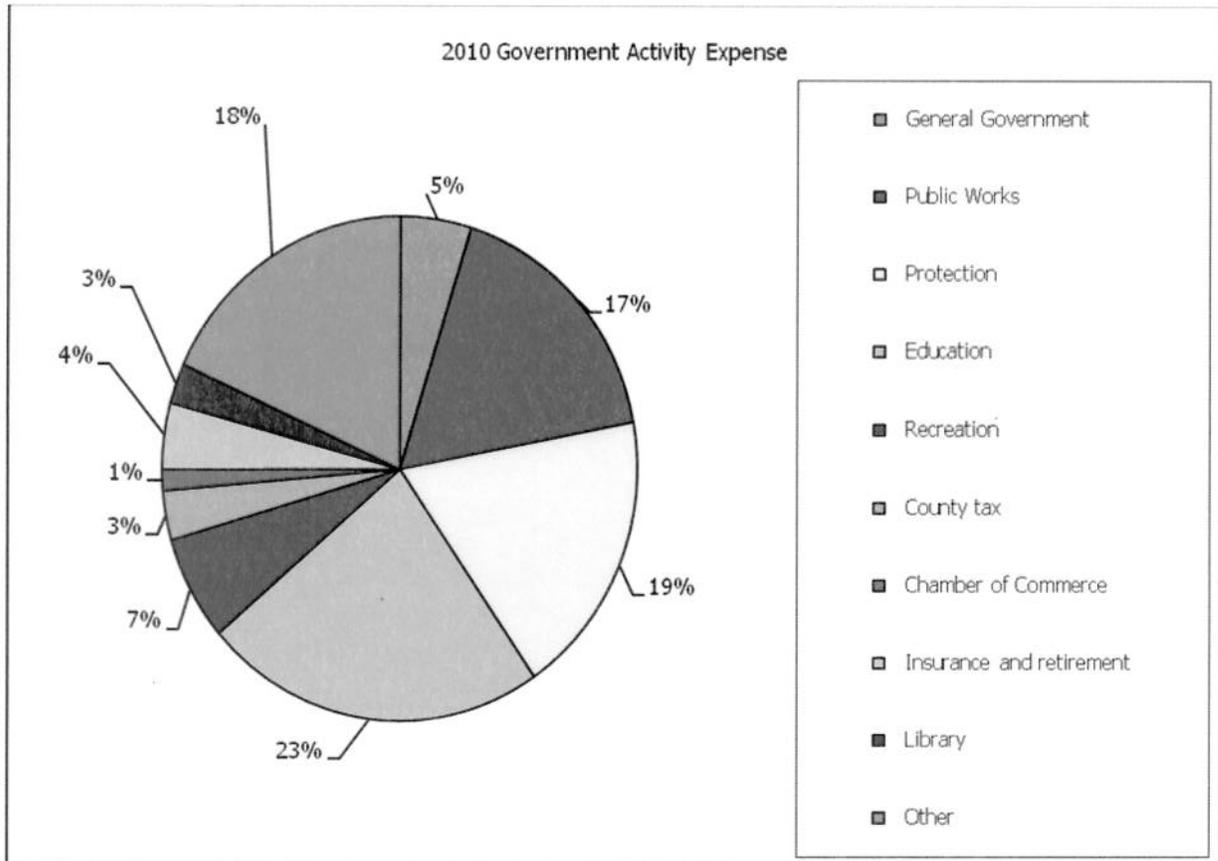
Table I
Net Assets

	<u>2010</u>	<u>2009</u>
<u>Current Assets</u>		
Cash and temporary investments	\$ 3,309,708	\$ 4,810,396
Taxes receivable	898,345	829,589
Notes receivable	330,653	452,184
Other receivables	361,085	547,054
Other current assets	<u>274,053</u>	<u>101,967</u>
Total Current Assets	<u>5,173,844</u>	<u>6,741,190</u>
<u>Noncurrent Assets</u>		
Capital assets, net of depreciation	<u>12,166,339</u>	<u>12,360,137</u>
Total Assets	<u>17,340,183</u>	<u>19,101,327</u>
<u>Current Liabilities</u>		
Accounts payable and accrued expenses	108,739	142,951
Deferred compensation	705,251	682,941
Deferred taxes	674,530	685,268
Current portion note payable	<u>279,566</u>	<u>279,566</u>
	<u>1,768,086</u>	<u>1,790,726</u>
<u>Noncurrent Liabilities</u>		
Note payable, net of current portion	<u>-</u>	<u>279,566</u>
<u>Net Assets</u>		
Investment in capital assets, net of related debt	11,886,773	11,801,005
Unrestricted net assets	<u>3,685,324</u>	<u>5,230,030</u>
TOTAL NET ASSETS	<u>\$ 15,572,097</u>	<u>\$ 17,031,035</u>

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2010

UNAUDITED



City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2010

UNAUDITED

The reader should refer to Table II as a comparison of the changes in Net Assets from 2009 to 2010. Total City net Expenditures for Governmental and Business-type activities combined was \$9,655,461, as compared to \$10,061,269 for 2009. The major components of the \$405,808 reduction in Expenditures were due to an overall net reduction for all categories except Education of \$24,636. Education decreased by \$381,172 as per the transfer credit and ARRA funding. Capital Projects were also reduced by \$117,371 taking advantage of prior year's favorable project expenditures, reductions in balances forward, and a reduced scope of investments for the year.

For 2010 the total General Revenues were \$9,846,031 as compared to \$9,423,607 for 2009, an increase of \$422,424. Federal and State Assistance decreased by \$306,823 wholly comprised of losses in State Revenue Sharing and Urban Rural Improvements Program (MDOT) pass through funding. Management recognizes these significant losses of broad based taxation, non-property tax, as an extremely negative trend that will impact property taxation and service level provisions in future years. Other Revenues increased by \$672,504 with the one-time dividend return from Tri-Community Landfill being \$510,026 of the total. Management recognizes the singular contribution of this revenue that will not be available in subsequent years. The net change in these non-property tax revenues buffered impacts to Taxes for 2010, increasing by just \$53,179. Management notes the impact to property taxation in 2010 due to the significant combined losses of non-property tax revenues as reflective of the economic downturn affecting the entire nation that started 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 2010 as compared to 2009.

Table II also compares the change in Net Assets being a positive \$190,570 from Governmental Activities in 2010, as compared to a negative \$637,662 in 2009. The extraordinary transfer between the City and RSU #39 is listed as a credit to the City in 2009, and a debit in 2010 of \$1,749,682. This transaction was comprised of cash only. Net change from Governmental Activities is a negative \$1,559,112.

For Business-type activities, Table II shows the Ambulance Service expending \$1,355,718 while generating revenues of \$1,455,892 from billings producing a net income of \$100,174 for 2010 compared to a net income of \$123,501 in 2009. The Ambulance Service used \$66,764 from the general fund at year end due to an increase in receivables balance at year end. The Net change in Assets was still a positive \$33,410 for the year. See Exhibit H for full details of this Business-type Activity. The Service receives no net support from property taxation.

Management's Discussion and Analysis
For the Year Ended December 31, 2010

UNAUDITED

Table II shows the changes in net assets for the years 2010 and 2009.

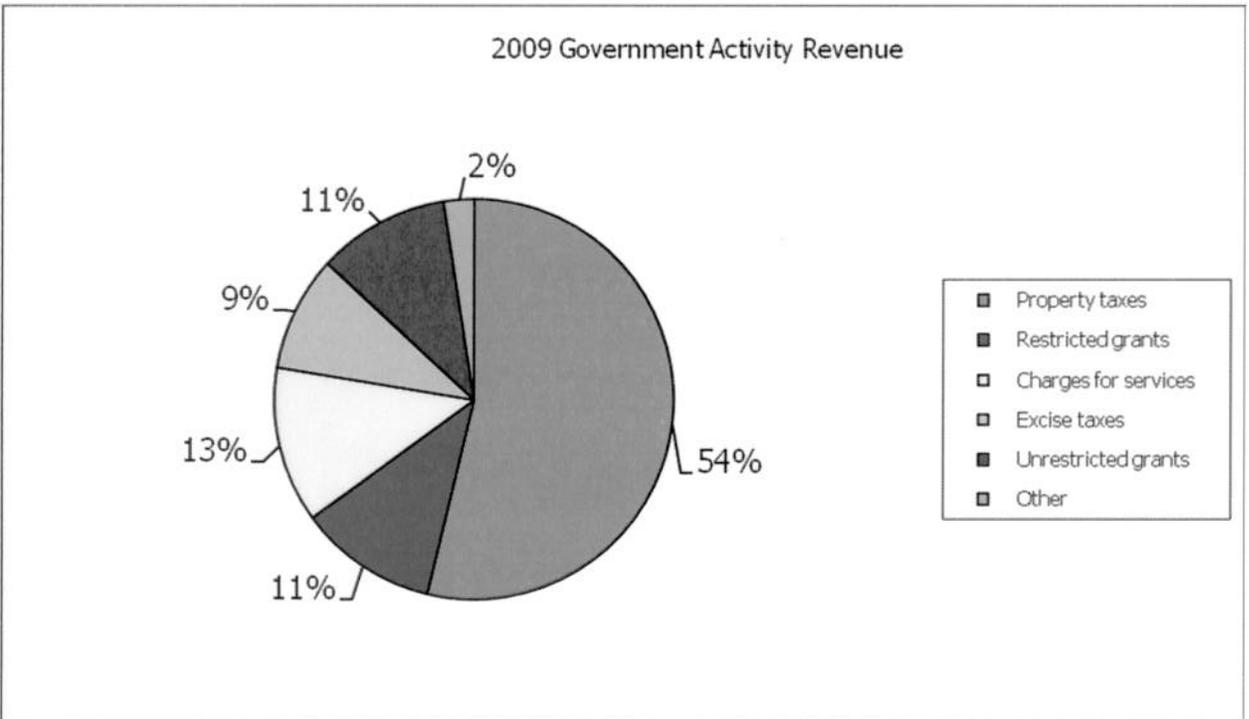
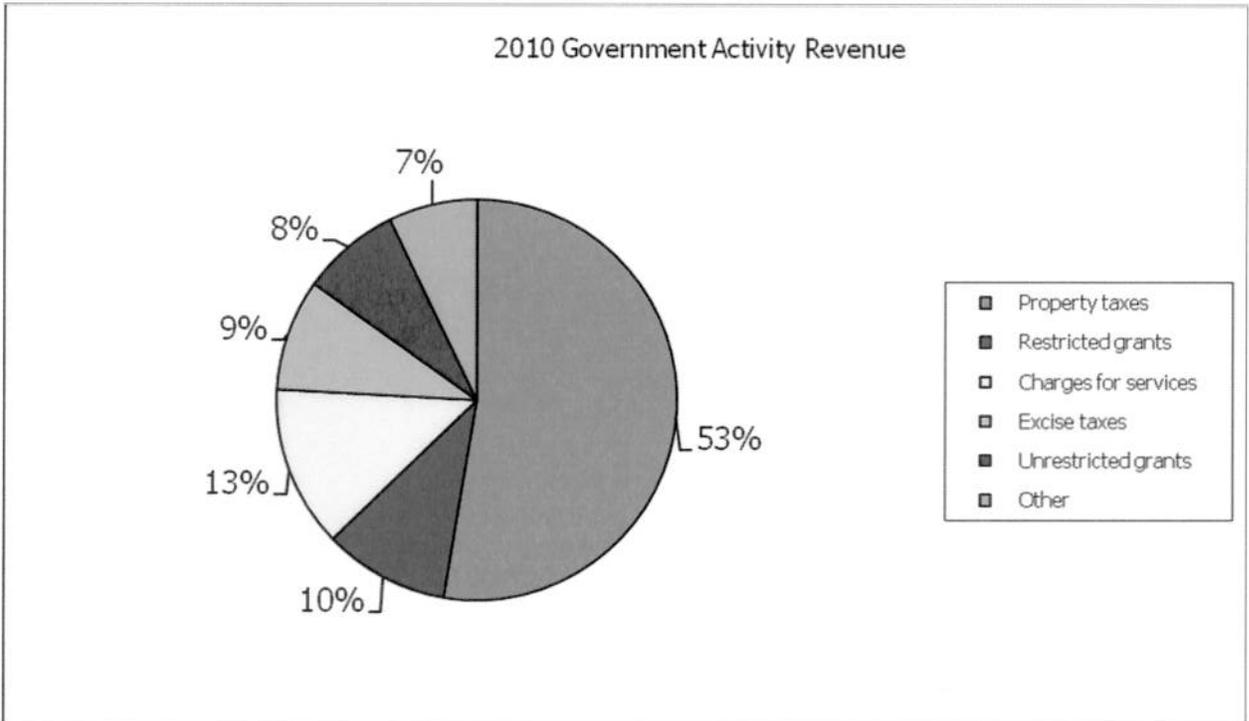
Table II
Change in Net Assets

	<u>2010</u>	<u>2009</u>
Governmental Activities:		
<u>General Revenues</u>		
Taxes	\$ 6,749,398	\$ 6,696,219
Federal and state assistance	1,019,736	1,326,559
Excise taxes	1,156,557	1,152,993
Other revenues	920,340	247,836
Total general revenues	<u>9,846,031</u>	<u>9,423,607</u>
<u>General Expenses, net of related revenues</u>		
General Government	429,073	478,384
Public Works	1,766,901	1,831,721
Protection	1,903,987	1,898,848
Education	2,609,215	2,990,387
Recreation	662,738	552,549
County tax	354,010	351,859
Chamber of Commerce	147,500	155,000
Insurance and retirement	474,195	411,590
Library	287,170	269,745
Capital projects	(67,070)	50,301
Other	1,087,742	1,070,885
Total general activities expenses	<u>9,655,461</u>	<u>10,061,269</u>
Change in net assets before extraordinary item	<u>190,570</u>	<u>(637,662)</u>
Transfer (to)/from (RSU #39) Caribou School Department	<u>(1,749,682)</u>	<u>1,749,682</u>
Change in Net Assets from general governmental activities	<u>(1,559,112)</u>	<u>1,112,020</u>
Business-type Activities:		
Revenues		
Charges for services	1,455,892	1,350,713
Operational grants	-	118,057
Total business-type activity revenues	<u>1,455,892</u>	<u>1,468,770</u>
Expenses	<u>1,355,718</u>	<u>1,345,269</u>
Change in Net Assets from business-type activities	<u>100,174</u>	<u>123,501</u>
Change in Net Assets from governmental activities	(1,458,938)	1,235,521
Net Assets - January 1	17,031,035	15,840,868
Prior period adjustment	-	(45,354)
Net Assets - January 1 (restated)	<u>17,031,035</u>	<u>15,795,514</u>
Net Assets - December 31	<u>\$ 15,572,097</u>	<u>\$ 17,031,035</u>

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2010

UNAUDITED



City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2010

UNAUDITED

Management has produced Table III to further assist the reader in assessing the major changes in Revenues for the City comparing the 2010 current year to that of 2009. Total City Revenues for 2010 were \$12,826,493, an increase of \$364,610 compared to 2009. Management recognizes the need to reduce revenue from property taxes by maximizing other revenues provided charges for services are reasonable and customary or fall within State allowances. Restricted Grants decreased by \$99,916 as did Unrestricted Grants fell by \$306,823, the greatest reductions being in State Revenue Sharing and Highway Funds (URIP). The State Legislature reduced Revenue Sharing percentages as well as reduced the remaining fund, already reduced due to economic activity, by over \$40 million dollars. Positive offsets were seen in Excise Tax \$3,564 and Other Revenue increased by \$610,366, \$510,026 from Tri-Community Landfill dividends. Net increase in property taxation was \$53,179 for the year. A graphic representation has been provided.

Management's Discussion and Analysis
For the Year Ended December 31, 2010

UNAUDITED

Table III shows the percentage of revenue sources for governmental activities for the years 2010 and 2009.

Table III
Percentage of Revenue Sources

	2010 <u>Revenues</u>	2010 (by <u>percentage</u>)	2009 <u>Revenues</u>	2009 (by <u>percentage</u>)
<u>Governmental Revenues:</u>				
Property taxes	\$ 6,749,398	53%	\$ 6,696,219	54%
Restricted grants	1,299,394	10%	1,399,310	11%
Charges for services	1,681,068	13%	1,576,828	13%
Excise taxes	1,156,557	9%	1,152,993	9%
Unrestricted grants	1,019,736	8%	1,326,559	11%
Other	<u>920,340</u>	<u>7%</u>	<u>309,974</u>	<u>2%</u>
Total Government Revenues	<u>\$12,826,493</u>	<u>100%</u>	<u>\$12,461,883</u>	<u>100%</u>

Management's Discussion and Analysis
For the Year Ended December 31, 2010

UNAUDITED

Management has produced Table IV to illustrate any significant changes within the Governmental Expenditures from 2009 to 2010 as a percentage of total expenditures for each year followed by pie charts illustrating the same. Total Governmental Expenses decreased by \$378,157 primarily due to a reduction in Educational assessment of \$381,172 due to the influx of ARRA funding, a one time occurrence. The net increase of \$3,015 from all other Governmental Expenses decreased this education reduction producing the resulting net. Despite the positive reduction in overall expenditures, very little change in the percentage by category is reported for 2010 with the exception of Education and Recreation.

Management's Discussion and Analysis
For the Year Ended December 31, 2010

UNAUDITED

Table IV shows the percentage of expenses for governmental activities for the years 2010 and 2009.

Table IV
Percentage of Expenses

	2010 Expenses	2010 (by percentage)	2009 Expenses	2009 (by percentage)
<u>Governmental Expenses:</u>				
General Government	\$ 538,353	4%	\$ 596,019	5%
Public Works	1,924,437	15%	1,974,071	15%
Protection	2,054,275	16%	2,077,496	16%
Education	2,609,215	21%	2,990,387	23%
Recreation	753,222	6%	647,766	5%
County tax	354,010	3%	351,859	3%
Chamber of Commerce	147,500	1%	155,000	1%
Insurance and retirement	474,195	4%	411,590	3%
Library	287,170	2%	269,745	2%
Capital projects	76,647	1%	115,508	1%
Ambulance	1,355,718	11%	1,345,269	10%
Other	<u>1,961,007</u>	<u>16%</u>	<u>1,979,196</u>	<u>16%</u>
Total Governmental Expenses	<u>\$12,535,749</u>	<u>100%</u>	<u>\$12,913,906</u>	<u>100%</u>

Management's Discussion and Analysis
For the Year Ended December 31, 2010

UNAUDITED

A balance sheet of the City's Governmental Fund is provided in Exhibit C. Total Assets ended 2010 at \$4,957,755, a reduction of \$1,535,652. Total Liabilities ended the year at \$776,651, a decrease of \$26,545 having positive decreases of both accounts payable and deferred property taxes. Fund Balances ended 2010 at \$4,181,104, a decrease of \$1,509,107. Of this reduction, \$1,060,524 is from Capital Outlays in excess of appropriations, \$874,841 being for RSU #39, and \$86,942 being for Debt Service (Wellness Center), see Schedules 3a & 3b. Further Fund Balance reduction was from Non-capital Outlays, see Schedule 4, of \$91,789.

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 2010. Exhibit D summarizes the City, 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 2010 were \$11,464,274 and Expenditures were \$10,966,827, an excess of Revenue over Expense of a positive \$497,447. This positive gain does not include the business-type activity of the Ambulance contributing \$100,174 for a combined increase to Fund Balance of \$597,621. Fund Balance was reduced by \$322,733 for Debt Service (Wellness Center) and due to the Extraordinary Item, transfer to RSU #39, of \$1,749,682. The net served to decrease the Fund Balance in 2010 by \$1,463,753. Fund Balance ending December 31, 2010 was \$4,181,104 after a Prior-Period Adjustment of \$45,354, see Note 12, due to uncollectible taxes stemming from commercial property bankruptcies.

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

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

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 compared to budget. Total Expenditures for the year, excluding Ambulance, were \$10,195,134, \$128,542 less than budget. Revenues, excluding Ambulance, were \$10,246,954, \$2,964 less than budget. Revenues exceeded Expenditures by \$51,820 for the year. Total Other Sources of \$603,933 came from capital outlays, transfer from prior year, and ambulance fund. Debt service of \$351,675 reduced the positive increase in Fund Balance. The resulting net positive increase in Fund Balance General Fund from Governmental Operations was a positive \$351,675.

The Ambulance Service on Supplemental 1 had Total Revenues of \$1,743,229, \$112,826 less than budget, and Total Expenditures of \$1,676,465, \$73,159 greater than budget. The Ambulance Service had a net of operations of just \$66,764 for the year as compared to a budgeted \$252,749, a difference of \$186,003. A portion of this reduction from operations was due to a drop in call volumes, while an estimated \$68,000 stemmed from Medicare reimbursements authorized for payment but not fully funded by the Federal government. The City expects to receive these funds in the next calendar year. The City's net of operations, change in General Fund and Ambulance Service Fund Balances combined for 2010 was a positive \$351,675.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2010

UNAUDITED

A more complete understanding of the capital outlay is summarized in Note 9 of this Audit. Note 9 indicates that the City's capital assets net of depreciation decreased by \$166,202 in total. Additions to vehicles and equipment totaled \$161,926 while depreciation across land improvements, buildings, vehicles, and equipment totaled \$311,912, depreciation being greater than additions by \$149,986. Management recognizes this relationship as one of timing, the year additions are purchased versus depreciation on the entire list of assets. Retirements of vehicles and equipment totaled \$291,879 for the year as compared to the depreciation of \$275,663 for the same. Management recognizes the differential of \$16,216 as documenting the very close maintenance of the replacement and schedule of vehicles and equipment. Note 9 also indicates that the Business-type Activity of the Ambulance had net depreciation of \$27,596 for the year as the anticipated remount of Ambulance Unit #25 was delayed to 2011.

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. Management recognizes the future difficulties of funding municipal operations as Federal and State distributions continue to decline for the foreseeable near term with potential increased burden upon property taxation.

Management concludes this section of the 2010 Audit with the continued pledge of applying economies of scale, near zero based budgeting practices, regionalized services, best practices, and efficiencies to minimize these pending impacts. This concludes the Management Discussion and Analysis Statement for the calendar year of 2010. A complete copy of the 2010 audited financials for the City of Caribou may be viewed at the Caribou City Office, 25 High Street during normal business hours of 8:00AM to 5:00PM Monday through Friday.

CITY OF CARIBOU, MAINE

EXHIBIT A

STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	Governmental Activities	Business- type Activity	Total
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and temporary investments (Note 7)	\$ 3,246,402	\$ -	\$ 3,246,402
Investments	63,306	-	63,306
Uncollected taxes	799,635	-	799,635
Tax acquired property	98,710	-	98,710
Accounts receivable	122,629	190,025	312,654
Pledges receivable (Note 3)	143,431	-	143,431
Allowance for uncollectibles	(95,000)	-	(95,000)
Inventories	18,541	-	18,541
Prepaid expenses	57,401	-	57,401
Notes receivable (Notes 5 and 6)	330,653	-	330,653
Restricted cash	196,235	-	196,235
Other assets	1,876	-	1,876
	<u>4,983,819</u>	<u>190,025</u>	<u>5,173,844</u>
NONCURRENT ASSETS			
Capital assets (Note 9)			
Non-depreciable	5,901,433	-	5,901,433
Depreciable	11,270,207	807,964	12,078,171
Less allowance for depreciation	<u>(5,450,265)</u>	<u>(363,000)</u>	<u>(5,813,265)</u>
	<u>11,721,375</u>	<u>444,964</u>	<u>12,166,339</u>
Total assets	<u>16,705,194</u>	<u>634,989</u>	<u>17,340,183</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	66,294	-	66,294
Accrued payroll	29,772	-	29,772
Accrued interest	3,580	-	3,580
Escrow	38,865	-	38,865
Deferred revenues - property taxes	674,530	-	674,530
Current portion, notes payable	279,566	-	279,566
Compensated absences	585,718	89,761	675,479
Total current liabilities	<u>1,678,325</u>	<u>89,761</u>	<u>1,768,086</u>
NONCURRENT LIABILITIES (Note 10)			
Notes payable, net of current portion	-	-	-
Total liabilities	<u>1,678,325</u>	<u>89,761</u>	<u>1,768,086</u>
<u>NET ASSETS</u>			
Investment in capital assets, net of related debt	11,441,809	444,964	11,886,773
Restricted for:			
Special revenue funds	439,814		439,814
Unrestricted	<u>3,145,246</u>	<u>100,264</u>	<u>3,245,510</u>
Total net assets	<u>\$ 15,026,869</u>	<u>\$ 545,228</u>	<u>\$ 15,572,097</u>

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

CITY OF CARIBOU, MAINE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

EXHIBIT B

Functions/Programs	Expenses	Charges for Services	Program Revenues		Capital Grants and Contributions	Governmental Activities	Net (Expenses) Revenue and Changes in Net Assets	
			Operating Grants and Contributions	Capital Grants and Contributions			Business-type Activity	Total
Primary Government								
Governmental Activities:								
General government	\$ 538,353	\$ 109,280	\$ -	\$ -	\$ -	\$ (429,073)	\$ (429,073)	\$ (429,073)
Community development	75,600	-	-	-	-	(75,600)	(75,600)	(75,600)
Health and sanitation	266,216	-	-	-	-	(266,216)	(266,216)	(266,216)
Public works	1,924,437	-	-	-	-	(1,766,901)	(1,766,901)	(1,766,901)
Protection	2,054,275	103,138	-	157,536	-	(1,903,987)	(1,903,987)	(1,903,987)
Insurance and retirement	474,195	-	-	47,150	-	(474,195)	(474,195)	(474,195)
Recreation	753,222	-	-	-	90,484	(662,738)	(662,738)	(662,738)
Library	287,170	-	-	-	-	(287,170)	(287,170)	(287,170)
County tax	354,010	-	-	-	-	(354,010)	(354,010)	(354,010)
General assistance	110,233	-	-	-	-	(110,233)	(110,233)	(110,233)
Education	2,609,215	-	-	-	-	(2,609,215)	(2,609,215)	(2,609,215)
Chamber of Commerce and Industry	147,500	-	-	-	-	(147,500)	(147,500)	(147,500)
Section 8 Housing	930,940	12,758	-	860,507	-	(57,675)	(57,675)	(57,675)
Capital projects	76,647	-	-	-	143,717	67,070	67,070	67,070
Interest expense	20,933	-	-	-	-	(20,933)	(20,933)	(20,933)
Other	557,085	-	-	-	-	(557,085)	(557,085)	(557,085)
Total governmental activities	11,180,031	225,176	-	1,065,193	234,201	(9,655,461)	(9,655,461)	(9,655,461)
Business-type Activity:								
Ambulance service	1,355,718	1,455,892	-	-	-	\$100,174	100,174	100,174
Total City	\$12,535,749	\$1,681,068	\$ 1,065,193	\$ 234,201	(9,655,461)	100,174	(9,555,287)	(9,555,287)
General revenues:								
Taxes								
Property taxes, levied for general purposes						6,520,766	-	6,520,766
Homestead reimbursement and other property tax related						219,164	-	219,164
Supplemental taxes						9,468	-	9,468
Excise						1,156,557	-	1,156,557
Interest on delinquent taxes and lien fees						69,520	-	69,520
Payments in lieu of taxes						44,268	-	44,268
Federal and state aid not restricted to specific purposes						1,019,736	-	1,019,736
Tri-community distribution						510,026	-	510,026
Interest on deposits and notes						20,947	-	20,947
Cable TV franchise						57,348	-	57,348
Miscellaneous revenues						218,231	-	218,231
Net transfers governmental and business-type funds from operations						66,764	(66,764)	-
Subtotal, general revenues and transfers						9,912,795	(66,764)	9,846,031
Change in net assets before extraordinary item						257,334	33,410	290,744
Extraordinary item:								
Transfer to RSU #39						(1,749,682)	-	(1,749,682)
Change in net assets						(1,492,348)	33,410	(1,458,938)
NET ASSETS - JANUARY 1, 2010						16,564,571	511,818	17,076,389
PRIOR PERIOD ADJUSTMENT (Note 12)						(45,354)	-	(45,354)
NET ASSETS - JANUARY 1, 2010 (RESTATED)						16,519,217	511,818	17,031,035
NET ASSETS - DECEMBER 31, 2010						\$15,026,869	\$545,228	\$15,572,097

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

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2010

	<u>General Fund</u>	<u>Section 8 Housing Program</u>	<u>Special Revenue Funds (Schedule 5)</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and temporary investments (Note 7)	\$ 2,945,882	\$ 59,734	\$ 240,786	\$ 3,246,402
Investments	63,306	-	-	63,306
Uncollected taxes	799,635	-	-	799,635
Tax acquired property	98,710	-	-	98,710
Accounts receivable	122,629	-	-	122,629
Pledges receivable (Note 3)	143,431	-	-	143,431
Allowance for uncollectibles	(95,000)	-	-	(95,000)
Due from other funds	31,337	-	-	31,337
Inventories	18,541	-	-	18,541
Notes receivable (Notes 5 and 6)	317,045	-	13,608	330,653
Restricted cash	-	196,235	-	196,235
Other assets	-	1,876	-	1,876
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 4,445,516</u>	<u>\$257,845</u>	<u>\$ 254,394</u>	<u>\$ 4,957,755</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 29,696	\$ 2,223	\$ -	\$ 31,919
Escrow	-	38,865	-	38,865
Due to other funds	-	-	31,337	31,337
Deferred revenue - property taxes	674,530	-	-	674,530
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>704,226</u>	<u>41,088</u>	<u>31,337</u>	<u>776,651</u>
Fund balances:				
Unreserved:				
Designated for subsequent years' expenditures -				
Capital (Schedule 3)	1,087,210	-	3,523	1,090,733
Non-capital (Schedule 4)	621,533	-	-	621,533
Undesignated, reported in:				
General fund	1,907,443	-	-	1,907,443
Special revenue funds	-	216,757	219,534	436,291
Deferred property taxes	125,104	-	-	125,104
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>3,741,290</u>	<u>216,757</u>	<u>223,057</u>	<u>4,181,104</u>
Total liabilities and fund balances	<u>\$ 4,445,516</u>	<u>\$257,845</u>	<u>\$ 254,394</u>	<u>\$ 4,957,755</u>

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>General Fund</u>	<u>Section 8 Housing Program</u>	<u>Special Revenue Funds (Schedule 6)</u>	<u>Total Governmental Funds</u>
REVENUES				
Local property taxes	\$ 6,535,870	\$ -	\$ -	\$ 6,535,870
Homestead reimbursement	219,164	-	-	219,164
Supplemental taxes	9,468	-	-	9,468
Abatements	(15,104)	-	-	(15,104)
Federal assistance	8,351	860,507	143,717	1,012,575
State assistance	1,149,019	-	61,141	1,210,160
Other revenues	<u>2,477,383</u>	<u>13,268</u>	<u>1,490</u>	<u>2,492,141</u>
TOTAL REVENUES	<u>10,384,151</u>	<u>873,775</u>	<u>206,348</u>	<u>11,464,274</u>
EXPENDITURES				
General government	589,762	159,583	-	749,345
Community development	75,600	-	-	75,600
Health and sanitation	266,216	-	-	266,216
Public works	1,886,643	-	-	1,886,643
Protection	1,944,462	-	-	1,944,462
Insurance and retirement	474,195	-	-	474,195
Recreation	664,030	-	-	664,030
Library	281,661	-	-	281,661
County tax	354,010	-	-	354,010
General assistance	110,233	771,357	-	881,590
Education	2,609,215	-	-	2,609,215
Interest expense	24,512	-	-	24,512
Chamber of Commerce and Industry	147,500	-	-	147,500
Construction and improvements	-	-	76,647	76,647
Other (Schedule 2)	<u>531,201</u>	<u>-</u>	<u>-</u>	<u>531,201</u>
TOTAL EXPENDITURES	<u>9,959,240</u>	<u>930,940</u>	<u>76,647</u>	<u>10,966,827</u>
EXCESS OF REVENUES OVER EXPENDITURES (EXPENDITURES OVER REVENUES)				
	<u>424,911</u>	<u>(57,165)</u>	<u>129,701</u>	<u>497,447</u>
OTHER SOURCES				
Transfer from ambulance reserve	66,764	-	-	66,764
Transfer from other funds	<u>44,451</u>	<u>-</u>	<u>-</u>	<u>44,451</u>
TOTAL OTHER SOURCES	<u>111,215</u>	<u>-</u>	<u>-</u>	<u>111,215</u>
OTHER USES				
Transfer to other funds	-	-	43,167	43,167
Payments on long-term debt	<u>279,566</u>	<u>-</u>	<u>-</u>	<u>279,566</u>
TOTAL OTHER USES	<u>279,566</u>	<u>-</u>	<u>43,167</u>	<u>322,733</u>
EXTRAORDINARY ITEM				
Transfer to RSU #39	<u>(1,749,682)</u>	<u>-</u>	<u>-</u>	<u>(1,749,682)</u>
NET INCREASE (DECREASE) IN FUND BALANCE	<u>(1,493,122)</u>	<u>(57,165)</u>	<u>86,534</u>	<u>(1,463,753)</u>
FUND BALANCE - JANUARY 1, 2010	5,279,766	273,922	136,523	5,690,211
PRIOR-PERIOD ADJUSTMENT (Note 12)	<u>(45,354)</u>	<u>-</u>	<u>-</u>	<u>(45,354)</u>
FUND BALANCE - JANUARY 1, 2010 (RESTATED)	<u>5,234,412</u>	<u>273,922</u>	<u>136,523</u>	<u>5,644,857</u>
FUND BALANCE - DECEMBER 31, 2010	<u>\$ 3,741,290</u>	<u>\$216,757</u>	<u>\$ 223,057</u>	<u>\$ 4,181,104</u>

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
DECEMBER 31, 2010

Total fund balance - governmental funds (Exhibit C)		\$ 4,181,104
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	17,171,640	
Accumulated depreciation is	<u>5,450,265</u>	
		11,721,375
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:		
Notes payable		(279,566)
Prepaid expenses		57,401
Accounts payable		(34,375)
Accrued payroll		(29,772)
Accrued interest		(3,580)
Compensated absences		<u>(585,718)</u>
Total net assets - governmental activities (Exhibit A)		<u>\$ 15,026,869</u>

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, 2010

Total net change in fund balances - governmental funds (Exhibit D)		\$(1,463,753)
Amounts reported for governmental activities in the statement of activities are different because:		
<p>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.</p>		
Capital outlays	161,926	
Depreciation expense	<u>(311,912)</u>	(149,986)
<p>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.</p>		
		(16,216)
<p>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.</p>		
		5,407
<p>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.</p>		
Decrease in accounts receivable for governmental activities		(78,741)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities.</p>		
		279,566
<p>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.</p>		
		(115,775)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:</p>		
Decrease in accrued payroll		44,045
Decrease in accrued interest payable		3,579
<p>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.</p>		
		<u>(474)</u>
Change in net assets of governmental activities (Exhibit B)		<u>\$ (1,492,348)</u>

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

STATEMENT OF NET ASSETS
 PROPRIETARY FUND
AS OF DECEMBER 31, 2010

ASSETS

CURRENT ASSETS

Cash and temporary investments (Note 7)	\$ -
Accounts receivable, net of allowance of \$27,672	<u>190,025</u>
Total current assets	<u>190,025</u>

NONCURRENT ASSETS

Land, buildings and improvements	223,065
Vehicles and equipment	<u>584,899</u>
Total noncurrent assets	807,964
Accumulated depreciation	<u>(363,000)</u>
Net noncurrent assets	<u>444,964</u>
Total assets	<u>634,989</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued liabilities	<u>89,761</u>
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NET ASSETS

Invested in capital assets	444,964
Unrestricted	<u>100,264</u>
Total net assets	<u>\$ 545,228</u>

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

CITY OF CARIBOU, MAINE

EXHIBIT H

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

Operating revenues	
Fees	\$ 1,427,177
Less contractual allowances	(281,651)
Internal service - Caribou	83,120
Outside service - Other Municipalities	46,445
Veterans' Administration contracts	117,502
Billing services	47,177
Other	<u>16,122</u>
Total operating revenues	<u>1,455,892</u>
Operating expenses	
Salaries and benefits	830,442
Transport expenses	270,751
Occupancy	36,481
Equipment and vehicle expense	54,161
Supplies and materials	14,125
Depreciation	69,901
Uncollectible	69,797
Other	<u>10,060</u>
Total operating expenses	<u>1,355,718</u>
Operating income	<u>100,174</u>
OTHER SOURCES (USES)	
Transfer to general fund	<u>(66,764)</u>
Change in net assets	33,410
TOTAL NET ASSETS - JANUARY 1, 2010	<u>511,818</u>
TOTAL NET ASSETS - DECEMBER 31, 2010	<u>\$ 545,228</u>

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

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from fees	\$1,444,306
Cash payments for salaries and benefits	(879,862)
Cash payments for transportation	(270,751)
Cash payments for other operating costs	(184,624)
Net cash provided by operating activities	<u>109,069</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	<u>(42,305)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Advance (to) general fund	<u>(66,764)</u>
Net increase in cash and cash equivalents	-
Cash and cash equivalents - January 1, 2010	<u>-</u>
Cash and cash equivalents - December 31, 2010	<u>\$ -</u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income	\$ 100,174
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	69,901
Changes in assets and liabilities:	
Receivables	(11,586)
Accounts payable and accrued expenses	<u>(49,420)</u>
Net cash provided by operating activities	<u>\$ 109,069</u>

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

CITY OF CARIBOU, MAINE

EXHIBIT J

STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2010

	<u>Total</u>	<u>Hospital Memorial Funds</u>	<u>Cemetery Trust Funds</u>	<u>Library Trust Funds</u>	<u>Memorial Funds</u>
ASSETS					
Cash	<u>\$221,454</u>	<u>\$45,990</u>	<u>\$1,356</u>	<u>\$58,017</u>	<u>\$116,091</u>
NET ASSETS					
Undesignated	<u>\$221,454</u>	<u>\$45,990</u>	<u>\$1,356</u>	<u>\$58,017</u>	<u>\$116,091</u>

CITY OF CARIBOU, MAINE

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Total</u>	<u>Hospital Memorial Funds</u>	<u>Cemetery Trust Funds</u>	<u>Library Trust Funds</u>	<u>Memorial Funds</u>
INTEREST INCOME	<u>\$ 6,758</u>	<u>\$ 1,045</u>	<u>\$ 7</u>	<u>\$ 2,131</u>	<u>\$ 3,575</u>
DEDUCTIONS					
Expenses	<u>4,025</u>	<u>-</u>	<u>25</u>	<u>-</u>	<u>4,000</u>
Transfer to other funds	<u>1,284</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,284</u>
	<u>5,309</u>	<u>-</u>	<u>25</u>	<u>-</u>	<u>5,284</u>
NET CHANGE IN NET ASSETS	<u>1,449</u>	<u>1,045</u>	<u>(18)</u>	<u>2,131</u>	<u>(1,709)</u>
NET ASSETS - JANUARY 1	<u>220,005</u>	<u>44,945</u>	<u>1,374</u>	<u>55,886</u>	<u>117,800</u>
CASH AND NET ASSETS - DECEMBER 31	<u>\$221,454</u>	<u>\$45,990</u>	<u>\$1,356</u>	<u>\$58,017</u>	<u>\$116,091</u>

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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Fund Accounting

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2010(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The various funds are summarized by type in the financial statements.

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUND

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

FIDUCIARY FUNDS

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

Measurement Focus

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2010(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activity.

Basis of Accounting

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

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

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

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

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

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of fund balance, is utilized in the governmental fund types. In the general fund, for budgetary purposes appropriations lapse at fiscal year-end except for that portion related to encumbered amounts. Encumbrances outstanding at year-end are reported as

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2010(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The encumbrances are subject to re-appropriation by the City council in any succeeding fiscal year.

Budgetary Data

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

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

Cash and Temporary Investments

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

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

Investments

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2010(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Property Taxes

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

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

Allowance for uncollectible receivables

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

The ambulance service also reports accounts receivable net of the allowance for uncollectible accounts of \$27,682. 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, 2010, 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2010

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Accounts Payable, Accrued Expenses and Long-term Obligations

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

Net 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.

Budgets and Budgetary Accounting

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2010

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	<u>General Fund</u>
Fund Balance (budgetary basis)	
Supplement 1	\$3,597,859
Plus: Pledges receivable	143,431
Fund Balance	
(GAAP basis) - Exhibit C	\$3,741,290

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.

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

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 \$1,000,000 or 30% of the payroll of the City qualified for this plan for the year ended December 31, 2010.

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, 2010 was approximately \$68,000.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2010

(3) PLEDGES RECEIVABLE

The City has accepted pledges toward the construction of the Wellness Center. Approximately \$100,000 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 2, 2011. These financial statements are available from the City's Finance Department.

A summary of the facility's activity for 2010 is as follows:

	<u>Amount</u>
Total assets	\$14,344,522
Total liabilities	<u>11,943,780</u>
Total net assets	<u>\$ 2,400,742</u>
Total revenue	\$ 2,350,708
Less total expenditures	2,816,486
Less distributions to owner communities	763,342
Add prior period adjustment	<u>1,280,023</u>
Increase in net assets	<u>\$ 50,903</u>

The City has guaranteed, together with the other member towns, a note and a bond payable totaling \$6,837,000 for the Tri-Community Recycling and Sanitary Landfill. As of December 31, 2010, the balance owed was \$6,676,129.

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, 2010, the estimated total cost of closure and post-closure care was approximately \$17,790,000 of which \$4,991,000 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 2010 financial statements of the Tri-Community Recycling and Sanitary Landfill.

(5) NOTE RECEIVABLE - REVOLVING LOAN FUND

The Revolving Loan Fund had a 6.5% note receivable in monthly installments of \$218 principal and interest through June 2012 with a balance of \$13,608 as of December 31, 2010:

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2010(5) NOTE RECEIVABLE - REVOLVING LOAN FUND (Continued)

As of December 31, 2010, the note receivable matures as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 1,700
2012	<u>11,908</u>
	<u>\$13,608</u>

(6) NOTES RECEIVABLE

As of December 31, 2010, the City's General Fund had the following notes receivable:

0% Note receivable with a balloon payment due in 2016.	\$200,000
6.5% Note receivable in monthly installments of \$220 principal and interest through June 2013.	6,627
2% Note receivable in annual installments of \$7,365 principal and interest through December 2028.	<u>110,418</u>
	<u>\$317,045</u>

As of December 31, 2010, the notes receivable mature as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 7,420
2012	7,675
2013	7,310
2014	5,470
2015	5,580
2016-2020	229,630
2021-2025	32,710
2026-2028	<u>21,250</u>
	<u>\$317,045</u>

Notes receivable of \$317,045 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, 2010, cash and investments consisted of the following:

	<u>Carrying Amount</u>
Deposits with financial institutions	\$3,598,401

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, 2010, the bank balance, including the various fiduciary accounts, was \$3,598,401 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.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2010

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

(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 for infrastructure. Other nondepreciable assets include land. All other capital assets were reported using the basic approach whereby accumulated depreciation and depreciation expense has been recorded.

Capital asset activity for the year ended December 31, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retire- ments/ Transfers</u>	<u>Ending Balance</u>
Governmental Activities				
Nondepreciable:				
Land	\$ 498,100	\$ -	\$ -	\$ 498,100
Infrastructure	<u>5,403,333</u>	<u>-</u>	<u>-</u>	<u>5,403,333</u>
Total nondepreciable	5,901,433	-	-	5,901,433
Land improvements	1,006,354	-	-	1,006,354
Buildings	6,082,134	-	-	6,082,134
Vehicles	3,423,508	144,014	190,379	3,377,143
Equipment	<u>888,164</u>	<u>17,912</u>	<u>101,500</u>	<u>804,576</u>
Totals at historical cost	<u>17,301,593</u>	<u>161,926</u>	<u>291,879</u>	<u>17,171,640</u>
Less accumulated depreci- ation for:				
Land improvements	986,328	2,438	-	988,766
Buildings	1,152,174	128,520	-	1,280,694
Vehicles	2,730,608	133,301	174,163	2,689,746
Equipment	<u>544,906</u>	<u>47,653</u>	<u>101,500</u>	<u>491,059</u>
Total accumulated depreciation	<u>5,414,016</u>	<u>311,912</u>	<u>275,663</u>	<u>5,450,265</u>
Governmental activities capital assets, net	<u>\$11,887,577</u>	<u>\$(149,986)</u>	<u>\$ 16,216</u>	<u>\$11,721,375</u>

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2010

(9) CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Retire- ments/ Transfers	Ending Balance
Business-type Activity				
Land	\$ 31,600	\$ -	\$ -	\$ 31,600
Land improvements	4,673	-	-	4,673
Buildings	186,792	-	-	186,792
Vehicles	360,977	39,250	-	400,227
Equipment	<u>181,617</u>	<u>3,055</u>	-	<u>184,672</u>
Totals at historical cost	<u>765,659</u>	<u>42,305</u>	-	<u>807,964</u>
Less accumulated depreciation for:				
Land improvements	4,673	-	-	4,673
Buildings	119,557	3,736	-	123,293
Vehicles	110,468	49,706	-	160,174
Equipment	<u>58,401</u>	<u>16,459</u>	-	<u>74,860</u>
Total accumulated depreciation	<u>293,099</u>	<u>69,901</u>	-	<u>363,000</u>
Business-type activity capital assets, net	<u>\$ 472,560</u>	<u>\$ (27,596)</u>	<u>\$ -</u>	<u>\$ 444,964</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
General	\$ 17,570
Library	6,555
Protection	92,090
Public works	89,592
Recreation and parks	80,121
Other	<u>25,984</u>
	<u>\$311,912</u>
Business-type Activity	<u>\$ 69,901</u>

(10) GENERAL LONG-TERM DEBT

As of December 31, 2010, long-term debt consisted of a general obligation bond payable annually at \$279,566 principal plus interest of 4.34%.

As of December 31, 2010, the balance of \$279,566 is included in current liabilities.

Long-term debt activity during the year ended December 31, 2010, was as follows:

Balance January 1, 2010	Additions	Reductions	Balance December 31, 2010	Due Within One Year	Interest
<u>\$559,132</u>	<u>\$ -</u>	<u>\$279,566</u>	<u>\$279,566</u>	<u>\$279,566</u>	<u>\$12,273</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2010(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) PRIOR PERIOD ADJUSTMENT

It was discovered that the allowance for uncollectible taxes had been understated at December 31, 2009. An adjustment of \$45,354 was necessary to correct the allowance and, since this occurred in prior years, beginning fund balance for modified accrual statements and net assets for the full accrual statement.

(13) CONTINGENCIES

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 the Environmental Protection Agency's (EPA) 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 EPA resolving its share of liability to the EPA and to the State of Maine for past clean-up costs at the site.

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 was 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 \$150,808. The City had past settlement assessments of \$63,305, which is in the form of a 0% FAME loan

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2010

(13) CONTINGENCIES (Continued)

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 yet in 2009 reimbursed the City \$2,068 of the past assessments. L.D. 1434 "An Act to Streamline the Waste Motor Oil Disposal Site Remediation Program" set forth 10 M.R.S.A §1020 3-A states that FAME loan balances will be eliminated and repaid pursuant to the Fund. This absolves the City of any current fiscal liabilities, balance \$61,237 will be released by FAME and returned to cash.

(14) SUBSEQUENT EVENTS

Management has reviewed subsequent events through June 17, 2011, 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.

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND AND AMBULANCE SERVICE
FOR THE YEAR ENDED DECEMBER 31, 2010

	General Fund			Ambulance Service		
	Budgeted Amounts		Actual	Budgeted Amounts		Actual
	Original	Final	Budgetary Basis	Original	Final	Budgetary Basis
REVENUES						
Local property taxes	\$ 6,556,993	\$ 6,556,993	\$ 6,535,870	-	-	\$ -
Homestead exemption reimbursement	219,164	219,164	219,164	-	-	-
Supplemental taxes	1,500	1,500	9,468	-	-	-
Abateements	(25,000)	(25,000)	(15,104)	-	-	-
Federal assistance	45,827	45,827	8,351	50,000	50,000	-
State assistance	1,050,000	1,050,000	1,019,736	-	-	-
Fees	-	-	-	1,619,948	1,619,948	1,434,861
Charge to towns - Caribou	-	-	-	83,120	83,120	83,120
- Other	-	-	-	46,487	46,487	163,978
Billing services	-	-	-	41,500	41,500	47,177
Other (Schedule 1)	2,401,434	2,401,434	2,469,469	15,000	15,000	14,093
TOTAL REVENUES	10,249,918	10,249,918	10,246,954	1,856,055	1,856,055	1,743,229
EXPENDITURES						
General government	585,918	585,918	583,831	-	-	-
Education	2,930,775	2,930,775	2,930,775	-	-	-
Community development	74,324	74,324	71,612	-	-	-
Health and sanitation	266,250	266,250	266,216	-	-	-
Public works	1,975,347	1,975,347	1,903,618	-	-	-
Protection	1,979,204	1,979,204	1,978,975	-	-	-
Insurance and retirement	430,842	430,842	424,448	-	-	-
Recreation	570,050	577,650	574,971	-	-	-
Library	278,382	278,382	274,477	-	-	-
County tax	354,009	354,009	354,010	-	-	-
General assistance	118,123	118,123	110,233	-	-	-
Appropriations to capital outlays	37,050	37,050	37,050	-	-	-
Chamber of Commerce and Industry	147,500	147,500	147,500	-	-	-
Ambulance	-	-	-	1,603,306	1,603,306	1,676,465
Other (Schedule 2)	568,302	568,302	537,418	-	-	-
TOTAL EXPENDITURES	10,316,076	10,323,676	10,195,134	1,603,306	1,603,306	1,676,465
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(66,158)	(73,758)	51,820	252,749	252,749	66,764
OTHER SOURCES						
Appropriations in excess of capital outlays	-	-	423,831	-	-	-
Transfer from surplus	113,338	113,338	113,338	-	-	-
Transfer from ambulance fund, net	252,749	252,749	66,764	-	-	-
TOTAL OTHER SOURCES	366,087	366,087	603,933	-	-	-
OTHER USES						
Debt service	205,226	205,226	304,078	-	-	-
Transfers to other funds	-	-	-	-	-	66,764
TOTAL OTHER USES	205,226	205,226	304,078	-	-	66,764
NET INCREASE IN FUND BALANCE	94,703	87,103	351,675	252,749	252,749	-
FUND BALANCE - JANUARY 1, 2010	-	-	3,291,538	-	-	-
PRIOR-PERIOD ADJUSTMENT (Note 12)	-	-	(45,354)	-	-	-
FUND BALANCE - JANUARY 1, 2010 (RESTATED)	-	-	3,246,184	-	-	-
FUND BALANCE - DECEMBER 31, 2010	\$ 94,703	\$ 87,103	\$ 3,597,859	\$ 252,749	\$ 252,749	\$ -

MODIFIED APPROACH FOR CITY CAPITAL ASSETS
DECEMBER 31, 2010

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

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

An asset management system employed that:

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

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

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

The City established a condition level of 70% which is a 2 rating. The assessment itself may be made either by the governmental entity directly or by external parties. The condition assessment may be performed annually or on a cyclical basis. A condition assessment will be performed every 3 years commencing in 2006. As of December 31, 2010, the City's street and sidewalk systems were rated at an index of 84 and 74, respectively. The detail of the condition assessments are as follows:

<u>Condition</u>	<u>% of Roads</u>	<u>% of Sidewalks</u>	<u>Asset Management System Rating</u>
Good	61%	36%	1
Fair	29%	53%	2
Poor to Substandard	10%	11%	3 and 4

As of December 31, 2010, the City had 10,183,822 square feet of roads with a historical cost of \$5,159,583. As of December 31, 2010, the City had 109,189 square feet of sidewalks with a historical cost of \$243,750.

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

The City had estimated expenditures of \$496,000 to maintain infrastructure at the desired condition level. Actual expenditures for the year ended December 31, 2010 were \$471,849.

CITY OF CARIBOU, MAINE

SCHEDULE 1

SCHEDULE OF OTHER REVENUES - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Excise taxes	\$1,154,000	\$1,156,557	\$ 2,557
Interest on deposits	43,600	17,977	(25,623)
City clerk's fees	23,050	27,947	4,897
Fire protection, other towns	90,680	91,901	1,221
Police dispatching	7,000	11,237	4,237
Payments in lieu of taxes	44,600	44,268	(332)
Income from City-owned property	40,000	45,666	5,666
Section 8 Housing Program Administration	82,000	81,333	(667)
Department of Transportation - Road Funds	133,474	157,536	24,062
Interest on delinquent taxes	64,000	57,647	(6,353)
Cable TV franchise	56,800	57,348	548
Interest on notes receivable	2,700	2,970	270
Lien collection fees	12,000	11,873	(127)
Tri-Community distributions	510,000	510,026	26
Miscellaneous	<u>137,530</u>	<u>195,183</u>	<u>57,653</u>
Other revenues - budgetary (Supplement 1)	<u>\$2,401,434</u>	2,469,469	<u>\$ 68,035</u>
Adjustments to modified accrual		<u>7,914</u>	
Other revenues - modified accrual (Exhibit D)		<u>\$2,477,383</u>	

CITY OF CARIBOU, MAINE

SCHEDULE 2

SCHEDULE OF OTHER EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Municipal building	\$ 69,189	\$ 67,380	\$ 1,809
Tax assessment office	158,974	156,522	2,452
Code enforcement office	112,896	111,510	1,386
Nylander Museum	41,557	39,144	2,413
Airport	58,818	42,155	16,663
Cemeteries	5,800	5,800	-
Trailer Park	(5,383)	(5,383)	-
Contributions	56,510	55,978	532
Tax increment financing	56,233	56,233	-
Unclassified	<u>13,708</u>	<u>8,079</u>	<u>5,629</u>
Other expenditures - budgetary (Supplement 1)	<u>\$568,302</u>	537,418	<u>\$ 30,884</u>
Adjustments to modified accrual		<u>(6,217)</u>	
Other expenditures - modified accrual (Exhibit D)		<u>\$ 531,201</u>	

SCHEDULE OF CAPITAL OUTLAYS - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Balances January 1	Appropri- ations	Grants/ Transfers	Other	Total Available	Expendi- tures	Balances December 31
Community Pool Improvements	\$ 7,912	\$ 1,800	\$ -	\$ 2,000	\$ 11,712	\$ 5,798	\$ 5,914
Nylander Museum	13,187	4,500	-	-	17,687	4,664	13,023
Library Memorial Fund	20,347	-	-	11,158	31,505	8,084	23,421
Library Computer Reserve	1,953	900	-	-	2,853	-	2,853
Police Department Donated Funds	21,255	-	-	70	21,325	431	20,894
Police Department Equipment	58,343	6,000	(2,540)	22,374	84,177	19,736	64,441
Recreation Center Improvements	23,287	5,850	-	-	29,137	-	29,137
Land Acquisitions	35,790	1,800	-	-	37,590	-	37,590
Rails to Trails Program	10,843	-	78,176	3,739	92,758	80,920	11,838
Park Improvement Reserve	58,514	7,000	-	-	65,514	-	65,514
Property Assessment	102,401	30,000	-	-	132,401	61,246	71,155
Fire Equipment Reserve	355,449	50,000	1,712	-	407,161	-	407,161
Fire Hose Reserve	1,157	900	-	-	2,057	-	2,057
Fire Station Foam Reserve	3,057	450	488	-	3,995	1,103	2,892
Fire Training Building Reserve	6,627	-	-	-	6,627	-	6,627
PW Equipment Reserve	31,080	35,000	-	17,155	83,235	36,026	47,209
Police Car Reserve	10,960	22,900	10,000	4,786	48,646	25,549	23,097
Recreation/Parks Computer Reserve	-	-	-	-	-	600	(600)
Rec. Nonappropri. Spec. Projects	12,764	-	-	11,392	24,156	9,797	14,359
Recreation Equipment Reserve	18,003	6,750	-	1,721	26,474	5,066	21,408
Recreation Lawn Mower Reserve	12,642	1,620	-	-	14,262	-	14,262
Snowmobile Reserve	19,735	-	-	-	19,735	13,310	6,425
Hockey Boards Maintenance	928	-	-	-	928	470	458
Recreation - Collins Pond	19,241	-	-	-	19,241	-	19,241
Creative Playground Reserve	171	-	-	-	171	-	171
Trail Groomer Reserve	65,850	18,000	12,308	17,650	113,808	3,969	109,839
Caribou Community Band	1,549	-	-	-	1,549	-	1,549
Recreation Van Reserve	15,567	-	-	107	15,674	248	15,426
Community Development Match	31,831	-	-	-	31,831	-	31,831
Airport Reserve	(2,910)	10,000	-	-	7,090	7,600	(510)
Septic System Replacement	(465)	-	-	-	(465)	-	(465)
Streets/Roads Drainage	275,036	135,000	-	-	410,036	127,120	282,916
Curbing Reserve	5,178	-	-	-	5,178	-	5,178
Fuel Tank Reserve	29,015	-	-	6,693	35,708	-	35,708
Legal Fees Reserve	1,130	-	-	-	1,130	-	1,130
Planning/Engineering Reserve	11,941	-	-	-	11,941	-	11,941
MMF/CUD Digester	28,876	-	-	-	28,876	-	28,876
Airport/Weather Bureau Reserve	946	-	-	-	946	-	946
Computer Reserve	6,116	5,850	4,400	-	16,366	15,069	1,297
Comprehensive Plan	(1,679)	-	-	-	(1,679)	-	(1,679)
Municipal Building Reserve	29,718	6,750	-	-	36,468	146	36,322
Parking Lot Maintenance Reserve	15,372	4,500	-	-	19,872	5,079	14,793
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	1,302	-	-	3,122	4,424	-	4,424
Caribou Housing Reserve	23,823	-	12,096	500	36,419	-	36,419
Civic Beautification Reserve	3,653	4,500	-	-	8,153	5,188	2,965
	<u>1,712,593</u>	<u>360,070</u>	<u>116,640</u>	<u>102,467</u>	<u>2,291,770</u>	<u>437,219</u>	<u>1,854,551</u>

SCHEDULE OF CAPITAL OUTLAYS - GENERAL FUND (Continued)
 FOR THE YEAR ENDED DECEMBER 31, 2010

	Balances January 1	Appropri- ations	Grants/ Transfers	Other	Total Available	Expendi- tures	Balances December 31
Lions Community Center Reserve	8,147	-	-	555	8,702	6,043	2,659
Community Gateway Grant	79	-	-	-	79	-	79
Ambulance Small Equipment	(13,056)	10,970	-	1,999	(87)	-	(87)
Ambulance/Fire EDP Reserve	6,104	1,000	-	-	7,104	224	6,880
Aerial Photography	11,200	-	-	-	11,200	8,500	2,700
Library Handicapped	(419)	-	-	-	(419)	-	(419)
Airport Improvements	(64,204)	5,000	95,764	-	36,560	1,700	34,860
EMA Equipment Reserve	2,012	-	-	-	2,012	-	2,012
Caribou Community Wellness	54,047	-	(122,180)	131,931	63,798	-	63,798
Council Room Sound System	566	-	-	-	566	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
CDBG Housing Rehabilitation	-	-	-	3,880	3,880	-	3,880
Maine Military Authority	28,813	-	-	-	28,813	-	28,813
Ambulance Stair Chairs	2,250	-	-	-	2,250	-	2,250
DEP Small Community Grant	(1,500)	-	-	-	(1,500)	-	(1,500)
Wellness Construction	37,687	-	-	56,233	93,920	24,553	69,367
TIF	570	-	-	3,930	4,500	1,359	3,141
Cadet Reserve	1,073	1,350	-	-	2,423	376	2,047
Downtown Infrastructure	(110,270)	205,226	122,180	-	217,136	304,078	(86,942)
Debt Service	(388)	-	-	-	(388)	-	(388)
Fire Department Kitchen Remodel	556	-	-	-	556	-	556
Police Garage Roof Repair	(91)	-	-	-	(91)	-	(91)
Police Camera System	(42)	4,138	-	-	4,096	35	4,061
Christmas Lights	700	-	-	-	700	-	700
Fire Dispatch Model	4,200	-	-	-	4,200	-	4,200
Tax Acquired Property Remediation	(81,521)	-	61,141	-	(20,380)	310	(20,690)
Boat Launch	(914)	-	333	1,620	1,039	1,039	-
Fire Department Training	553,281	2,930,775	-	-	3,484,056	4,358,897	(874,841)
RSU 39 Commitment	-	-	-	-	-	74,637	(10,647)
EECBG Program	-	-	63,990	-	63,990	-	-
Subtotal	438,664	3,158,459	221,228	200,148	4,018,499	4,782,317	(763,818)
Subtotal Schedule 3a	1,712,593	360,070	116,640	102,467	2,291,770	437,219	1,854,551
TOTAL	\$2,151,257	\$3,518,529	\$337,868	\$302,615	\$6,310,269	\$5,219,536	\$1,090,733

SCHEDULE OF NON-CAPITAL OUTLAYS - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Balances January 1	Appropri- ations	Transfers	Other	Total Available	Expendi- tures	Balances December 31
Compensated Absences	\$205,224	\$ -	\$ 25,000	\$ -	\$230,224	\$74,747	\$ 155,477
Revolving Loan Fund - Cash	305,977	-	-	7,178	313,155	-	313,155
Revolving Loan Fund - Loans Receivable	124,223	-	-	-	124,223	7,178	117,045
Wage and classification	-	-	-	-	-	-	-
City retirement	1,080	-	-	-	1,080	-	1,080
Retirement reserves	74,139	-	(70,000)	-	4,139	-	4,139
Fire/Ambulance Overtime	2,679	-	-	-	2,679	-	2,679
HRA Contribution reserve	-	-	-	28,896	28,896	938	27,958
	<u>\$713,322</u>	<u>\$ -</u>	<u>\$(45,000)</u>	<u>\$36,074</u>	<u>\$704,396</u>	<u>\$82,863</u>	<u>\$ 621,533</u>

BALANCE SHEET
FOR ALL SPECIAL REVENUE FUNDS
DECEMBER 31, 2010

	<u>Boat Launch</u>	<u>Revolving Loan Fund #10</u>	<u>Airport Improvement Program</u>	<u>EECBG Program</u>	<u>Total Special Revenue Funds</u>
<u>ASSETS</u>					
Cash	\$ -	\$205,926	\$ 34,860	\$ -	\$ 240,786
Note receivable (Note 5)	-	13,608	-	-	13,608
	<u>\$ -</u>	<u>\$219,534</u>	<u>\$ 34,860</u>	<u>\$ -</u>	<u>\$ 254,394</u>
 <u>LIABILITIES, SURPLUS AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
DUE TO GENERAL FUND	<u>20,690</u>	<u>-</u>	<u>-</u>	<u>10,647</u>	<u>31,337</u>
FUND BALANCE	<u>(20,690)</u>	<u>219,534</u>	<u>34,860</u>	<u>(10,647)</u>	<u>223,057</u>
	<u>\$ -</u>	<u>\$219,534</u>	<u>\$ 34,860</u>	<u>\$ -</u>	<u>\$ 254,394</u>

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, 2010

	Boat Launch	Revolving Loan Fund #10	Airport Improvement Program	EECBG Program	Total Special Revenue Funds
REVENUES					
Grants - Federal	\$ -	\$ -	\$ 79,727	\$ 63,990	\$143,717
- State	61,141	-	-	-	61,141
Interest income	-	1,490	-	-	1,490
Total Revenues	<u>61,141</u>	<u>1,490</u>	<u>79,727</u>	<u>63,990</u>	<u>206,348</u>
EXPENDITURES					
Construction and improve- ments	<u>310</u>	<u>-</u>	<u>1,700</u>	<u>74,637</u>	<u>76,647</u>
EXCESS OF REVENUES OVER EXPENDITURES (EXPENDI- TURES OVER REVENUES)					
	<u>60,831</u>	<u>1,490</u>	<u>78,027</u>	<u>(10,647)</u>	<u>129,701</u>
OTHER USES					
Transfer to general fund	<u>-</u>	<u>-</u>	<u>43,167</u>	<u>-</u>	<u>43,167</u>
NET INCREASE (DECREASE) IN FUND BALANCE					
	60,831	1,490	34,860	(10,647)	86,534
FUND BALANCE - JANUARY 1	<u>(81,521)</u>	<u>218,044</u>	<u>-</u>	<u>-</u>	<u>136,523</u>
FUND BALANCE - DECEMBER 31	<u><u>\$(20,690)</u></u>	<u><u>\$219,534</u></u>	<u><u>\$ 34,860</u></u>	<u><u>\$(10,647)</u></u>	<u><u>\$223,057</u></u>

SCHEDULE OF PROPERTY TAXES - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Total</u>	<u>2011 Taxes</u>	<u>2010 Taxes</u>	<u>2009 Taxes and Liens</u>	<u>Prior Taxes</u>
UNCOLLECTED AT JANUARY 1	\$ 798,965	\$ -	\$ (10,368)	\$548,771	\$260,562
2010 COMMITMENT (\$272,074,400 @.0241)	6,556,993	-	6,556,993	-	-
SUPPLEMENTAL TAX	9,468	-	8,820	648	-
	<u>6,566,461</u>	<u>-</u>	<u>6,565,813</u>	<u>648</u>	<u>-</u>
COLLECTIONS	6,498,502	5,196	5,951,199	428,288	113,819
TAX-ACQUIRED PROPERTY	52,184	-	10,401	12,538	29,245
ABATEMENTS	15,105	-	8,862	4,543	1,700
	<u>6,565,791</u>	<u>5,196</u>	<u>5,970,462</u>	<u>445,369</u>	<u>144,764</u>
UNCOLLECTED AT DECEMBER 31	<u>\$ 799,635</u>	<u>\$ (5,196)</u>	<u>\$ 584,983</u>	<u>\$104,050</u>	<u>\$115,798</u>
REPRESENTED BY					
Real Estate Taxes	\$ 663,858	\$ (5,138)	\$ 565,514	\$ 97,210	\$ 6,272
Personal Property Taxes	135,777	(58)	19,469	6,840	109,526
	<u>\$ 799,635</u>	<u>\$ (5,196)</u>	<u>\$ 584,983</u>	<u>\$104,050</u>	<u>\$115,798</u>

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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 activity, each major fund, and the aggregate remaining fund information of the City of Caribou, Maine as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 17, 2011. 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 deficiencies, 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.

To the City Council of the
City of Caribou, Maine

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the City of Caribou, Maine in a separate letter dated June 17, 2011.

This report is intended solely for the information and use of management, City Council, others within the entity, 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

June 17, 2011

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2010. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

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 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 management, City Council, others within the entity, 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

June 17, 2011

CITY OF CARIBOU, MAINE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass- through Grantor's Number	Receipts	Disburse- ments
<u>U.S. Department of Housing and Urban Development</u>				
Direct Award - Section 8 Housing Choice Vouchers	14.871	N/A	\$ 860,507	\$ 928,717
<u>U.S. Department of Transportation</u>				
Direct Award - Airport Improvement Program	20.106	N/A	79,727	44,867
<u>U.S. Department of Energy</u>				
Passed through State of Maine Department of Economic and Community Development: Energy Efficiency and Conservation Block Grant Program (ARRA)	81.128	N/A	63,990	63,990
<u>U.S. Department of Justice</u>				
Direct Award - Edward Byrne Memorial Justice Assistance Grant Program - Grants to Units of Local Government (ARRA)	16.804	N/A	3,256	3,256
			<u>\$1,007,480</u>	<u>\$1,040,830</u>

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, 2010

There were no audit findings reported for the year ended December 31, 2009 that require follow-up in the December 31, 2010 report.