

Financial Statements

CITY OF CARIBOU, MAINE
as of
DECEMBER 31, 2011
together with
INDEPENDENT AUDITORS' REPORT

CITY OF CARIBOU, MAINE

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CITY OF CARIBOU, MAINE

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FELCH & COMPANY, LLC

Certified Public Accountants

P.O. BOX 906
CARIBOU, MAINE 04736
(207) 498-3176
FAX (207) 498-6278
E-MAIL: CPA@FELCHCPA.COM

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City 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.

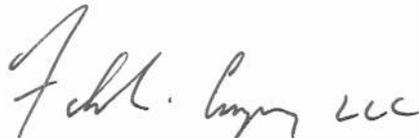
In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Caribou, Maine, as of December 31, 2011, 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 July 13, 2012 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.



July 13, 2012

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2011

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, 2011. 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 2011.
- 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.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2011

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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, Section 8 housing, capital projects and other activities. Enterprise activities, or business-type activities are the ambulance operations.

Fund Financial Statements

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

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2011

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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 \$15,951,742 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.

The reader should refer to Table I as a comparison of Exhibit A of the net changes from 2010 to 2011. Total Current Assets decreased by \$217,773 in 2011 primarily due to changes in receivables with decreases in Taxes Receivables of \$43,158 and Other Receivables of \$124,109. Taxes Receivable decreased by \$43,158 or 4.8% from prior year. Outstanding taxes represented 11.6% as compared to 13.3% for 2010. Notes and Other Receivables decreased by a combined total of \$133,342, of which taxes deemed as uncollectable in the amount of \$95,000 and Pledges associated with the Wellness Center decreased by \$143,431 as the majority of the change. Capital Assets, net of depreciation, increased by \$273,216.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2011

UNAUDITED

Table I indicates Current Liabilities decreased by \$324,202 with continued positive reductions in Accounts Payable and Deferred Taxes, but an increase in Deferred Compensation due to an increase in Compensated Absences. The Note Payable for the construction of the Wellness Center has been paid in full resulting in a decrease of \$279,566. Net Assets increased by \$379,645 for 2011 as Total Assets increased by \$55,443 and Liabilities decreased by \$324,202.

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 2011 and 2010 as Government Activities Expenses. These pie charts should aid the reader to make a visual comparison in changes from 2010 to 2011.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2011

UNAUDITED

Table I provides data for the Governmental Activities for the years ended 2011 and 2010.

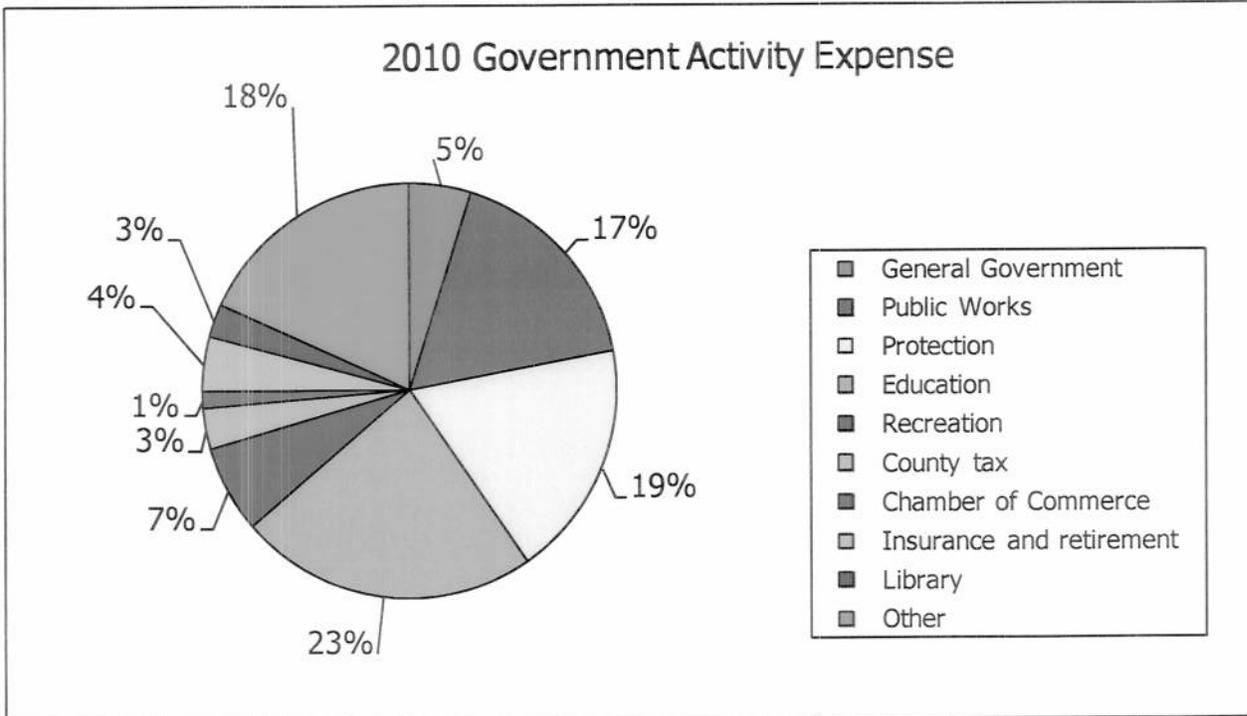
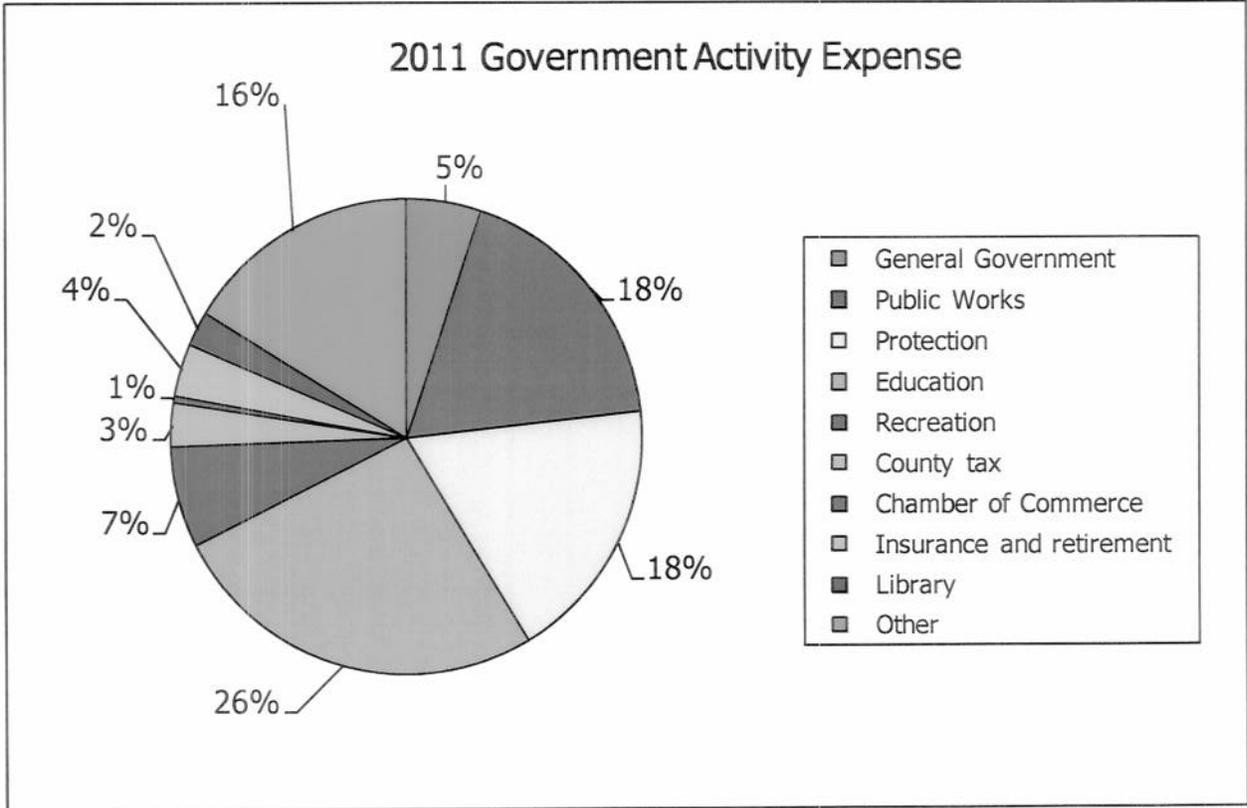
Table I
Net Assets

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and temporary investments	\$ 3,317,777	\$ 3,309,708
Taxes receivable	855,187	898,345
Notes receivable	321,420	330,653
Other receivables	236,976	361,085
Other current assets	<u>224,711</u>	<u>274,053</u>
Total Current Assets	<u>4,956,071</u>	<u>5,173,844</u>
Noncurrent Assets		
Capital assets, net of depreciation	<u>12,439,555</u>	<u>12,166,339</u>
Total Assets	<u>17,395,626</u>	<u>17,340,183</u>
Current Liabilities		
Accounts payable and accrued expenses	76,712	108,739
Deferred compensation	726,194	705,251
Deferred taxes	640,978	674,530
Current portion note payable	<u>-</u>	<u>279,566</u>
	<u>1,443,884</u>	<u>1,768,086</u>
Net Assets		
Investment in capital assets, net of related debt	12,439,555	11,886,773
Restricted for special revenue funds	219,975	439,814
Unrestricted net assets	<u>3,292,212</u>	<u>3,245,510</u>
TOTAL NET ASSETS	<u>\$ 15,951,742</u>	<u>\$ 15,572,097</u>

City of Caribou, Maine

Management's Discussion and Analysis
 For the Year Ended December 31, 2011

UNAUDITED



City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2011

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The reader should refer to Table II as a comparison of the changes in Net Assets from 2010 to 2011. Total City net Expenditures for Governmental activities combined was \$10,056,561, as compared to \$9,655,461 for 2010. The major components of the \$401,100 increase in Expenditures was \$216,384 in Public Works due to increased road maintenance activities, \$82,410 increase in Protection, and \$88,588 increase in Recreation. Educational expenses increased by \$483,554 noted as primarily due to the loss of prior ARRA funds. All other categories changed by a net reduction of \$469,936 with the largest reduction in Capital Projects, reduced by \$285,305.

For 2011 the total General Revenues were \$10,206,215 as compared to \$9,846,031 for 2010, an increase of \$360,184. Taxes increased by \$648,095 due to rising costs and losses of other non-property tax revenue. Federal and State Assistance decreased by \$86,584 wholly comprised of losses in State Revenue Sharing and Urban Rural Improvements Program (MDOT) pass through funding. Other revenues decreased by \$224,967 combined. There was a slight increase in Excise tax of \$23,640, netting an overall increase in General Revenues of \$360,184. Management recognizes these significant losses of broad based taxation, non-property tax revenue, as an extremely negative trend that will impact property taxation and service level provisions in future years. This is foreseen as a trend that may continue to impact the City for another 2 to 3 years. Pie charts follow to give the reader a visual indication of these sources of City Revenues for 2011 as compared to 2010.

Table II also compares the change in Net Assets being a positive \$149,654 from Governmental Activities in 2011, as compared to \$190,570 in 2010 before the transfer to the RSU. The extraordinary transfer between the City and RSU #39 was a debit in 2010 of \$1,749,682. That transaction was comprised of cash only.

For Business-type activities, Table II shows the Ambulance Service expending \$1,582,272 while generating revenues of \$1,812,263 from billings producing a net income of \$229,991 for 2011 compared to a net income of \$100,174 in 2010. The Ambulance also transferred \$269,035 to the General Fund due to operations and change in receivables. See Exhibit H for full details of this Business-type Activity. The Service receives no net support from property taxation.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2011

UNAUDITED

Table II shows the changes in net assets for the years 2011 and 2010.

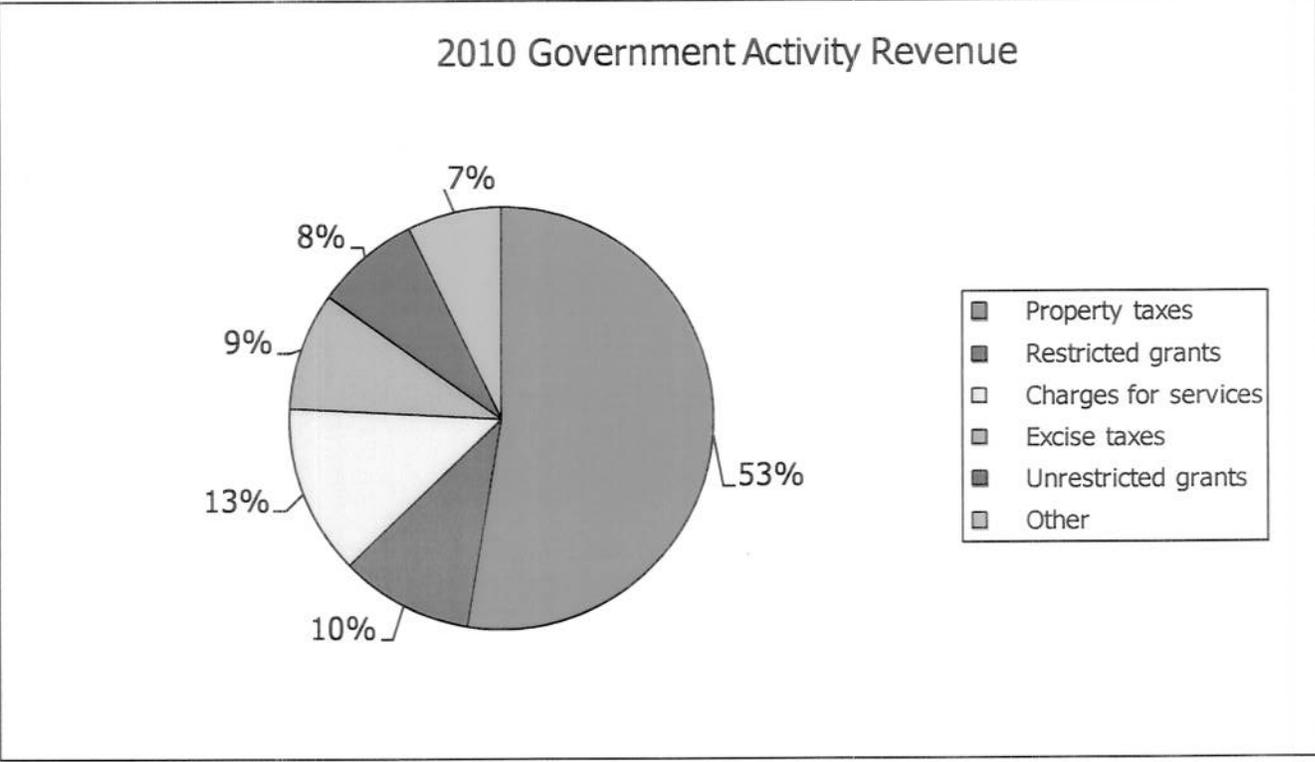
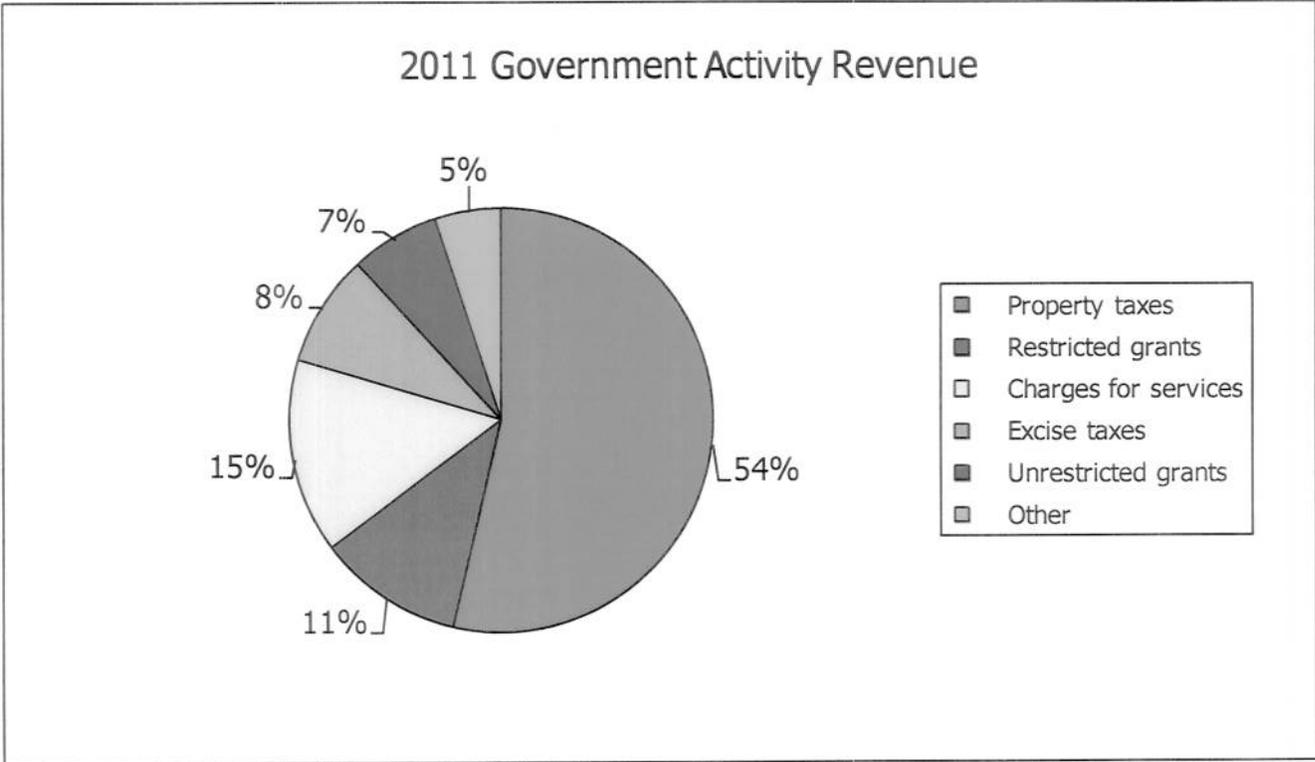
Table II
Change in Net Assets

	<u>2011</u>	<u>2010</u>
Governmental Activities:		
<u>General Revenues</u>		
Taxes	\$ 7,397,493	\$ 6,749,398
Federal and state assistance	933,152	1,019,736
Excise taxes	1,180,197	1,156,557
Other revenues	695,373	920,340
Total general revenues	<u>10,206,215</u>	<u>9,846,031</u>
<u>General Expenses, net of related revenues</u>		
General Government	487,925	429,073
Public Works	1,983,285	1,766,901
Protection	1,986,397	1,903,987
Education	3,092,769	2,609,215
Recreation	751,326	662,738
County tax	356,052	354,010
Chamber of Commerce	54,162	147,500
Insurance and retirement	422,695	474,195
Library	274,313	287,170
Capital projects	(352,375)	(67,070)
Other	1,000,012	1,087,742
Total general activities expenses	<u>10,056,561</u>	<u>9,655,461</u>
Change in net assets before extraordinary item	<u>149,654</u>	<u>190,570</u>
Transfer (to) RSU #39	<u>-</u>	<u>(1,749,682)</u>
Change in Net Assets from general governmental activities	<u>149,654</u>	<u>(1,559,112)</u>
Business-type Activity:		
Revenues		
Charges for services	1,812,263	1,455,892
Operational grants	-	-
Total business-type activity revenues	<u>1,812,263</u>	<u>1,455,892</u>
Expenses	<u>1,582,272</u>	<u>1,355,718</u>
Change in Net Assets from business-type activity	<u>229,991</u>	<u>100,174</u>
Change in Net Assets	379,645	(1,458,938)
Net Assets January 1	<u>15,572,097</u>	<u>17,031,035</u>
Net Assets December 31	<u>\$ 15,951,742</u>	<u>\$ 15,572,097</u>

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2011

UNAUDITED



City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2011

UNAUDITED

Management has produced Table III to further assist the reader in assessing the major changes in Revenues for the City comparing the 2011 current year to that of 2010. Total City Revenues for 2011 were \$13,781,620, an increase of \$955,127 compared to 2010. Property Taxes increased by \$648,095 due to increased expenditures for both municipal and school operations coupled with the loss of prior revenues. Restricted Grants increased by \$235,695 due to ongoing work at the Airport funded 95% by FAA, 2.5% State, and 2.5% Local. Charges for Services increased by \$359,248, \$356,371 of this amount is from the Ambulance Service. Excise Taxes increased by \$23,640. Unrestricted Grants decreased by \$86,584 due to losses of State Revenue Sharing. All Other revenue decreased by \$224,967 due to sharp decreases in Tri-community dividends, \$510,026 in 2010 to \$0 in 2011, and decreased Interest on Investments with the remaining revenues offsetting. Management recognizes the need to reduce revenue from property taxes by maximizing other non-property tax revenues provided charges for services are reasonable and customary or fall within State allowances. Management also recognizes the continued detrimental impacts upon property taxation stemming from the State's reduction of Municipal Revenue Sharing by over \$42 million in 2011, reducing the City's share from broad based taxation specifically set within Title 30-A \$5681 to stabilize the municipal property tax burden. A graphic representation has been provided.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2011

UNAUDITED

Table III shows the percentage of revenue sources for governmental activities for the years 2011 and 2010.

Table III
Percentage of Revenue Sources

	2011 <u>Revenues</u>	2011 (by <u>percentage</u>)	2010 <u>Revenues</u>	2010 (by <u>percentage</u>)
<u>Governmental Revenues:</u>				
Property taxes	\$ 7,397,493	53%	\$ 6,749,398	53%
Restricted grants	1,535,089	11%	1,299,394	10%
Charges for services	2,040,316	15%	1,681,068	13%
Excise taxes	1,180,197	9%	1,156,557	9%
Unrestricted grants	933,152	7%	1,019,736	8%
Other	<u>695,373</u>	<u>5%</u>	<u>920,340</u>	<u>7%</u>
Total City Revenues	<u>\$ 13,781,620</u>	<u>100%</u>	<u>\$ 12,826,493</u>	<u>100%</u>

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2011

UNAUDITED

Management has produced Table IV to illustrate any significant changes within the Governmental Expenditures from 2011 to 2010 as a percentage of total expenditures for each year. Please refer to page VI for pie charts illustrating the same. Total Governmental Expenses increased by \$866,226 comprised of notable changes as follows: Public Works \$217,599 due to major repairs and increased road work due to storm damages in 2011, Education \$483,554 due to the loss of prior ARRA funds, Ambulance \$226,554 due to increased run volumes but with offsetting revenue, decreases of \$93,338 in Chamber and Economic Development activities due to reorganization, Insurance and Retirement \$51,500 and Capital Projects \$76,647. The remaining categories produced a net increase of \$160,004 of additional expense in 2011.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2011

UNAUDITED

Table IV shows the percentage of expenses for governmental activities for the years 2011 and 2010.

Table IV
Percentage of Expenses

	2011 <u>Expenses</u>	2011 (by <u>percentage)</u>	2010 <u>Expenses</u>	2010 (by <u>percentage)</u>
<u>Governmental Expenses:</u>				
General Government	\$ 603,914	5%	\$ 538,353	4%
Public Works	2,142,036	16%	1,924,437	15%
Protection	2,147,376	16%	2,054,275	16%
Education	3,092,769	23%	2,609,215	21%
Recreation	813,913	6%	753,222	6%
County tax	356,052	3%	354,010	3%
Chamber of Commerce	54,162	0%	147,500	1%
Insurance and retirement	422,695	3%	474,195	4%
Library	274,313	2%	287,170	2%
Capital projects	-	0%	76,647	1%
Ambulance	1,582,272	12%	1,355,718	11%
Other	<u>1,912,473</u>	<u>14%</u>	<u>1,961,007</u>	<u>16%</u>
Total Governmental Expenses	<u>\$ 13,401,975</u>	<u>100%</u>	<u>\$ 12,535,749</u>	<u>100%</u>

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2011

UNAUDITED

A balance sheet of the City's Governmental Fund is provided in Exhibit C. Total Assets ended 2011 at \$4,754,744, a reduction of \$203,011. Total Liabilities ended the year at \$718,781, a decrease of \$57,870 having positive decreases of both accounts payable and deferred property taxes. Fund Balances ended 2011 at \$4,035,963, a decrease of \$145,141. Capital Outlays were less than total appropriations, Grants, Transfers, or Other Resources with ending balances exceeding the start of the year by \$176,122, see Schedules 3a and 3b. Further Fund Balance reduction was from Non-capital Outlays, see Schedule 4, of \$7,311. 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 2011. 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 2011 were \$11,969,357 and Expenditures were \$12,103,967, an excess of Expenditures over Revenue \$134,610. This excess of expenditures of revenue does not include the business-type activity of the Ambulance contributing \$269,035 for a combined increase to Fund Balance of \$134,425. Fund Balance was reduced by \$279,566 for Debt Service. Fund Balance ending December 31, 2011 was \$4,035,963, a net reduction of \$145,141.

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 Supplement 1 as the best report comparing the City's Governmental Fund and Business-type Fund activity for the year as they compared to budget. Total Expenditures for the year, excluding Ambulance, were \$10,681,023, \$94,635 less than budget. Revenues, excluding Ambulance, were \$10,483,203, \$19,232 less than budget. Expenditures exceeded Revenues by \$197,820 for the year. Total Other Sources of \$545,224 came from capital outlays, transfer from prior year, and ambulance fund. Debt service of \$291,839 reduced the positive increase in Fund Balance. The resulting net positive increase in Fund Balance General Fund from Governmental Operations was a positive \$55,565.

The Ambulance Service on Supplement 1 had Total Revenues of \$2,004,200, \$142,662 less than budget, and Total Expenditures of \$1,773,269, \$51,039 greater than budget. The Ambulance Service had a net of operations of just \$230,931 for the year as compared to a budgeted \$424,632, a difference of \$193,701. Ambulance volumes met expectations but reimbursements continued to lag the interruption of billing when the Federal Resolution to fund Medicare was not passed, the Super Rural Fees were delayed and then unfunded, and 2010 retro-payments on Medicare provisions remain outstanding for final processing. The uncertainty of the State and Federal reimbursement and processing continues to detrimentally impact Ambulance receipts. The City's net of operations, change in General Fund and Ambulance Service Fund Balances combined for 2011 was a positive \$55,565.

City of Caribou, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2011

UNAUDITED

A more complete understanding of the capital outlay is summarized in Note 7 of this audit. Note 7 indicates that the City's capital assets, net of depreciation, increased by \$266,391 in total. Additions to land, buildings, vehicles and equipment totaled \$637,860 while depreciation across land improvements, buildings, vehicles, and equipment totaled \$371,469, depreciation being less than additions by \$266,391. Management recognizes this relationship as one of timing as the annualized rate of contribution supporting capital assets can be greater or less than a given year's replacements or upgrades. Management does, however, recognize the trend over the past decade has been a positive input greater than depreciation, an indication of prudent maintenance of the City's capital assets. Note 7 also indicates that the Business-type Activity of the Ambulance had depreciation of \$71,819 with additions of \$78,644, a net increase of \$6,825 for the year.

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 2011 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 2011. A complete copy of the 2011 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, 2011

	<u>Governmental Activities</u>	<u>Business- type Activity</u>	<u>Total</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash and temporary investments (Note 2)	\$ 3,259,407	\$ -	\$ 3,259,407
Investments	58,370	-	58,370
Uncollected taxes	762,817	-	762,817
Tax acquired property	92,370	-	92,370
Accounts receivable	168,504	163,472	331,976
Allowance for uncollectibles	(95,000)	-	(95,000)
Inventories	40,307	-	40,307
Prepaid expenses	58,262	-	58,262
Notes receivable (Notes 3 and 4)	321,420	-	321,420
Restricted cash (Note 5)	123,541	-	123,541
Other assets	2,601	-	2,601
	<u>4,792,599</u>	<u>163,472</u>	<u>4,956,071</u>
<u>NONCURRENT ASSETS</u>			
Capital assets (Note 7)			
Non-depreciable	6,211,046	-	6,211,046
Depreciable	11,598,454	877,608	12,476,062
Less allowance for depreciation	(5,821,734)	(425,819)	(6,247,553)
	<u>11,987,766</u>	<u>451,789</u>	<u>12,439,555</u>
Total assets	<u>16,780,365</u>	<u>615,261</u>	<u>17,395,626</u>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts payable	19,238	19,316	38,554
Accrued payroll	32,281	-	32,281
Escrow (Note 5)	38,158	-	38,158
Deferred revenues - property taxes	640,978	-	640,978
Compensated absences (Note 1)	604,152	89,761	693,913
Total current liabilities	<u>1,334,807</u>	<u>109,077</u>	<u>1,443,884</u>
<u>NET ASSETS</u>			
Investment in capital assets, net of related debt	11,987,766	451,789	12,439,555
Restricted for:			
Special revenue funds	219,975	-	219,975
Unrestricted	<u>3,237,817</u>	<u>54,395</u>	<u>3,292,212</u>
Total net assets	<u>\$ 15,445,558</u>	<u>\$ 506,184</u>	<u>\$ 15,951,742</u>

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activity	Total
Primary Government							
Governmental Activities:							
General government	\$ 603,914	\$ 115,989	\$ -	\$ -	\$ (487,925)	\$ -	\$ (487,925)
Community development	79,407	-	-	-	(79,407)	-	(79,407)
Health and sanitation	244,459	-	-	-	(244,459)	-	(244,459)
Public works	2,142,036	-	158,751	-	(1,983,285)	-	(1,983,285)
Protection	2,147,376	110,371	50,608	-	(1,986,397)	-	(1,986,397)
Insurance and retirement	422,695	-	-	-	(422,695)	-	(422,695)
Recreation	813,913	-	-	62,587	(751,326)	-	(751,326)
Library	274,313	-	-	-	(274,313)	-	(274,313)
County tax	356,052	-	-	-	(356,052)	-	(356,052)
General assistance	55,491	-	-	-	(55,491)	-	(55,491)
Education	3,092,769	-	-	-	(3,092,769)	-	(3,092,769)
Chamber of Commerce	54,162	-	-	-	(54,162)	-	(54,162)
Section 8 Housing	996,661	1,693	910,768	-	(84,200)	-	(84,200)
Capital projects	-	-	-	352,375	352,375	-	352,375
Interest expense	8,693	-	-	-	(8,693)	-	(8,693)
Other	527,762	-	-	-	(527,762)	-	(527,762)
Total governmental activities	11,819,703	228,053	1,120,127	414,962	(10,056,561)	-	(10,056,561)
Business-type Activity:							
Ambulance service	1,582,272	1,812,263	-	-	-	\$ 229,991	229,991
Total City	\$ 13,401,975	\$ 2,040,316	\$ 1,120,127	\$ 414,962	(10,056,561)	229,991	(9,826,570)
General revenues:							
Taxes							
Property taxes, levied for general purposes					7,159,029	-	7,159,029
Homestead reimbursement and other property tax related					237,994	-	237,994
Supplemental taxes					470	-	470
Excise					1,180,197	-	1,180,197
Interest on delinquent taxes and lien fees					63,163	-	63,163
Payments in lieu of taxes					56,538	-	56,538
Federal and state aid not restricted to specific purposes					933,152	-	933,152
Interest on deposits and notes					5,714	-	5,714
Cable TV franchise					60,530	-	60,530
Miscellaneous revenues					509,428	-	509,428
Net transfers governmental and business-type funds from operations					269,035	(269,035)	-
Subtotal, general revenues and transfers					10,475,250	(269,035)	10,206,215
Change in net assets					418,689	(39,044)	379,645
NET ASSETS - JANUARY 1, 2011					15,026,869	545,228	15,572,097
NET ASSETS - DECEMBER 31, 2011					\$ 15,445,558	\$ 506,184	\$ 15,951,742

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

CITY OF CARIBOU, MAINE

EXHIBIT C

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2011

	<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 2)	\$ 2,851,237	\$ 46,391	\$ 361,779	\$ 3,259,407
Investments	58,370	-	-	58,370
Uncollected taxes	762,817	-	-	762,817
Tax acquired property	92,370	-	-	92,370
Accounts receivable	168,504	-	-	168,504
Allowance for uncollectibles	(95,000)	-	-	(95,000)
Due from other funds	20,407	-	-	20,407
Inventories	40,307	-	-	40,307
Notes receivable (Notes 3 and 4)	309,222	-	12,198	321,420
Restricted cash (Note 5)	-	123,541	-	123,541
Other assets	-	2,601	-	2,601
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 4,208,234</u>	<u>\$ 172,533</u>	<u>\$ 373,977</u>	<u>\$ 4,754,744</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 18,821	\$ 417	\$ -	\$ 19,238
Escrow (Note 5)	-	38,158	-	38,158
Due to other funds (Note 6)	-	-	20,407	20,407
Deferred revenue - property taxes	640,978	-	-	640,978
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>659,799</u>	<u>38,575</u>	<u>20,407</u>	<u>718,781</u>
Fund balances:				
Nonspendable				
Inventory	40,307	-	-	40,307
Restricted				
Special revenue funds	-	133,958	219,975	353,933
Unrestricted				
Assigned				
Capital (Schedule 3)	1,133,260	-	133,595	1,266,855
Non-capital (Schedule 4)	614,222	-	-	614,222
Unassigned				
General fund	1,638,807	-	-	1,638,807
Deferred property taxes	121,839	-	-	121,839
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>3,548,435</u>	<u>133,958</u>	<u>353,570</u>	<u>4,035,963</u>
Total liabilities and fund balances	<u>\$ 4,208,234</u>	<u>\$ 172,533</u>	<u>\$ 373,977</u>	<u>\$ 4,754,744</u>

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

CITY OF CARIBOU, MAINE

EXHIBIT D

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<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	\$ 7,160,696	\$ -	\$ -	\$ 7,160,696
Homestead reimbursement	237,994	-	-	237,994
Supplemental taxes	470	-	-	470
Abatements	(1,667)	-	-	(1,667)
Federal assistance	50,927	910,768	344,528	1,306,223
State assistance	1,000,805	-	7,847	1,008,652
Other revenues	<u>2,253,454</u>	<u>3,094</u>	<u>441</u>	<u>2,256,989</u>
TOTAL REVENUES	<u>10,702,679</u>	<u>913,862</u>	<u>352,816</u>	<u>11,969,357</u>
EXPENDITURES				
General government	570,371	163,358	-	733,729
Community development	78,842	-	-	78,842
Health and sanitation	266,602	-	-	266,602
Public works	2,079,079	-	-	2,079,079
Protection	2,301,704	-	-	2,301,704
Insurance and retirement	422,695	-	-	422,695
Recreation	726,703	-	-	726,703
Library	284,347	-	-	284,347
County tax	356,052	-	-	356,052
General assistance	55,491	833,303	-	888,794
Education	3,092,769	-	-	3,092,769
Interest expense	12,273	-	-	12,273
Chamber of Commerce	54,162	-	-	54,162
Construction and improvements	-	-	250,968	250,968
Other (Schedule 2)	<u>555,248</u>	<u>-</u>	<u>-</u>	<u>555,248</u>
TOTAL EXPENDITURES	<u>10,856,338</u>	<u>996,661</u>	<u>250,968</u>	<u>12,103,967</u>
EXCESS OF REVENUES OVER EXPENDITURES (EXPENDITURES OVER REVENUES)	<u>(153,659)</u>	<u>(82,799)</u>	<u>101,848</u>	<u>(134,610)</u>
OTHER SOURCES				
Transfer from ambulance reserve	269,035	-	-	269,035
Transfer from other funds	<u>-</u>	<u>-</u>	<u>7,975</u>	<u>7,975</u>
TOTAL OTHER SOURCES	<u>269,035</u>	<u>-</u>	<u>7,975</u>	<u>277,010</u>
OTHER USES				
Transfer to other funds	7,975	-	-	7,975
Payments on long-term debt	<u>279,566</u>	<u>-</u>	<u>-</u>	<u>279,566</u>
TOTAL OTHER USES	<u>287,541</u>	<u>-</u>	<u>-</u>	<u>287,541</u>
NET INCREASE (DECREASE) IN FUND BALANCE	(172,165)	(82,799)	109,823	(145,141)
FUND BALANCE - JANUARY 1, 2011	<u>3,720,600</u>	<u>216,757</u>	<u>243,747</u>	<u>4,181,104</u>
FUND BALANCE - DECEMBER 31, 2011	<u>\$ 3,548,435</u>	<u>\$133,958</u>	<u>\$ 353,570</u>	<u>\$ 4,035,963</u>

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

CITY OF CARIBOU, MAINE

EXHIBIT E

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011

Total fund balance - governmental funds (Exhibit C)		\$ 4,035,963
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	\$ 17,809,500	
Accumulated depreciation is	<u>(5,821,734)</u>	
		11,987,766
Prepaid expenses		58,262
Accounts payable		-
Accrued payroll		(32,281)
Compensated absences		<u>(604,152)</u>
Total net assets - governmental activities (Exhibit A)		<u>\$ 15,445,558</u>

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

CITY OF CARIBOU, MAINE

EXHIBIT F

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES WITH THE CITY-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Total net change in fund balances - governmental funds (Exhibit D)		\$(145,141)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period:		
Capital outlays	\$ 637,860	
Depreciation expense	<u>(371,469)</u>	266,391
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.		
		861
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities.		
		279,566
Compensation for accrued vacation and sick pay not yet paid is accumulated using the governmental activities fund to the extent that amounts would be paid to the employees upon retirement. These funds are not accumulated for the governmental activities fund.		
		(18,434)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Decrease in accrued payroll		(2,509)
Decrease in accrued interest payable		3,580
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.		
		<u>34,375</u>
Change in net assets of governmental activities (Exhibit B)		<u>\$ 418,689</u>

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

CITY OF CARIBOU, MAINE

EXHIBIT G

STATEMENT OF NET ASSETS
PROPRIETARY FUND
AS OF DECEMBER 31, 2011ASSETS

CURRENT ASSETS

Cash and temporary investments (Note 7)	\$ -
Accounts receivable, net of allowance of \$20,117	<u>163,472</u>
Total current assets	<u>163,472</u>

NONCURRENT ASSETS

Land, buildings and improvements	223,065
Vehicles and equipment	<u>654,543</u>
Total noncurrent assets	877,608
Accumulated depreciation	<u>(425,819)</u>
Net noncurrent assets	<u>451,789</u>
Total assets	<u>615,261</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued liabilities	<u>109,077</u>
--	----------------

NET ASSETS

Invested in capital assets	451,789
Unrestricted	<u>54,395</u>
Total net assets	<u>\$ 506,184</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, 2011

	<u>Ambulance Service</u>
Operating revenues	
Fees	\$ 1,683,168
Less contractual allowances	(199,493)
Internal service - Caribou	87,276
Outside service - Other Municipalities	45,423
Veterans' Administration contracts	138,325
Billing services	48,849
Other	<u>8,715</u>
Total operating revenues	<u>1,812,263</u>
Operating expenses	
Salaries and benefits	942,044
Transport expenses	283,399
Occupancy	43,990
Equipment and vehicle expense	61,790
Supplies and materials	13,197
Depreciation	71,819
Uncollectible	147,456
Other	<u>18,577</u>
Total operating expenses	<u>1,582,272</u>
Operating income	<u>229,991</u>
OTHER SOURCES (USES)	
Transfer to general fund	<u>(269,035)</u>
Change in net assets	(39,044)
TOTAL NET ASSETS-- JANUARY 1, 2011	<u>545,228</u>
TOTAL NET ASSETS - DECEMBER 31, 2011	<u>\$ 506,184</u>

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

CITY OF CARIBOU, MAINE

EXHIBIT I

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from fees	\$ 1,838,816
Cash payments for salaries and benefits	(922,728)
Cash payments for transportation	(283,399)
Cash payments for other operating costs	<u>(285,010)</u>
Net cash provided by operating activities	<u>347,679</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	<u>(78,644)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Advance (to) general fund	<u>(269,035)</u>
 Net increase in cash and cash equivalents	-
Cash and cash equivalents - January 1, 2011	<u>-</u>
Cash and cash equivalents - December 31, 2011	<u>\$ -</u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 229,991
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	71,819
Changes in assets and liabilities:	
Receivables	26,553
Accounts payable and accrued expenses	<u>19,316</u>
 Net cash provided by operating activities	<u>\$ 347,679</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, 2011

	<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>\$210,754</u>	<u>\$46,932</u>	<u>\$1,335</u>	<u>\$59,595</u>	<u>\$102,892</u>
NET ASSETS					
Undesignated	<u>\$210,754</u>	<u>\$46,932</u>	<u>\$1,335</u>	<u>\$59,595</u>	<u>\$102,892</u>

CITY OF CARIBOU, MAINE

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<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>\$ 3,865</u>	<u>\$ 942</u>	<u>\$ 5</u>	<u>\$ 1,578</u>	<u>\$ 1,340</u>
DEDUCTIONS					
Expenses	<u>14,565</u>	<u>-</u>	<u>26</u>	<u>-</u>	<u>14,539</u>
Transfer to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>14,565</u>	<u>-</u>	<u>26</u>	<u>-</u>	<u>14,539</u>
NET CHANGE IN NET ASSETS	(10,700)	942	(21)	1,578	(13,199)
NET ASSETS - JANUARY 1	<u>221,454</u>	<u>45,990</u>	<u>1,356</u>	<u>58,017</u>	<u>116,091</u>
CASH AND NET ASSETS - DECEMBER 31	<u>\$210,754</u>	<u>\$46,932</u>	<u>\$1,335</u>	<u>\$59,595</u>	<u>\$102,892</u>

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

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

(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. The effect of significant interfund activity has been eliminated from the government-wide financial statements.

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

Fund Accounting

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

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUND

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net 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

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Basis of Accounting

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

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

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

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

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

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of fund balance, is utilized in the governmental fund types. In the general fund, for budgetary purposes

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Budgetary Data

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

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

Cash and Temporary Investments

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

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

Investments

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

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011

(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 \$20,117. 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, 2011, 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.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011

(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.

Budgets and Budgetary Accounting

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

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	<u>General Fund</u>
Fund Balance (budgetary basis)	
Supplement 1	\$3,653,424
Less: Reserve activity reported as special revenue	<u>(104,989)</u>
Fund Balance (GAAP basis) - Exhibit C	<u>\$3,548,435</u>

Fund Balance Classifications

The City has implemented GASB No. 54. Prior to this implementation, the fund balance was classified as Reserved and Unreserved, with Unreserved being Designated or Undesignated by City management for intended purposes. GASB No. 54 requires the classification to be Nonspendable, Restricted or Unrestricted. Unrestricted is then determined to be Committed, Assigned, or Unassigned by the City's management. The City considers expenditures that are incurred for purposes where restricted and unrestricted fund balances are available, to be expended in the following order - Restricted, Committed, Assigned and Unassigned. In the 2011 fiscal year there were no unrestricted committed funds.

Nonspendable Fund Balance

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

Restricted Fund Balance

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

Unrestricted Assigned Fund Balance

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

Unrestricted Unassigned Fund Balance

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

Estimates

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

Compensated Absences

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

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011

(2) CASH AND INVESTMENTS

As of December 31, 2011, cash and investments consisted of the following:

	<u>Carrying Amount</u>
Deposits with financial institutions	\$3,605,419

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, 2011, the bank balance, including the various fiduciary accounts, was \$3,605,419 of which all was insured or collateralized.

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

(3) NOTE RECEIVABLE - REVOLVING LOAN FUND

The Revolving Loan Fund had a 6.5% note receivable in monthly installments of \$218 principal and interest through June 2012 with a balance of \$12,198 as of December 31, 2011, which matures in 2012.

(4) NOTES RECEIVABLE

As of December 31, 2011, 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.	4,155
2% Note receivable in annual installments of \$7,365 principal and interest through December 2028.	<u>105,067</u>
	<u>\$309,222</u>

As of December 31, 2011, the notes receivable mature as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 8,358
2013	7,454
2014	6,284
2015	6,457
2016	206,637
2017-2021	26,554
2022-2026	33,387
2027-2028	<u>14,091</u>
	<u>\$309,222</u>

Notes receivable of \$309,222 above are with the Caribou Economic Growth Council (formerly the Caribou Chamber of Commerce and Industry) which has made various loans under the same terms noted above. These notes are secured by the applicable notes held by the Caribou Economic Growth Council.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011

(5) ACTIVITIES OF THE CITY OF CARIBOU SECTION 8 HOUSING PROGRAM

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

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

(6) INTERFUND BALANCES

The balance of \$20,407 due to the general fund from special revenue funds consists of amounts paid for capital projects on a reimbursement basis. The City has submitted necessary documents to receive grant funds.

(7) CAPITAL ASSETS

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-wide Statement of Net 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, 2011, 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	\$309,613	\$ -	\$ 807,713
Infrastructure	<u>5,403,333</u>	<u>-</u>	<u>-</u>	<u>5,403,333</u>
Total nondepreciable	5,901,433	309,613	-	6,211,046
Land improvements	1,006,354	-	-	1,006,354
Buildings	6,082,134	4,731	-	6,086,865
Vehicles	3,377,143	292,076	-	3,669,219
Equipment	<u>804,576</u>	<u>31,440</u>	<u>-</u>	<u>836,016</u>
Totals at historical cost	<u>17,171,640</u>	<u>637,860</u>	<u>-</u>	<u>17,809,500</u>
Less accumulated depreci- ation for:				
Land improvements	988,766	7,606	-	996,372
Buildings	1,280,694	128,655	-	1,409,349
Vehicles	2,689,746	177,492	-	2,867,238
Equipment	<u>491,059</u>	<u>57,716</u>	<u>-</u>	<u>548,775</u>
Total accumulated depreciation	<u>5,450,265</u>	<u>371,469</u>	<u>-</u>	<u>5,821,734</u>
Governmental activities capital assets, net	<u>\$11,721,375</u>	<u>\$266,391</u>	<u>\$ -</u>	<u>\$11,987,766</u>

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011

(7) CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retire- ments/ Transfers</u>	<u>Ending Balance</u>
Business-type Activity				
Land	\$ 31,600	\$ -	\$ -	\$ 31,600
Land improvements	4,673	-	-	4,673
Buildings	186,792	-	-	186,792
Vehicles	400,227	75,644	-	475,871
Equipment	<u>184,672</u>	<u>3,000</u>	<u>9,000</u>	<u>178,672</u>
Totals at historical cost	<u>807,964</u>	<u>78,644</u>	<u>9,000</u>	<u>877,608</u>
Less accumulated depreciation for:				
Land improvements	4,673	-	-	4,673
Buildings	123,293	3,736	-	127,029
Vehicles	160,174	52,515	-	212,689
Equipment	<u>74,860</u>	<u>15,568</u>	<u>9,000</u>	<u>81,428</u>
Total accumulated depreciation	<u>363,000</u>	<u>71,819</u>	<u>9,000</u>	<u>425,819</u>
Business-type activity capital assets, net	<u>\$ 444,964</u>	<u>\$ 6,825</u>	<u>\$ -</u>	<u>\$ 451,789</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
General	\$ 17,346
Library	8,455
Protection	116,765
Public works	110,789
Recreation and parks	86,955
Other	<u>31,159</u>
	<u>\$371,469</u>
Business-type Activity	<u>\$ 71,819</u>

(8) GENERAL LONG-TERM DEBT

As of December 31, 2011, the City had no outstanding long-term debt.

Long-term debt activity during the year ended December 31, 2011, was as follows:

<u>Balance January 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2011</u>	<u>Due Within One Year</u>	<u>Interest</u>
<u>\$279,566</u>	<u>\$ -</u>	<u>\$279,566</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011

(9) EMPLOYEES' RETIREMENT PLANS

Maine Public Employees Retirement System (MainePERS)

Some employees of participating local government units are eligible to participate in the City's defined benefit plan provided by the Maine Public Employees Retirement System (MainePERS). Approximately \$980,000 or 30% of the payroll of the City qualified for this plan for the year ended December 31, 2011.

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

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

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

Defined Contribution Plan

The City has established for its employees a voluntary deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salaries until future years. The City will match employee contributions up to 3.5% of their wages. The employer contribution for the year ended December 31, 2011 was approximately \$70,000.

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

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

Financial statements for this joint venture were issued and reported on by us in a separate report dated February 6, 2012. These financial statements are available from the City's Finance Department.

A summary of the facility's activity for 2011, is as follows:

	<u>Amount</u>
Total assets	\$16,156,622
Total liabilities	<u>13,658,347</u>
Total net assets	<u>\$ 2,498,275</u>
Total revenue	\$ 2,393,359
Less total expenditures	<u>2,295,826</u>
Increase in net assets	<u>\$ 97,533</u>

The City has guaranteed, together with the other member towns, two notes and a bond payable totaling \$8,537,000 for the Tri-Community Recycling and Sanitary Landfill. As of December 31, 2011, the balance owed was \$7,975,665.

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

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011

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

recognized in the financial statements referred to above at the rate of utilization of the landfill site. As of December 31, 2011, the estimated total cost of closure and post-closure care was approximately \$17,760,000 of which \$5,442,000 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 2011 financial statements of the Tri-Community Recycling and Sanitary Landfill.

(11) TAX INCREMENT FINANCING (TIF) DISTRICT

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

(12) 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 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, 2011

(12) 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, the balance of \$61,237 will be released by FAME and returned to cash upon maturity of the certificates of deposit.

(13) SUBSEQUENT EVENTS

In June 2012, the City Manager announced his resignation with an anticipated departure in July 2012.

Management has reviewed subsequent events through July 13, 2012, 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, 2011

	General Fund			Ambulance Service		
	Budgeted Amounts		Actual Budgetary Basis	Budgeted Amounts		Actual Budgetary Basis
	Original	Final		Original	Final	
REVENUES						
Local property taxes	\$ 7,152,055	\$ 7,152,055	\$ 7,160,696	-	\$ -	-
Homestead exemption reimbursement	237,994	237,994	237,994	-	-	-
Supplemental taxes	1,500	1,500	470	-	-	-
Abatements	(25,000)	(25,000)	(1,667)	-	-	-
Federal assistance	57,226	63,687	50,927	-	-	-
State assistance	1,015,839	961,839	933,152	-	-	-
Fees	-	-	-	-	-	-
Charge to towns - Caribou	-	-	-	1,807,246	1,953,244	1,675,655
- Other	-	-	-	87,276	87,276	87,276
Billing services	-	-	-	45,342	45,342	183,881
Other (Schedule 1)	-	-	-	46,000	46,000	48,849
TOTAL REVENUES	2,110,360	2,110,360	2,101,631	15,000	15,000	8,539
	10,549,974	10,502,435	10,483,203	2,000,864	2,146,862	2,004,200
EXPENDITURES						
General government	584,436	587,936	570,371	-	-	-
Education	3,092,769	3,092,769	3,092,769	-	-	-
Community development	102,546	102,546	78,842	-	-	-
Chamber of Commerce	54,953	51,277	47,170	-	-	-
Health and sanitation	266,250	266,250	266,602	-	-	-
Public works	2,171,144	2,171,144	2,164,338	-	-	-
Protection	2,054,531	2,054,531	2,046,524	-	-	-
Insurance and retirement	427,923	427,923	423,558	-	-	-
Recreation	671,786	671,786	670,727	-	-	-
Library	283,432	278,361	271,554	-	-	-
County tax	356,052	356,052	356,052	-	-	-
General assistance	67,687	67,687	55,491	-	-	-
Appropriations to capital outlays	26,750	26,750	26,750	-	-	-
Ambulance	-	-	-	1,694,275	1,722,230	1,773,269
Other (Schedule 2)	620,646	620,646	610,275	-	-	-
TOTAL EXPENDITURES	10,780,905	10,775,658	10,681,023	1,694,275	1,722,230	1,773,269
	(230,931)	(273,223)	(197,820)	306,589	424,632	230,931
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
OTHER SOURCES						
Appropriations in excess of capital outlay	-	-	304,293	-	-	-
Transfer from surplus	10,000	10,000	10,000	-	-	-
Transfer from ambulance fund, net	306,589	424,632	230,931	-	-	-
TOTAL OTHER SOURCES	316,589	434,632	545,224	-	-	-
OTHER USES						
Debt service	215,511	215,511	291,839	-	-	-
Transfers to other funds	-	-	-	-	-	-
TOTAL OTHER USES	215,511	215,511	291,839	-	-	-
NET INCREASE (DECREASE) IN FUND BALANCE	(129,853)	(54,102)	55,565	306,589	424,632	-
FUND BALANCE - JANUARY 1, 2011	-	-	3,597,859	-	-	-
FUND BALANCE - DECEMBER 31, 2011	\$ (129,853)	\$ (54,102)	\$ 3,653,424	\$ 306,589	\$ 424,632	\$ -

MODIFIED APPROACH FOR CITY CAPITAL ASSETS
DECEMBER 31, 2011

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, 2011, 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	66%	36%	1
Fair	24%	53%	2
Poor to Substandard	10%	11%	3 and 4

As of December 31, 2011, the City had 10,183,822 square feet of roads with a historical cost of \$5,159,583. As of December 31, 2011, 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 \$474,500 to maintain infrastructure at the desired condition level. Actual expenditures for the year ended December 31, 2011 were \$461,991.

CITY OF CARIBOU, MAINE

SCHEDULE 1

SCHEDULE OF OTHER REVENUES - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Excise taxes	\$ 1,154,000	\$ 1,180,197	\$ 26,197
Interest on deposits	18,000	3,127	(14,873)
City clerk's fees	27,100	31,587	4,487
Fire protection, other towns	109,942	109,871	(71)
Police dispatching	12,327	500	(11,827)
Payments in lieu of taxes	44,000	56,538	12,538
Income from City-owned property	69,299	66,062	(3,237)
Section 8 Housing Program Administration	82,000	84,402	2,402
Department of Transportation - Road Funds	156,032	153,366	(2,666)
Interest on delinquent taxes	57,000	50,516	(6,484)
Cable TV franchise	57,000	60,530	3,530
Interest on notes receivable	2,700	2,587	(113)
Lien collection fees	12,000	12,647	647
Caribou Chamber of Commerce	72,600	24,901	(47,699)
Miscellaneous	<u>236,360</u>	<u>264,800</u>	<u>28,440</u>
Other revenues - budgetary (Supplement 1)	<u>\$ 2,110,360</u>	2,101,631	<u>\$ (8,729)</u>
Adjustments to modified accrual		<u>151,823</u>	
Other revenues - modified accrual (Exhibit D)		<u>\$ 2,253,454</u>	

CITY OF CARIBOU, MAINE

SCHEDULE 2

SCHEDULE OF OTHER EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Municipal building	\$ 77,404	\$ 80,127	\$ (2,723)
Tax assessment office	191,555	190,253	1,302
Code enforcement office	112,762	107,539	5,223
Nylander Museum	29,953	27,398	2,555
Airport	50,534	51,134	(600)
Cemeteries	5,800	5,800	-
Trailer Park	17,040	17,040	-
Contributions	59,641	57,454	2,187
Tax increment financing	63,037	63,037	-
Unclassified	<u>12,920</u>	<u>10,493</u>	<u>2,427</u>
Other expenditures - budgetary (Supplement 1)	<u>\$ 620,646</u>	610,275	<u>\$ 10,371</u>
Adjustments to modified accrual		<u>(55,027)</u>	
Other expenditures - modified accrual (Exhibit D)		<u>\$ 555,248</u>	

SCHEDULE OF CAPITAL OUTLAYS - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Balances January 1	Appropri- ations	Grants/ Transfers	Other	Total Available	Expendi- tures	Balances December 31
Community Pool Improvements	\$ 5,914	\$ 2,000	-	-	\$ 7,914	\$ 258	\$ 7,656
Nylander Museum	13,023	-	-	-	13,023	362	12,661
Library Memorial Fund	23,421	-	-	15,263	38,684	13,282	25,402
Library Computer Reserve	2,853	900	-	-	3,753	680	3,073
Chamber Reserve	-	-	-	62,908	62,908	6,992	55,916
Police Department Donated Funds	20,894	-	-	4,228	25,122	866	24,256
Police Department Equipment	64,441	-	(25,000)	19,305	58,746	51,628	7,118
Recreation Center Improvements	29,137	6,500	-	-	35,637	5,308	30,329
Recreation Center Improvements	37,590	2,000	-	-	39,590	-	39,590
Land Acquisitions	11,838	-	-	62,785	74,623	53,468	21,155
Rails to Trails Program	-	-	11,250	3,327	14,577	-	14,577
Grimes Mill Road Engineering	-	-	-	139,425	139,425	-	139,425
Grimes Mill Road Construction	65,514	11,000	-	-	76,514	9,768	66,746
Park Improvement Reserve	71,155	62,000	-	-	133,155	58,300	74,855
Property Assessment	407,161	65,000	-	-	472,161	251,428	220,733
Fire Equipment Reserve	2,057	500	-	-	2,557	1,988	569
Fire Hose Reserve	2,892	400	-	-	3,292	349	2,943
Fire Station Foam Reserve	6,627	-	-	-	6,627	-	6,627
Fire Training Building Reserve	47,209	110,000	-	4,345	161,554	35,973	125,581
PW Equipment Reserve	23,097	-	25,000	-	48,097	26,478	21,619
Police Car Reserve	(600)	-	-	-	(600)	-	(600)
Recreation/Parks Computer Reserve	14,359	-	(3,000)	4,368	15,727	10,218	5,509
Rec. Nonapprop. Spec. Projects	21,408	4,500	-	-	25,908	982	24,926
Recreation Equipment Reserve	14,262	1,800	-	-	16,062	-	16,062
Recreation Lawn Mower Reserve	6,425	-	-	15,864	22,289	-	22,289
Trail Maintenance Reserve	458	-	-	-	458	-	458
Hockey Boards Maintenance	19,241	-	-	-	19,241	-	19,241
Recreation - Collins Pond	171	-	-	-	171	-	171
Creative Playground Reserve	109,839	10,000	-	-	119,839	-	119,839
Trail Groomer Reserve	1,549	-	-	-	1,549	67	1,482
Caribou Community Band	15,426	500	-	245	16,171	274	15,897
Recreation Van Reserve	31,831	-	-	-	31,831	-	31,831
Community Development Match	(510)	5,000	(100)	-	4,390	-	4,390
Airport Reserve	(465)	-	-	-	(465)	-	(465)
Septic System Replacement	282,916	150,000	-	10,756	443,672	138,768	304,904
Streets/Roads Drainage	5,178	-	-	-	5,178	-	5,178
Curbing Reserve	35,708	-	-	9,815	45,523	-	45,523
Fuel Tank Reserve	1,130	-	-	-	1,130	1,130	-
Legal Fees Reserve	11,941	-	-	-	11,941	3,127	8,814
Planning/Engineering Reserve	28,876	-	-	-	28,876	-	28,876
MMF/CUD Digester	946	-	-	-	946	-	946
Airport/Weather Bureau Reserve	1,297	10,000	-	2,193	13,490	3,438	10,052
Computer Reserve	(1,679)	-	-	-	(1,679)	-	(1,679)
Comprehensive Plan	36,322	-	-	-	36,322	-	36,322
Municipal Building Reserve	-	-	-	5,522	5,522	-	5,522
Preregistration Arts & Crafts	14,793	2,000	-	-	16,793	-	16,793
Parking Lot Maintenance Reserve	12,441	-	-	-	12,441	-	12,441
Industrial Park Improvements	9,351	-	-	-	9,351	-	9,351
Public Works Paint Booth	240,000	-	-	-	240,000	-	240,000
CDC Economic Development	1,747,437	444,100	8,150	360,349	2,560,036	675,132	1,884,904

SCHEDULE OF CAPITAL OUTLAYS - GENERAL FUND (Continued)
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Balances January 1	Appropri- ations	Grants/ Transfers	Other	Total Available	Expendi- tures	Balances December 31
Plymouth Waste Oil Loan	63,306	-	-	-	63,306	-	63,306
Trailer Park Reserve	4,424	-	-	-	4,424	183	4,241
Caribou Housing Reserve	36,419	-	15,764	736	52,919	-	52,919
Civic Beautification Reserve	2,965	5,000	-	-	7,965	6,539	1,426
Lions Community Center Reserve	2,659	-	-	25	2,684	900	1,784
Community Gateway Grant	79	-	-	-	79	-	79
Ambulance Small Equipment	(87)	10,970	-	-	10,883	-	10,883
Ambulance/Fire EDP Reserve	6,880	1,000	-	-	7,880	5,161	2,719
Aerial Photography	2,700	-	-	-	2,700	-	2,700
Library Handicapped	(419)	-	-	-	(419)	-	(419)
Airport Improvements	34,860	3,750	179,800	725	219,135	231,479	(12,344)
EMA Equipment Reserve	2,012	-	-	-	2,012	-	2,012
Nylander Donations	-	-	-	2,000	2,000	-	2,000
Caribou Community Wellness	63,798	-	(139,364)	100,656	25,090	-	25,090
Library Bathroom Renovations	-	5,000	-	-	5,000	4,732	268
Trails Grant	(4,366)	-	-	-	(4,366)	-	(4,366)
Welcome to Caribou Signs	2,000	-	-	-	2,000	2,400	(400)
Homeland Security	2,279	-	-	-	2,279	-	2,279
Ski Rental	-	-	-	4,005	4,005	145	3,860
CDBG Housing Rehabilitation	3,880	-	-	-	3,880	-	3,880
Maine Military Authority	28,813	-	-	-	28,813	-	28,813
Ambulance Stair Chairs	2,250	-	-	-	2,250	-	2,250
Charter Commission	-	-	-	-	-	3,422	(3,422)
DEP Small Community Grant	(129)	-	-	-	(129)	-	(129)
Wellness Construction	(1,500)	-	-	-	(1,500)	-	(1,500)
TIF	69,367	-	-	63,037	132,404	26,591	105,813
Cadet Reserve	3,141	-	-	8,039	11,180	9,722	1,458
Downtown Infrastructure	2,047	1,500	-	-	3,547	39	3,508
Debt Service	(86,942)	-	354,875	-	267,933	291,839	(23,906)
Fire Department Kitchen Remodel	(388)	-	-	-	(388)	-	(388)
Police Garage Roof Repair	556	-	-	-	556	-	556
Police Camera System	(91)	-	-	-	(91)	-	(91)
Christmas Lights	4,061	4,000	-	-	8,061	2,295	5,766
Fire Dispatch Model	700	-	-	-	700	-	700
Tax Acquired Property Remediation	4,200	-	-	-	4,200	-	4,200
Boat Launch	(20,690)	-	-	-	(20,690)	-	(20,690)
RSU 39 Commitment	(874,841)	3,092,769	-	-	2,217,928	3,092,769	(874,841)
EECBG Program	(10,647)	-	-	22,073	11,426	19,489	(8,063)
Subtotal	(656,704)	3,123,989	411,075	201,296	3,079,656	3,697,705	(618,049)
Subtotal Schedule 3a	1,747,437	444,100	8,150	360,349	2,560,036	675,132	1,884,904
TOTAL	\$ 1,090,733	\$ 3,568,089	\$ 419,225	\$ 561,645	\$ 5,639,692	\$ 4,372,837	\$ 1,266,855

SCHEDULE OF NON-CAPITAL OUTLAYS - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Balances January 1	Appropri- ations	Transfers	Other	Total Available	Expendi- tures	Balances December 31
Compensated Absences	\$155,477	\$ -	\$25,000	\$ -	\$180,477	\$24,137	\$ 156,340
Revolving Loan Fund - Cash	313,155	-	-	2,472	315,627	-	315,627
Revolving Loan Fund - Loans Receivable	117,045	-	-	-	117,045	2,472	114,573
City retirement	1,080	-	-	-	1,080	-	1,080
Police underage drinking grant	-	-	-	-	-	2,648	(2,648)
Retirement reserves	4,139	-	-	-	4,139	-	4,139
Fire/Ambulance Overtime	2,679	-	-	-	2,679	-	2,679
HRA Contribution reserve	27,958	-	-	29,200	57,158	34,846	22,312
Community Bulletin Board	-	-	-	120	120	-	120
	<u>\$621,533</u>	<u>\$ -</u>	<u>\$25,000</u>	<u>\$31,792</u>	<u>\$678,325</u>	<u>\$64,103</u>	<u>\$ 614,222</u>

CITY OF CARIBOU, MAINE

SCHEDULE 5

BALANCE SHEET
FOR ALL SPECIAL REVENUE FUNDS
DECEMBER 31, 2011

	<u>Grimes Mill Road</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	\$154,002	\$207,777	\$ -	\$ -	\$361,779
Note receivable (Note 3)	<u>-</u>	<u>12,198</u>	<u>-</u>	<u>-</u>	<u>12,198</u>
	<u>\$154,002</u>	<u>\$219,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$373,977</u>
<u>LIABILITIES, SURPLUS AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
DUE TO GENERAL FUND	<u>-</u>	<u>-</u>	<u>12,344</u>	<u>8,063</u>	<u>20,407</u>
FUND BALANCE	<u>154,002</u>	<u>219,975</u>	<u>(12,344)</u>	<u>(8,063)</u>	<u>353,570</u>
	<u>\$154,002</u>	<u>\$219,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$373,977</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, 2011

	<u>Grimes Mill Road</u>	<u>Revolving Loan Fund #10</u>	<u>Airport Improvement Program</u>	<u>EECBG Program</u>	<u>Total Special Revenue Funds</u>
REVENUES					
Grants - Federal	\$150,675	\$ -	\$ 171,780	\$ 22,073	\$344,528
- State	3,327	-	4,520	-	7,847
Interest income	-	441	-	-	441
Other revenue	-	-	-	-	-
Total Revenues	<u>154,002</u>	<u>441</u>	<u>176,300</u>	<u>22,073</u>	<u>352,816</u>
EXPENDITURES					
Construction and improve- ments	-	-	<u>231,479</u>	<u>19,489</u>	<u>250,968</u>
EXCESS OF REVENUES OVER EXPENDITURES (EXPENDITURES OVER REVENUES)					
	<u>154,002</u>	<u>441</u>	<u>(55,179)</u>	<u>2,584</u>	<u>101,848</u>
OTHER SOURCES					
Transfer from general fund	-	-	<u>7,975</u>	-	<u>7,975</u>
OTHER USES					
Transfer to general fund	-	-	-	-	-
NET INCREASE (DECREASE) IN FUND BALANCE					
	154,002	441	(47,204)	2,584	109,823
FUND BALANCE - JANUARY 1					
	-	<u>219,534</u>	<u>34,860</u>	<u>(10,647)</u>	<u>243,747</u>
FUND BALANCE - DECEMBER 31					
	<u>\$154,002</u>	<u>\$219,975</u>	<u>\$ (12,344)</u>	<u>\$ (8,063)</u>	<u>\$353,570</u>

CITY OF CARIBOU, MAINE

SCHEDULE 7

SCHEDULE OF PROPERTY TAXES - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Total</u>	<u>2012 Taxes</u>	<u>2011 Taxes</u>	<u>2010 Taxes and Liens</u>	<u>Prior Taxes</u>
UNCOLLECTED AT JANUARY 1	\$ 799,635	\$ -	\$ (5,196)	\$584,983	\$219,848
2011 COMMITMENT (\$274,025,100 @.0261)	7,152,055	-	7,152,055	-	-
SUPPLEMENTAL TAX	470	-	350	120	-
	<u>7,152,525</u>	<u>-</u>	<u>7,152,405</u>	<u>120</u>	<u>-</u>
COLLECTIONS	7,164,754	11,333	6,556,909	483,626	112,886
TAX-ACQUIRED PROPERTY	22,922	-	10,440	7,146	5,336
ABATEMENTS	1,667	-	1,193	238	236
	<u>7,189,343</u>	<u>11,333</u>	<u>6,568,542</u>	<u>491,010</u>	<u>118,458</u>
UNCOLLECTED AT DECEMBER 31	\$ <u>762,817</u>	\$ <u>(11,333)</u>	\$ <u>578,667</u>	\$ <u>94,093</u>	\$ <u>101,390</u>
REPRESENTED BY					
Real Estate Taxes	\$ 646,076	\$ (11,193)	\$ 561,698	\$ 85,708	\$ 9,863
Personal Property Taxes	116,741	(140)	16,969	8,385	91,527
	<u>\$ 762,817</u>	<u>\$ (11,333)</u>	<u>\$ 578,667</u>	<u>\$ 94,093</u>	<u>\$ 101,390</u>

FELCH & COMPANY, LLC

Certified Public Accountants

P.O. BOX 906
CARIBOU, MAINE 04736
(207) 498-3176
FAX (207) 498-6278
E-MAIL: CPA@FELCHCPA.COM

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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 13, 2012. 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

Management of the City of Caribou, Maine is responsible for establishing and maintaining effective 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*.

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.



July 13, 2012

FELCH & COMPANY, LLC

Certified Public Accountants

P.O. BOX 906
CARIBOU, MAINE 04736
(207) 498-3176
FAX (207) 498-6278
E-MAIL: CPA@FELCHCPA.COM

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 City of Caribou, Maine's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2011. 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, 2011.

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.

A handwritten signature in black ink, appearing to read "J. M. Conroy" followed by a stylized flourish.

July 13, 2012

CITY OF CARIBOU, MAINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: *qualified*

Internal control over financial reporting:

Material weakness(es) identified? yes no

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

Noncompliance material to financial
statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes no

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

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

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

Identification of major programs:

Department of Housing and Urban Development

Section 8 Housing Choice Voucher Program CFDA #14.871

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

Auditee qualified as low-risk auditee? yes no

SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

CITY OF CARIBOU, MAINE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Federal Grantor/ Pass-through Grantor/ <u>Program Title</u>	Federal CFDA <u>Number</u>	Pass- through Grantor's <u>Number</u>	<u>Receipts</u>	<u>Disburse- ments</u>
<u>U.S. Department of Housing and Urban Development</u>				
Direct Award - Section 8 Housing Choice Vouchers	14.871	N/A	\$ 894,686	\$ 905,297
<u>U.S. Department of Transportation</u>				
Direct Award - Airport Improvement Program	20.106	N/A	171,780	171,780
<u>U.S. Department of Homeland Security</u>				
Passed through State of Maine Depart- ment of Emergency Management:				
Disaster Grants - Public Assistance	97.036	N/A	11,250	-
Grimes Mill Road Construction	97.036	N/A	139,425	-
<u>U.S. Department of Justice</u>				
JAG Vest Grant	16.999	N/A	<u>5,066</u>	<u>5,066</u>
			<u>\$ 1,222,207</u>	<u>\$ 1,082,143</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, 2011

There were no audit findings reported for the year ended December 31, 2010 that require follow-up in the December 31, 2011 report.