

City of Calais Water Department
ANNUAL FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

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Independent Auditor's Report

To the City Council
City of Calais, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the City of Calais Water Department, a department of the City of Calais, Maine, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Department's financial statements 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.

Auditor's Responsibility

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the City of Calais Water Department as of December 31, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Standalone Department Financial Statements

As discussed in Note 1, the financial statements of the City of Calais Water Department are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City of Calais, Maine, as of December 31, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As described in Note 1 to the financial statements, the City of Calais Water Department adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus and Amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 66, *Technical Corrections – 2012 an Amendment of GASB No. 10 and No. 62*. The opinion is not modified as a result of this matter.

Bartrus Hibbard & Associates

Bangor, Maine
April 25, 2014

City of Calais Water Department
Statement of Net Position - Enterprise Fund
December 31, 2013

ASSETS

Current assets	
Cash and cash equivalents	\$ 368,915
Accounts receivable, net of allowance for doubtful accounts of \$5,000	150,532
Due from other governments	20,090
Inventories	<u>38,451</u>
Total current assets	<u>577,988</u>
Non-current assets	
Property, plant and equipment	8,795,165
Construction in progress	20,090
Less accumulated depreciation	<u>(2,046,002)</u>
Total non-current assets	<u>6,769,253</u>
Total assets	<u>7,347,241</u>

LIABILITIES

Current liabilities	
Accounts payable	37,915
Accrued interest payable	4,259
Due to City of Calais	275,152
Sales tax payable	891
Current maturities of bonds and notes payable	<u>188,200</u>
Total current liabilities	506,417
Non-current liabilities	
Bonds and notes payable, net of current maturities	<u>3,575,350</u>
Total liabilities	<u>4,081,767</u>

NET POSITION

Invested in capital assets, net of related debt	3,005,703
Restricted for capital projects	73,801
Unrestricted	<u>185,970</u>
Total net position	<u>\$ 3,265,474</u>

City of Calais Water Department
Statement of Revenues, Expenses and Changes in Fund Net Position -
Enterprise Fund
For the Year Ended December 31, 2013

OPERATING REVENUES	<u>\$ 635,228</u>
OPERATING EXPENSES	
Salaries and wages	155,683
Employee benefits	82,482
Purchased power	28,085
Material and supplies	55,835
Contracted services	34,587
Transportation expenses	4,967
Insurance	3,200
Advertising	302
Dues	2,384
Utility regulatory assessment	3,085
Miscellaneous expenses	13,456
Bad debt expense	913
Depreciation	<u>156,074</u>
Total operating expenses	<u>541,053</u>
Operating income	<u>94,175</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment revenue	1,276
Forgiveness of debt - Maine Municipal Bond Bank	61,000
Capital grants and contributions	20,090
Miscellaneous	1,493
Interest expense	<u>(7,585)</u>
Total non-operating revenue (expenses)	<u>76,274</u>
Change in net position	170,449
NET POSITION - BEGINNING	<u>3,095,025</u>
NET POSITION - ENDING	<u><u>\$ 3,265,474</u></u>

**City of Calais Water Department
Statement of Cash Flows -
Enterprise Fund
For the Year ended December 31, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 632,029
Payments for administrative services	(237,324)
Payments to suppliers for goods and services	<u>(140,520)</u>
Net cash provided by operating activities	<u>254,185</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(459,718)
Interest paid on debt	(6,486)
Repayment of bonds payable	(462,451)
Repayment of bond anticipation note	(305,000)
Bonds and notes payable proceeds	597,738
Drawdowns from Maine Municipal Bond Bank Receivable	441,655
Capital grants	<u>20,090</u>
Net cash used by capital activities	<u>(174,172)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>1,276</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	81,289
CASH AND CASH EQUIVALENTS, BEGINNING	<u>287,626</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 368,915</u></u>
Supplemental information	
Interest paid during the fiscal year	<u><u>\$ 6,486</u></u>

**City of Calais Water Department
Statement of Cash Flows -
Enterprise Fund
For the Year ended December 31, 2013**

Reconciliation of operating income to net cash used by operating activities	
Operating income	\$ 94,175
Depreciation	156,074
Miscellaneous revenues	1,493
Changes in assets and liabilities	
Increase in accounts receivable	(4,692)
Decrease in inventory	6,609
Increase in operating accounts payable	528
Decrease in sales taxes payable	<u>(2)</u>
Net cash provided by operating activities	<u>\$ 254,185</u>

**City of Calais Water Department
Notes to Basic Financial Statements
December 31, 2013**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Calais Water Department is a department of the City of Calais.

The Department's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Department are discussed below.

The operations of the Department are accounted for as an enterprise type proprietary fund which is similar to a business enterprise.

A. FINANCIAL REPORTING ENTITY

The Department's basic financial statements include the accounts of all Department operations. The criteria for including organizations as component units within the Department's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in its own name)
- the Department holds the corporate powers of the organization
- the Department appoints a voting majority of the organization's board
- the Department is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Department
- there is fiscal dependency by the organization on the Department

Based on the aforementioned criteria, the City of Calais Water Department has no component units.

B. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

1. Proprietary Fund

Enterprise Fund

The Enterprise Fund is used to account for the operations of the water department. Activities of the fund include administration, operations and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of long-term debt for the water fund. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel, contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**City of Calais Water Department
Notes to Basic Financial Statements
December 31, 2013**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities, whether current or non-current, are included on the statement of net position and the operating statements present increases, revenues, and decreases, expenses, in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

D. FINANCIAL STATEMENT AMOUNTS

1. Deposits

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents. Additional information is presented in Note 2.

2. Inventories of Material and Supplies

Inventories are valued at the lower of cost or market using the first-in, first-out method. Adjustments are made to inventory for obsolete and slow moving inventory so as to state inventory at its net realizable value.

3. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the business-type activities in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of \$5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 years
Infrastructure	50-100 years
Equipment and furniture	3-20 years

4. Long-term Liabilities

All long-term liabilities to be repaid from business-type resources are reported as liabilities in proprietary fund statements. The long-term liabilities consist of bonds and notes payable.

**City of Calais Water Department
Notes to Basic Financial Statements
December 31, 2013**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

5. Net Position

Net position represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for those assets, and adding back unspent proceeds.

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City of Calais Water Department or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The remaining net position is reported as unrestricted. For expenditures that qualify for either classification, amounts will be first spent from restricted net assets then from unrestricted net assets.

6. New Governmental Accounting Standards

During the fiscal year ended December 31, 2013, the Department implemented the following Statements of the Governmental Accounting Standards Board (GASB):

- Statement No. 61 - *The Financial Reporting Entity: Omnibus and Amendment of GASB Statements No. 14 and No. 34.*
- Statement No. 65 - *Items Previously Reported as Assets and Liabilities.*
- Statement No. 66 - *Technical Corrections – 2012 - an amendment of GASB No. 10 and No. 62.*

7. Recent Accounting Pronouncements

In June, 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This statement improves the financial reporting by state and local governmental pension plans. This statement also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement is effective for fiscal years beginning after June 15, 2014.

In January, 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations and is effective for these for such situations occurring in financial reporting periods beginning after December 15, 2013.

In April, 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement is effective for reporting beginning after June 15, 2013.

In November, 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The objective of this statement is to address the reporting of contributions made subsequent to the measurement date. This statement should be applied simultaneously with the provisions of Statement No. 68.

The Department has not yet determined the impact of these Statements on the financial statements.

City of Calais Water Department
Notes to Basic Financial Statements
December 31, 2013

NOTE 2. DEPOSITS

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Water Department's deposits may not be returned to it. The Water Department does not have a deposit policy for custodial credit risk. As of December 31, 2013, the Water Department reported deposits of \$368,915 with bank balances of \$372,881. Of the Water Department's total bank balance of \$372,881, \$0 was exposed to custodial credit risk as the \$372,881 bank balance was insured or collateralized by underlying securities held by the related bank, although the collateral of \$122,881 was not in the Department's name.

NOTE 3. CAPITAL ASSETS

Capital assets for the year ended December 31, 2013, was as follows:

	Balance 12/31/12	Additions/ Completions	Retire- ments	Balance 12/31/13
Business-type activities				
<i>Capital assets not being depreciated</i>				
Organization costs	\$ 4,868	\$ -	\$ -	\$ 4,868
Land and improvements	71,028	-	-	71,028
Construction in progress	29,082	459,718	(468,710)	20,090
Total capital asset not being depreciated	<u>104,978</u>	<u>459,718</u>	<u>(468,710)</u>	<u>95,986</u>
<i>Capital assets being depreciated</i>				
Infrastructure	7,538,534	468,710	-	8,007,244
Buildings	97,596	-	-	97,596
Equipment and furniture	614,429	-	-	614,429
Total capital asset being depreciated	<u>8,250,559</u>	<u>468,710</u>	<u>-</u>	<u>8,719,269</u>
<i>Less accumulated depreciation for</i>				
Infrastructure	(1,330,340)	(142,371)	-	(1,472,711)
Buildings	(27,553)	(1,952)	-	(29,505)
Equipment and furniture	(532,035)	(11,751)	-	(543,786)
Total accumulated depreciation	<u>(1,889,928)</u>	<u>(156,074)</u>	<u>-</u>	<u>(2,046,002)</u>
Total capital assets, being depreciated, net	<u>6,360,631</u>	<u>312,636</u>	<u>-</u>	<u>6,673,267</u>
Capital assets, net	<u>\$6,465,609</u>	<u>\$772,354</u>	<u>\$(468,710)</u>	<u>\$6,769,253</u>

NOTE 4. LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2013, is summarized as follows:

	Balance 12/31/12	Issued	Forgiven/ Retired	Balance 12/31/13	Due Within One Year
<i>Business-type activities</i>					
Bonds payable	\$3,662,728	\$305,000	\$(476,365)	\$3,491,363	\$160,002
Notes payable	26,535	292,738	(47,086)	272,187	28,198
Total	<u>\$3,689,263</u>	<u>\$597,738</u>	<u>\$(523,451)</u>	<u>\$3,763,550</u>	<u>\$188,200</u>

**City of Calais Water Department
Notes to Basic Financial Statements
December 31, 2013**

NOTE 4. LONG-TERM LIABILITIES (CONTINUED)

The following is a summary of long-term liabilities of the Department as of December 31, 2013:

	Principal Balance 12/31/12	Issued	Forgiven/ Retired	Principal Balance 12/31/13	Due within One year
<i>First National Bank of Damariscotta</i>					
2004 Note payable due in annual principal and interest installments through January, 2019. Interest at 3.49%.	\$ 26,535	\$ -	\$ (26,535)	\$ -	\$ -
<i>Machias Savings Bank</i>					
2013 Note payable due in annual principal and interest installments through January, 2026. Interest at 2.75%.	-	127,241	-	127,241	8,256
<i>The First, N.A.</i>					
2013 Note payable due in annual principal and interest installments through October, 2019. Interest at 2.025%.	-	27,497	(3,833)	23,664	3,750
2013 Note payable due in annual principal and interest installments through October, 2020. Interest at 2.25%.	-	138,000	(16,718)	121,282	16,192
<i>Bar Harbor Banking & Trust</i>					
2006 General obligation water bond due in annual principal and interest installments through August, 2025. Interest at 3.99%.	125,024	-	(125,024)	-	-
<i>Maine Municipal Bond Bank</i>					
2008FR State Drinking Water - Municipal Bond due in annual principal installments through October, 2031. Interest at 0.0%.	1,554,824	-	(81,833)	1,472,991	81,833
2009SR State Drinking Water – Municipal Bond due in annual principal installments through April, 2039. Interest at 0.0%	39,308	-	(1,483)	37,825	1,483
2009FR State Drinking Water – Municipal Bond due in annual principal installments through April, 2039. Interest at 0.0%.	126,802	-	(4,785)	122,017	4,785
2009F State Drinking Water – Municipal Bond due in annual principal installments through October, 2039. Interest at 0.0%.	526,051	-	(19,483)	506,568	19,483
2007FS State Drinking Water – Municipal Bond due in annual principal installments through October, 2036. Interest at 0.0%.	783,857	-	(32,661)	751,196	32,661
2010FS State Drinking Water – Municipal Bond due in annual principal installments through October, 2041. Interest at 0.0%	369,508	-	(12,742)	356,766	12,742

**City of Calais Water Department
Notes to Basic Financial Statements
December 31, 2013**

NOTE 4. LONG-TERM LIABILITIES (CONTINUED)

	Principal Balance 12/31/12	Issued	Forgiven/ Retired	Principal Balance 12/31/13	Due within One year
<i>Maine Municipal Bond Bank (continued)</i>					
2012F State Drinking Water – Municipal Bond due in annual principal installments through October, 2043. Interest at 1.0%	\$ -	\$305,000	\$ (61,000)	\$ 244,000	\$ 7,015
<i>Camden National Bank</i>					
2010 General obligation water bond due in annual principal and interest installments through November, 2020. Interest at 3.13%.	<u>137,354</u>	-	<u>(137,354)</u>	-	-
Total long-term debt	<u>\$3,689,263</u>	<u>\$597,738</u>	<u>\$(523,451)</u>	<u>\$3,763,550</u>	<u>\$188,200</u>

The annual future payment requirements for long-term outstanding as of December 31, 2013 is as follows:

Year ended December 31	Principal	Interest	Total Payment Requirements
2014	\$ 188,200	\$ 8,707	\$ 196,907
2015	188,939	8,455	197,394
2016	189,691	7,703	197,394
2017	190,464	6,930	197,394
2018	191,263	6,131	197,394
2019-2023	893,363	19,935	913,298
2024-2028	837,982	9,637	847,619
2029-2033	642,810	5,732	648,542
2034-2038	334,109	3,613	337,722
2039-2043	<u>106,729</u>	<u>1,386</u>	<u>108,115</u>
	<u>\$3,763,550</u>	<u>\$78,229</u>	<u>\$3,841,779</u>

During the year ended December 31, 2013, the Department was approved under the state *Drinking Water Revolving Loan Fund*. Under this program a total of \$61,000, which represents 20% of the original loan amount, was forgiven by the Maine Municipal Bond Bank.

NOTE 5. BOND ANTICIPATION NOTE PAYABLE

The Department had temporary financing agreement activity as follows for the year ended December 31, 2013:

	Purpose of Financing	Balance 12/31/12	Draws	Paid	Balance 12/31/13
Maine Municipal Bond Bank	Construction projects	\$305,000	\$ -	\$(305,000)	\$ -