

**CITY OF BIDDEFORD, MAINE**

**Annual Financial Report**

**June 30, 2005**



**CITY OF BIDDEFORD, MAINE**  
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**June 30, 2005**

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## Independent Auditor's Report

City Council  
City of Biddeford, Maine:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Biddeford, Maine as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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, the business-type activities, each major fund and the aggregate remaining fund information City of Biddeford, Maine as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof 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.

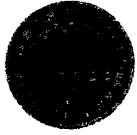
The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Biddeford, Maine's basic financial statements. The combining and individual nonmajor fund schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 2, 2005 on our consideration of the City of Biddeford, Maine'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 read in conjunction with this report in considering the results of our audit.



September 2, 2005  
South Portland, Maine



# City of Biddeford

## Management's Discussion and Analysis

### Introduction

Our discussion and analysis of the City of Biddeford's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements published and reviewed by our independent outside auditors, Runyon Kersteen Ouellette, Certified Public Accountants.

### Financial Highlights

- The assets of the City of Biddeford exceeded its liabilities at the close of fiscal 2005 by \$44,660,576. Total net assets are comprised, in part, of "unrestricted net assets," \$5,138,523, which may be used to meet the City's ongoing obligations to employees, citizens, and creditors.
- The City's total net assets increased by \$3,537,967 from the prior year, a 9% favorable change attributable to unspent bond proceeds for the Middle School construction.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$14,681,364, an increase of \$10,974,416 in comparison with the prior year. This increase was chiefly the result of borrowing the entire cost of the Middle School during construction.
- The City's General Fund Undesignated Fund Balance was \$2,203,862, or 4.8% of expenditures, as calculated based on the parameters detailed within the *City of Biddeford Revised Code of Ordinances, chapter 2, section 2-373, Undesignated Fund Balance*.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Biddeford's basic financial statements. The City's financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements:** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Biddeford's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of*



# City of Biddeford

## Management's Discussion and Analysis

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*related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unpaid salaries).

Both of the government-wide financial statements distinguish functions of the City of Biddeford that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government (general administration, mayor, city manager, city clerk & tax collection, elections & registrations, assessing, finance, computer services, personnel, purchasing, economic development & planning, code enforcement & inspections), education (general purpose & adult education), public safety (fire, emergency medical service, police, animal control, emergency management), public services (recreation, community center, health & welfare, private schools, city buildings, industrial & business parks, social services and municipal services), public works (streets & roads, engineering, parks, cemetery and solid waste management), debt service (current portion of bonds & capital leases), and capital outlays (capital improvements or capital acquisitions). The City has one business-type activity, its wastewater treatment operation.

The government-wide financial statements can be found on page 15 and 16 of this report.

**Fund financial statements:** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Biddeford, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Unlike the government-wide financial statements, however, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Biddeford maintains thirty-eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for





# City of Biddeford

## Management's Discussion and Analysis

the General Fund and the Middle School Construction Fund, which are considered to be major funds. Data from the other thirty-six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* on page 47 through 71 of this report.

The City of Biddeford adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on page 17 to page 18 of this report.

**Proprietary funds** provide the same type of information as the government-wide financial statements, only in more detail. The City of Biddeford maintains one proprietary fund. The *proprietary fund* is used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Biddeford uses the proprietary fund to account for its wastewater treatment operations reported on page 21 to page 23 of this report.

**Fiduciary funds** are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Biddeford's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds and the City of Biddeford's can be found on page 24 to page 25 of this report.

The **notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on page 26 to page 45 of this report.

The combining statements referred to earlier in connection with non-major governmental funds can be found on page 47 to page 71 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Biddeford, assets exceeded liabilities by \$44,660,576 at the close the 2005 fiscal year.

Approximately \$32 million of the City of Biddeford's net assets reflect its investment in capital assets segregated into: vehicles & equipment, land, buildings & improvements, infrastructure (streets, sidewalks, culverts, manholes, catch basins, storm and wastewater management systems, traffic light controller and systems, and seawalls), and construction in progress, less any related debt used to acquire those assets, which is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Biddeford net assets (\$7,411,123) represents resources that are subject to external restrictions on how they may be used including



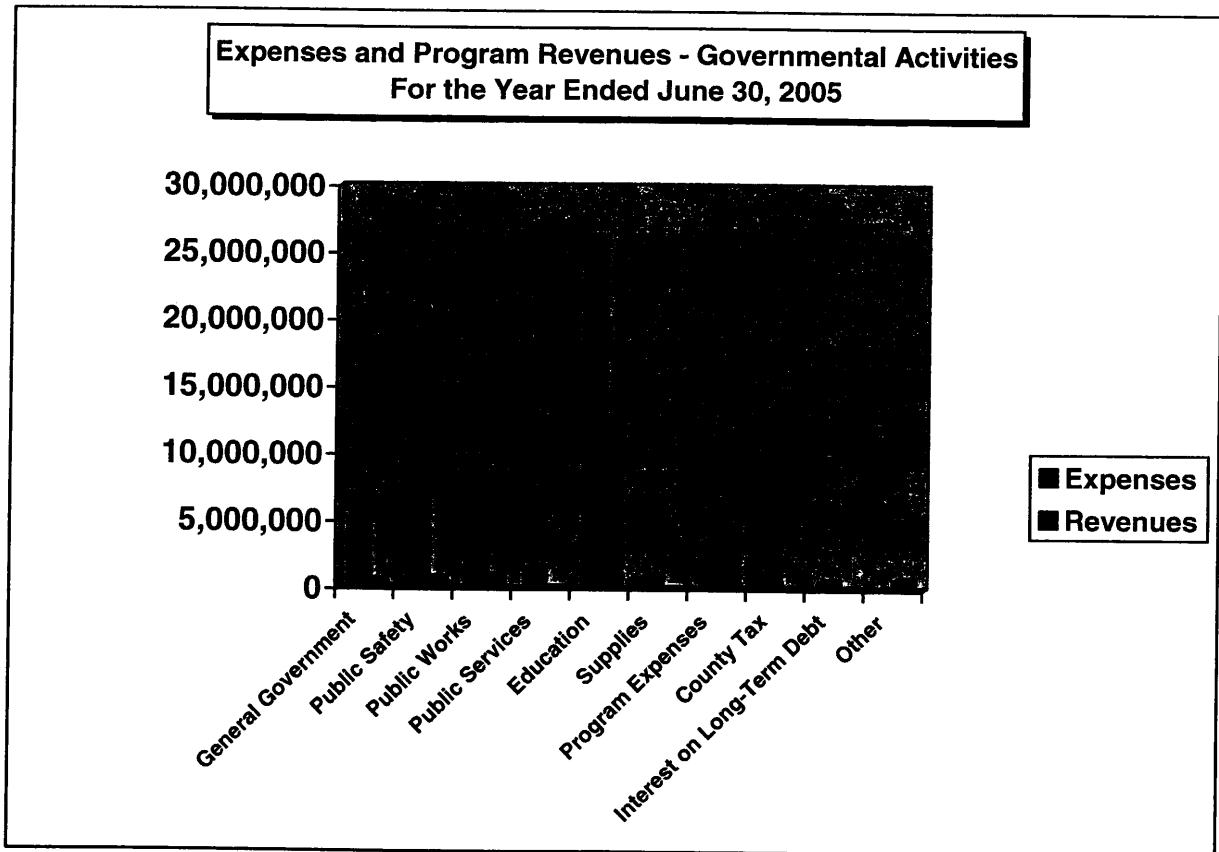
# City of Biddeford

## Management's Discussion and Analysis

funding for the completion of the Middle School. The remaining balance of *unrestricted net assets* is \$5,138,523, comprised of reserved and designated amounts for specific purposes or projects and a balance available for other general purposes.

For fiscal 2005 the City of Biddeford is able to report positive balances in both categories of net assets, \$33,939,508 for governmental activities and \$10,721,068 for business-type activities. These numbers compare to \$30,673,901 for governmental activities and \$10,315,733 for business-type activities in fiscal 2004.

**Governmental activities.** Governmental activities increased the City of Biddeford's net assets by \$3,300,726. The following chart illustrates total expenses and revenues by program for all governmental activities:

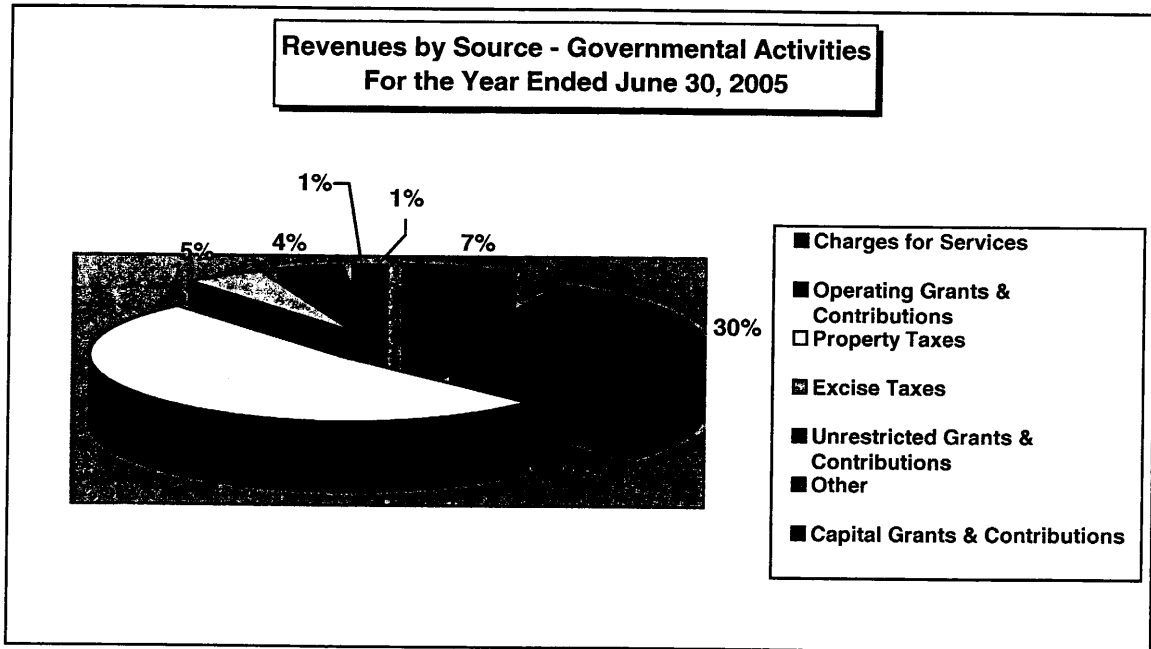




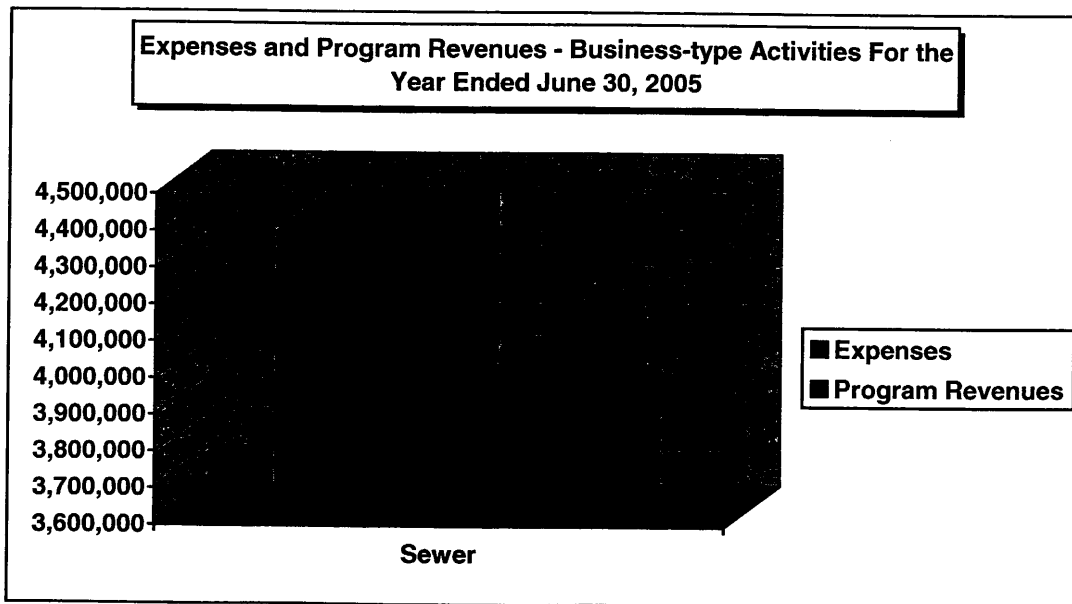
# City of Biddeford

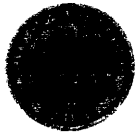
## Management's Discussion and Analysis

Governmental revenues are shown by source in the following chart:



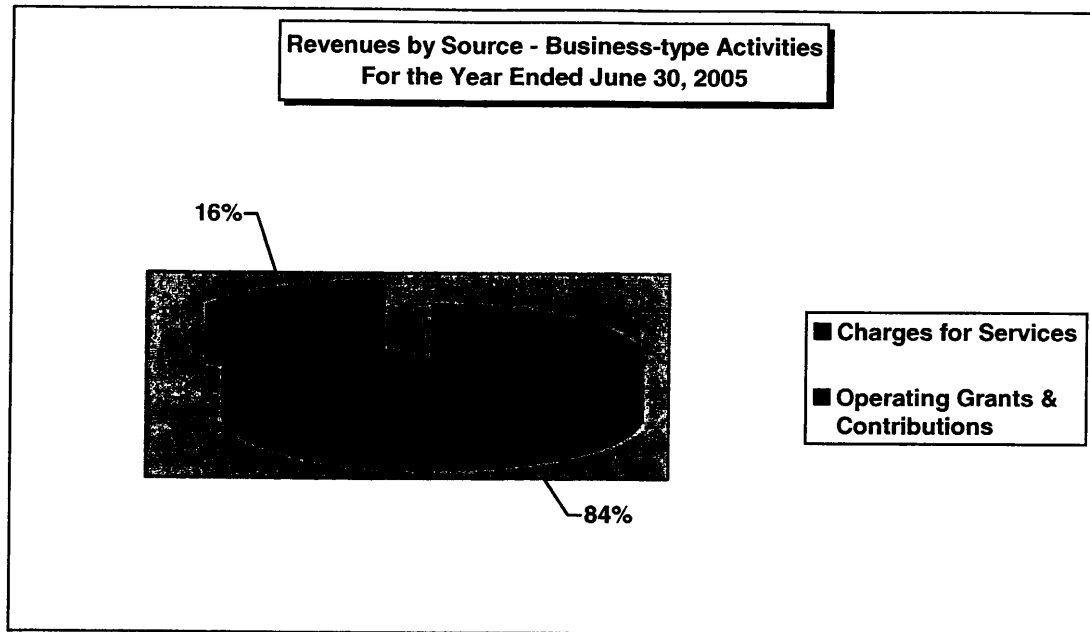
**Business-type activities.** The City's one business-type activity, its wastewater treatment operation, increased the City of Biddeford's net assets by \$237,241. The following charts illustrate the financial results of wastewater treatment for the fiscal year:





# City of Biddeford

## Management's Discussion and Analysis



### Financial Analysis of the Government's Funds

As noted earlier, the City of Biddeford uses fund accounting as is customary with municipal financial reporting.

**Governmental funds.** The focus of the City of Biddeford's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Biddeford's governmental funds reported combined ending fund balances of \$14,681,364. Approximately 99 percent of this total amount (\$14,536,175) constitutes *unreserved fund balance*. The remainder of the fund balance (\$145,189) is *reserved* for various purposes as shown on Statement 3.

The General Fund is the chief operating fund of the City of Biddeford. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$5,464,926, \$3,261,064 of which has been designated by management for subsequent years' expenditures or by Statute for educational expenditures.

The fund balance of the City of Biddeford's General Fund increased by \$510,118 during the current fiscal year. The budget for the fiscal year had included the use of \$734,406 of the fund balance for educational purposes.



# City of Biddeford

## Management's Discussion and Analysis

**Proprietary funds.** The City of Biddeford's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the City's wastewater fund had a deficit balance of \$1,387,777, compared to the prior year's deficit balance of \$1,231,173.

### General Fund Budgetary Highlights

For the current fiscal year, the revenue categories for taxes, licenses, permits & fees and other revenue fell short of budgetary projections, while those for intergovernmental items, and investment income had excess revenues. Tax revenues were under budget due to the Chapter 11 bankruptcy of the City's second largest taxpayer, whose taxes in excess of \$800,000 remain unpaid at this time. Permit revenues were short because the budget had anticipated that the permits for a shopping center development would be issued before year-end, but delays pushed them into the following year.

All expenditure categories except for General Government and Debt Service were below budgetary limits. General Government was overspent due chiefly to unanticipated insurance cost increases.

### Capital Asset and Debt Administration

**Capital assets.** The City of Biddeford's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounted to \$77,759,496 (net of accumulated depreciation). This investment in capital assets includes land, buildings & improvements, vehicles & equipment, and infrastructure. The total increase in the City of Biddeford's investment in capital assets for the current fiscal year was 22.8 percent (a 40.6 percent increase for governmental activities and a 1.5 percent decrease for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Continuation of construction of a new Middle School
- Upgrades to the air conditioning system at City Hall, the heating system at the High School and the roof at Public Works
- Two new school buses were purchased
- City vehicle purchases included four police cruisers, a new fire pumper truck and a pickup truck, plow truck and snow blower attachment for Public Works
- New snow removal equipment for the Biddeford Airport was supplied by the State of Maine
- A new City-wide communications system was purchased and installed for all Departments
- Major reconstruction was done to Elizabeth Rd. and Pomerleau St. with lesser projects performed on Fernande St., Graham St., Janelle St., Memorial Dr., Old Pool Rd. and Victory Lane
- Sidewalk replacements were done on Adams St., Cross St., Graham St., Jefferson St., Myrtle St. and Washington St.



# City of Biddeford

## Management's Discussion and Analysis

Additional information on the City of Biddeford's capital assets can be found on pages 36-37 of this report.

**Long-term debt.** At the end of the current fiscal year, the City of Biddeford had total bonded debt outstanding of \$42,817,922. Of this amount, \$28,627,422 represents debt of Governmental Activities. Business-Type Activities issued the remaining \$14,190,500 of debt. Since a portion of each street sewer upgrade project benefited all City residents through street reconstruction and storm water collection, the General Fund makes an annual contribution (currently \$750,000) toward the Wastewater Treatment Fund debt service. This is shown as a transfer out of Governmental Activities and a transfer in to Business-Type Activities. The City of Biddeford issued \$22,783,000 in new bonds for the Middle School construction during the year.

State statutes limit the amount of general obligation debt a municipality may issue to 15 percent of its total state assessed valuation. The current debt limitation for the City of Biddeford is \$287,070,000, which is significantly in excess of the City of Biddeford's outstanding general obligation debt.

Additional information on the City of Biddeford's long-term debt can be found on page 40 of this report.

### Economic Factors and Next Year's Budgets and Rates

- The City of Biddeford's property tax base continues to grow at a modest pace. During the current fiscal year, there were 38 new commercial and residential construction starts, totaling over \$14 million in value,
- Excise tax revenue increased by only 1.8 percent during the fiscal year, indicating that the pressures of rising fuel and energy costs have dampened the willingness of consumers to spend their tighter dollars on new vehicles,
- Inflationary trends in the region are comparable to national indices, after being markedly lower in recent years,
- Local unemployment is still below the national average,
- Affordable housing is becoming harder to find as vacancy rates in the area decline.

All of these factors were considered in preparing the City of Biddeford's budget for the 2006 fiscal year. The primary budgetary objective was to provide basic City services to its citizens while attempting to keep the property tax rate as low as possible. Several additional factors were also considered in this year's budget preparation.

The City is keeping a watchful eye on the state budget situation. After a half-hearted attempt to placate the proponents of tax reform in the 2005 session (known as LD1), the State government continues to dodge the main issue of the overall tax burden and its distribution among Municipal, County and State spending.

The City experienced a gain in education funding under the new Essential Programs and Services formula and was able to fund the School Department's budget at a 5.9%



# City of Biddeford

## Management's Discussion and Analysis

increase (net of new debt service, the majority of which is reimbursed by the State) with only a 0.1% increase in local property tax revenue for educational purposes.

Meanwhile, the City budget increased 4.0%, which required an increase in property tax revenues of 7.51%, due to lower anticipated non-tax revenues and the unavailability of any excess Undesignated Fund Balance to defray tax increases. The City Council was obliged to increase the base amount of the Municipal tax cap as calculated under LD1 in order not to cut personnel and services. The property tax rate increased from \$17.45 to \$18.10 per thousand or 3.7%, the first increase in three years.

Increases in assessed valuation were limited to new growth and an adjustment to multi-unit residential property, by City Council wish. The City's extremely low assessment ratio will require a general revaluation of all property for the 2006-2007 fiscal year.

During the upcoming fiscal year (2005-2006) the City's management will continue to monitor and evaluate local economic conditions and other factors that will affect its future ability to provide services at an affordable level. In the forefront of our revenue and expenditure concerns are:

- ✓ Continuing increases for general liability and workers compensation insurances well beyond the rate of inflation,
- ✓ Chapter 11 reorganization of Interstate Brands Corporation, one of the City's major taxpayers, has not yet been finalized,
- ✓ Balancing the effects of higher energy and fuel costs faced by the City with the effects of the same costs on the citizens' ability to support City services,
- ✓ The unwillingness of the State Government to embrace real, meaningful tax reform for all levels of government.

### Requests for Information

This financial report is designed to provide a general overview of the City of Biddeford's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Biddeford, Maine, P.O. Box 586, Biddeford, Maine 04005.





# **BASIC FINANCIAL STATEMENTS**



**CITY OF BIDDEFORD, MAINE**  
**Statement of Net Assets**  
**June 30, 2005**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,486,906	-	3,486,906
Investments	13,435,437	-	13,435,437
Receivables:			
Taxes and liens - current year	1,477,690	-	1,477,690
Taxes - prior years	451,465	-	451,465
Liens	459,611	46,535	506,146
Accounts	783,439	1,556,130	2,339,569
Due from State	21,113	-	21,113
Notes	62,337	-	62,337
Internal balances	1,720,245	(1,720,245)	-
Inventory	106,299	-	106,299
Prepaid expenses	160,024	57,357	217,381
Capital assets not being depreciated	18,854,418	204,274	19,058,692
Capital assets being depreciated, net	32,606,003	26,039,971	58,645,974
Total assets	73,624,988	26,184,022	99,809,010
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	1,916,238	1,126,513	3,042,751
Accrued payroll	2,690,169	-	2,690,169
Compensated absences payable	2,530,243	-	2,530,243
Deferred revenues	15,571	-	15,571
Accrued interest	280,688	145,941	426,629
Held for others	794,235	-	794,235
Noncurrent liabilities:			
Due within one year	2,648,421	909,250	3,557,671
Due in more than one year	28,809,915	13,281,250	42,091,165
Total liabilities	39,685,480	15,462,954	55,148,434
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	20,002,085	12,108,845	32,110,930
Restricted for:			
Capital	7,372,233	-	7,372,233
Nonexpendable trust principal	38,890	-	38,890
Unrestricted	6,526,300	(1,387,777)	5,138,523
Total net assets	\$ 33,939,508	10,721,068	44,660,576

*See accompanying notes to financial statements.*