

*Financial Statements*

*CITY OF CARIBOU, MAINE*  
*as of*  
*DECEMBER 31, 2013*  
*together with*  
*INDEPENDENT AUDITORS' REPORT*

CITY OF CARIBOU, MAINE

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CITY OF CARIBOU, MAINE

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## INDEPENDENT AUDITORS' REPORT

To the City Council of the  
City of Caribou, Maine

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Caribou, Maine as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

To the City Council of the  
City of Caribou, Maine

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Caribou, Maine, as of December 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1, the financial statements referred to above include only the primary government of the City of Caribou, Maine, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. These primary government financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not present fairly the financial position of the reporting entity of the City of Caribou, Maine, as of December 31, 2013, the changes in its financial position or, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the reporting entity of the City of Caribou, Maine, as of and for the year ended December 31, 2013, and our report thereon, dated August 8, 2014, expressed an unmodified opinion on those financial statements.

### **Other Matters**

#### *Required Supplementary Information*

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

To the City Council of the  
City of Caribou, Maine

*Other Information*

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2014 on our consideration of the City of Caribou's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Caribou's internal control over financial reporting and compliance.

*Felch & Company LLC*

Caribou, Maine  
August 8, 2014

City of Caribou, Maine

Management's Discussion and Analysis  
For the Year Ended December 31, 2013

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, 2013. 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 2013.
- 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.

**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 business-type activities separately. The business-type activity is the 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 inter-fund activities eliminated.

The Statement of Net Position presents information on the City's assets and liabilities, with the difference between the two reported as net position. 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.

City of Caribou, Maine

Management's Discussion and Analysis  
For the Year Ended December 31, 2013

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

Both of these statements within the City-wide financials distinguish between governmental-type functions, principally supported by taxes, and intergovernmental revenues for the City. These activities are separated from those 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, health and sanitation, public works, protection, insurance and retirement, recreation, library, County tax, general assistance, Chamber of Commerce, Section 8 housing, capital projects and other activities. The business-type activity is the ambulance operations.

**Fund Financial Statements**

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

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. 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.

City of Caribou, Maine

Management's Discussion and Analysis  
For the Year Ended December 31, 2013

UNAUDITED

The Statement of Net Position (Exhibit A) reports total net position of \$17,773,705 from the combined operations of the Governmental and Business-type activity. This aggregate amount consists of total assets less depreciation and liabilities for these combined operations. Exhibit A is delineated into Assets: Current and Non-current, Liabilities: Current and Non-current, and Net Position: Net Investment in Capital Assets, Restricted and Unrestricted.

The reader should refer to Table I as a comparison of Exhibit A of the net changes from 2012 to 2013. Total Current Assets increased by \$89,120 in 2013 primarily due to changes in receivables with increases in Taxes Receivable of \$93,233 or 10% from the prior year. Cash decreased by approximately \$550,000 which is offset by an increase in receivables of approximately \$580,000. Capital Assets, net of depreciation, increased by \$1,738,854 primarily from construction in the removal of obstructions at the airport and the completed boiler project.

Table I indicates Current Liabilities increased by \$501,115. Increases in accounts payable, deferred taxes and current portion of the note payable were offset by a decrease in deferred compensation. Net Position increased by \$1,354,091 for 2013 as Total Assets increased by \$1,827,974 and Liabilities increased by \$473,883.

The reader should refer to Table II as a comparison of the changes in Net Position from 2012 to 2013. Total City net Expenditures for Governmental activities combined were \$9,294,082, as compared to \$10,375,395 for 2012 for a decrease of \$1,081,313. The major components of the decrease in Expenditures were \$591,646 in Public Works and \$290,610 in capital projects.

For 2013, the total General Revenues were \$10,670,933 as compared to \$10,137,684 for 2012, an increase of \$533,249. Taxes increased by \$314,428 due to rising costs and losses of other non-property tax revenue. There was an increase in Excise tax of approximately \$58,000 as well as an increase in other revenues of approximately \$203,000.

For Business-type activities, Table II shows the Ambulance Service expending \$1,500,918 while generating revenues of \$1,478,158 from billings producing a net loss of \$22,760 for 2013 compared to a net income of \$467,872 in 2012. The Service receives no net support from property taxation.

Pie charts follow to give the reader a visual indication of City Revenues and Expenses for 2013 as compared to 2012.

City of Caribou, Maine

Management's Discussion and Analysis  
For the Year Ended December 31, 2013

UNAUDITED

Table I provides data for the Governmental Activities for the years ended 2013 and 2012.

**Table I**  
**Net Position**

	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and temporary investments	\$ 2,818,172	\$ 3,375,039
Taxes receivable	1,085,541	992,308
Notes receivable	310,368	312,720
Other receivables	834,440	253,652
Other current assets	<u>170,437</u>	<u>196,119</u>
Total Current Assets	<u>5,218,958</u>	<u>5,129,838</u>
Noncurrent Assets		
Capital assets, net of depreciation	<u>15,696,159</u>	<u>13,957,305</u>
Total Assets	<u>20,915,117</u>	<u>19,087,143</u>
Current Liabilities		
Accounts payable and accrued expenses	672,736	254,154
Deferred compensation	665,365	680,651
Deferred taxes	834,551	746,456
Current portion note payable	<u>54,044</u>	<u>44,320</u>
	<u>2,226,696</u>	<u>1,725,581</u>
Noncurrent Liabilities		
Note payable, net of current portion	<u>914,716</u>	<u>941,948</u>
Net Position		
Net investment in capital assets	14,727,399	12,971,037
Restricted for special revenue funds	236,892	227,325
Unrestricted	<u>2,809,414</u>	<u>3,221,252</u>
TOTAL NET POSITION	<u>\$17,773,705</u>	<u>\$16,419,614</u>

City of Caribou, Maine

Management's Discussion and Analysis  
For the Year Ended December 31, 2013

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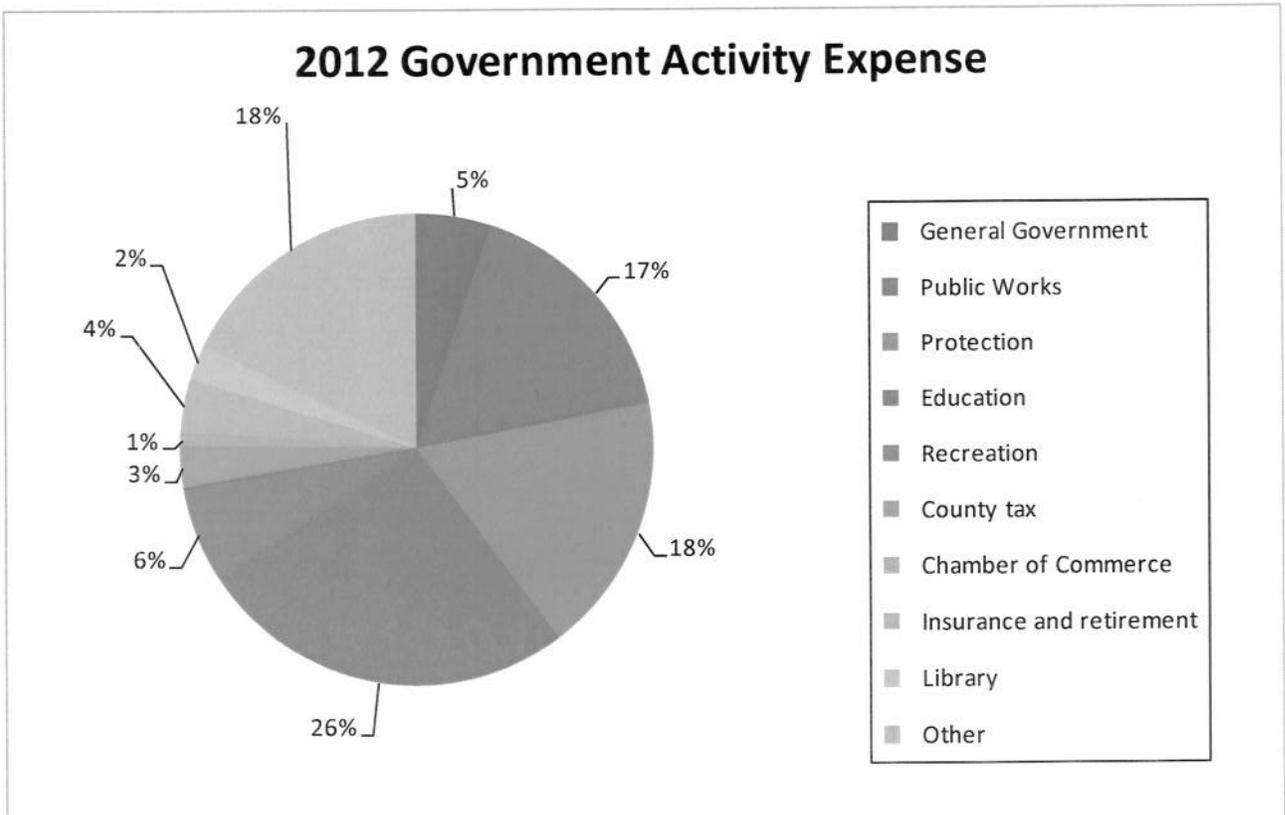
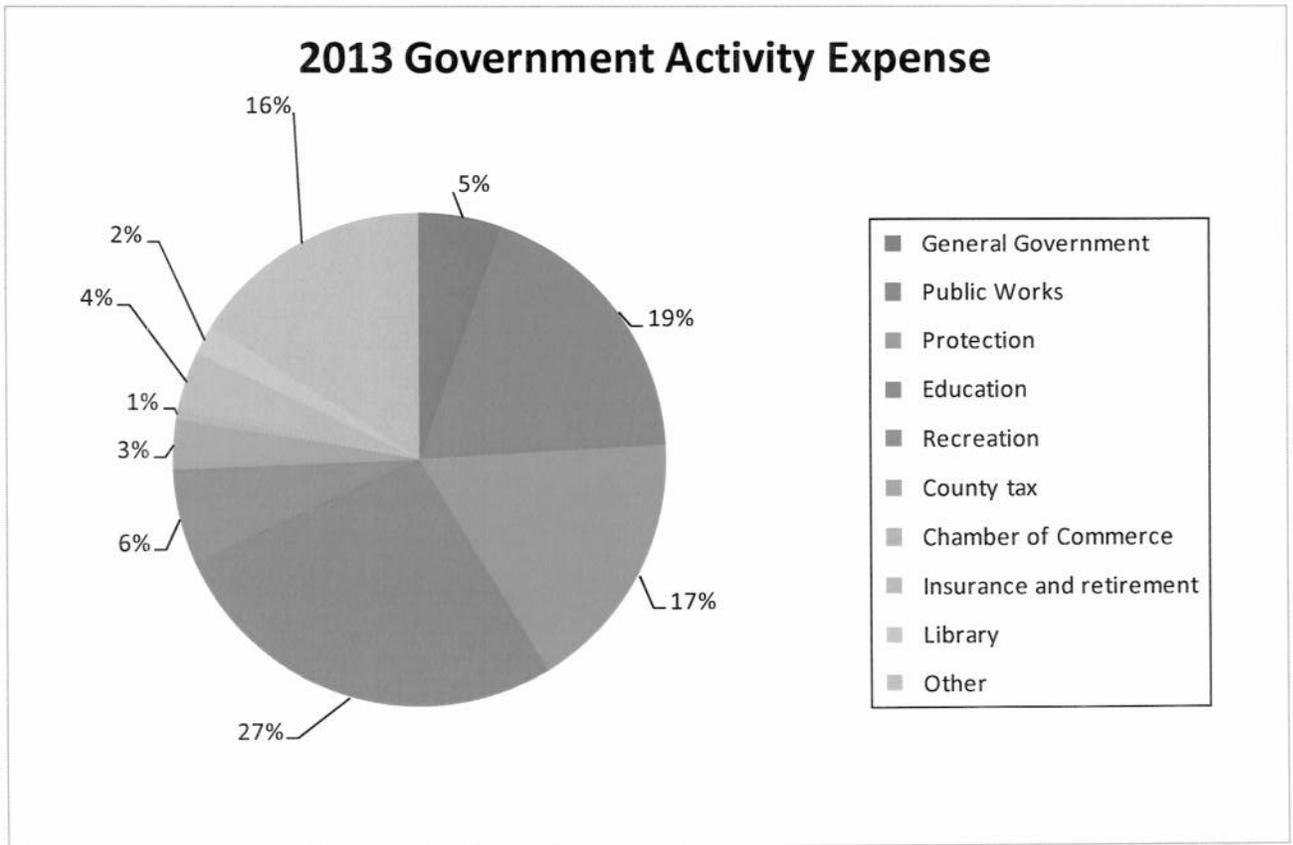
**Table II**  
**Change in Net Position**

	<u>2013</u>	<u>2012</u>
Governmental Activities:		
<u>General Revenues</u>		
Taxes	\$ 7,782,024	\$ 7,467,596
Federal and state assistance	818,051	860,004
Excise taxes	1,257,526	1,199,933
Other revenues	<u>813,332</u>	<u>610,151</u>
Total general revenues	<u>10,670,933</u>	<u>10,137,684</u>
 <u>General Expenses, net of related revenues</u>		
General Government	545,556	513,788
Public Works	1,309,678	1,901,324
Protection	1,919,336	1,976,021
Education	3,336,540	3,213,918
Recreation	712,395	763,307
County tax	396,474	364,644
Chamber of Commerce	17,381	101,383
Insurance and retirement	475,502	466,639
Library	215,134	295,855
Capital projects	(746,842)	(456,232)
Other	<u>1,112,928</u>	<u>1,234,748</u>
Total general activities expenses	<u>9,294,082</u>	<u>10,375,395</u>
 Change in Net Position from general governmental activities	<u>1,376,851</u>	<u>(237,711)</u>
 Business-type Activity:		
Revenues		
Charges for services	1,478,158	1,714,337
Capital grants and contributions	<u>-</u>	<u>551,599</u>
Total business-type activity revenues	<u>1,478,158</u>	<u>2,265,936</u>
Expenses	<u>1,500,918</u>	<u>1,560,353</u>
Change in Net Position from business-type activity	<u>(22,760)</u>	<u>705,583</u>
Change in Net Position	1,354,091	467,872
Net Position January 1	<u>16,419,614</u>	<u>15,951,742</u>
 Net Position December 31	<u>\$17,773,705</u>	<u>\$16,419,614</u>

City of Caribou, Maine

Management's Discussion and Analysis  
For the Year Ended December 31, 2013

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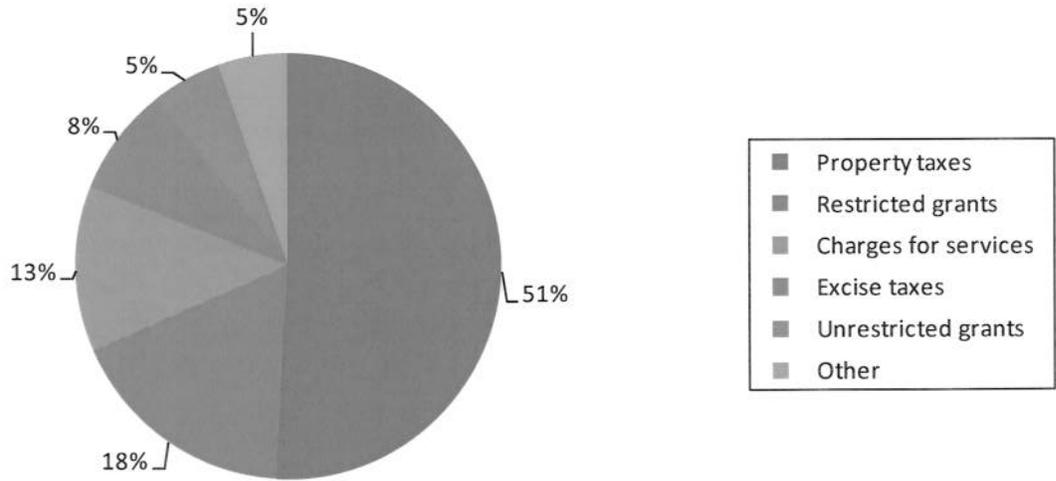


City of Caribou, Maine

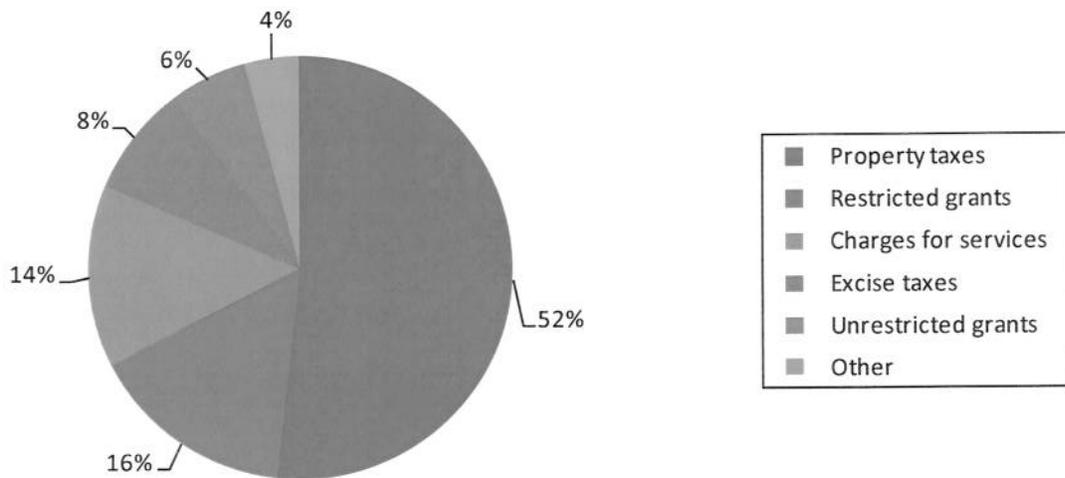
Management's Discussion and Analysis  
For the Year Ended December 31, 2013

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### 2013 Government Activity Revenue



### 2012 Government Activity Revenue



City of Caribou, Maine

Management's Discussion and Analysis  
For the Year Ended December 31, 2013

UNAUDITED

Management has produced Table III to further assist the reader in assessing the major changes in Revenues for the City comparing the current year to that of 2012. Total City Revenues for 2013 were \$15,274,092, an increase of \$847,408 compared to 2012. Please refer to page VII for the pie charts illustrating the same. Property Taxes increased by \$314,428 due to increased expenditures for both municipal and school operations coupled with the loss of prior revenues. Restricted Grants increased by \$386,125 due to ongoing work at the Airport funded 95% by FAA, 2.5% State, and 2.5% Local. Unrestricted Grants decreased by \$41,953 due to losses of State Revenue Sharing. Management recognizes the need to reduce revenue from property taxes by maximizing other non-property tax revenues provided charges for services are reasonable and customary or fall within State allowances. Management also recognizes the continued detrimental impacts upon property taxation stemming from the State's reduction of Municipal Revenue Sharing by over \$750,000 since 2008, 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.

**Table III**  
**Percentage of Revenue Sources**

	2013 <u>Revenues</u>	2013 (by <u>percentage</u> )	2012 <u>Revenues</u>	2012 (by <u>percentage</u> )
<u>Governmental Revenues:</u>				
Property taxes	\$ 7,782,024	51%	\$ 7,467,596	52%
Restricted grants	2,668,070	18%	2,281,945	16%
Charges for services	1,935,089	13%	2,007,055	14%
Excise taxes	1,257,526	8%	1,199,933	8%
Unrestricted grants	818,051	5%	860,004	6%
Other	<u>813,332</u>	<u>5%</u>	<u>610,151</u>	<u>4%</u>
Total City Revenues	<u>\$15,274,092</u>	<u>100%</u>	<u>\$14,426,684</u>	<u>100%</u>

City of Caribou, Maine

Management's Discussion and Analysis  
For the Year Ended December 31, 2013

UNAUDITED

Management has produced Table IV to illustrate any significant changes within the Governmental Expenditures from 2013 to 2012 as a percentage of total expenditures for each year. Please refer to page VI for pie charts illustrating the same. Total Governmental Expenses decreased by \$38,811. Increases in Public Works and Education were offset by decreases in Protection and Other expenses.

Table IV shows the percentage of expenses for governmental activities for the years 2013 and 2012.

**Table IV**  
**Percentage of Expenses**

	2013 <u>Expenses</u>	2013 (by <u>percentage</u> )	2012 <u>Expenses</u>	2012 (by <u>percentage</u> )
<u>Governmental Expenses:</u>				
General Government	\$ 682,654	5%	\$ 628,111	4%
Public Works	2,312,665	16%	2,096,615	15%
Protection	2,133,590	15%	2,207,125	16%
Education	3,336,540	24%	3,213,918	23%
Recreation	775,895	6%	820,492	6%
County tax	396,474	3%	364,644	3%
Chamber of Commerce	81,248	1%	101,383	1%
Insurance and retirement	475,502	3%	466,639	3%
Library	246,606	2%	295,855	2%
Ambulance	1,500,918	11%	1,560,353	11%
Other	<u>1,977,909</u>	<u>14%</u>	<u>2,203,677</u>	<u>16%</u>
 Total Governmental Expenses	 <u>\$13,920,001</u>	 <u>100%</u>	 <u>\$13,958,812</u>	 <u>100%</u>

City of Caribou, Maine

Management's Discussion and Analysis  
For the Year Ended December 31, 2013

UNAUDITED

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 \$10,714,506, \$610,205 less than budgeted. Revenues, excluding Ambulance, were \$11,233,695, \$163,126 more than budgeted. Revenues exceeded Expenditures by \$519,189 for the year. Total Other Sources of \$182,082 came from the ambulance fund. Capital outlays of \$518,845 further reduced fund balance. The resulting net increase in Fund Balance General Fund from Governmental Operations was \$182,426.

The Ambulance Service on Supplement 1 had Total Revenues of \$1,789,702, \$156,720 less than budgeted, and Total Expenditures of \$1,607,620, \$32,207 less than budgeted. The Ambulance Service had a net of operations of just \$182,082 for the year as compared to a budgeted \$306,595. Ambulance volumes were close to 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.

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 \$1,754,320. Additions to construction-in-process, buildings, vehicles and equipment totaled \$2,186,693 while depreciation across land improvements, buildings, vehicles and equipment totaled \$426,475. The retirements of capital assets, net of the transfer of the completed boiler project to buildings, totaled \$5,898 of book value. Management recognizes that the relationship of depreciation expense being less than additions by \$1,760,218 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 \$140,187 with additions of \$178,500 less book of retired assets of \$53,779 for a net decrease of \$15,466 for the year.

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

Management concludes this section of the 2013 Audit with the continued pledge of researching and applying where possible economies of scale, regionalized services, best practices and efficiencies to minimize these pending impacts. This concludes the Management Discussion and Analysis Statement for the calendar year of 2013. A complete copy of the 2013 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 POSITION  
DECEMBER 31, 2013

	Governmental Activities	Business- type Activity	Total
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and temporary investments (Note 2)	\$ 2,818,172	\$ -	\$ 2,818,172
Uncollected taxes	1,031,578	-	1,031,578
Tax acquired property	53,963	-	53,963
Accounts receivable	145,503	220,311	365,814
Allowance for uncollectibles	(95,000)	-	(95,000)
Due from other governments	563,626	-	563,626
Inventories	41,979	-	41,979
Prepaid expenses	75,762	-	75,762
Notes receivable (Notes 3 and 4)	310,368	-	310,368
Restricted cash (Note 5)	51,479	-	51,479
Other assets	1,217	-	1,217
	<u>4,998,647</u>	<u>220,311</u>	<u>5,218,958</u>
NONCURRENT ASSETS			
Capital assets (Note 7)			
Non-depreciable	7,155,915	-	7,155,915
Depreciable	13,754,695	1,484,074	15,238,769
Less allowance for depreciation	(6,200,019)	(498,506)	(6,698,525)
	<u>14,710,591</u>	<u>985,568</u>	<u>15,696,159</u>
Total assets	<u>19,709,238</u>	<u>1,205,879</u>	<u>20,915,117</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	585,750	48,697	634,447
Accrued payroll	60,537	-	60,537
Accrued interest	17,442	-	17,442
Escrow (Note 5)	20,847	-	20,847
Deferred revenues - property taxes	834,551	-	834,551
Compensated absences (Note 1)	515,067	89,761	604,828
Current portion, notes payable	54,044	-	54,044
Total current liabilities	<u>2,088,238</u>	<u>138,458</u>	<u>2,226,696</u>
NONCURRENT LIABILITIES (Note 8)			
Notes payable, net of current portion	914,716	-	914,716
Total liabilities	<u>3,002,954</u>	<u>138,458</u>	<u>3,141,412</u>
<u>NET POSITION</u>			
Net investment in capital assets	13,741,831	985,568	14,727,399
Restricted for:			
Special revenue funds	236,892	-	236,892
Unrestricted	2,727,561	81,853	2,809,414
Total net position	<u>\$ 16,706,284</u>	<u>\$ 1,067,421</u>	<u>\$ 17,773,705</u>

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

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013

EXHIBIT B

Functions/Programs	Program Revenues		Net (Expenses) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activity	Total
<b>Primary Government</b>							
<b>Governmental Activities:</b>							
General government	\$ 682,654	\$ 137,098	\$ -	\$ -	\$ (545,556)	\$ (545,556)	\$ (545,556)
Health and sanitation	264,610	-	-	-	(264,610)	(264,610)	(264,610)
Public works	2,312,665	73,587	774,344	155,056	(1,309,678)	(1,309,678)	(1,309,678)
Protection	2,133,590	147,975	66,279	-	(1,919,336)	(1,919,336)	(1,919,336)
Insurance and retirement	475,502	-	-	-	(475,502)	(475,502)	(475,502)
Recreation	775,895	22,235	-	41,265	(712,395)	(712,395)	(712,395)
Library	246,606	11,472	5,000	15,000	(215,134)	(215,134)	(215,134)
County tax	396,474	-	-	-	(396,474)	(396,474)	(396,474)
General assistance	68,655	-	-	-	(68,655)	(68,655)	(68,655)
Education	3,336,540	-	-	-	(3,336,540)	(3,336,540)	(3,336,540)
Chamber of Commerce	81,248	63,867	-	-	(17,381)	(17,381)	(17,381)
Section 8 Housing	922,922	697	864,284	746,842	(57,941)	(57,941)	(57,941)
Capital projects	-	-	-	-	746,842	746,842	746,842
Interest expense	32,398	-	-	-	(32,398)	(32,398)	(32,398)
Other	689,324	-	-	-	(689,324)	(689,324)	(689,324)
<b>Total governmental activities</b>	<b>12,419,083</b>	<b>456,931</b>	<b>1,709,907</b>	<b>958,163</b>	<b>(9,294,082)</b>	<b>(9,294,082)</b>	<b>(9,294,082)</b>
<b>Business-type Activity:</b>							
Ambulance service	1,500,918	1,478,158	-	-	-	(22,760)	(22,760)
<b>Total City</b>	<b>\$13,920,001</b>	<b>\$1,935,089</b>	<b>\$1,709,907</b>	<b>\$ 958,163</b>	<b>(9,294,082)</b>	<b>(22,760)</b>	<b>(9,316,842)</b>
<b>General revenues:</b>							
<b>Taxes</b>							
Property taxes, levied for general purposes					7,602,004	-	7,602,004
Less: TIF payments					(103,956)	-	(103,956)
Homestead reimbursement and other property tax related					278,494	-	278,494
Supplemental taxes					5,482	-	5,482
Excise					1,257,526	-	1,257,526
Interest on delinquent taxes and lien fees					66,569	-	66,569
Payments in lieu of taxes					53,763	-	53,763
Federal and state aid not restricted to specific purposes					818,051	-	818,051
Tri-community distribution					134,639	-	134,639
Interest on deposits and notes					7,743	-	7,743
Cable TV franchise					57,045	-	57,045
Miscellaneous revenues					493,573	-	493,573
Net transfers governmental and business-type funds from operations					(14,411)	14,411	-
<b>Subtotal, general revenues and transfers</b>					<b>10,656,522</b>	<b>14,411</b>	<b>10,670,933</b>
Change in net position					1,362,440	(8,349)	1,354,091
<b>NET POSITION - JANUARY 1, 2013</b>					<b>15,343,844</b>	<b>1,075,770</b>	<b>16,419,614</b>
<b>NET POSITION - DECEMBER 31, 2013</b>					<b>\$16,706,284</b>	<b>\$1,067,421</b>	<b>\$17,773,705</b>

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

CITY OF CARIBOU, MAINE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF DECEMBER 31, 2013

EXHIBIT C

	General Fund	Section 8 Housing Program	Boiler Project	Airport Improvement Project	Non-major Funds (Schedule 5)	Total Governmental Funds
<b>ASSETS</b>						
Cash and temporary investments (Note 2)	\$ 2,388,470	\$32,873	\$ -	\$ 170,304	\$ 226,525	\$ 2,818,172
Uncollected taxes	1,031,578	-	-	-	-	1,031,578
Tax acquired property	53,963	-	-	-	-	53,963
Accounts receivable	142,491	3,012	-	-	-	145,503
Allowance for uncollectibles	(95,000)	-	-	-	-	(95,000)
Receivable from other governments	-	-	-	514,601	49,025	563,626
Due from other funds	87,990	-	-	-	-	87,990
Inventories	41,979	-	-	-	-	41,979
Notes receivable (Notes 3 and 4)	300,001	-	-	-	10,367	310,368
Restricted cash (Note 5)	-	51,479	-	-	-	51,479
Other assets	-	1,217	-	-	-	1,217
<b>Total assets</b>	<b>\$ 3,951,472</b>	<b>\$88,581</b>	<b>\$ -</b>	<b>\$ 684,905</b>	<b>\$ 285,917</b>	<b>\$ 5,010,875</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 25,619	\$ 1,324	\$ -	\$ 558,807	\$ -	\$ 585,750
Escrow (Note 5)	-	20,847	-	-	-	20,847
Due to other funds (Note 6)	-	-	-	-	87,990	87,990
Deferred revenue - property taxes	834,551	-	-	-	-	834,551
<b>Total liabilities</b>	<b>860,170</b>	<b>22,171</b>	<b>-</b>	<b>558,807</b>	<b>87,990</b>	<b>1,529,138</b>
Fund balances:						
Nonspendable	41,979	-	-	-	-	41,979
Inventory	-	-	-	-	-	-
Restricted	-	-	-	-	-	-
Special revenue funds	-	66,410	-	-	236,892	303,302
Unrestricted						
Assigned	-	-	-	-	-	-
Capital (Schedule 3)	1,138,604	-	-	126,098	-	1,264,702
Non-capital (Schedule 4)	524,703	-	-	-	-	524,703
Unassigned						
General fund	1,188,989	-	-	-	(38,965)	1,150,024
Deferred property taxes	197,027	-	-	-	-	197,027
<b>Total fund balances</b>	<b>3,091,302</b>	<b>66,410</b>	<b>-</b>	<b>126,098</b>	<b>197,927</b>	<b>3,481,737</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,951,472</b>	<b>\$88,581</b>	<b>\$ -</b>	<b>\$ 684,905</b>	<b>\$ 285,917</b>	<b>\$ 5,010,875</b>

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

	General Fund	Section 8 Housing Program	Boiler Project	Airport Improvement Project	Non-major Funds (Schedule 6)	Total Governmental Funds
REVENUES						
Local property taxes	\$ 7,661,801	\$ -	\$ -	\$ -	\$ -	\$ 7,661,801
Homestead reimbursement	225,631	-	-	-	-	225,631
Supplemental taxes	5,482	-	-	-	-	5,482
Abatements	(59,797)	-	-	-	-	(59,797)
Federal assistance	35,377	864,284	-	727,372	105,699	1,732,732
State assistance	818,051	-	-	19,470	82,839	920,360
Other revenues	2,865,162	697	-	460	1,472	2,867,791
TOTAL REVENUES	11,551,707	864,981	-	747,302	190,010	13,354,000
EXPENDITURES						
General government	676,612	146,403	-	-	-	823,015
Health and sanitation	264,610	-	-	-	-	264,610
Public works	1,856,524	-	-	-	-	1,856,524
Protection	2,032,799	-	-	-	25,387	2,058,186
Insurance and retirement	475,502	-	-	-	-	475,502
Recreation	795,130	-	-	-	-	795,130
Library	232,872	-	-	-	-	232,872
County tax	396,474	-	-	-	-	396,474
General assistance	68,655	776,519	-	-	-	845,174
Education	3,336,540	-	-	-	-	3,336,540
Chamber of Commerce	81,248	-	-	-	-	81,248
Construction and improvements	233,162	-	493,137	782,939	309,092	1,818,330
Tax increment financing	103,956	-	-	-	-	103,956
Interest expense	26,697	-	-	-	-	26,697
Other (Schedule 2)	647,159	-	-	-	-	647,159
TOTAL EXPENDITURES	11,227,940	922,922	493,137	782,939	334,479	13,761,417
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	323,767	(57,941)	(493,137)	(35,637)	(144,469)	(407,417)
OTHER SOURCES						
Transfer from other funds	5,000	-	-	-	-	5,000
OTHER USES						
Payments on long-term debt	17,508	-	-	-	-	17,508
Transfer to other funds	14,411	-	-	-	-	14,411
TOTAL OTHER SOURCES	31,919	-	-	-	-	31,919
NET INCREASE (DECREASE) IN FUND BALANCE	296,848	(57,941)	(493,137)	(35,637)	(144,469)	(434,336)
FUND BALANCE - JANUARY 1, 2013	2,794,454	124,351	493,137	161,735	342,396	3,916,073
FUND BALANCE - DECEMBER 31, 2013	\$ 3,091,302	\$ 66,410	\$ -	\$ 126,098	\$ 197,927	\$ 3,481,737

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 POSITION  
DECEMBER 31, 2013

Total fund balance - governmental funds (Exhibit C)		\$ 3,481,737
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds		
The cost of capital assets is	\$ 20,910,610	
Accumulated depreciation is	<u>(6,200,019)</u>	
		14,710,591
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:		
Notes payable		(968,760)
Prepaid expenses		75,762
Accrued payroll		(60,537)
Accrued interest		(17,442)
Compensated absences		<u>(515,067)</u>
Total net position - governmental activities (Exhibit A)		<u>\$ 16,706,284</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, 2013

Total net change in fund balances - governmental funds (Exhibit D) \$ (434,336)

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

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

Capital outlays	\$ 3,172,964	
Completed construction-in-progress	(986,271)	
Depreciation expense	<u>(426,475)</u>	
		1,760,218

In the statement of activities, only the gain on the sale of fixed assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. Therefore, the change in net assets differs from the change in fund balance by the depreciated value of assets sold. (5,898)

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. 15,363

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. 25,868

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 17,508

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:

(Increase) in accrued payroll	(10,582)
(Increase) in accrued interest payable	<u>(5,701)</u>

Change in net position of governmental activities (Exhibit B) \$ 1,362,440

## CITY OF CARIBOU, MAINE

EXHIBIT G

STATEMENT OF NET POSITION  
PROPRIETARY FUND  
AS OF DECEMBER 31, 2013ASSETS

## CURRENT ASSETS

Cash and temporary investments (Note 2)	\$ -
Accounts receivable, net of allowance of \$82,722	220,311
Total current assets	<u>220,311</u>

## NONCURRENT ASSETS

Land, buildings and improvements	223,065
Vehicles and equipment	1,261,009
Total noncurrent assets	1,484,074
Accumulated depreciation	(498,506)
Net noncurrent assets	<u>985,568</u>
Total assets	<u>1,205,879</u>

LIABILITIES

## CURRENT LIABILITIES

Accounts payable and accrued liabilities	<u>138,458</u>
--	----------------

NET POSITION

Invested in capital assets	985,568
Unrestricted	<u>81,853</u>
Total net position	<u>\$ 1,067,421</u>

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

## CITY OF CARIBOU, MAINE

EXHIBIT H

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
 PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Ambulance Service</u>
Operating revenues	
Fees	\$ 1,583,129
Less contractual allowances	(281,146)
Outside service - Other Municipalities	36,879
Veterans' Administration contracts	61,610
Billing services	58,288
Other	4,119
Total operating revenues	<u>1,462,879</u>
Operating expenses	
Salaries and benefits	891,127
Transport expenses	237,157
Occupancy	39,463
Equipment and vehicle expense	76,471
Supplies and materials	15,516
Depreciation	140,187
Uncollectible	84,042
Other	16,955
Total operating expenses	<u>1,500,918</u>
Operating income (loss)	<u>(38,039)</u>
OTHER SOURCES (USES)	
Gain on sale of fixed asset	15,279
Transfer from general fund	14,411
	<u>29,690</u>
Change in net position	(8,349)
TOTAL NET POSITION - JANUARY 1, 2013	<u>1,075,770</u>
TOTAL NET POSITION - DECEMBER 31, 2013	<u>\$ 1,067,421</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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from fees	\$ 1,439,534
Cash payments for salaries and benefits	(865,966)
Cash payments for transportation	(237,157)
Cash payments for other operating costs	<u>(232,447)</u>
Net cash provided by operating activities	<u>103,964</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Sale of capital assets	38,500
Purchase of capital assets	<u>(156,875)</u>
	<u>(118,375)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Advance from general fund	<u>14,411</u>
Net increase in cash and cash equivalents	-
Cash and cash equivalents - January 1, 2013	<u>-</u>
Cash and cash equivalents - December 31, 2013	<u>\$ -</u>
Reconciliation of operating (loss) to net cash provided by operating activities:	
Operating (loss)	\$ (38,039)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation	140,187
Changes in assets and liabilities:	
Receivables	(23,345)
Accounts payable and accrued expenses	<u>25,161</u>
Net cash provided by operating activities	<u>\$ 103,964</u>

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

## CITY OF CARIBOU, MAINE

EXHIBIT J

STATEMENT OF FIDUCIARY NET POSITION  
DECEMBER 31, 2013

	<u>Total</u>	Hospital Memorial <u>Funds</u>	Cemetery Trust <u>Funds</u>	Library Trust <u>Funds</u>	Memorial <u>Funds</u>
ASSETS					
Cash	<u>\$212,757</u>	<u>\$48,004</u>	<u>\$1,290</u>	<u>\$57,234</u>	<u>\$106,229</u>
NET POSITION					
Undesignated	<u>\$212,757</u>	<u>\$48,004</u>	<u>\$1,290</u>	<u>\$57,234</u>	<u>\$106,229</u>

## CITY OF CARIBOU, MAINE

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Total</u>	Hospital Memorial <u>Funds</u>	Cemetery Trust <u>Funds</u>	Library Trust <u>Funds</u>	Memorial <u>Funds</u>
REVENUE					
Interest income	\$ 2,137	\$ 484	\$ 2	\$ 1,083	\$ 568
Contributions	<u>3,955</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,955</u>
	<u>6,092</u>	<u>484</u>	<u>2</u>	<u>1,083</u>	<u>4,523</u>
DEDUCTIONS					
Expenses	2,026	-	26	-	2,000
Transfer to other funds	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>-</u>
	<u>7,026</u>	<u>-</u>	<u>26</u>	<u>5,000</u>	<u>2,000</u>
NET CHANGE IN NET POSITION	(934)	484	(24)	(3,917)	2,523
NET POSITION - JANUARY 1	<u>213,691</u>	<u>47,520</u>	<u>1,314</u>	<u>61,151</u>	<u>103,706</u>
CASH AND NET POSITION - DECEMBER 31	<u>\$212,757</u>	<u>\$48,004</u>	<u>\$1,290</u>	<u>\$57,234</u>	<u>\$106,229</u>

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

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting

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

The focus of governmental and enterprise fund financial statements is on major funds in the governmental or business-type activities. Each major fund is presented in a separate column and non-major funds are summarized into a single column. GASB standards set forth minimum criteria based on the size of the funds for the determination of major funds. City management may also choose to designate additional funds as major based on other criteria.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. The following funds are reported as major by the City:

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 - The Section 8 Housing Program accounts for grant proceeds that are restricted by legal and regulatory provisions to finance the activities of the Caribou Housing Authority.

Capital Projects - The Boiler Project and Airport Improvement Project are reported as capital projects. These funds account for the revenues and expenses incurred for major capital projects of the City over a period of time exceeding one year.

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.

FIDUCIARY FUNDS

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

Measurement Focus

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

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Like the City-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activity.

Basis of Accounting

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

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

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

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 \$82,722. 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, 2013, 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.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

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

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

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

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

Accounts Payable, Accrued Expenses and Long-term Obligations

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

Net Position

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

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Fund Balance Classifications

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable Fund Balance

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

Restricted Fund Balance

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

Unrestricted Assigned Fund Balance

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

Unrestricted Unassigned Fund Balance

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

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 2013 fiscal year there were no unrestricted committed funds.

Estimates

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

Compensated Absences

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

(2) CASH AND TEMPORARY INVESTMENTS

As of December 31, 2013, cash and temporary investments consisted of the following:

	<u>Carrying Amount</u>
Deposits with financial institutions	\$3,199,228

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2013

(2) CASH AND TEMPORARY INVESTMENTS (Continued)

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, 2013, the bank balance, including the various fiduciary accounts, was \$3,199,228 of which all was insured or collateralized.

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

(3) NOTE RECEIVABLE - REVOLVING LOAN FUND

The Revolving Loan Fund had a 6.5% note receivable in monthly installments of \$218 principal and interest through December 2017 with a balance of \$10,367 as of December 31, 2013.

(4) NOTES RECEIVABLE

As of December 31, 2013, the City's General Fund had the following notes receivable:

0% Note receivable with a balloon payment due in 2016.	\$200,000
2% Note receivable in annual installments of \$7,365 principal and interest through December 2028.	<u>100,001</u>
	<u>\$300,001</u>

As of December 31, 2013, the notes receivable mature as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 5,581
2015	5,693
2016	205,807
2017	5,923
2018	6,042
2019-2023	34,572
2024-2028	<u>36,383</u>
	<u>\$300,001</u>

Notes receivable of \$300,001 are with the Caribou Economic Growth Council which has made various loans under the same terms noted above. These notes are secured by the applicable notes held by the Caribou Economic Growth Council.

(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.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2013

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

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 \$87,990 due to the general fund from the Grimes Mill Road non-major fund consists of amounts paid for construction and improvements and is expected to be partially repaid when the related reimbursement is received from the State of Maine.

(7) CAPITAL ASSETS

In accordance with GASB standards, the City has reported all capital assets including infrastructure in the Government-wide Statement of Net Position. The City elected to use the "modified approach" as defined by GASB 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, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retire- ments/ Transfers</u>	<u>Ending Balance</u>
Governmental Activities				
Nondepreciable:				
Land	\$ 498,100	\$ -	\$ -	\$ 498,100
Construction-in-process	964,677	1,276,076	986,271	1,254,482
Infrastructure	<u>5,403,333</u>	<u>-</u>	<u>-</u>	<u>5,403,333</u>
Total nondepreciable	6,866,110	1,276,076	986,271	7,155,915
Land improvements	1,315,967	-	-	1,315,967
Buildings	6,091,065	1,107,796	-	7,198,861
Vehicles	3,719,158	606,202	22,022	4,303,338
Equipment	<u>844,666</u>	<u>182,890</u>	<u>91,027</u>	<u>936,529</u>
Totals at historical cost	<u>18,836,966</u>	<u>3,172,964</u>	<u>1,099,320</u>	<u>20,910,610</u>
Less accumulated depreci- ation for:				
Land improvements	1,011,089	17,404	-	1,028,493
Buildings	1,538,220	145,205	-	1,683,425
Vehicles	2,763,103	206,622	16,124	2,953,601
Equipment	<u>568,283</u>	<u>57,244</u>	<u>91,027</u>	<u>534,500</u>
Total accumulated depreciation	<u>5,880,695</u>	<u>426,475</u>	<u>107,151</u>	<u>6,200,019</u>
Governmental activities capital assets, net	<u>\$12,956,271</u>	<u>\$2,746,489</u>	<u>\$ 992,169</u>	<u>\$14,710,591</u>

## CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2013(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	579,393	178,500	163,155	594,738
Equipment	666,271	-	-	666,271
Totals at historical cost	<u>1,468,729</u>	<u>178,500</u>	<u>163,155</u>	<u>1,484,074</u>
Less accumulated depreciation for:				
Land improvements	4,673	-	-	4,673
Buildings	130,765	3,807	-	134,572
Vehicles	220,324	74,900	109,376	185,848
Equipment	111,933	61,480	-	173,413
Total accumulated depre- ciation	<u>467,695</u>	<u>140,187</u>	<u>109,376</u>	<u>498,506</u>
Business-type activity capital assets, net	<u>\$1,001,034</u>	<u>\$ 38,313</u>	<u>\$ 53,779</u>	<u>\$ 985,568</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
General	\$ 32,429
Library	11,514
Protection	97,241
Public works	148,933
Recreation and parks	94,193
Other	42,165
	<u>\$426,475</u>
Business-type Activity	<u>\$140,187</u>

(8) GENERAL LONG-TERM DEBT

As of December 31, 2013, long-term debt consisted of one 3.591% capital lease payable in semi-annual payments ranging from \$44,205 to \$61,565 principal and interest through June 2025.

As of December 31, 2013, long-term obligations mature as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014 (included in current liabilities)	\$ 54,044	\$ 34,306
2015	57,402	32,350
2016	62,488	30,244
2017	67,875	27,952
2018	73,576	25,465
2019-2023	465,581	82,308
2024-2025	187,794	7,256
	<u>\$968,760</u>	<u>\$239,881</u>

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2013

(8) GENERAL LONG-TERM DEBT (Continued)

Long-term debt activity during the year ended December 31, 2013, was as follows:

<u>Balance</u> <u>January</u> <u>1, 2013</u>	<u>Additions</u>	<u>Reduc-</u> <u>tions</u>	<u>Balance</u> <u>December</u> <u>31, 2013</u>	<u>Due Within</u> <u>One Year</u>
\$986,268	\$ -	\$17,508	\$968,760	\$54,044

(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). MainePERS is an agent of multiple-employer public employee retirement system that acts as a common investment and administrative agent for teachers, state employees and the employees of participating local districts (PLDs). Approximately \$1,063,000 or 34% of the payroll of the City, a PLD, qualified for this plan for the year ended December 31, 2013.

Participants contribute 6.5% of their wages to the plan. The City contributes the remaining amounts necessary to fund the system based on the amounts determined by the actuary in accordance with the statutes to fund future retirement benefits. The City currently has a surplus of contributions with the State which is reduced by their share of the funding. 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, 2013 was approximately \$65,000.

(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 March 10, 2014. These financial statements are available from the City's Finance Department.

## CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2013(10) JOINT VENTURE - TRI-COMMUNITY RECYCLING AND SANITARY LANDFILL (Continued)

A summary of the facility's activity for 2013, is as follows:

	<u>Amount</u>
Total assets	\$15,992,782
Total liabilities	<u>13,044,410</u>
Total net position	<u>\$ 2,948,372</u>
Total revenue	\$ 2,317,954
Less total expenditures	2,154,357
Less distributions to owner communities	<u>203,261</u>
Decrease in net position	<u>\$ (39,664)</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, 2013, the balance owed was \$7,079,500.

The State of Maine Department of Environmental Protection requires the Landfill to place a final cover on its landfill once it is closed and perform certain maintenance and monitoring functions at the site for twenty years after closure. These estimated closure and post-closure care costs are being recognized in the financial statements referred to above at the rate of utilization of the landfill site. As of December 31, 2013, the estimated total cost of closure and post-closure care was approximately \$18,650,000 of which \$5,690,000 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 2013 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.

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

During January 2013, the City created a TIF District in the form of a credit enhancement agreement (CEA) with a local Company. The improvements are privately financed by the Company. The CEA will be for a duration of 20 years in which the Company will receive a percentage of the incremental taxes resulting from the increased assessed value of the District. The percentage of reimbursement will step down from 95% to 25% prior to the expiration of the CEA.

CITY OF CARIBOU, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2013

(12) CONTINGENT LIABILITY

During June 2014, a complaint for damages was filed in Superior Court for allegedly negligent supervision of a former employee. It is anticipated that the City is immune from tort liability under the provisions of the Maine Tort Claims Act. Due to the contingent nature of the case, a liability has not been recognized in the accompanying financial statements.

(13) SUBSEQUENT EVENTS

Management has reviewed subsequent events through August 8, 2014, the date that these financial statements were available to be issued and determined that no additional adjustments or disclosures are required in order for these financial statements to be fairly stated.

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND AND AMBULANCE SERVICE  
FOR THE YEAR ENDED DECEMBER 31, 2013

	General Fund			Ambulance Service		
	Budgeted Amounts		Actual	Budgeted Amounts		Actual
	Original	Final	Budgetary Basis	Original	Final	Budgetary Basis
<b>REVENUES</b>						
Local property taxes	\$ 7,614,903	\$ 7,614,903	\$ 7,661,801	\$ -	\$ -	\$ -
Homestead exemption reimbursement	225,631	225,631	225,631	-	-	-
Supplemental taxes	1,500	1,500	5,482	-	-	-
Abate-ments	(45,000)	(45,000)	(59,797)	-	-	-
Federal assistance	30,000	30,000	33,366	-	-	-
State assistance	709,999	709,999	742,561	-	-	-
Fees	-	-	-	1,790,807	1,790,807	1,628,878
Charge to towns	-	-	-	88,615	88,615	98,535
Billing services	-	-	-	57,000	57,000	58,288
Recovery of bad debts	-	-	-	10,000	10,000	4,001
Other (Schedule 1)	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>2,533,536</b>	<b>2,533,536</b>	<b>2,624,651</b>	<b>1,946,422</b>	<b>1,946,422</b>	<b>1,789,702</b>
	11,070,569	11,070,569	11,233,695			
<b>EXPENDITURES</b>						
General government	658,861	658,861	668,636	-	-	-
Education	3,336,540	3,336,540	3,336,540	-	-	-
Chamber of Commerce	59,197	59,197	59,459	-	-	-
Health and sanitation	263,978	263,978	264,610	-	-	-
Public works	1,883,913	1,883,913	1,844,678	-	-	-
Protection	2,070,127	2,070,127	1,970,985	-	-	-
Insurance and retirement	452,435	452,435	423,582	-	-	-
Recreation	604,155	604,155	579,707	-	-	-
Library	239,475	239,475	232,872	-	-	-
County tax	396,474	396,474	396,474	-	-	-
General assistance	95,898	95,898	68,655	-	-	-
Tax increment financing	381,994	381,994	-	-	-	-
Appropriations to capital outlays	431,298	431,298	431,298	-	-	-
Ambulance	-	-	-	1,639,827	1,639,827	1,607,620
Other (Schedule 2)	450,366	450,366	437,010	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>11,324,711</b>	<b>11,324,711</b>	<b>10,714,506</b>	<b>1,639,827</b>	<b>1,639,827</b>	<b>1,607,620</b>
	(254,142)	(254,142)	519,189			
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>306,595</b>	<b>306,595</b>	<b>182,082</b>	<b>306,595</b>	<b>306,595</b>	<b>182,082</b>
<b>OTHER SOURCES</b>						
Transfer from ambulance fund, net	-	-	-	-	-	-
<b>OTHER USES</b>						
Capital outlays in excess of appropriations	-	-	518,845	-	-	-
Transfers to other funds	-	-	-	306,595	306,595	182,082
<b>TOTAL OTHER USES</b>	<b>52,453</b>	<b>52,453</b>	<b>182,426</b>	<b>306,595</b>	<b>306,595</b>	<b>182,082</b>
<b>NET INCREASE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>3,070,806</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE - JANUARY 1, 2013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE - DECEMBER 31, 2013</b>	<b>\$ 52,453</b>	<b>\$ 52,453</b>	<b>\$ 3,253,232</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

CITY OF CARIBOU, MAINE

NOTE TO SUPPLEMENT ONE - BUDGETARY COMPARISON SCHEDULE  
FOR THE GENERAL FUND AND AMBULANCE SERVICE  
FOR THE YEAR ENDED DECEMBER 31, 2013

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:

	<u>General Fund</u>
Fund Balance (budgetary basis) - Supplement 1	\$3,253,232
Add: Due from other funds	87,990
Less: Reserve activity reported in other funds	<u>(249,920)</u>
Fund Balance (GAAP basis) - Exhibit C	<u>\$3,091,302</u>

MODIFIED APPROACH FOR CITY CAPITAL ASSETS  
DECEMBER 31, 2013

In accordance with GASB standards, 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 standards do 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, 2013, the City's street and sidewalk systems were rated at an index of 85 and 74, respectively. The detail of the condition assessments are as follows:

<u>Condition</u>	<u>% of Roads</u>	<u>% of Sidewalks</u>	<u>Asset Management System Rating</u>
Good	75%	36%	1
Fair	18%	53%	2
Poor to Substandard	7%	11%	3 and 4

As of December 31, 2013, the City had 11,840,066 square feet of roads with a historical cost of \$5,159,583. As of December 31, 2013, 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 \$286,710 to maintain infrastructure at the desired condition level. Actual expenditures for the year ended December 31, 2013 were \$295,054.

## CITY OF CARIBOU, MAINE

SCHEDULE 1

SCHEDULE OF OTHER REVENUES - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Excise taxes	\$ 1,174,100	\$ 1,257,526	\$ 83,426
Interest on deposits	4,000	5,743	1,743
City clerk's fees	32,155	31,094	(1,061)
Fire protection, other towns	126,683	124,942	(1,741)
Police dispatching	2,000	1,250	(750)
Payments in lieu of taxes	56,000	53,763	(2,237)
Income from City-owned property	67,300	143,049	75,749
Section 8 Housing Program Administration	106,004	106,004	-
Department of Transportation - Road Funds	155,016	230,874	75,858
Interest on delinquent taxes	40,000	52,364	12,364
Cable TV franchise	65,000	57,045	(7,955)
Interest on notes receivable	2,400	2,000	(400)
Lien collection fees	12,000	14,205	2,205
Caribou Chamber of Commerce	67,697	63,867	(3,830)
Municipal building	8,000	4,000	(4,000)
BETE reimbursement	44,244	52,863	8,619
Tri-Community distributions	134,639	134,639	-
Miscellaneous	<u>436,298</u>	<u>289,423</u>	<u>(146,875)</u>
Other revenues - budgetary (Supplement 1)	<u>\$ 2,533,536</u>	2,624,651	<u>\$ 91,115</u>
Adjustments to modified accrual		<u>240,511</u>	
Other revenues - modified accrual (Exhibit D)		<u>\$ 2,865,162</u>	

## CITY OF CARIBOU, MAINE

SCHEDULE 2

SCHEDULE OF OTHER EXPENDITURES - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Municipal building	\$ 68,920	\$ 64,429	\$ 4,491
Tax assessment office	146,163	137,584	8,579
Code enforcement office	40,525	41,346	(821)
Housing office	106,583	106,583	-
Nylander Museum	16,604	18,253	(1,649)
Airport	33,939	30,891	3,048
Cemeteries	6,900	6,900	-
Trailer Park	12,479	12,479	-
Contributions	7,253	7,253	-
Unclassified	<u>11,000</u>	<u>11,292</u>	<u>(292)</u>
Other expenditures - budgetary (Supplement 1)	<u>\$450,366</u>	437,010	<u>\$ 13,356</u>
Adjustments to modified accrual		<u>210,149</u>	
Other expenditures - modified accrual (Exhibit D)		<u>\$647,159</u>	

SCHEDULE OF CAPITAL OUTLAYS - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013

	Balances January 1	Appropri- ations	Grants/ Transfers	Other	Total Available	Expendi- tures	Balances December 31
Nylander Museum	\$ 12,661	\$ -	\$ -	\$ -	\$ 12,661	\$ -	\$ 12,661
Chamber Reserve	51,716	-	(26,697)	-	25,019	21,789	3,230
Community Pool Improvements	9,656	2,000	-	-	11,656	-	11,656
Recreation Center Improvements	24,997	5,000	-	-	29,997	5,362	24,635
Land Acquisitions/Easements	39,590	-	-	-	39,590	-	39,590
Rails to Trails Program	6,793	-	35,153	126	42,072	34,498	7,574
Park Improvement Reserve	36,236	11,000	-	355	47,591	8,946	38,645
Let's Move	(615)	-	-	-	(615)	-	(615)
Recreation/Parks Computer Reserve	-	-	-	-	(600)	-	(600)
Rec. Nonapprop. Spec. Projects	4,434	-	-	1,481	5,915	1,599	4,316
Recreation Equipment Reserve	12,426	7,500	-	-	19,926	-	19,926
Recreation Lawn Mower Reserve	17,862	1,800	-	-	19,662	-	19,662
Trail Maintenance Reserve	1,797	-	40,337	2,622	44,756	32,850	11,906
Hockey Boards Maintenance	458	-	-	-	458	-	458
Recreation - Collins Pond	19,241	-	-	-	19,241	-	19,241
Creative Playground Reserve	171	-	-	-	171	-	171
Trail Groomer Reserve	129,839	10,000	-	28,000	167,839	167,550	289
Caribou Community Band	1,248	-	-	200	1,448	-	1,448
Recreation Van Reserve	15,586	-	-	-	15,586	-	15,586
Recreation Scholarships	-	-	-	1,596	1,596	-	1,596
Ski Trail Program	-	-	2,693	477	3,170	-	3,170
Civic Beautification Reserve	1,766	3,000	-	-	4,766	3,331	1,435
Trails Grant	(4,366)	-	-	-	(4,366)	-	(4,366)
Ski Rental	4,599	-	-	6,408	11,007	1,587	9,420
Wellness Construction	(316)	-	-	-	(316)	-	(316)
Cadet Reserve	918	-	-	-	918	80	838
Library Roofing	105,262	9,000	-	-	114,262	99,878	14,384
Library Memorial Fund	27,061	-	5,000	5,548	37,609	4,776	32,833
Library Computer Reserve	3,273	900	-	-	4,173	-	4,173
Library Steps Project	-	-	15,000	-	15,000	-	15,000
Police Department Donated Funds	29,818	-	-	2,011	31,829	660	31,169
Police Department Equipment	27,873	6,000	-	39,323	73,196	39,663	33,533
Police Car Reserve	18,543	22,900	-	5,166	46,609	31,280	15,329
Police Car Video System	-	16,065	-	-	16,065	5,019	11,046
Fire Equipment Reserve	277,878	13,000	-	40,996	331,874	37,465	294,409
Fire Hose Reserve	637	1,000	-	-	1,637	-	1,637
Fire Station Foam Reserve	3,343	400	-	-	3,743	-	3,743
Fire Training Building Reserve	6,627	-	-	-	6,627	-	6,627
Fire Department Furnace	12,000	-	-	-	12,000	6,342	5,658
Ambulance/Fire EDP Reserve	3,719	1,400	-	-	5,119	1,450	3,669
Fire Dispatch Remodel	700	-	-	-	700	-	700
	902,831	110,965	71,486	134,309	1,219,591	504,125	715,466

SCHEDULE OF CAPITAL OUTLAYS - GENERAL FUND (Continued)  
FOR THE YEAR ENDED DECEMBER 31, 2013

	Balances January 1	Appropri- ations	Grants/ Transfers	Other	Total Available	Expendi- tures	Balances December 31
Ambulance Small Equipment	10,741	10,000	-	-	20,741	-	20,741
Ambulance Stair Chairs	2,250	-	-	-	2,250	-	2,250
Ambulance Reserve	-	85,000	72,293	38,500	195,793	177,111	18,682
Grimes Mill Road Engineering	115,071	-	-	2,431	2,431	69,006	(66,575)
Grimes Mill Road Construction	142,212	65,500	-	105,699	220,770	242,185	(21,415)
PW Equipment Reserve	124,255	25,000	-	25,123	232,835	89,669	143,166
Streets/Roads Reconstruction	5,178	-	-	-	149,255	10,756	138,499
Curbing Reserve	50,972	-	-	11,516	5,178	-	5,178
Fuel Tank Reserve	9,351	-	-	-	62,488	1,921	60,567
Public Works Paint Booth	(88,692)	53,300	-	-	9,351	-	9,351
Assessment Reserve	2,700	4,770	-	-	(35,392)	-	(35,392)
Assessing Computer Reserve	161,180	-	-	-	4,770	3,299	1,471
Aerial Photography	946	-	230,593	-	2,700	-	2,700
Airport Reserve	555	-	-	-	391,773	224,132	167,641
Airport/Weather Bureau Reserve	(3,381)	-	-	-	946	-	2,663
Airport Improvements	(1,679)	10,000	-	2,108	2,663	-	2,663
General Government Computer Reserve	40,406	5,000	-	490	7,109	2,180	4,929
City Comprehensive Plan	-	1,500	-	-	(1,679)	-	(1,679)
Municipal Building Reserve	-	44,205	-	-	45,406	21,017	24,389
Vital Records Restoration	-	-	-	5,000	1,500	1,279	221
Bio-mass Boilers	(3,422)	-	-	-	49,205	46,570	2,635
Charter Commission	5,319	-	-	-	(3,422)	-	(3,422)
Tax Acquired Property Remediation	12,441	-	57,600	28,401	91,320	-	91,320
Industrial Park Improvements	28,813	-	-	-	12,441	-	12,441
60 Access Highway	4,443	-	-	40,300	69,113	26,239	42,874
Downtown Infrastructure	31,831	1,500	-	-	5,943	-	5,943
Community Development Match	6,241	-	-	-	31,831	-	31,831
Planning/Engineering Reserve	18,793	5,000	-	-	6,241	-	6,241
Parking Lot Maintenance Reserve	240,000	-	-	-	23,793	-	23,793
CDC Economic Development	12,247	-	-	-	240,000	-	240,000
Trailer Park Reserve	65,370	-	10,331	633	12,880	-	12,880
Caribou Housing Reserve	1,784	-	-	-	75,701	15,050	60,651
Lions Community Center Reserve	2,012	-	-	-	1,784	-	1,784
EMA Equipment Reserve	2,279	-	-	-	2,012	-	2,012
Nylander Donations	3,880	-	-	-	2,000	-	2,000
Homeland Security	-	-	-	-	2,279	-	2,279
CDBG Housing Rehabilitation	-	-	-	5,244	3,880	-	3,880
Bouchard TIF	-	-	-	28,654	5,244	3,560	1,684
RC2 TIF	110,622	-	-	354,195	28,654	7,115	21,539
Downtown TIF	-	6,558	-	-	464,817	99,380	365,437
LED Street Lights	3,778	-	-	-	6,558	-	6,558
Christmas Lights	(874,842)	3,336,540	-	-	6,778	1,471	5,307
RSU 39 Commitment	245,654	3,656,873	370,817	648,294	2,461,698	3,336,540	(874,842)
Subtotal	902,831	110,965	71,486	134,309	1,219,591	504,125	715,466
Subtotal Schedule 3a	\$ 1,148,485	\$ 3,767,838	\$ 442,303	\$ 782,603	\$ 6,141,229	\$ 4,882,605	\$ 1,258,624
TOTAL							

SCHEDULE OF NON-CAPITAL OUTLAYS - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013

	Balances January 1	Appropri- ations	Transfers	Other	Total Available	Expendi- tures	Balances December 31
Compensated Absences	\$115,271	\$ -	\$25,000	\$ -	\$140,271	\$76,920	\$ 63,351
Revolving Loan Fund - Cash	328,489	-	1,902	-	330,391	2,606	327,785
Revolving Loan Fund - Loans Receivable	101,903	-	(1,902)	-	100,001	-	100,001
Thursday on Sweden Street	-	-	-	900	900	-	900
City Retirement	1,080	-	-	-	1,080	-	1,080
Retirement Reserves	4,139	-	-	-	4,139	-	4,139
HRA Contribution Reserve	18,841	-	15,900	-	34,741	7,454	27,287
Community Bulletin Board	160	-	-	-	160	-	160
	<u>\$569,883</u>	<u>\$ -</u>	<u>\$40,900</u>	<u>\$900</u>	<u>\$611,683</u>	<u>\$86,980</u>	<u>\$ 524,703</u>

## CITY OF CARIBOU, MAINE

SCHEDULE 5

BALANCE SHEET  
FOR NON-MAJOR FUNDS  
DECEMBER 31, 2013

	<u>Grimes Mill Road</u>	<u>Revolving Loan Fund #10</u>	<u>Drink Grant Personnel</u>	<u>Total Non- Major Funds</u>
<u>ASSETS</u>				
Cash	\$ -	\$213,071	\$13,454	\$226,525
Receivable from other governments	49,025	-	-	49,025
Note receivable (Note 5)	-	10,367	-	10,367
	<u>\$ 49,025</u>	<u>\$223,438</u>	<u>\$13,454</u>	<u>\$285,917</u>
<u>LIABILITIES AND FUND BALANCE</u>				
DUE TO OTHER FUNDS	\$ 87,990	\$ -	\$ -	\$ 87,990
FUND BALANCE	(38,965)	223,438	13,454	197,927
	<u>\$ 49,025</u>	<u>\$223,438</u>	<u>\$13,454</u>	<u>\$285,917</u>

## CITY OF CARIBOU, MAINE

SCHEDULE 6

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR NON-MAJOR FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Grimes Mill Road</u>	<u>Revolving Loan Fund #10</u>	<u>Drink Grant Personnel</u>	<u>Total Non-major Funds</u>
REVENUES				
Grants - Federal	\$ 105,699	\$ -	\$ -	\$ 105,699
- State	49,357	-	33,482	82,839
Interest income	<u>-</u>	<u>1,472</u>	<u>-</u>	<u>1,472</u>
Total Revenues	<u>155,056</u>	<u>1,472</u>	<u>33,482</u>	<u>190,010</u>
EXPENDITURES				
Program expenditures	-	-	25,387	25,387
Construction and improvements	<u>309,092</u>	<u>-</u>	<u>-</u>	<u>309,092</u>
	<u>309,092</u>	<u>-</u>	<u>25,387</u>	<u>334,479</u>
EXCESS OF REVENUES OVER EXPENDITURES (EXPENDITURES OVER REVENUES)				
	<u>(154,036)</u>	<u>1,472</u>	<u>8,095</u>	<u>(144,469)</u>
OTHER SOURCES				
Transfer from general fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN FUND BALANCE				
	(154,036)	1,472	8,095	(144,469)
FUND BALANCE - JANUARY 1				
	<u>115,071</u>	<u>221,966</u>	<u>5,359</u>	<u>342,396</u>
FUND BALANCE - DECEMBER 31				
	<u>\$ (38,965)</u>	<u>\$223,438</u>	<u>\$13,454</u>	<u>\$ 197,927</u>

## CITY OF CARIBOU, MAINE

SCHEDULE 7

SCHEDULE OF PROPERTY TAXES - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Total</u>	<u>2014 Taxes</u>	<u>2013 Taxes</u>	<u>2012 Taxes and Liens</u>	<u>Prior Taxes</u>
UNCOLLECTED AT JANUARY 1	\$ 887,973	\$ -	\$ (25,499)	\$685,620	\$227,852
2013 COMMITMENT (\$371,458,700 @.0205)	7,614,904	-	7,614,904	-	-
SUPPLEMENTAL TAX	5,482	-	5,482	-	-
	<u>7,620,386</u>	<u>-</u>	<u>7,620,386</u>	<u>-</u>	<u>-</u>
COLLECTIONS	7,378,379	16,948	6,768,249	501,846	91,336
TAX-ACQUIRED PROPERTY	38,605	-	12,517	11,619	14,469
ABATEMENTS	59,797	-	41,237	5,665	12,895
	<u>7,476,781</u>	<u>16,948</u>	<u>6,822,003</u>	<u>519,130</u>	<u>118,700</u>
UNCOLLECTED AT DECEMBER 31	<u>\$ 1,031,578</u>	<u>\$ (16,948)</u>	<u>\$ 772,884</u>	<u>\$166,490</u>	<u>\$109,152</u>
REPRESENTED BY					
Real Estate Taxes	\$ 922,840	\$ (16,891)	\$ 729,437	\$137,924	\$ 72,370
Personal Property Taxes	108,738	(57)	43,447	28,566	36,782
	<u>\$ 1,031,578</u>	<u>\$ (16,948)</u>	<u>\$ 772,884</u>	<u>\$166,490</u>	<u>\$109,152</u>

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

To the City Council of the  
City of Caribou, Maine

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Caribou, Maine as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 8, 2014.

### Internal Control Over Financial Reporting

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

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

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

To the City Council of the  
City of Caribou, Maine

Compliance and Other Matters

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

Purpose of this Report

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

*Felch & Company LLC*

Caribou, Maine  
August 8, 2014

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*Certified Public Accountants*

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

To the City Council of the  
City of Caribou, Maine

### Report on Compliance for Each Major Federal Program

We have audited the City of Caribou, Maine's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2013. The City of Caribou, Maine's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

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

### Auditors' Responsibility

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

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

### Opinion on Each Major Federal Program

In our opinion, the City of Caribou, Maine complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

To the City Council of the  
City of Caribou, Maine

Report on Internal Control Over Compliance

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

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

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

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

*Felch & Company LLC*

Caribou, Maine  
August 8, 2014

CITY OF CARIBOU, MAINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

*Financial Statements*

Type of auditors' report issued: *unmodified*

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: *unmodified*

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

Identification of major programs:

Department of Housing and Urban Development

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

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

Auditee qualified as low-risk auditee?                     yes                     no

SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

CITY OF CARIBOU, MAINE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass- through Grantor's Number	Receipts	Disburse- ments
<u>U.S. Department of Housing and Urban Development</u>				
Direct Award - Section 8 Housing Choice Vouchers	14.871	N/A	\$ 848,919	\$ 848,919
<u>U.S. Department of Transportation</u>				
Direct Award - Airport Improvement Program	20.106	N/A	727,372	727,372
Passed-through the State of Maine Department of Conservation Recreational Trails Program	20.219	N/A	<u>10,878</u>	<u>10,878</u>
<b>Subtotal - U.S. Department of Transportation</b>			<u>738,250</u>	<u>738,250</u>
<u>U.S. Department of Homeland Security</u>				
Passed-through State of Maine Department of of Emergency Management Operation Stonegarden	97.067	N/A	6,773	6,773
Grimes Mill Road Construction	97.036	N/A	<u>111,084</u>	<u>222,828</u>
<b>Subtotal - U.S. Department of Homeland Security</b>			<u>117,857</u>	<u>229,601</u>
<u>U.S. Department of Justice</u>				
Passed-through Maine Association of Substance Abuse Programs Enforcing Underage Drinking Laws Program	16.727	N/A	5,012	9,039
Passed-through State of Maine Department of Health and Human Services Enforcing Underage Drinking Laws Program	16.727	N/A	2,649	2,649
Direct Award - COPS Hiring Recovery Program	16.710	N/A	<u>15,867</u>	<u>15,867</u>
<b>Subtotal - U.S. Department of Justice</b>			<u>23,528</u>	<u>27,555</u>
Total			<u>\$ 1,728,554</u>	<u>\$ 1,844,325</u>

CITY OF CARIBOU, MAINE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - BASIS OF PRESENTATION

Reporting Entity

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

Pass-Through Programs

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

NOTE C - INDIRECT COSTS

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

NOTE D - MATCHING COSTS

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

CITY OF CARIBOU, MAINE

SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2013

There were no audit findings reported for the year ended December 31, 2012 that require follow-up in the December 31, 2013 report.