

Financial Statements
Town of Sanford, Maine



June 30, 2012

Contents

Town of Sanford, Maine

June 30, 2012

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Independent Auditors' Report

**To the Town Council
Town of Sanford
Sanford, Maine**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Sanford, Maine, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Sanford, Maine as of June 30, 2012, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2013 on our consideration of the Town of Sanford's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Funding Progress on pages 3-1 and 41, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Sanford, Maine's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Purdy Poirous • Company
Professional Association

Portland, Maine
March 29, 2013

Management's Discussion and Analysis

Town of Sanford, Maine

As management of the Town of Sanford, Maine, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2012. The Town's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

The Town's assets exceed liabilities by \$61,417,718 as of June 30, 2012, compared to \$63,579,967 as of June 30, 2011.

The Town's governmental funds General Fund Balance on a budgetary basis was \$8,300,102 as of June 30, 2012, compared to \$8,727,012 as of June 30, 2011.

Overview of the Financial Statements

The Management's Discussion and Analysis introduces the Town's basic financial statements. The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The Town also includes in this report supplemental information to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements provide information about the activities of the Town as a whole and present both a long-term and short-term view of the Town's finances. Financial reporting at this level is similar to the accounting used by most private-sector companies.

The Statement of Net Assets includes all assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. Evaluation of the overall economic health requires other non-financial factors, such as changes in the Town's property tax base and the condition of the Town's roads, as well as many others.

The Statement of Activities reports the current year change in net assets. This statement includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The Statement of Net Assets and the Statement of Activities consist of:

- **Governmental activities:** Most of the Town's basic services are reported here, including the general administration, public safety, public works, public services, and education. Property and excise taxes, charges for services, and intergovernmental funds finance most of these activities.

Management's Discussion and Analysis - Continued

Town of Sanford, Maine

Fund Financial Statements

For governmental activities, these statements focus on how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

The government-wide financial statements can be found on pages 4 and 5.

Financial Analysis of the Town as a Whole - Government-wide Financial Statements

The following schedule is a summary of net assets for the years ended June 30, 2012 and June 30, 2011:

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Governmental Activities			
Current and other assets	\$ 19,657,264	\$ 19,766,671	\$ (109,407)
Capital assets	<u>61,157,336</u>	<u>63,583,449</u>	<u>(2,426,113)</u>
Total Assets	80,814,600	83,350,120	(2,535,520)
Long term-liabilities	13,591,547	11,580,089	2,011,458
Other liabilities	<u>5,805,335</u>	<u>8,190,064</u>	<u>(2,384,729)</u>
Total Liabilities	19,396,882	19,770,153	(373,271)
Net assets:			
Invested in capital assets, net			
of related debt	50,526,786	52,463,360	(1,936,574)
Restricted, expendable	4,068,847	3,406,560	662,287
Restricted, nonexpendable	6,000	6,000	-
Unrestricted	<u>6,816,085</u>	<u>7,704,047</u>	<u>(887,962)</u>
	<u>\$ 61,417,718</u>	<u>\$ 63,579,967</u>	<u>\$ (2,162,249)</u>

Governmental activity assets exceeded liabilities by \$61,417,718.

The largest portion of the Town of Sanford's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding.

Management's Discussion and Analysis - Continued

Town of Sanford, Maine

The following schedule is a summary of the statement of activities for the years ended June 30, 2012 and June 30, 2011:

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Governmental Activities			
Revenues:			
Program revenues:			
Charges for services	\$ 2,908,208	\$ 2,450,858	\$ 457,350
Operating grants and contributions	31,936,511	34,805,613	(2,869,102)
Capital grants and contributions	1,136,894	5,682,370	(4,545,476)
General revenues			
Taxes	27,098,468	27,121,396	(22,928)
Intergovernmental	3,343,768	2,682,417	661,351
Other	894,678	504,998	389,680
Total Revenues	<u>67,318,527</u>	<u>73,247,652</u>	<u>(5,929,125)</u>
Expenses:			
General			
General government	7,308,469	8,014,336	(705,867)
Public safety	8,661,519	7,721,981	939,538
Public works	5,896,215	6,674,351	(778,136)
Public services	1,833,031	1,769,923	63,108
County tax	776,958	808,389	(31,431)
Education	42,807,469	43,901,545	(1,094,076)
Capital Expenses	1,806,599	419,522	1,387,077
Unclassified	500	546,735	(546,235)
Interest on long-term debt	390,016	413,840	(23,824)
Total Expenses	<u>69,480,776</u>	<u>70,270,622</u>	<u>(789,846)</u>
Change in Net Assets	<u>\$ (2,162,249)</u>	<u>\$ 2,977,030</u>	<u>\$ (5,139,279)</u>

The cost of governmental activities was \$69,480,776. Total general operating revenues decreased by \$5,929,125.

Management’s Discussion and Analysis - Continued

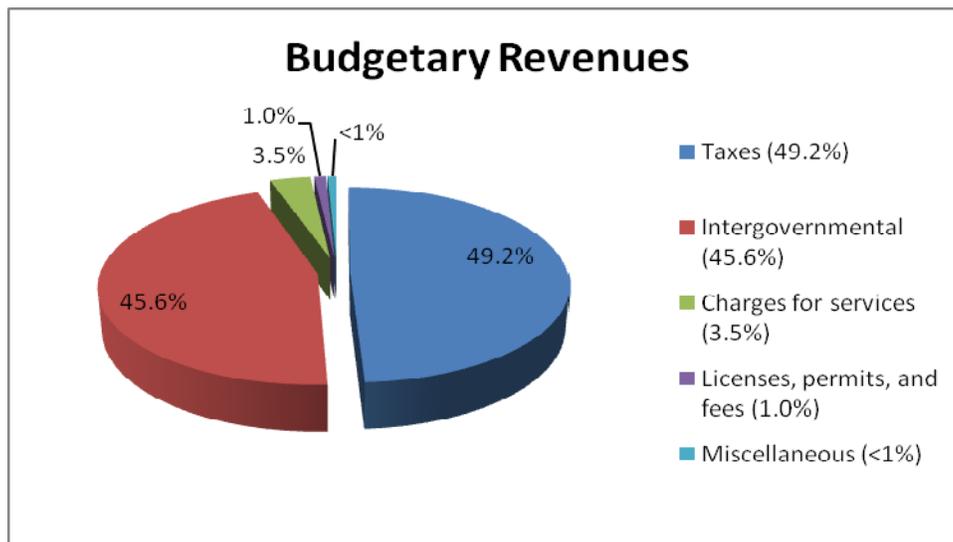
Town of Sanford, Maine

Financial Analysis of the Town's Funds - Fund Financial Statements

Our analysis of the Town’s major funds begins with the fund financial statements and provides detailed information about the most significant funds-not the Town as a whole. Some funds are required to be established by State law. However, many other funds are established to help control and manage money for particular purposes or to show the Town is meeting legal responsibilities for using certain taxes, grants, and other money. The Town reports governmental funds.

- Governmental funds - Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The governmental funds financial statements can be found on pages 6 and 8. We describe the relationship, or differences, between governmental activities, reported in the Statement of Net Assets and the Statement of Activities, and governmental funds in a reconciliation on pages 7 and 9.

Current year budgetary revenues in the general fund were made up of the following:

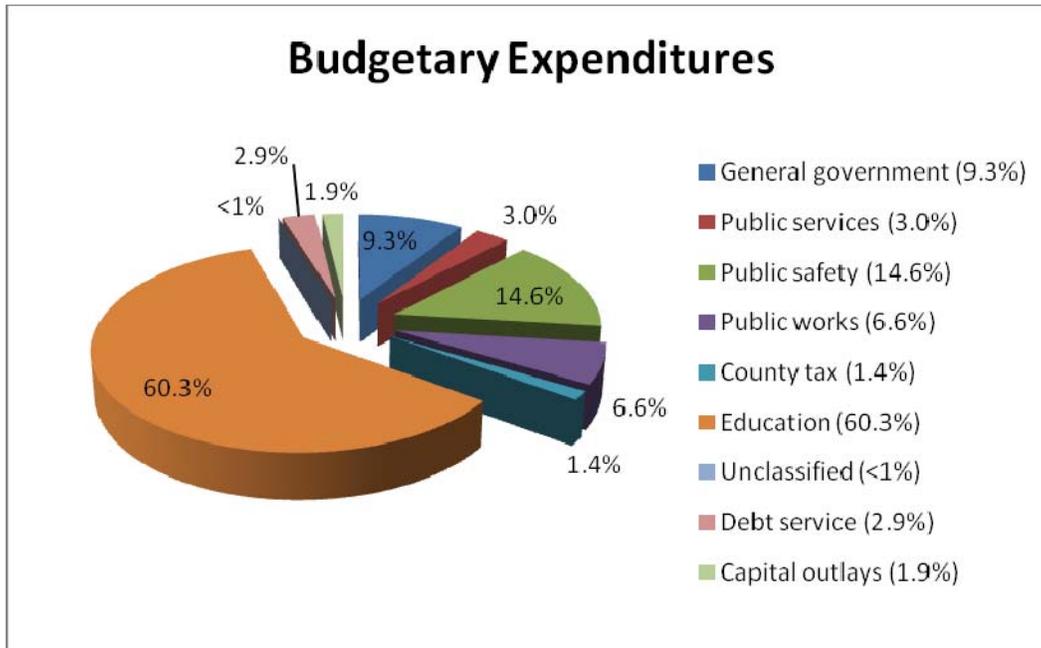


The largest single source of revenue continues to be the property tax. As the Operating Fund Revenue graph demonstrates, 49.2% of the revenues come from taxes and 45.6% from intergovernmental revenues. The remaining 5.5% comes from Charges for Service (3.5%), Licenses, permits, and fees (1.0%), and Miscellaneous (<1%).

Management’s Discussion and Analysis - Continued

Town of Sanford, Maine

Current year expenditures in the general fund were made up of the following:



The Expense Graph reflects current year expenses. Education accounted for 60.3% of the expenses and the Municipal Services represented the remaining 39.7% of the expenditures.

The budget to actual comparison is reported on page 10.

Capital Assets

At year-end, the Town had \$61,157,336 in net capital assets compared to \$63,583,449, last year. (See Note D)

This year’s major additions included the completion of new Town infrastructure, as well as new boilers added to a few of the schools.

Investment in capital assets includes land, buildings and improvements, vehicles, machinery and equipment, and infrastructure. The Town of Sanford maintains a capital improvement fund for the purpose of replacing and acquiring new assets and reconstruction of infrastructure.

Long Term Liabilities

At year-end, the Town had \$10,544,871 in outstanding bonds and \$85,679 in capital lease obligations compared to \$11,031,841 and \$88,248, respectively, last year. (See Note G)

Management's Discussion and Analysis - Continued

Town of Sanford, Maine

Budgetary Highlights

Actual charges to appropriations (expenditures) were \$296,353 below the final budgeted amounts. The most significant positive variance of \$375,529 occurred in the Town of Sanford's capital outlays.

On the other hand, resources available for appropriations were \$609,243 above the final budgeted amount. As noted earlier, property tax collections were less than expected. State funding and charges for services also affected resources available for appropriation. These shortfalls were offset by an increase in miscellaneous Town of Sanford revenues.

Economic Factors and Next Year's Budgets and Rates

The Town of Sanford's elected officials and appointed officials considered many factors when setting the fiscal-year 2012/2013 budget and tax rate while still working to provide quality services.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Office at 608-4180 and ask for the Finance Director. Citizens are welcomed to visit with the appropriate staff on any financial matters.

Statement of Net Assets

Town of Sanford, Maine

As of June 30, 2012

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 14,987,444
Investments	577,823
Taxes receivable	1,472,428
Tax liens receivable	509,205
Accounts receivable	1,374,300
Inventory	17,940
Internal balances	-
Tax acquired property	25,288
Beneficial interest in trust	443,536
Other assets	139,800
Land - permanent fund	109,500
Capital assets, net of accumulated depreciation	61,157,336
Total Assets	80,814,600
Liabilities	
Accounts payable	1,653,362
Accrued payroll	4,025,920
Accrued interest payable	63,825
Escrow payable	42,228
Due to fiduciary funds	20,000
Long-term liabilities:	
Portion due or payable within one year:	
Bonds payable	1,145,658
Capital lease obligations	47,393
Accrued vacation and sick leave	553,476
Landfill postclosure care costs	35,000
Portion due or payable after one year:	
Bonds payable	9,399,213
Capital lease obligations	38,286
Accrued vacation and sick leave	1,293,796
Landfill postclosure care costs	390,000
Other postemployment benefits obligation	688,725
Total Liabilities	19,396,882
Net Assets	
Invested in capital assets, net of related debt	50,526,786
Restricted, expendable	4,068,847
Restricted for endowments, nonexpendable	6,000
Unrestricted	6,816,085
Total Net Assets	\$ 61,417,718

See accompanying independent auditors' report and notes to financial statements.

Statement of Activities

Town of Sanford, Maine

For the Year Ended June 30, 2012

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	\$ 7,308,469	\$ 415,983	\$ 1,227,620	\$ -	\$ (5,664,866)
Public services	1,833,031	656,381	-	634,235	(542,415)
Public safety	8,661,519	1,162,471	127,354	-	(7,371,694)
Public works	5,896,215	36,969	-	502,659	(5,356,587)
Education	40,059,959	636,404	27,769,571	-	(11,653,984)
MainePERS on-behalf payments	2,747,510	-	2,747,510	-	-
County tax	776,958	-	-	-	(776,958)
Unclassified	500	-	-	-	(500)
Capital expenses	1,806,599	-	-	-	(1,806,599)
Interest on long-term debt	390,016	-	64,456	-	(325,560)
Total Governmental Activities	69,480,776	2,908,208	31,936,511	1,136,894	(33,499,163)
General revenues:					
Taxes					27,098,468
Intergovernmental					3,343,768
Miscellaneous					1,012,248
Interest and investment income					103,607
Gain (loss) on disposal of capital assets					(221,177)
			Total General Revenues and Transfers		31,336,914
			Change in Net Assets		(2,162,249)
Net assets at beginning of year, as previously stated					63,680,178
Prior period adjustments					(100,211)
Net assets at beginning of year, restated					63,579,967
			Net Assets at End of Year	\$	61,417,718

See accompanying independent auditors' report and notes to financial statements.

Balance Sheet - Governmental Funds

Town of Sanford, Maine

As of June 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 14,316,910	\$ 670,534	\$ 14,987,444
Investments	-	577,823	577,823
Taxes receivable	1,472,428	-	1,472,428
Tax liens receivable	509,205	-	509,205
Accounts receivable	405,337	968,963	1,374,300
Due from other funds	405,466	1,761,498	2,166,964
Inventory	-	17,940	17,940
Tax acquired property	25,288	-	25,288
Beneficial interest in trust	-	443,536	443,536
Other assets	-	139,800	139,800
Land - permanent fund	-	109,500	109,500
	<u>\$ 17,134,634</u>	<u>\$ 4,689,594</u>	<u>\$ 21,824,228</u>
Total Assets			
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 1,509,283	\$ 144,079	\$ 1,653,362
Accrued payroll	4,025,920	-	4,025,920
Due to other funds	1,781,498	405,466	2,186,964
Deferred property taxes	1,690,867	-	1,690,867
Escrow payable	42,228	-	42,228
	<u>9,049,796</u>	<u>549,545</u>	<u>9,599,341</u>
Total Liabilities			
Fund Balances			
Nonspendable:			
Permanent	-	559,036	559,036
Special revenues	-	17,940	17,940
Restricted:			
General fund	44,534	-	44,534
Permanent	-	932,232	932,232
Capital projects	-	40,039	40,039
Special revenues	-	2,499,006	2,499,006
Committed:			
General fund	1,784,427	-	1,784,427
Capital projects	-	104,743	104,743
Assigned:			
General fund	252,484	-	252,484
Unassigned:			
General fund	6,003,393	-	6,003,393
Capital projects	-	(8,251)	(8,251)
Special revenues	-	(4,696)	(4,696)
	<u>8,084,838</u>	<u>4,140,049</u>	<u>12,224,887</u>
Total Fund Balances			
Total Liabilities and Fund Balances	<u>\$ 17,134,634</u>	<u>\$ 4,689,594</u>	<u>\$ 21,824,228</u>

See accompanying independent auditors' report and notes to financial statements.

**Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Assets**

Town of Sanford, Maine

As of June 30, 2012

Total Fund Balances - Governmental Funds \$ 12,224,887

Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported as assets in governmental
funds. The cost of capital assets, net of accumulated depreciation is: 61,157,336

Property tax revenues are presented on the modified accrual basis
of accounting in the governmental funds but in the Statement of
Activities, property tax revenue is reported under the accrual method.
The balance in deferred property tax revenue in the governmental
funds as a liability is: 1,690,867

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds. Long-term
and related liabilities at year-end consist of:

Bonds payable	\$ (10,544,871)	
Capital lease obligations	(85,679)	
Accrued interest payable	(63,825)	
Accrued vacation and sick leave	(1,847,272)	
Landfill postclosure care costs	(425,000)	
Other postemployment benefits obligation	<u>(688,725)</u>	
		<u>(13,655,372)</u>

Total Net Assets - Governmental Activities \$ 6,417,718

See accompanying independent auditors' report and notes to financial statements.

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds**

Town of Sanford, Maine

For the Year Ended June 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 26,387,165	\$ 503,248	\$ 26,890,413
Intergovernmental	24,470,081	8,435,126	32,905,207
Intergovernmental on behalf payments	2,811,966	-	2,811,966
Charges for services	1,855,821	23,750	1,879,571
Licenses, permits, and fees	533,230	-	533,230
Miscellaneous	<u>608,516</u>	<u>1,702,746</u>	<u>2,311,262</u>
Total Revenues	56,666,779	10,664,870	67,331,649
Expenditures			
Current			
General government	5,070,500	1,954,633	7,025,133
Public services	1,634,906	199,169	1,834,075
Public safety	8,043,307	34,234	8,077,541
Public works	3,585,189	345,137	3,930,326
County tax	776,958	-	776,958
Education	32,802,845	6,390,770	39,193,615
Intergovernmental on behalf payments	2,747,510	-	2,747,510
Unclassified	500	-	500
Debt service - principal	1,248,864	-	1,248,864
- interest	394,816	-	394,816
Capital outlays	<u>1,014,791</u>	<u>1,786,213</u>	<u>2,801,004</u>
Total Expenditures	57,320,186	10,710,156	68,030,342
Revenues Over (Under) Expenditures	(653,407)	(45,286)	(698,693)
Other Financing Sources (Uses)			
Proceeds from capital lease obligation	71,579	-	71,579
Proceeds from borrowing	-	761,894	761,894
Operating transfers in	380,201	662,081	1,042,282
Operating transfers out	<u>(522,018)</u>	<u>(520,264)</u>	<u>(1,042,282)</u>
Total Other Financing Sources (Uses)	(70,238)	903,711	833,473
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(723,645)	858,425	134,780
Fund balance at beginning of year, as previously stated	9,293,150	2,893,561	12,186,711
Prior period adjustments	<u>(484,667)</u>	<u>388,063</u>	<u>(96,604)</u>
Fund balance at beginning of year, as restated	<u>8,808,483</u>	<u>3,281,624</u>	<u>12,090,107</u>
Fund Balances at End of Year	\$ 8,084,838	\$ 4,140,049	\$ 12,224,887

See accompanying independent auditors' report and notes to financial statements.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Town of Sanford, Maine

As of June 30, 2012

Net Change in Fund Balances - Total Governmental Funds \$ 134,780

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Donations of capital assets increase net assets in the Statement of Activities, but do not appear in the governmental funds because they are not financial resources. This is the amount by which capital asset additions exceeded depreciation expense in the current period:

Additions to capital assets	\$ 994,405	
Depreciation expense	<u>(3,199,339)</u>	(2,204,934)

Property tax revenues are presented on the modified accrual basis of accounting in the governmental funds but in the Statement of Activities, property tax revenue is reported under the accrual method. The current year change in deferred property tax revenue reported in the governmental funds and not in the Statement of Activities is:

208,055

Governmental funds report the sale of capital assets as revenues. However, in the Statement of Activities, the sale of those assets is recognized as a gain or loss, depending on the sale proceeds and accumulated depreciation amounts.

Proceeds from sale of capital assets	-	
Loss on disposition of capital assets	<u>(221,177)</u>	(221,177)

Bond proceeds and entering into capital lease obligations provide current resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt and capital lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which long-term debt and capital lease payments exceeded proceeds from entering into capital lease obligations and long-term borrowing in the current period:

Proceeds from borrowing	(761,894)	
Principal portion of debt service payments	1,248,864	
Proceeds from capital lease obligations	(71,579)	
Reductions in capital lease obligations	<u>74,148</u>	489,539

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 the governmental funds.

Change in accrued interest payable	4,800	
Change in accrued vacation and sick leave	(467,807)	
Change in landfill postclosure care costs	35,000	
Change in OPEB obligation	<u>(140,505)</u>	<u>(568,512)</u>

Change in Net Assets of Governmental Activities **\$ (2,162,249)**

See accompanying independent auditors' report and notes to financial statements.

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund (Budgetary Basis)**

Town of Sanford, Maine

For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget Positive (Negative)</u>
Revenues				
Taxes	\$ 26,534,442	\$ 26,534,442	\$ 26,387,165	\$ (147,277)
Intergovernmental	23,681,930	23,681,930	24,470,081	788,151
Charges for services	1,992,109	1,992,109	1,855,821	(136,288)
Licenses, permits, and fees	536,550	536,550	533,230	(3,320)
Miscellaneous	292,196	292,196	400,173	107,977
Total Revenues	53,037,227	53,037,227	53,646,470	609,243
Expenditures				
Current				
General government	5,056,489	5,056,489	5,022,748	33,741
Public services	1,682,853	1,682,853	1,634,906	47,947
Public safety	7,529,517	7,529,517	7,891,008	(361,491)
Public works	3,722,570	3,722,570	3,564,171	158,399
County tax	763,958	763,958	776,958	(13,000)
Education	32,710,751	32,710,751	32,665,360	45,391
Unclassified	-	-	500	(500)
Debt service - principal	1,248,864	1,248,864	1,248,864	-
- interest	340,697	340,697	330,360	10,337
Capital outlays	1,390,320	1,390,320	1,014,791	375,529
Total Expenditures	54,446,019	54,446,019	54,149,666	296,353
Revenues Over (Under) Expenditures	(1,408,792)	(1,408,792)	(503,196)	905,596
Other Financing Sources (Uses)				
Proceeds from capital lease obligation	-	-	71,579	71,579
Operating transfer in	-	-	380,201	380,201
Operating transfers out	(21,668)	(21,668)	(375,494)	(353,826)
Utilization of assigned fund balance	730,000	730,000	-	(730,000)
Utilization of unassigned fund balance	850,000	850,000	-	(850,000)
Total Other Financing Sources (Uses)	1,558,332	1,558,332	76,286	(1,482,046)
Revenues and Other Sources Over (Under) Expenditures and Other Uses on the Budgetary Basis	\$ 149,540	\$ 149,540	(426,910)	\$ (576,450)
Budgetary fund balance at beginning of year, as previously stated			9,211,679	
Prior period adjustments			(484,667)	
Budgetary fund balance at beginning of year, as restated			<u>8,727,012</u>	
Budgetary Fund Balance at End of Year			<u>\$ 8,300,102</u>	

See accompanying independent auditors' report and notes to financial statements.

**Statement of Fiduciary Net Assets
Fiduciary Funds**

Town of Sanford, Maine

As of June 30, 2012

	<u>Agency Funds</u>	<u>Private-purpose Trust</u>
Assets		
Cash and cash equivalents	\$ 403,941	\$ 88,018
Investments	-	722,794
Due from general fund	-	20,000
Total Assets	<u>403,941</u>	<u>830,812</u>
Liabilities		
Held on behalf of student groups	<u>403,941</u>	<u>-</u>
Total Liabilities	<u>403,941</u>	<u>-</u>
Net Assets		
Held in trust	<u>-</u>	<u>830,812</u>
Total Net Assets	<u><u>\$ -</u></u>	<u><u>\$ 830,812</u></u>

See accompanying independent auditors' report and notes to financial statements.

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds**

Town of Sanford, Maine

As of June 30, 2012

	Private-purpose <u>Trust</u>
Additions:	
Investment income (loss)	\$ (32,893)
Donations	<u>8,032</u>
Total Additions	(24,861)
Deductions:	
Scholarships and other	<u>12,520</u>
Total Deductions	<u>12,520</u>
Change in Net Assets	(37,381)
Net assets at beginning of year	<u>868,193</u>
Net Assets at End of Year	<u><u>\$ 830,812</u></u>

See accompanying independent auditors' report and notes to financial statements.

Notes to Financial Statements

Town of Sanford, Maine

Note A - Summary of Significant Accounting Policies

The Town of Sanford, Maine was incorporated in 1768 and currently operates under a Selectboard-Town Manager-Town Meeting form of government. The accounting policies of the Town of Sanford conform to 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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so. The more significant accounting policies established in GAAP and used by the Town are discussed below.

Principles Determining Scope of Reporting Entity

The basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity, as set forth in GAAP include whether:

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

Based on the aforementioned criteria, the Town of Sanford has no discretely presented component units and one blended component unit.

Blended Component Unit: The Sanford Regional Economic Growth Council (SREGC), a local development corporation, is a partnership of the Town of Sanford, the Sanford-Springvale Chamber of Commerce, and the Industrial Development Corporation of Sanford. The SREGC is economically dependent on the Town and the Town Manager sits on the board of the SREGC. The financial statements of the SREGC, for the year ended June 30, 2012, have been incorporated into the Town's Special Revenue Funds. Complete financial statements may be obtained by contacting SREGC at 917 Main Street, Suite D, Sanford, ME 04073.

Related Organizations

The Town's officials are responsible for appointing the members of the Board of Trustees of the Sanford Housing Authority, but the Town's accountability does not extend beyond making the appointments. Thus, the accounts of the Sanford Housing Authority are not included in the accompanying financial statements.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note A - Summary of Significant Accounting Policies - Continued

Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities report information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The Town does not allocate indirect expenses to functions in the statement of activities.

Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures.

Governmental Activities

Governmental funds are identified as either general, special revenue, capital projects, or permanent funds based upon the following guidelines.

The *General Fund* is the operating fund of the Town and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific sources (other than major capital projects or expendable trusts) that are legally restricted to expenditures for specified purposes.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note A - Summary of Significant Accounting Policies - Continued

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Permanent Funds are used to account for resources legally held in trust. All resources of the fund, including any earnings on invested resources, may be used to support the organization as stipulated by the specific trust instrument.

Fiduciary Funds (not included in Government-wide statements)

The Town's fiduciary funds are presented in the fiduciary fund statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the Town, these funds are not incorporated into the Government-wide statements.

Agency Funds are used to account for assets held by the Town as an agent for individuals, private organizations, and/or other government units. *Private Purpose Trust Funds* report trust arrangements under which principal and income benefit individuals, private organizations or other governments. The reporting focus is on net assets for agency funds and the changes in net assets for private purpose trust funds; both are reported using accounting principles similar to proprietary funds.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting is related to the timing of the measurements made, regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

Governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note A - Summary of Significant Accounting Policies - Continued

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.

Cash and Cash Equivalents

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments are reported at fair value, except that investments that have a remaining maturity at time of purchase of one year or less are stated at amortized cost. Unrealized gains and losses are included in the statement of revenues, expenditures and changes in fund balance.

Maine statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, certain corporate stocks and bonds and mutual funds.

Inventories

Inventories consisting of food and supplies are accounted for at the lower of cost or market on a first-in, first out (FIFO) basis. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Taxes, Liens, and Accounts Receivable

Taxes, liens, and accounts receivable are stated at the amount the Town expects to collect from outstanding balances. Town management closely monitors outstanding balances and receivables are reported net of an allowance for doubtful balances.

Beneficial Interest in a Perpetual Trust

The Town is the sole beneficiary of two perpetual trusts administered by third parties. Asset values are measured at the fair value of the trust, as reported by the trustees.

Other Assets

Other assets represent funds advanced to third-party insurance trusts for unemployment costs for Town and School Department employees. The balance reported at June 30, 2012 represents the balance of the Town's accounts with the trustees.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note A - Summary of Significant Accounting Policies - Continued

Capital Assets

In the government-wide financial statements, capital assets purchased or acquired with an original cost of \$5,000 or more and an estimated useful life in excess of one year are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line method over the assets' estimated useful lives ranging from 5 to 50 years.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets are not capitalized and related depreciation is not reported in the fund financial statements.

Compensated Absences

Under the terms of personnel policies and union contracts, vacation and sick leave are granted in varying amounts according to length of service. The Town accrues unpaid vacation and sick leave when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentation.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Debt Issuance Costs

In governmental funds, debt issuance costs are recognized in the current period. For the government-wide financial statements, governmental activity debt issuance costs are amortized over the life of the debt issue.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note A - Summary of Significant Accounting Policies - Continued

Interfund Activity

Interfund activity is reported as either loans, reimbursements, or transfers. Loans are reported as interfund loan receivables and payables as appropriate and are subject to elimination upon consolidation in the government-wide presentation. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related costs as a reimbursement. Since not all funds maintain a separate cash account, cash is pooled in the General Fund cash account and activity for individual funds are recorded through the General Fund and each respective individual fund through the recognition of a "due to/due from" as appropriate. The due to/from other funds balances are subject to elimination upon consolidation in the government-wide presentation. All interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Government-wide Fund Net Assets

Government-wide net assets are divided into three components:

Invested in capital assets, net of related debt - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted net assets - consist of net assets that are restricted by the Town's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.

Unrestricted - All other net assets are reported in this category.

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable - resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.

Restricted - resources with constraints placed on the use of resources are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed through constitutional provisions or enabling legislation.

Committed - resources which are subject to limitations the government imposes upon itself at its highest level of design making, and that remain binding unless removed in the same manner.

Assigned - resources neither restricted nor committed for which a government has a stated intended use as established by the Town Council or a body or official to which the Town Council has designated the authority to assign amounts for specific purposes.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note A - Summary of Significant Accounting Policies - Continued

Governmental Fund Balances - continued

Unassigned - resources which cannot be properly classified in one of the other four categories.

Use of Restricted Resources

The Town has no formal fund balance policy. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

Budget

The Town of Sanford's policy is to adopt an annual budget for operations. The budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles (GAAP) with modifications as described in Note I. The Town does not adopt budgets for special revenue funds. The following procedures are followed in establishing budgetary data reflected in the financial statements:

- Early in the second half of the last fiscal year the Town prepared a budget for this fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
- A vote of representatives of inhabitants of the Town (Representative Town Meeting) was then taken for the purpose of adopting the proposed budget after public notice of the vote was given.
- The budget was adopted subsequent to passage by the representatives of the inhabitants of the Town.

Revenue Recognition - Property Taxes

The Town's property tax for the current year was levied August 9, 2011 on the assessed value listed as of April 1, 2011, for all real and personal property located in the Town. Taxes were due September 15, 2011 and March 15, 2012. Interest on unpaid taxes commenced on September 16, 2011 and March 15, 2012, at 7% per annum.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. The remaining receivables have been recorded as deferred revenues.

The Town is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$149,540 for the year ended June 30, 2012.

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The Town has the authority to foreclose on property eighteen months after the filing of the lien if tax liens and associated costs remain unpaid.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note B - Cash and Investments

The Town conducts all its banking with depository banks.

Custodial Credit Risk - Deposits

At June 30, 2012, the carrying amount of the Town's deposits was \$15,479,403 and the bank balance was \$16,135,328. The difference between these balances relates to deposits in transit, outstanding checks and cash on hand at year-end. The foregoing balances include amounts held in fiduciary funds.

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy on custodial credit risk. At June 30, 2012, \$949,952 of the Town's bank balance of \$16,135,328 was exposed to credit risk as follows:

Collateralized with securities held by the pledging financial institution \$ 949,952

Investments

Maine statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, certain corporate stocks and bonds and mutual funds.

Interest Rate Risk

The Town does not have a policy related to interest rate risk.

At June 30, 2012, the Town had the following investments and maturities:

<u>Investment Types</u>	<u>Fair Value</u>	<u>Not Applicable</u>	<u>Maturity</u>		
			<u>Less than 1 year</u>	<u>1 - 5 years</u>	<u>More than 5 years</u>
U.S. government debt securities	\$ 263,793	\$ - - -	\$ 116,350	\$ 85,602	\$ 61,841
Mutual funds	<u>1,036,824</u>	<u>1,036,824</u>	<u>- - -</u>	<u>- - -</u>	<u>- - -</u>
	<u>\$ 1,300,617</u>	<u>\$ 1,036,824</u>	<u>\$ 116,350</u>	<u>\$ 85,602</u>	<u>\$ 61,841</u>

The preceding table includes investments held in fiduciary funds.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2012, none of the Town's investments were exposed to custodial credit risk.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note B - Cash and Investments - Continued

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with the Town's investment policy, credit risk is minimized by diversifying investments held. The Town does not have a formal policy related to credit risk.

Concentration of Credit Risk

In accordance with the Town's investment policy, concentration of credit risk is minimized by diversifying investments held. At June 30, 2012 the Town had no investments subject to concentration of credit risk.

Beneficial Interest in Trusts

The Town is the sole beneficiary of two perpetual trusts, the Goodall Park Trust and the Lucy Emery Fund, which are administered by third parties. At June 30, 2012 the trustees of the Goodall Park Trust and the Lucy Emery Fund reported the respective fair values of \$416,056 and \$27,480 using a market-based approach to valuation.

Note C - Accounts Receivable

The Town's accounts receivable of \$1,374,300 consisted of the following at June 30, 2012:

General Fund

Rescue Department service receivables	\$ 780,384
Less: Allowance for doubtful accounts	<u>(580,869)</u>
Net Rescue Department service receivable	199,515

Transfer Station receivables	4,256
Less: Allowance for doubtful accounts	<u>(4,050)</u>
Net Transfer Station receivables	206

Intergovernmental receivables	147,627
Miscellaneous receivables	<u>57,989</u>
	<u>\$ 405,337</u>

Special Revenue Funds

School Department - Intergovernmental receivable	\$ 374,297
School Cafeteria - Intergovernmental receivable	<u>180,793</u>
	<u>\$ 555,090</u>

Capital Projects Funds

Airport Improvement Program - Intergovernmental receivable	\$ 398,359
Mid Town Mall - Intergovernmental receivable	<u>15,514</u>
	<u>\$ 413,873</u>

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note D - Capital Assets

A summary of capital assets transactions for the year ended June 30, 2012, follows:

	<u>Beginning Balance, as restated</u>	<u>Additions</u>	<u>Retired/ Completed</u>	<u>Ending Balance</u>
Governmental Activities:				
Non-Depreciable Assets:				
Land	\$ 3,342,283	\$ ---	\$ 79,500	\$ 3,262,783
Construction in progress	8,637,590	---	1,023,392	7,614,198
Art Work	33,000	---	---	33,000
Depreciable Assets:				
Buildings and improvements	23,757,224	684,863	125,200	24,316,887
Land improvements	1,094,995	---	---	1,094,995
Machinery and equipment	7,842,748	231,263	55,974	8,018,037
Vehicles	5,706,089	78,279	466,619	5,317,749
Library supplies	1,566,315	---	---	1,566,315
Infrastructure	<u>66,496,356</u>	<u>1,023,392</u>	<u>---</u>	<u>67,519,748</u>
Totals at historical cost	118,476,600	2,017,797	1,750,685	118,743,712
Less accumulated depreciation:				
Buildings and improvements	9,138,062	524,586	6,677	9,655,971
Land improvements	404,969	30,182	---	435,151
Machinery and equipment	5,219,467	493,840	55,974	5,657,333
Vehicles	3,286,676	358,275	443,463	3,201,488
Library supplies	934,267	104,473	---	1,038,740
Infrastructure	<u>35,909,710</u>	<u>1,687,983</u>	<u>---</u>	<u>37,597,693</u>
Total accumulated depreciation	<u>54,893,151</u>	<u>3,199,339</u>	<u>506,114</u>	<u>57,586,376</u>
Net Capital Assets	<u>\$ 63,583,449</u>	<u>\$ (1,181,542)</u>	<u>\$ 1,244,571</u>	<u>\$ 61,157,336</u>

Depreciation expense was charged to the following functions:

Governmental activities:

General government	\$ 13,960
Public safety	311,737
Public works and sanitation	2,020,502
Education	<u>853,140</u>
Total governmental activities depreciation expense	<u>\$ 3,199,339</u>

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note E - Interfund Receivables and Payables

Interfund balances at June 30, 2012 consisted of the following individual fund receivables and payables:

	Receivables <u>Due from</u>	Payables <u>(Due to)</u>	Net Internal <u>Balances</u>
Governmental Activities			
<u>General Fund:</u>			
Special Revenue	\$ 25,501	\$ (1,470,960)	
Capital Projects	356,610	(156,324)	
Permanent Funds	23,355	(134,214)	
Fiduciary Funds	<u> ---</u>	<u>(20,000)</u>	
Total General Fund	<u>405,466</u>	<u>(1,781,498)</u>	<u>\$ (1,376,032)</u>
 <u>Other Governmental Funds:</u>			
<u>Special Revenue:</u>			
<i>General Fund</i>	<u>1,470,960</u>	<u>(25,501)</u>	
	<u>1,470,960</u>	<u>(25,501)</u>	1,445,459
 <u>Capital Projects:</u>			
<i>General Fund</i>	<u>156,324</u>	<u>(356,610)</u>	
	<u>156,324</u>	<u>(356,610)</u>	(200,286)
 <u>Permanent Funds:</u>			
<i>General Fund</i>	<u>134,214</u>	<u>(23,355)</u>	
	<u>134,214</u>	<u>(23,355)</u>	110,859
Total Other Governmental Funds	<u>1,761,498</u>	<u>(405,466)</u>	<u>1,356,032</u>
Net Governmental Activities	<u>\$ 2,166,964</u>	<u>\$ (2,186,964)</u>	<u>\$ (20,000)</u>
 Fiduciary Funds			
<u>Private Purpose Trust:</u>			
General Fund	<u>\$ 20,000</u>	<u>\$ ---</u>	
Net Fiduciary Funds	<u>\$ 20,000</u>	<u>\$ ---</u>	<u>\$ 20,000</u>

All interfund balances resulted from the Town pooling cash in the General Fund for other funds disclosed above, for greater efficiency and physical control, with each fund having an interest in the pooled cash account and reporting its interest in its balance sheet and statement of net assets.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note F - Interfund Transfers

Interfund transfers for the year ended June 30, 2012 consisted of the following amounts:

Governmental Activities	Transfers <u>In</u>	Transfers <u>(Out)</u>	Net Internal <u>Transfers</u>
<u>General Fund:</u>			
Special Revenue	\$ 318,633	\$ (464,226)	
Capital Projects	<u>61,568</u>	<u>(57,792)</u>	
Total General Fund	<u>380,201</u>	<u>(522,018)</u>	<u>\$ (141,817)</u>
 <u>Other Governmental Funds:</u>			
Special Revenue:			
<i>General Fund</i>	464,226	(318,633)	
<i>Capital Projects Funds</i>	---	(130,000)	
<i>Permanent Funds</i>	<u>---</u>	<u>(3,240)</u>	
	<u>464,226</u>	<u>(451,873)</u>	12,353
Capital Projects:			
<i>General Fund</i>	57,792	(61,568)	
<i>Special Revenue Funds</i>	130,000	---	
<i>Permanent Funds</i>	<u>---</u>	<u>(6,823)</u>	
	<u>187,792</u>	<u>(68,391)</u>	119,401
Permanent Funds:			
<i>Special Revenue Funds</i>	3,240	---	
<i>Capital Projects Funds</i>	<u>6,823</u>	<u>---</u>	
	<u>10,063</u>	<u>---</u>	<u>10,063</u>
Total Other Governmental Funds	<u>662,081</u>	<u>(520,264)</u>	<u>141,817</u>
Net Governmental Activities	<u>\$ 1,042,282</u>	<u>\$ (1,042,282)</u>	<u>\$ ---</u>

Transfers are used to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note G - Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Amounts Due within <u>One Year</u>
Governmental Activities:					
General obligation debt	\$ 11,031,841	\$ 761,894	\$ 1,248,864	\$ 10,544,871	\$ 1,145,658
Capital lease obligations	88,248	71,579	74,148	85,679	47,393
Compensated absences	1,379,465	467,807	- - -	1,847,272	553,476
Landfill postclosure costs	460,000	- - -	35,000	425,000	35,000
Other postemployment benefits obligation	<u>548,220</u>	<u>140,505</u>	<u>- - -</u>	<u>688,725</u>	<u>- - -</u>
Total Governmental	<u>\$ 13,507,774</u>	<u>\$ 1,441,785</u>	<u>\$ 1,358,012</u>	<u>\$ 13,591,547</u>	<u>\$ 1,781,527</u>

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note G - Long-Term Liabilities - Continued

Long-Term Debt:

At June 30, 2012 long-term debt consisted of the following individual issues:

1969 Bond with Bank of New Sanford Mellon, original borrowing of \$131,000 maturing March 2019, with annual principal payments of \$3,970 plus annual interest at 3%. For the purpose of providing funds for the Anderson Learning Center. Each year the Town receives reimbursement for the annual debt service cost from the Sanford Springvale Development Corporation.	\$ 27,784
2002 General Obligation Bond with Maine Municipal Bond Bank, original borrowing of \$1,000,000 maturing November 2012, with annual principal payments of \$100,000 plus semi-annual interest at 3.45%. For the purpose of providing funds for renovations and repairs to school buildings and grounds.	100,000
2004 General Obligation Bond with Maine Municipal Bond Bank, original borrowing \$600,000 maturing November 2014, with annual principal payments of \$60,000 plus semi-annual interest ranging from 3.269% to 3.644%. For the purpose of providing funds for school paving, parking lot striping, and athletic field upgrades.	180,000
2006 General Obligation Bond with Maine Municipal Bond Bank, original borrowing of \$1,100,000 maturing November 2016 with annual principal payments of \$110,000 plus semi-annual interest at rates ranging from 2% - 4.9%. For the purpose of providing funds for renovations to the Springvale fire station annex, acquisition of property for the central fire station and construction of the public works complex.	550,000
2007 School Revolving Renovation Fund Loan with Maine Municipal Bond Bank, original borrowing of \$1,000,000 of which \$683,000 was forgiven by the State. Matures November 2016 with annual principal payments of \$31,700, non-interest bearing. For the purpose of providing funds for school renovations for improving air quality.	158,500
2007 General Obligation Bond with Maine Municipal Bond Bank, original borrowing of \$670,000 maturing November 2014 with annual principal payments of \$95,714 plus semi-annual interest ranging from 6% to 1%. For the purpose of providing funds for airport improvements.	287,144

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note G - Long-Term Liabilities - Continued

Long-Term Debt:

2008 General Obligation Bond with Maine Municipal Bond Bank, original borrowing of \$3,520,000 maturing November 2023 with annual principal payments of \$356,448 in 2013 and \$362,476 in 2014 and then \$190,000 through maturity plus semi-annual interest ranging from 2.075% to 5.575%. For the purpose of providing funds for: \$1,200,000 was earmarked for the design and construction of a roundabout at the intersection of Route 109 and Route 4; \$1,500,000 was earmarked for the construction of a new road (Heritage Crossing) through the mill yard; \$1,350,000 was earmarked for a salt shed, fuel farm, airport taxi way, energy improvements at town hall, and the purchase of property for the police station.	2,618,924
2009 General Obligation Bond with Maine Municipal Bond Bank, original borrowing of \$3,210,000 maturing November 2029 with annual principal payments ranging from approximately \$117,600 to \$222,400 through maturity plus semi-annual interest ranging from 2% to 5.5%. For the purpose of providing funds for the police station.	2,993,404
2010 School Revolving Renovation Fund Loan with Maine Municipal Bond Bank, original borrowing of \$248,175 of which \$165,780 was forgiven by the State. Matures November 2014 with annual principal payments of \$16,479, non-interest bearing. For the purpose of providing funds for school roof and masonry repairs and related structural improvements.	49,436
2010 General Obligation Bond with Maine Municipal Bond Bank, original borrowing of \$3,000,000 maturing November 2030 with annual principal payments of approximately \$114,300 escalating to \$201,200 through maturity plus semi-annual interest at 3.436%. For the purpose of providing funds for the police station, public works compactor, town hall renovations and improvements.	2,891,729
2011 General Obligation Bond with Maine Municipal Bond Bank, original borrowing of \$650,000 maturing November 2016 with annual principal payments of \$130,000 plus semi-annual interest of 4.3% through November 2016 and then 0.059% in 2015 and 0.5% through maturity. For the purpose of providing funds for a school heating systems.	650,000
2012 School Revolving Renovation Fund Loan with Maine Municipal Bond Bank, original borrowing of \$111,894 of which \$64,456 was forgiven by the State. Matures June 2016 with annual principal payments of \$9,488, non-interest bearing. For the purpose of providing funds for school renovations for asbestos removal and new flooring.	<u>37,950</u>
	<u>\$10,544,871</u>

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note G - Long-Term Liabilities - Continued

The annual requirements to amortize long-term debt are as follows:

Year ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,145,658	\$ 361,848	\$ 1,507,506
2014	1,064,553	317,213	1,381,766
2015	902,475	280,345	1,182,820
2016	735,486	257,051	992,537
2017	730,414	236,853	967,267
2018-2022	2,395,335	933,213	3,328,548
2023-2027	2,154,437	400,168	2,554,605
2028-2032	<u>1,416,513</u>	<u>78,496</u>	<u>1,495,009</u>
Total	<u>\$ 10,544,871</u>	<u>\$ 2,865,187</u>	<u>\$ 13,410,058</u>

Capital Lease Obligations:

The Town and School Department have entered into lease agreements as lessee for financing the acquisition of computer equipment, office equipment, a loader and a bus. These agreements qualify as capital leases for accounting purposes (title transfers at the end of the lease terms) and, therefore have been recorded at the present value of the future minimum lease payments as of the date of inception. The following is a schedule of future minimum payments required under the leases as of June 30, 2012:

Year ending <u>June 30</u>	
2013	\$ 50,495
2014	20,005
2015	20,005
2016	<u>435</u>
Total minimum lease payments	90,940
Less amount representing interest	<u>5,261</u>
Present value of minimum lease payments	<u>\$ 85,679</u>

Landfill Closure and Postclosure Care Costs:

Under State law, Maine communities had until December 31, 1994 to close existing landfills under a Maine Department of Environmental Protection (DEP) approved plan. Prior to 1995, DEP expressed a strong concern over leachate emanating from the former landfill operation at Rushton Street. The landfill was closed in 1982 under a consent decree with DEP and has not accepted waste since that time.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note G - Long-Term Liabilities - Continued

Landfill Closure and Postclosure Care Costs:

A portion of the site continues to be used as a staging area for certain demolition debris and other waste and the Town's transfer station is located adjacent to the closed landfill. The DEP retained, at its expense, an engineering firm to determine the extent of contamination and the estimated cost of remedial actions needed and, in June 1995, issued a Department Order designating the site as an Uncontrolled Hazardous Substance Site and naming the Town as a responsible party. The Town has also retained an engineering firm, which presented the Town a report depicting several remedial options with estimated costs ranging from \$5,000,000 to \$15,000,000.

During the fiscal year 1996, negotiations with DEP continued, and in April 1996 DEP approved the Town's "conceptual closure remedy," which was projected to cost \$6,350,000. In addition, annual costs of monitoring the site and of operation and maintenance of the remedy were projected to approximate as much as \$230,000. Based on the approval, the Town recorded a liability of \$10,950,000, representing the initial capital costs and anticipated monitoring costs over a 20 year period, at June 30, 1996.

Authorization for issuance of bonds to be used for financing the project was subject to approval at a Town meeting prior to commencement of the actual remedial activities envisioned by the plan. The November 1996 Town Meeting did not approve the financing of a \$6,350,000 remedy. However, it appropriated funds for a thorough review of alternative remedies and in May 1997, it appropriated \$1,200,000 for final remedial design and construction of a phased-in remedy. Phases one and two, involving the relocation of the waste, grading of the landfill, and installation and improvement of drainage and the monitoring of effects of these improvements, were completed at a cost of approximately \$950,000 during fiscal years 1997-1999. In November 1999, the Town agreed to the stipulations contained in an Administrative Order issued by the DEP. This order called for phase three site activities, as well as relocation of a demolition debris staging area. Phase three construction, which started in fiscal 2000, was completed during fiscal 2001 at a cost of approximately \$2,316,000. Funding for phase three of the project was provided by the utilization of \$980,000 of state reimbursement, \$739,000 of funds previously set aside by the Town, and \$597,000 of undesignated surplus approved at the October 12, 1999 Town meeting, which consists of \$147,000 appropriated prior to July 1, 2000 and a supplemental appropriation of approximately \$450,000 during fiscal 2001. Phase three included capping the current construction and demolition debris areas, additional grading, construction of slurry wall, and installation of extraction wells and pumps.

The Town completed phase three improvements in 2000 and since then, has been operating the landfill remediation system. If the DEP determines that the Town's remedial action has not caused surface water quality to meet the State's Class B surface water standards, the Town and DEP "shall meet to jointly evaluate the technical feasibility of further remediation under this paragraph [paragraph 34 of the Administrative Order], and the Respondent [Town] shall perform further remediation as required by MEDEP subject to" the Order's dispute resolution provisions.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note G - Long-Term Liabilities - Continued

Under the terms of DEP Administrative Order, the Town was to submit a study report by December 31, 2004 to demonstrate the effects that these phased improvements had on water quality in the Southern Tributary of the Mousam River and discuss with DEP what, if any, additional remediation measures must be undertaken at the Site. The report was submitted and discussions did occur.

The testing to date shows significant water quality improvement, but the data also shows that the Southern Tributary of the Mousam River is exceeding certain water quality parameters. To this date no additional remediation measures have been determined to be necessary. Data collected up to and including 2012 continue to show that the corrective actions are performing as intended in the remedial design. While it is possible that the Town will be required to spend additional amounts at this site, those amounts, if any, are unknown at this time. In the past it has been stated that it is possible that the ultimate cost of the project may be less than the amounts recorded on the government-wide financial statements, if no further remedial actions are necessary, and that no further adjustments to such provision will be reflected until such time as the results of phases one, two, and three discussed above are known. In July 2004, the Town submitted the semi-annual report, and in December 2004 the Town submitted the "Remedial Action Evaluation Report" and the 2004 Annual Report. In 2009, the Town submitted the next scheduled remedial action assessment. The "2008 Annual Report," dated February 2009, observed improving water quality as a result of the Town's activities, and the 2008 Annual Report indicates that the corrective actions "are performing as intended by the remedial design." The "2010 Annual Water Quality Report/2010 Remedial Action Evaluation Report," submitted to DEP on December 30, 2010, indicated that the 2005 to 2010 remedial actions are capable of maintaining the improved water quality conditions in the Southern Tributary. The "2011 Annual Water Quality Report" continues to indicate that the "remedial actions are capable of maintaining the improved water quality conditions in the Southern Tributary, despite significant additional water flux at the landfill and a variety of unusual natural conditions." The Town continues to perform routine testing and files electronic semi-annual and written annual reports to the DEP. The town has met the objective of reducing contamination in the Southern Tributary and has demonstrated that the remedial actions can maintain improvements. In the event that the stable water quality parameters achieved through the remediation project deteriorate or regulations change, the Town would likely commission additional engineering evaluation to determine the scope and cost of future improvements. Therefore at June 30, 2012, the recorded liability representing the remaining cost related to closure and post closure is \$385,000. This is based on 11 additional years of monitoring the site at an annual cost of \$35,000 per year. Actual costs may increase due to the results of monitoring, inflation, changes in technology, or changes in laws and regulations.

In August 1994, a formerly privately owned landfill operation (Whichers Mill) to which the Town had contributed and directed solid waste was permanently closed. The Town will be responsible for maintaining and monitoring the former landfill site and has recorded such estimated future costs, totaling \$40,000, as a liability in the government-wide financial statements. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note H - Debt Reimbursement

The State of Maine currently reimburses the Town for a portion of financing costs of various school construction projects. Continuation of such reimbursements is dependent upon continued appropriations by the State legislature.

Note I - Budgetary-Basis to GAAP Reconciliation

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows (GAAP):

Budgetary basis revenues and other sources over (under) expenditures and other uses	\$ (426,910)
<i>Sources/inflows of resources - reconciling items</i>	
The Town budgets assigned fund revenues outside of its general fund that are recognized in the general fund under GAAP	208,343
The Town does not recognize on-behalf payments from the State on the budgetary basis	2,811,966
<i>Uses/outflows of resources - reconciling items</i>	
The Town budgets expenses for the Sanford Regional Economic Growth Council inside the general fund while those expenses are recognized in the special revenue funds under GAAP	155,808
The Town budgets expenses for the Sanford Regional Economic Growth Council inside the general fund while those expenses are recognized as a transfer-out to the special revenue funds under GAAP	(155,808)
The Town does not budget for the accrued summer salaries for teachers as required by GAAP and so the change in the accrued balance is not reflected in activity on the budgetary basis	(137,485)
Transfers to assigned funds are outflows of budgetary resources but are not transfers under GAAP	21,668
The Town budgets certain expenditures outside of its general fund that are recognized in the general fund under generally accepted accounting principles	(376,877)
Transfers from assigned funds to the capital project funds are not outflows of budgetary resources but are transfers from the general fund under GAAP	(12,384)
The Town does not recognize on-behalf payments from the State on the budgetary basis	<u>(2,811,966)</u>
Generally accepted accounting principles basis revenues and other sources over (under) expenditures and other uses	<u>\$ (723,645)</u>

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note J - Retirement Plan

Maine Public Employees Retirement System - Consolidated Plan

Description of the Plan - The Town contributes to the Maine Public Employees Retirement System Consolidated Plan, a cost sharing public multiple-employer retirement system established by the Maine State legislature. The Maine Public Employees Retirement System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the State legislature. The Maine Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Consolidated Plan. A complete report may be obtained by contacting the Maine Public Employees Retirement System at 46 State House Station, Augusta, ME 04333.

Funding Policy - Plan members are required to contribute 6.5% for the Regular AC Plan and Special #1C Plan of their annual covered salary and the Town of Sanford is required to contribute an actuarially determined rate. The current rate is 4.4% for the Regular AC Plan, and 10.2% for the Special #1C Plan of annual covered payroll. The contribution rates of plan members and the Town of Sanford are established and may be amended by the Maine Public Employees Retirement System Board of Trustees. The Town's required contribution to the Maine Public Employees Retirement System Consolidated Plan for the year ended June 30, 2012 was approximately \$1,160,000, which was reduced by the credits noted below. Employees contributed approximately \$529,000.

Actuarial Asset at Transition - Effective July 1, 1995, the Town joined the Consolidated Plan of the Maine Public Employees Retirement System. Upon entry, the Town ceased to be an individual sponsor of the PLD #42 and instead became a participant in the Consolidated Plan. As a participant in the plan, the Town is entitled to its initial unpooled actuarial asset, which resulted from excess funding in the previous plan. At June 30, 2012, the remaining balance was \$708,432. The Town used credits of approximately \$626,000 for the year ended June 30, 2012 to reduce contributions to the plan. Such amounts include amortization for the pension assets, together with interest on the asset balance.

MainePERS Teachers' Group

Teacher Group - Description of the Plan - All school teachers, plus other qualified educators, participate in the System's teacher group. The teachers' group is a cost sharing plan with a special funding situation, established by the Maine State legislature. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the State legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Teacher's Group. A complete report may be obtained by contacting the Maine Public Employees Retirement System at 46 State House Station, Augusta, ME 04333.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note J - Retirement Plan - Continued

Funding Policy - Plan members are required to contribute 7.65% of their compensation to the retirement system. The State of Maine Department of Education is required, by the same statute, to contribute the employer contribution which amounted to \$2,747,510 (16.36%) for the year ended June 30, 2012. This amount has been reported as an intergovernmental revenue and education expenditure in the GAAP-basis financial statements. There is no contribution required by the School Department except for federally funded teachers, for which the School Department contributed 16.36% of their compensation. This cost is charged to the applicable grant.

Deferred Compensation Plan

The Town offers its employees a deferred compensation plan created in accordance the Internal Revenue Code Section 457 through the International City Management Association Retirement Corporation. The deferred compensation plan is available to all employees of the Town. Under the plan, employees may elect to defer a portion of their salary and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. The Town's computed contribution to this plan for the year ended June 30, 2012 was approximately \$18,000. Employees contributed approximately \$18,000. Assets of the plan are placed in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets, are not included in the Town's financial statements.

Note K - Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the Town either carries commercial insurance, participates in a public entity risk pool, or is effectively self-insured. Currently, the Town participates in a public entity risk pool sponsored by the Maine Municipal Association for workers' compensation. Based on the coverage provided by the pools described above, as well as coverage provided by commercial insurance purchased, the Town is not aware of any material actual or potential claim liabilities that should be recorded at June 30, 2012. There were no significant reductions in insurance coverage from that of the prior year. Settled claims have not exceeded insurance coverage for any of the past three fiscal years.

Note L - Litigation

The Town is a party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the Town. The Town has vigorously defended these claims and believes an unfavorable outcome is unlikely.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note M - Other Post Retirement Benefits

Under Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions* (GASB Statement No. 45), the long term cost of retirement health care and obligations for other postemployment benefits are reported on the accrual basis of accounting in the Government-wide financial statements. Under this method future postemployment benefits are recognized as an expense in the period earned by future retirees. The amount of expense recognized is determined on an actuarial basis and accumulates as a liability to the extent the Town does not fund the actuarially required contribution.

Plan Description

The Town of Sanford contributes to the Maine Municipal Employees Health Trust, an agent multiple-employer defined benefit postretirement healthcare plan. The Town sponsors a post-retirement benefit plan providing health and life insurance to retiring employees. The Town is an individually-rated member. Retirees that are eligible in the plan pay 100% of the coverage premium. Eligibility follows the same requirements as MainePERS. The plan does not issue stand-alone or combined financial reports.

Funding Policy and Annual Other Postemployment Benefits (OPEB) Cost

GASB Statement 45 does not mandate the prefunding of the postemployment benefits liability. The Town currently plans to fund these benefits on a "pay-as-you-go" basis. No assets have been segregated and restricted to provide postemployment benefits. The annual required contribution (ARC), an actuarial determined rate, represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize the unfunded actuarial liabilities of the plan over a period not to exceed thirty years.

The following table shows the components of the Town's annual OPEB cost for the year, the amounts contributed to the plan and the change in the net OPEB obligation based on an actuarial valuation as of January 1, 2011:

Annual cost	\$	179,335
Amortization adjustment		(31,704)
Interest		<u>21,929</u>
Annual required contribution		169,560
Town contributions (ARC offset - implicit subsidy)		<u>(29,055)</u>
Increase (decrease) in net OPEB obligation		140,505
Net OPEB Obligation at beginning of year		<u>548,220</u>
Net OPEB Obligation at End of Year	\$	<u>688,725</u>

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note M - Other Post Retirement Benefits - Continued

Funding Status and Funding Progress

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Costs Contributed	Net OPEB Obligation
2010	\$ 172,632	0.00%	\$ 375,582
2011	186,102	0.00%	548,220
2012	169,560	17.14%	688,725

The unfunded actuarial accrued liability as a percentage of covered payroll for the year ended June 30, 2012 is as follows:

Actuarial accrued liability (AAL)	\$ 2,057,933
Actuarial value of plan assets	---
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,057,933</u>
Covered payroll	<u>\$ 9,350,059</u>
UAAL as a percentage of covered payroll	<u>22.0%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, which is required supplementary information, presents trend information that will show whether the actual value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the Town and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note M - Other Post Retirement Benefits - Continued

Actuarial valuation date	January 1, 2011
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level dollar
Remaining amortization period	30 years, open

Actuarial assumptions:

Investment rate of return	4%
Participation	92.7% of eligible employees
Increase in future medical costs	7.6% for pre-Medicare and 8.7% for Medicare-eligible

Note N - Fund Balance

Fund balance consisted of the following as of June 30, 2012:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:			
Nonspendable fund balance:			
5000 - School Cafeteria	\$ ---	\$ 17,940	\$ 17,940
7001- Park Maintenance Fund	---	6,000	6,000
Beneficial interest in Goodall Park Trust	---	416,056	416,056
Beneficial interest in Lucy Emery Fund	---	27,480	27,480
7008 - Holdsworth Park Trust	---	<u>109,500</u>	<u>109,500</u>
Total Nonspendable fund balance	<u>---</u>	<u>576,976</u>	<u>576,976</u>
Restricted fund balance:			
General Fund	44,534	---	44,534
2030 - CD LMI General Account	---	436	436
2042 - KKW	---	49,899	49,899
2094 - Riverfront Grant	---	1	1
2002 - Rainbow Rug TIF	---	11,193	11,193
2003 - US Felt TIF	---	3,414	3,414
2007 - Rt 109 Downtown TIF	---	113,142	113,142
2008 - Central Tire TIF	---	468	468
2009 - Village Green TIF	---	2,267	2,267
2010 - Sanford Institute for Savings TIF	---	4,014	4,014
2011 - Rubb TIF	---	7,102	7,102
2020 - Impact Fees	---	218,511	218,511
2096 - 2010 Façade Improvement	---	2,754	2,754
Town Unemployment Compensation	---	53,843	53,843

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note N - Fund Balance - Continued

School Unemployment Compensation	---	85,957	85,957
2080 - Teen Center	---	7,146	7,146
2084 - Airport Open House	---	10,333	10,333
2090 - Imelda's Fund	---	18,180	18,180
2091 - Clean Up Day	---	26	26
School Department	---	1,243,380	1,243,380
5000 - School Cafeteria	---	327,084	327,084
2052 - Law Enforcement Block Grant	---	742	742
2053 - Seized Assets	---	12,620	12,620
2056 - Justice Assistance Grant	---	107	107
2064 - Homeland Security	---	5,467	5,467
2069 - 2009 Byrne JAG Grant	---	4	4
2070 - JAG Recovery Grant	---	8,074	8,074
2105 - Firearms Range	---	600	600
2106 - SPD Training	---	485	485
2067 - Brownfields Subgrant	---	40,000	40,000
2095 - FEMA 1891 Disaster Recovery	---	58,578	58,578
2098 - FEMA 1920 Disaster Recovery	---	212,142	212,142
2104 - FEMA 4032 Disaster Recovery	---	1,037	1,037
4025 - EDA Regional Airport	---	22,788	22,788
4035 - Airport Improvement Program	---	10,916	10,916
4044 - Project Canopy	---	6,335	6,335
7000 - Gowen Park Trust	---	40,449	40,449
7001 - Park Maintenance Fund	---	9,763	9,763
7002 - Oakdale Cemetery Perpetual Trust	---	380,832	380,832
7003 - Nutter Trust	---	29,359	29,359
7008 - Holdsworth Park Trust	---	346,848	346,848
7012 - Goodall Park	---	121,741	121,741
Beneficial Interest in Lucy Emery Fund	---	<u>3,240</u>	<u>3,240</u>
Total Restricted fund balance		<u>44,534</u>	<u>3,515,811</u>

Committed fund balance:

General Fund (CIP)	1,784,427	---	1,784,427
4000 - Number One Pond	---	200	200
4003 - Job Bond Local Road Assistance	---	752	752
4005 - Urban Forestry	---	5,590	5,590
4008 - Goodall Statue	---	1,550	1,550
4011 - Department of Conservation	---	1,121	1,121

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note N - Fund Balance - Continued

4016 - Infrastructure Grants	---	2,251	2,251
4030 - Land/Salt Airport Road	---	15,342	15,342
4031 - Compact Thimp Police	---	61,830	61,830
4033 - Fagan Mill (Eminent)	---	3,408	3,408
4039 - CGA Clean Up	---	<u>12,699</u>	<u>12,699</u>
Total Committed fund balance	<u>1,784,427</u>	<u>104,743</u>	<u>1,889,170</u>
Assigned fund balance:			
Subsequent budget	200,000	---	200,000
2089 - Roosevelt Street	150	---	150
2092 - Recreation	46,299	---	46,299
2107 - Airport Timbersale	<u>6,035</u>	---	<u>6,035</u>
Total Assigned fund balance	<u>252,484</u>	<u>---</u>	<u>252,484</u>
Unassigned fund balance			
General fund	6,003,393	---	6,003,393
2077 - 2011 JAG Program	---	(1,170)	(1,170)
2068 - Brownfields Assessment	---	(670)	(670)
2100 - Brownfields Area Planning Grant	---	(2,856)	(2,856)
4038 - Airport Improvement Program	---	(4,312)	(4,312)
4043 - Safe Routes to School Project	---	<u>(3,939)</u>	<u>(3,939)</u>
Total Unassigned fund balance	<u>6,003,393</u>	<u>(12,947)</u>	<u>5,990,446</u>
Total Fund Balances	<u>\$ 8,084,838</u>	<u>\$ 4,140,049</u>	<u>\$ 12,224,887</u>

The unassigned general fund balance is composed of the following reportable balances:

School Department	\$ (1,148,416)
Town, less School Department	<u>7,151,809</u>
	<u>\$ 6,003,393</u>

Note O - Contingencies

Grant Funds

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note P - Expenditures Over Appropriations

The following appropriations were exceeded by actual expenditures:

	<u>Excess</u>
Sanford Regional Communications	\$ 319,366
Legal Services	96,314
Economic Growth Council	13,402
Police Department Other	15,148
Abatements	16,375
Education	96,141

Note Q - Prior Period Adjustments

During the year ended June 30, 2012 corrections were made to fund balance at July 1, 2011 in order to account for county tax and water district expenses which were payable on June 30, 2011. The effect of these corrections on the Town's fund balance was a decrease of \$484,667 without a material effect on activities for the year ended June 30, 2011.

Corrections were also made during the year ended June 30, 2012 to reconcile special revenue funds simultaneously recorded by the School Department and the Town in their separate accounting systems. The effect of these reconciliations was to decrease the special revenue fund balance for the Town as a whole at July 1, 2011 by \$54,632. The effect on activities for the year ended June 30, 2011 was not determined.

Corrections were also made during the year ended June 30, 2012 to correct a discrepancy in financial documentation noted in the permanent fund known as the Oakdale Cemetery Perpetual Trust. The effect of these corrections was to decrease the Town's permanent fund balance at July 1, 2011 by \$18,152. The net change in fund balance for the year ended June 30, 2011 should have been \$18,152 lower than reported.

Corrections were also made during the year ended June 30, 2012 to recognize beneficial interests in the Goodall Park Trust and the Lucy Emery Fund. The effect of these corrections was to increase the Town's permanent fund balance by \$460,847, which was the total value of the beneficial interests at June 30, 2011. The effect on activities for the year ended June 30, 2011 was not determined.

Government-wide statements

Corrections were also made during the year ended June 30, 2012 to the beginning balances of capital assets to account for previously-disposed of assets and incorrect values. The effect of these adjustments was to decrease net assets at July 1, 2011 by \$3,607. The effect on activities for the year ended June 30, 2011 was not determined.

Notes to Financial Statements - Continued

Town of Sanford, Maine

Note R - Subsequent Event

Subsequent to year end, the Town's School Department extended the school bus transportation contract, which expired in June 2012, to June 2013. Expenses related to this contract were \$1,404,925 for the year ended June 30, 2012.

Subsequent to year end, the inhabitants of the Town voted to approve a new municipal charter that changed the name of the municipal corporation to the City of Sanford, Maine and adopted the manager-council form of government. The new charter came into effect on January 1, 2013.

Required Supplementary Information (Unaudited)

Town of Sanford, Maine

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UALL as a Percentage of Covered Payroll
1/1/2009	\$ -	\$ 2,107,460	\$ 2,107,460	0.0%	\$ 9,432,963	22.3%
1/1/2010*	-	2,107,460	2,107,460	0.0%	9,473,582	22.2%
1/1/2011	-	2,057,933	2,057,933	0.0%	9,392,596	21.9%
1/1/2012*	-	2,057,933	2,057,933	0.0%	9,350,059	22.0%

* An actuarial valuation of liabilities was not performed during the fiscal years ended June 30, 2010 and 2012.

**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Deficits)
Assigned Funds - General Fund**

Town of Sanford, Maine

For the Year Ended June 30, 2012

	Investment Income	Other Revenue	Total Revenues	For Designated Purpose	Creation or (Expiration) of Assignment	Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance (Deficit) at Beginning of Year	Fund Balance (Deficit) at End of Year
2087 - Montreal Street	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (16,223)	\$ (16,223)
2097 - Bodwell Street	-	-	-	21,018	-	(21,018)	(4,623)	(25,641)
2300 - Payroll reserve	268	-	268	147,458	21,668	(125,522)	109,844	(15,678)
Reported as part of Unassigned Funds (Deficit Balances)	<u>\$ 268</u>	<u>\$ -</u>	<u>\$ 268</u>	<u>\$ 168,476</u>	<u>\$ 21,668</u>	<u>\$ (146,540)</u>	<u>\$ 88,998</u>	<u>\$ (57,542)</u>
Subsequent budget	\$ -	\$ -	\$ -	\$ -	\$ (530,000)	\$ (530,000)	\$ 730,000	200,000
2089 - Roosevelt Street	-	-	-	-	-	-	150	150
2092 - Recreation	-	63,549	63,549	56,102	-	7,447	38,852	46,299
2107 - Airport Timbersale	-	6,035	6,035	-	-	6,035	-	6,035
5002 - Code enforcement	-	138,491	138,491	152,299	(12,384)	(26,192)	26,192	-
Reported as part of Assigned Funds	<u>\$ -</u>	<u>\$ 208,075</u>	<u>\$ 208,075</u>	<u>\$ 208,401</u>	<u>\$ (542,384)</u>	<u>\$ (542,710)</u>	<u>\$ 795,194</u>	<u>\$ 252,484</u>

See accompanying independent auditors' report.

**Combining Balance Sheet
Nonmajor Governmental Funds - Other Governmental Funds**

Town of Sanford, Maine

As of June 30, 2012

	Special Revenue	Capital Projects	Permanent Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 388,191	\$ 32,793	\$ 249,550	\$ 670,534
Investments	-	-	577,823	577,823
Inventory	17,940	-	-	17,940
Accounts receivable	555,090	413,873	-	968,963
Other assets	139,800	-	-	139,800
Beneficial interest in trust	-	-	443,536	443,536
Due from General Fund	1,470,960	156,324	134,214	1,761,498
Land - permanent fund	-	-	109,500	109,500
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	\$ 2,571,981	\$ 602,990	\$ 1,514,623	\$ 4,689,594
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued payroll	\$ 34,230	\$ 109,849	\$ -	\$ 144,079
Due to General Fund	25,501	356,610	23,355	405,466
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	59,731	466,459	23,355	549,545
Fund Balances				
Nonspendable:				
Permanent	-	-	559,036	559,036
Special revenues	17,940	-	-	17,940
Restricted:				
Permanent	-	-	932,232	932,232
Capital projects	-	40,039	-	40,039
Special revenues	2,499,006	-	-	2,499,006
Committed:				
Capital projects	-	104,743	-	104,743
Unassigned:				
Capital projects	-	(8,251)	-	(8,251)
Special revenues	(4,696)	-	-	(4,696)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	2,512,250	136,531	1,491,268	4,140,049
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	\$ 2,571,981	\$ 602,990	\$ 1,514,623	\$ 4,689,594

See accompanying independent auditors' report.

**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
All Other Governmental Funds**

Town of Sanford, Maine

For the Year Ended June 30, 2012

	Special Revenue	Capital Projects	Permanent Fund	Total Nonmajor Governmental Funds
Revenues				
Property taxes	\$ 503,248	\$ -	\$ -	\$ 503,248
Intergovernmental	7,714,086	721,040	-	8,435,126
Charges for services	-	-	23,750	23,750
Investment income	3,274	839	24,327	28,440
Change in value of beneficial interest	-	-	(17,311)	(17,311)
Donations and contributions	-	-	145,636	145,636
Miscellaneous	1,335,581	210,400	-	1,545,981
Total Revenues	<u>9,556,189</u>	<u>932,279</u>	<u>176,402</u>	<u>10,664,870</u>
Expenditures				
Current				
General government	1,798,825	-	-	1,798,825
Public services	10,020	-	189,149	199,169
Public safety	34,234	-	-	34,234
Public works	345,137	-	-	345,137
Education	6,390,770	-	-	6,390,770
Sanford Regional Economic Growth Council	155,808	-	-	155,808
Capital expenditures	-	1,786,213	-	1,786,213
Total Expenditures	<u>8,734,794</u>	<u>1,786,213</u>	<u>189,149</u>	<u>10,710,156</u>
Revenues Over (Under) Expenditures	821,395	(853,934)	(12,747)	(45,286)
Other Financing Sources (Uses)				
Proceeds from borrowing	-	761,894	-	761,894
Operating transfers in	464,226	187,792	10,063	662,081
Operating transfers out	(451,873)	(68,391)	-	(520,264)
Total Other Sources (Uses)	<u>12,353</u>	<u>881,295</u>	<u>10,063</u>	<u>903,711</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	833,748	27,361	(2,684)	858,425
Fund balances at beginning of year, as reported	1,733,134	109,170	1,051,257	2,893,561
Prior period adjustment	(54,632)	-	442,695	388,063
Fund balances at beginning of year, as restated	<u>1,678,502</u>	<u>109,170</u>	<u>1,493,952</u>	<u>3,281,624</u>
Fund Balances at End of Year	<u>\$ 2,512,250</u>	<u>\$ 136,531</u>	<u>\$ 1,491,268</u>	<u>\$ 4,140,049</u>

See accompanying independent auditors' report.

Combining Balance Sheet - Nonmajor Special Revenue Funds (1 of 2)

Town of Sanford, Maine

As of June 30, 2012

	Assets					Liabilities			Fund Balance (Deficit)	
	Cash	Inventory	Accounts Receivable	Other	Due from General Fund	Total Assets	Accounts Payable	Due to General Fund		Total Liabilities
General Government										
Federal/State Programs										
2029 - Technical Assistance Grant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2030 - CD LMI General Account	-	-	-	-	436	436	-	-	-	436
2042 - KKW	-	-	-	-	49,899	49,899	-	-	-	49,899
2047 - Neighborhood Stabilization Grant	-	-	-	-	-	-	-	-	-	-
2094 - Riverfront Grant	-	-	-	-	1	1	-	-	-	1
Other Programs - Restricted										
2002 - Rainbow Rug TIF	11,193	-	-	-	-	11,193	-	-	-	11,193
2003 - US Felt TIF	3,414	-	-	-	-	3,414	-	-	-	3,414
2007 - Rt 109 Downtown TIF	113,142	-	-	-	-	113,142	-	-	-	113,142
2008 - Central Tire TIF	468	-	-	-	-	468	-	-	-	468
2009 - Village Green TIF	2,267	-	-	-	-	2,267	-	-	-	2,267
2010 - Sanford Institute for Savings TIF	4,014	-	-	-	-	4,014	-	-	-	4,014
2011 - Rubb TIF	7,102	-	-	-	-	7,102	-	-	-	7,102
2020 - Impact Fees	218,511	-	-	-	-	218,511	-	-	-	218,511
2096 - 2010 Façade Improvement	2,754	-	-	-	-	2,754	-	-	-	2,754
Town Unemployment Compensation	-	-	-	53,843	-	53,843	-	-	-	53,843
School Unemployment Compensation	-	-	-	85,957	-	85,957	-	-	-	85,957
Total General Government	362,865	-	-	139,800	50,336	553,001	-	-	-	553,001
Public Services										
Other programs - Restricted										
2080 - Teen Center	7,146	-	-	-	-	7,146	-	-	-	7,146
2084 - Airport Open House	-	-	-	-	10,333	10,333	-	-	-	10,333
2090 - Imelda's Fund	18,180	-	-	-	-	18,180	-	-	-	18,180
2091 - Clean Up Day	-	-	-	-	26	26	-	-	-	26
Total Public Services	25,326	-	-	-	10,359	35,685	-	-	-	35,685
Education										
Federal/State Programs										
School Department	-	-	374,297	-	922,436	1,296,733	32,548	20,805	53,353	1,243,380
5000 - School Cafeteria	-	17,940	180,793	-	147,973	346,706	1,682	-	1,682	345,024
Total Education	-	17,940	555,090	-	1,070,409	1,643,439	34,230	20,805	55,035	1,588,404

See accompanying independent auditors' report.

Combining Balance Sheet - Nonmajor Special Revenue Funds (2 of 2)

Town of Sanford, Maine

As of June 30, 2012

	Assets					Liabilities			Fund Balance (Deficit)	
	Cash	Inventory	Accounts Receivable	Other	Due from General Fund	Total Assets	Accounts Payable	Due to General Fund		Total Liabilities
Public Safety										
Federal/State programs										
2051 - COPS Hiring Recovery	-	-	-	-	-	-	-	-	-	-
2052 - Law Enforcement Block Grant	-	-	-	-	742	742	-	-	-	742
2053 - Seized Assets	-	-	-	-	12,620	12,620	-	-	-	12,620
2054 - Bullet Proof Vest	-	-	-	-	-	-	-	-	-	-
2056 - Justice Assistance Grant	-	-	-	-	107	107	-	-	-	107
2057 - ATV Enforcement Grant	-	-	-	-	-	-	-	-	-	-
2064 - Homeland Security	-	-	-	-	5,467	5,467	-	-	-	5,467
2069 - 2009 Byrne JAG Grant	-	-	-	-	4	4	-	-	-	4
2070 - JAG Recovery Grant	-	-	-	-	8,074	8,074	-	-	-	8,074
2075 - Home Fire Sprinkler Coalition	-	-	-	-	-	-	-	-	-	-
2076 - 2010 JAG Recovery Grant	-	-	-	-	-	-	-	-	-	-
2077 - 2011 JAG Program	-	-	-	-	-	-	-	1,170	1,170	(1,170)
2103 - Safety Enhancement Grant	-	-	-	-	-	-	-	-	-	-
2105 - Firearms Range	-	-	-	-	600	600	-	-	-	600
2106 - SPD Training	-	-	-	-	485	485	-	-	-	485
Other Programs - Restricted										
2083 - Hometown Heroes (Police)	-	-	-	-	-	-	-	-	-	-
Total Public Safety	-	-	-	-	28,099	28,099	-	1,170	1,170	26,929
Public Works										
Federal/State Programs										
2067 - Brownfields Subgrant	-	-	-	-	40,000	40,000	-	-	-	40,000
2068 - Brownfields Assessment	-	-	-	-	-	-	-	670	670	(670)
2072 - Brownfields Aerofab Cleanup	-	-	-	-	-	-	-	-	-	-
2074 - Brownfields Aerofab2 Cleanup	-	-	-	-	-	-	-	-	-	-
2095 - FEMA 1891 Disaster Recovery	-	-	-	-	58,578	58,578	-	-	-	58,578
2098 - FEMA 1920 Disaster Recovery	-	-	-	-	212,142	212,142	-	-	-	212,142
2100 - Brownfields Area Planning Grant	-	-	-	-	-	-	-	2,856	2,856	(2,856)
2104 - FEMA 4032 Disaster Recovery	-	-	-	-	1,037	1,037	-	-	-	1,037
Total Public Works	-	-	-	-	311,757	311,757	-	3,526	3,526	308,231
Sanford Regional Economic Growth Council	-	-	-	-	-	-	-	-	-	-
Total Nonmajor Special Revenue Funds	<u>\$ 388,191</u>	<u>\$ 17,940</u>	<u>\$ 555,090</u>	<u>\$ 139,800</u>	<u>\$ 1,470,960</u>	<u>\$ 2,571,981</u>	<u>\$ 34,230</u>	<u>\$ 25,501</u>	<u>\$ 59,731</u>	<u>\$ 2,512,250</u>

See accompanying independent auditors' report.

**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Deficits)
Nonmajor Special Revenue Funds (1 of 2)**

Town of Sanford, Maine

For the Year Ended June 30, 2012

	Property Taxes	Intergovernmental	Investment Income	Other	Total Revenues	For Designated Purpose	Transfers In (Out)	Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance (Deficit) at Beginning of Year, as reported	Prior Period Adjustment	Fund Balance (Deficit) at Beginning of Year, as restated	Fund Balance (Deficit) at End of Year
General Government												
Federal/State Programs												
2029 - Technical Assistance Grant	\$ -	\$ 20,000	\$ -	\$ -	\$ 20,000	\$ 20,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2030 - CD LMI General Account	-	-	-	-	-	-	-	-	436	-	436	436
2042 - KKW	-	-	-	11,684	11,684	2,320	-	9,364	40,535	-	40,535	49,899
2047 - Neighborhood Stabilization Grant	-	697,880	-	-	697,880	697,880	-	-	-	-	-	-
2094 - Riverfront Grant	-	509,740	-	-	509,740	509,676	-	64	(63)	-	(63)	1
Other Programs - Restricted												
2002 - Rainbow Rug TIF	36,792	-	19	-	36,811	31,274	-	5,537	5,656	-	5,656	11,193
2003 - US Felt TIF	30,019	-	24	-	30,043	37,505	-	(7,462)	10,876	-	10,876	3,414
2007 - Rt 109 Downtown TIF	346,466	-	426	-	346,892	343,010	(105,000)	(101,118)	214,260	-	214,260	113,142
2008 - Central Tire TIF	22,624	-	11	-	22,635	24,968	-	(2,333)	2,801	-	2,801	468
2009 - Village Green TIF	9,978	-	4	-	9,982	8,981	-	1,001	1,266	-	1,266	2,267
2010 - Sanford Institute for Savings TIF	37,668	-	19	-	37,687	38,252	-	(565)	4,579	-	4,579	4,014
2011 - Rubb TIF	19,701	-	10	-	19,711	14,775	-	4,936	2,166	-	2,166	7,102
2020 - Impact Fees	-	-	433	40,820	41,253	-	-	41,253	177,258	-	177,258	218,511
2096 - 2010 Façade Improvement	-	-	27	-	27	-	(25,000)	(24,973)	27,727	-	27,727	2,754
Town Unemployment Compensation	-	-	422	39,417	39,839	39,721	-	118	53,725	-	53,725	53,843
School Unemployment Compensation	-	-	1,852	32,888	34,740	30,463	-	4,277	81,680	-	81,680	85,957
Total General Government	503,248	1,227,620	3,247	124,809	1,858,924	1,798,825	(130,000)	(69,901)	622,902	-	622,902	553,001
Public services												
Other programs - Restricted												
2080 - Teen Center	-	-	11	-	11	-	-	11	7,135	-	7,135	7,146
2084 - Airport Open House	-	-	-	146	146	211	-	(65)	10,398	-	10,398	10,333
2090 - Imelda's Fund	-	-	16	17,144	17,160	8,932	-	8,228	9,952	-	9,952	18,180
2091 - Clean Up Day	-	-	-	350	350	877	-	(527)	553	-	553	26
Total Public Services	-	-	27	17,640	17,667	10,020	-	7,647	28,038	-	28,038	35,685
Education												
Federal/State Programs												
School Department	-	4,759,687	-	700,000	5,459,687	4,751,409	(20,236)	688,042	609,970	(54,632)	555,338	1,243,380
5000 - School Cafeteria	-	1,183,571	-	489,605	1,673,176	1,639,361	-	33,815	311,209	-	311,209	345,024
Total Education	-	5,943,258	-	1,189,605	7,132,863	6,390,770	(20,236)	721,857	921,179	(54,632)	866,547	1,588,404

See accompanying independent auditors' report.

**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Deficits)
Nonmajor Special Revenue Funds (2 of 2)**

Town of Sanford, Maine

For the Year Ended June 30, 2012

	Property Taxes	Intergovernmental	Investment Income	Other	Total Revenues	For Designated Purpose	Transfers In (Out)	Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance (Deficit) at Beginning of Year, as reported	Prior Period Adjustment	Fund Balance (Deficit) at Beginning of Year, as restated	Fund Balance (Deficit) at End of Year
Public Safety												
Federal/State programs												
2051 - COPS Hiring Recovery	\$ -	\$ 116,663	\$ -	\$ -	\$ 116,663	\$ -	\$ (116,663)	\$ -	\$ -	\$ -	\$ -	\$ -
2052 - Law Enforcement Block Grant	-	-	-	-	-	-	-	-	742	-	742	742
2053 - Seized Assets	-	1,864	-	-	1,864	1,182	-	682	11,938	-	11,938	12,620
2054 - Bullet Proof Vest	-	-	-	-	-	-	805	805	(805)	-	(805)	-
2056 - Justice Assistance Grant	-	-	-	-	-	-	-	-	107	-	107	107
2057 - ATV Enforcement Grant	-	-	-	-	-	-	2,639	2,639	(2,639)	-	(2,639)	-
2064 - Homeland Security	-	-	-	-	-	-	-	-	5,467	-	5,467	5,467
2069 - 2009 Byrne JAG Grant	-	3,118	-	-	3,118	9,813	-	(6,695)	6,699	-	6,699	4
2070 - JAG Recovery Grant	-	-	-	-	-	16,986	-	(16,986)	25,060	-	25,060	8,074
2075 - Home Fire Sprinkler Coalition	-	-	-	1,000	1,000	1,000	-	-	-	-	-	-
2076 - 2010 JAG Recovery Grant	-	5,709	-	-	5,709	2,531	-	3,178	(3,178)	-	(3,178)	-
2077 - 2011 JAG Program	-	-	-	-	-	1,170	-	(1,170)	-	-	-	(1,170)
2103 - Safety Enhancement Grant	-	-	-	877	877	877	-	-	-	-	-	-
2105 - Firearms Range	-	-	-	600	600	-	-	600	-	-	-	600
2106 - SPD Training	-	-	-	1,050	1,050	565	-	485	-	-	-	485
Other Programs - Restricted												
2083 - Hometown Heroes (Police)	-	-	-	-	-	110	-	(110)	110	-	110	-
Total Public Safety	-	127,354	-	3,527	130,881	34,234	(113,219)	(16,572)	43,501	-	43,501	26,929
Public Works												
Federal/State Programs												
2067 - Brownfields Subgrant	-	33,356	-	-	33,356	33,356	40,000	40,000	-	-	-	40,000
2068 - Brownfields Assessment	-	94,955	-	-	94,955	59,413	-	35,542	(36,212)	-	(36,212)	(670)
2072 - Brownfields Aerofab Cleanup	-	-	-	-	-	-	40,000	40,000	(40,000)	-	(40,000)	-
2074 - Brownfields Aerofab2 Cleanup	-	8,010	-	-	8,010	48,011	40,000	(1)	1	-	1	-
2095 - FEMA 1891 Disaster Recovery	-	69,343	-	-	69,343	32,424	-	36,919	21,659	-	21,659	58,578
2098 - FEMA 1920 Disaster Recovery	-	37,024	-	-	37,024	-	-	37,024	175,118	-	175,118	212,142
2100 - Brownfields Area Planning Grant	-	150,701	-	-	150,701	150,505	-	196	(3,052)	-	(3,052)	(2,856)
2104 - FEMA 4032 Disaster Recovery	-	22,465	-	-	22,465	21,428	-	1,037	-	-	-	1,037
Total Public Works	-	415,854	-	-	415,854	345,137	120,000	190,717	117,514	-	117,514	308,231
Sanford Regional Economic Growth Council	-	-	-	-	-	155,808	155,808	-	-	-	-	-
Total Nonmajor Special Revenue Funds	<u>\$ 503,248</u>	<u>\$ 7,714,086</u>	<u>\$ 3,274</u>	<u>\$ 1,335,581</u>	<u>\$ 9,556,189</u>	<u>\$ 8,734,794</u>	<u>\$ 12,353</u>	<u>\$ 833,748</u>	<u>\$ 1,733,134</u>	<u>\$ (54,632)</u>	<u>\$ 1,678,502</u>	<u>\$ 2,512,250</u>

See accompanying independent auditors' report.

**Combining Balance Sheet
Capital Projects Funds**

Town of Sanford, Maine

As of June 30, 2012

	Assets			Liabilities			Fund Balance (Deficit) at End of Year	
	Cash	Accounts Receivable	Due from General Fund	Total Assets	Accounts Payable	Due to General Fund		Total Liabilities
4000 - Number One Pond	\$ -	\$ -	\$ 200	\$ 200	\$ -	\$ -	\$ -	\$ 200
4002 - Mousam Way	-	-	-	-	-	-	-	-
4003 - Job Bond Local Road Assistance	-	-	752	752	-	-	-	752
4005 - Urban Forestry	-	-	5,590	5,590	-	-	-	5,590
4006 - Department of Conservation	-	-	-	-	-	-	-	-
4008 - Goodall Statue	-	-	1,550	1,550	-	-	-	1,550
4010 - War Memorial Gym	-	-	-	-	-	-	-	-
4011 - Department of Conservation	-	-	1,121	1,121	-	-	-	1,121
4016 - Infrastructure Grants	-	-	2,251	2,251	-	-	-	2,251
4025 - EDA Regional Airport	-	-	22,788	22,788	-	-	-	22,788
4026 - Enhancement Grant	-	-	-	-	-	-	-	-
4029 - Downtown Millyard Project	-	-	-	-	-	-	-	-
4030 - Land/Salt Airport Road	-	-	15,342	15,342	-	-	-	15,342
4031 - Compact THIMP Police	32,793	-	29,037	61,830	-	-	-	61,830
4032 - B&M Rail Bed Trail	-	-	-	-	-	-	-	-
4033 - Fagan Mill (Eminent)	-	-	3,408	3,408	-	-	-	3,408
4034 - Aerofab Mill	-	-	-	-	-	-	-	-
4035 - Airport Improvement Program	-	-	10,916	10,916	-	-	-	10,916
4036 - School Revolving Loan Fund	-	-	-	-	-	-	-	-
4038 - Airport Improvement Program	-	398,359	-	398,359	50,000	352,671	402,671	(4,312)
4039 - CGA Clean Up	-	-	12,699	12,699	-	-	-	12,699
4040 - Mid Town Mall	-	15,514	44,335	59,849	59,849	-	59,849	-
4042 - School Bond Heating/Boiler	-	-	-	-	-	-	-	-
4043 - Safe Routes to School Project	-	-	-	-	-	3,939	3,939	(3,939)
4044 - Project Canopy	-	-	6,335	6,335	-	-	-	6,335
	<u>\$ 32,793</u>	<u>\$ 413,873</u>	<u>\$ 156,324</u>	<u>\$ 602,990</u>	<u>\$ 109,849</u>	<u>\$ 356,610</u>	<u>\$ 466,459</u>	<u>\$ 136,531</u>

See accompanying independent auditors' report.

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances Capital Projects Funds

Town of Sanford, Maine

For the Year Ended June 30, 2012

	Intergovern- mental	Investment Income	Other/Bond Proceeds	Total Revenues	For Designated Purpose	Transfers In (Out)	Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance (Deficit) at Beginning of Year	Fund Balance (Deficit) at End of Year
4000 - Number One Pond	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200	\$ 200
4002 - Mousam Way	-	-	-	-	-	(8,685)	(8,685)	8,685	-
4003 - Job Bond Local Road Assistance	-	-	-	-	-	-	-	752	752
4005 - Urban Forestry	-	-	-	-	-	-	-	5,590	5,590
4006 - Department of Conservation	-	-	-	-	-	(1,750)	(1,750)	1,750	-
4008 - Goodall Statue	-	-	-	-	-	-	-	1,550	1,550
4010 - War Memorial Gym	-	-	-	-	-	(6,823)	(6,823)	6,823	-
4011 - Department of Conservation	-	-	-	-	249	(4,585)	(4,834)	5,955	1,121
4016 - Infrastructure Grants	-	-	-	-	-	-	-	2,251	2,251
4025 - EDA Regional Airport	476,072	-	-	476,072	54,388	(46,548)	375,136	(352,348)	22,788
4026 - Enhancement Grant	-	-	-	-	-	8,342	8,342	(8,342)	-
4029 - Downtown Millyard Project	-	133	-	133	229,721	28,281	(201,307)	201,307	-
4030 - Land/Salt Airport Road	-	-	-	-	2,000	-	(2,000)	17,342	15,342
4031 - Compact THIMP Police	-	706	10,400	11,106	394,934	12,384	(371,444)	433,274	61,830
4032 - B&M Rail Bed Trail	-	-	-	-	-	6,677	6,677	(6,677)	-
4033 - Fagan Mill (Eminent)	-	-	200,000	200,000	291	-	199,709	(196,301)	3,408
4034 - Aerofab Mill	-	-	-	-	-	2,108	2,108	(2,108)	-
4035 - Airport Improvement Program	47,663	-	-	47,663	3,885	-	43,778	(32,862)	10,916
4036 - School Revolving Loan Fund	-	-	111,894	111,894	111,894	-	-	-	-
4038 - Airport Improvement Program	103,052	-	-	103,052	107,387	-	(4,335)	23	(4,312)
4039 - CGA Clean Up	-	-	-	-	10,499	-	(10,499)	23,198	12,699
4040 - Mid Town Mall	86,805	-	-	86,805	215,913	130,000	892	(892)	-
4042 - School Bond Heating/Boiler	-	-	650,000	650,000	650,000	-	-	-	-
4043 - Safe Routes to School Project	-	-	-	-	3,939	-	(3,939)	-	(3,939)
4044 - Project Canopy	7,448	-	-	7,448	1,113	-	6,335	-	6,335
	<u>\$ 721,040</u>	<u>\$ 839</u>	<u>\$ 972,294</u>	<u>\$ 1,694,173</u>	<u>\$ 1,786,213</u>	<u>\$ 119,401</u>	<u>\$ 27,361</u>	<u>\$ 109,170</u>	<u>\$ 136,531</u>

See accompanying independent auditors' report.

**Combining Balance Sheet
Nonmajor Permanent Funds**

Town of Sanford, Maine

As of June 30, 2012

	7000 Gowen Park Fund	7001 Park Maintenance Fund	7002 Oakdale Cemetery Perpetual Trust	7003 Nutter Trust	7008 Holdsworth Park Trust	7012 Goodall Park	Beneficial Interest in Goodall Park Trust	Beneficial Interest in Lucy Emery Fund	Totals
Assets									
Cash and cash equivalents	\$ 40,721	\$ 6,530	\$ 140,122	\$ 29,359	\$ 32,818	\$ -	\$ -	\$ -	\$ 249,550
Investments	-	-	263,793	-	314,030	-	-	-	577,823
Beneficial interest in trust	-	-	-	-	-	-	416,056	27,480	443,536
Due from General Fund	-	9,233	-	-	-	121,741	-	3,240	134,214
Land - permanent fund	-	-	-	-	109,500	-	-	-	109,500
Total Assets	\$ 40,721	\$ 15,763	\$ 403,915	\$ 29,359	\$ 456,348	\$ 121,741	\$ 416,056	\$ 30,720	\$ 1,514,623
Liabilities and Fund Balances									
Liabilities									
Due to General Fund	\$ 272	\$ -	\$ 23,083	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,355
Total Liabilities	272	-	23,083	-	-	-	-	-	23,355
Fund Balances									
Nonspendable - principal	-	6,000	-	-	-	-	-	-	6,000
Nonspendable	-	-	-	-	109,500	-	416,056	27,480	553,036
Restricted	40,449	9,763	380,832	29,359	346,848	121,741	-	3,240	932,232
Total Fund Balances	40,449	15,763	380,832	29,359	456,348	121,741	416,056	30,720	1,491,268
Total Liabilities and Fund Balances	\$ 40,721	\$ 15,763	\$ 403,915	\$ 29,359	\$ 456,348	\$ 121,741	\$ 416,056	\$ 30,720	\$ 1,514,623

See accompanying independent auditors' report.

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Permanent Funds**

Town of Sanford, Maine

For the Year Ended June 30, 2012

	7000 Gowen Park Fund	7001 Park Maintenance Fund	7002 Oakdale Cemetery Perpetual Trust	7003 Nutter Trust	7008 Holdsworth Park Trust	7012 Goodall Park	Beneficial Interest in Goodall Park Trust	Beneficial Interest in Lucy Emery Fund	Totals
Revenues									
Charges for services	\$ -	\$ -	\$ 23,750	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,750
Investment income	61	18	21,433	78	2,737	-	-	-	24,327
Change in value of beneficial interest	-	-	-	-	-	-	(16,160)	(1,151)	(17,311)
Donations	8,597	8,000	-	-	-	129,039	-	-	145,636
Total Revenues	8,658	8,018	45,183	78	2,737	129,039	(16,160)	(1,151)	176,402
Expenditures									
Public services	384	-	52,036	-	-	136,729	-	-	189,149
Total Expenditures	384	-	52,036	-	-	136,729	-	-	189,149
Revenues Over (Under) Expenditures	8,274	8,018	(6,853)	78	2,737	(7,690)	(16,160)	(1,151)	(12,747)
Other Financing Sources									
Operating transfers in	-	-	-	-	-	6,823	-	3,240	10,063
Net Change in Fund Balances	8,274	8,018	(6,853)	78	2,737	(867)	(16,160)	2,089	(2,684)
Fund balances at beginning of year, as reported	32,175	7,745	405,837	29,281	453,611	122,608	-	-	1,051,257
Prior period adjustment	-	-	(18,152)	-	-	-	432,216	28,631	442,695
Fund balances at beginning of year, as restated	32,175	7,745	387,685	29,281	453,611	122,608	432,216	28,631	1,493,952
Fund Balances at End of Year	\$ 40,449	\$ 15,763	\$ 380,832	\$ 29,359	\$ 456,348	\$ 121,741	\$ 416,056	\$ 30,720	\$ 1,491,268

See accompanying independent auditors' report.

**Combining Statement of Fiduciary Net Assets
Fiduciary Funds - Private Purpose Trusts**

Town of Sanford, Maine

As of June 30, 2012

	7004 Thornburg Goodall Fund	7005 Lucy Emery Trust	7007 William Oscar Emery Trust	7009 Walter Cyr Trust	7010 High School Scholarship Fund	7011 Sherburne Basketball Fund	Totals
Assets							
Cash and cash equivalents	\$ 1,280	\$ 13,746	\$ -	\$ 8,436	\$ 57,620	\$ 6,936	\$ 88,018
Investments	-	-	-	-	722,794	-	722,794
Due from General Fund	-	-	20,000	-	-	-	20,000
Total Assets	\$ 1,280	\$ 13,746	\$ 20,000	\$ 8,436	\$ 780,414	\$ 6,936	\$ 830,812
Net Assets							
Principal	\$ 400	\$ -	\$ -	\$ -	\$ 5,000	\$ -	\$ 5,400
Unexpended income	880	13,746	20,000	8,436	775,414	6,936	825,412
Total Net Assets	\$ 1,280	\$ 13,746	\$ 20,000	\$ 8,436	\$ 780,414	\$ 6,936	\$ 830,812

See accompanying independent auditors' report.

**Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Private Purpose Trust**

Town of Sanford, Maine

For the Year Ended June 30, 2012

	7004 Thornburg Goodall Fund	7005 Lucy Emery Trust	7007 William Oscar Emery Trust	7009 Walter Cyr Trust	7010 High School Scholarship Fund	7011 Sherburne Basketball Fund	Totals
Additions:							
Investment income (loss)	\$ 1	\$ 8	\$ -	\$ 23	\$ (32,945)	\$ 20	\$ (32,893)
Donations	-	-	-	-	8,032	-	8,032
Total Additions	1	8	-	23	(24,913)	20	(24,861)
Deductions:							
Scholarships and other	-	-	-	-	12,520	-	12,520
Total Deductions	-	-	-	-	12,520	-	12,520
Change in Net Assets	1	8	-	23	(37,433)	20	(37,381)
Net assets at beginning of year	<u>1,279</u>	<u>13,738</u>	<u>20,000</u>	<u>8,413</u>	<u>817,847</u>	<u>6,916</u>	<u>868,193</u>
Net Assets at End of Year	<u>\$ 1,280</u>	<u>\$ 13,746</u>	<u>\$ 20,000</u>	<u>\$ 8,436</u>	<u>\$ 780,414</u>	<u>\$ 6,936</u>	<u>\$ 830,812</u>

See accompanying independent auditors' report.

**Statement of Changes in Assets and Liabilities
Fiduciary Funds - Agency Funds**

Town of Sanford, Maine

For the Year Ended June 30, 2012

	Balance <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2012</u>
Assets				
Cash	\$ 370,513	\$ 598,127	\$ 564,699	\$ 403,941
Total Assets	<u>\$ 370,513</u>	<u>\$ 598,127</u>	<u>\$ 564,699</u>	<u>\$ 403,941</u>
Liabilities				
Held on behalf of student groups	\$ 370,513	\$ 598,127	\$ 564,699	\$ 403,941
Total Liabilities	<u>\$ 370,513</u>	<u>\$ 598,127</u>	<u>\$ 564,699</u>	<u>\$ 403,941</u>

See accompanying independent auditors' report.

Schedule of Valuation, Assessment and Collection of Taxes

Town of Sanford, Maine

For the Year Ended June 30, 2012

Valuation

Real estate	\$ 1,330,739,300
Personal property	<u>69,932,350</u>
Total Valuation	<u>\$ 1,400,671,650</u>

Assessment

Valuation x Rate - \$1,400,671,650 x .01752	\$ 24,539,767
Supplemental taxes	<u>10,559</u>
Total Assessment Charged to Collector	\$ 24,550,326

Collection and Credits

Cash collections	\$ 23,417,120
Tax abatements	<u>16,375</u>
Total Collection and Credits	<u>23,433,495</u>
2012 Taxes Receivable - June 30, 2012	<u>\$ 1,116,831</u>

See accompanying independent auditors' report.

**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 Town Council
Town of Sanford
Sanford, Maine**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Sanford, Maine, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 29, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town of Sanford, Maine, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the following deficiencies to be material weaknesses:

2012-1 Reconciliation between the Town and School Department

Condition and Context: The Town and the School Department use separate accounting systems and separate general ledgers to simultaneously record the same activity, as the School Department is a department with the Town of Sanford, Maine. It is therefore essential that monthly reconciliations be performed between the School Department's general ledger and the Town's general ledger wherein balance sheet accounts, revenues, and expenditures are promptly reconciled on a monthly basis.

Criteria: All accounts which are simultaneously recorded within the Town and School Department, including all balance sheet, revenue, and expenditure accounts, should have identical balances.

Cause: Monthly reconciliations were not being performed or were not being performed correctly during the year ended June 30, 2012.

Effect: As of June 30, 2012 the revenues, expenditures, and balance sheet accounts reported within the School Department did not reconcile to the Town's general ledger. The differences were not material to the financial statements but were still significant.

Recommendation: We recommend that a reconciliation be performed monthly and entries should be made in the accounting systems so that the two systems have the same information. Any variances should be investigated promptly and the proper system (whether the Town or School Department) should be adjusted.

Management's Response:

City Manager: The City of Sanford agrees with the auditor's recommendation that the School Department should reconcile monthly with the City and School entries should be made in both accounting systems so that the two systems have the same information. Any variances should be investigated promptly by the School Department and the proper system (whether the Town or School Department) should be adjusted.

Superintendent of Schools: Management recognizes that the School Department and City have not reconciled their accounting systems for the past 10 years. Both use different accounting systems and charts of accounts. Additionally a grant program tracking system was used in the School Department that required double account entries.

2012-2 Reliability of School Department's Accounting System

Condition and Context: During our audit we noted numerous deficiencies in the School Department's accounting system. Notably, the balance sheet was not used by the School Department's accounting staff and contained erroneous information; activity was often recorded on a cash basis and cut-off was not maintained; grants receivable was most often absent, and in certain instances, was doubly posted; and individual fund balances were not reconciled.

A significant effort was required after year-end to reconcile certain accounts and funds. The School Department's accounting structure and system of earmarking revenues and tracking expenditures for grant management and budgeting purposes is sophisticated and requires significant effort and time. The resources allocated to the accounting function, in terms of personnel, are not sufficient to consistently and effectively accomplish this task.

Criteria: One of the responsibilities for maintaining a system of internal control includes maintenance of records to provide an audit trail to support the balances recorded in the accounting records as well as procedures to ensure the correspondence of the balances reported and their supporting documentation. The system should also ensure that transactions are recorded according to the precepts of generally accepted accounting principles.

Cause: The balance sheet was not used by the School Department's accounting staff and contained erroneous information; activity was often recorded on a cash basis and cut-off was not maintained; grants receivable was most often absent, but in instances when it existed, was doubly posted; and individual fund balances were not reconciled.

Effect: Information generated by the School Department's accounting system was prone to error. Balance sheet accounts, including fund balances, were not correct and required significant adjustment through the audit process. Additionally, management may be using incorrect information upon which to make decisions. Interim internal and external financial reports may be inaccurate, causing confusion and misunderstandings among users of the financial data.

Recommendation: We recommend that the School Department review its accounting procedures and ensure that all transactions are recorded in accordance with generally accepted accounting principles. We also recommend that the School Department ensure that balances reported in its accounting system regarding balance sheet accounts, including fund balances, are accurate at period-end. Monthly reconciliations of balance sheet accounts and the active provision of reports to program managers would contribute to the reliability of the School Department's accounting system.

We also recommend a review of the accounting functions and workloads. Consideration should be given to adding additional staff. In our opinion, the accounting, recordkeeping, and reporting requirements exceed the resources allocated to accomplish them. Increased staffing would allow certain internal control procedures mentioned in this report not presently possible due to the limited number of financial staff currently available. The reliability of the School Department's financial records would be improved through additional review procedures.

Management's Response: Maine Public School Systems are annually required by outside Federal and State Agencies to respond to and account for mandated program requirements often with duplicate and complex responses. Funding for additional resources is often lacking with precious funding earmarked for direct impact (classroom) for teaching and learning.

A *significant deficiency* is a deficiency, or 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. We consider the following deficiency to be significant deficiency:

2012-3 Segregation of Duties

Condition and Context: During our consideration of internal control, we noted that the assignment of responsibilities to the accounting and managerial staff of the School Department did not provide an optimum segregation of duties.

Criteria: Controls are most effective when different individuals are assigned the responsibility of authorizing transactions, recording transactions, and maintaining the custody of assets.

Cause: One person performed two or more of these functions in the normal course of performing their duties. The same person in the School Department is responsible for processing and posting cash receipts, posting and allocating expenses, generating and posting general journal entries, and preparing reports for internal and external reporting.

Effect: Errors, omissions, and irregularities may be present and go undetected by management.

Recommendation: We recommend that the School Department consider modifying responsibilities concerning the financial affairs the School Department to provide optimum segregation of duties as well as implementing oversight and independent review functions.

Management's Response: Management recognizes the concern for internal controls. Limited financial resources for personnel complicates the day to day functions in the business/accounting office.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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*.

The Town's responses to the findings identified in our audit are described above. We did not audit the Town's responses and, accordingly, we express no opinion on them.

The purpose of this report is solely to describe how we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. This report is an integral part of an audit performed in accordance with *Government Auditing Standards*. Accordingly, this report is not suitable for any other purpose.

Purdy Powers & Company
Professional Association

Portland, Maine
March 29, 2013