

CITY OF HALLOWELL, MAINE

ANNUAL FINANCIAL REPORT
with Independent Auditors Report

For the Year Ending June 30, 2017

CITY OF HALLOWELL, MAINE
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2017
Table of Contents

	Statement
Independent Auditors Report	
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet - Governmental Funds	3
Statement of Revenues, Expenses and Changes in Fund Balances - Governmental Funds	4
Statement of Net Position - Fiduciary Fund	5
Statement of Changes in Fiduciary Net Position	6
Notes to the Financial Statements	
	Schedule
Required Supplemental Information	
Budget Comparison Schedule - General Fund	1

KEEL J. HOOD

Certified Public Accountant

PO Box 302 - Fairfield, Maine 04937 - (207)453-2007

INDEPENDENT AUDITORS REPORT

July 18, 2017

City Council
City of Hallowell
Hallowell, Maine

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of City of Hallowell, Maine, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the City of Hallowell, Maine as of June 30, 2017, and the respective changes in financial position, and where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion & Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. My opinion of the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information 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. I 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 for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge I obtain during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report Dated July 18, 2017 on my consideration of City of Hallowell, Maine's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 my audit.



CITY OF HALLOWELL, MAINE
Statement of Net Position
June 30, 2017

Statement 1

ASSETS	<u>Governmental Activities</u>
Current Assets:	
Cash	\$ 2,170,938
Receivables	
Taxes	1,653
Liens	109,572
Accounts	13,908
Tax acquired property	8,483
Total Current Assets	<u>2,304,554</u>
Noncurrent Assets:	
Capital assets, net	3,546,267
Total Assets	<u>5,850,821</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension related	186,346
Total Deferred Outflows of Resources	<u>186,346</u>
LIABILITIES	
Current Liabilities:	
Accrued wages	37,256
Accounts payable	60,017
Due to other funds	979,739
Bonds payable within one year	155,000
Total Current Liabilities	<u>1,232,012</u>
Noncurrent Liabilities:	
Bonds payable	650,000
Net pension liability	281,255
Total Noncurrent Liabilities	<u>931,255</u>
Total Liabilities	<u>2,163,267</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related	61,605
Total Deferred Intflows of Resources	<u>61,605</u>
NET POSITION	
Invested in capital assets, net of related debt	2,741,267
Unrestricted	1,071,028
Total net position	<u>\$ 3,812,295</u>

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

CITY OF HALLOWELL, MAINE
Statement of Activities
For the Year Ended June 30, 2017

Function/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Net (Expense) Revenues</u>
Governmental activities:	\$				
General government	488,150	29,311	14,393		(444,446)
Public safety	838,708	41,435			(797,273)
Public works	633,463	3,834	2,320		(627,309)
Human services	47,386		1,501		(45,885)
Leisure Services	40,759	43,055			2,296
Special assessments	3,164,111				(3,164,111)
Unclassified	58,691				(58,691)
Debt service	32,338				(32,338)
Capital outlay	270,920				(270,920)
Total governmental activities	5,574,526	117,635	18,214	0	(5,438,677)
					<u>Governmental Activities</u>
Net (expense) / revenue					
General revenues:					
Property taxes					4,703,026
Excise taxes					403,739
Interest and costs on taxes					18,015
Intergovernmental:					
State revenue sharing					127,982
Local roads assistance					15,908
Homestead exemption					55,322
Snowmobile					394
Tree growth					517
Veterans reimbursement					1,476
BETE					17,410
Retirement system refund					
Unrestricted interest					1,361
Miscellaneous					1,173
Total general revenues					5,346,323
Change in Net Position					(92,354)
Net Position - beginning					4,054,891
Prior Period Entry					(150,242)
Net Position - restated					3,904,649
Net Position - ending	\$				<u>3,812,295</u>

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

CITY OF HALLOWELL, MAINE
Balance Sheet
Governmental Funds
June 30, 2017

Statement 3

ASSETS	General <u>Fund</u>	Total Governmental <u>Funds</u>
Cash	\$ 2,170,938	\$ 2,170,938
Receivables		
Taxes	1,653	1,653
Liens	109,572	109,572
Accounts	13,908	13,908
Tax acquired property	8,483	8,483
Total Assets	<u>2,304,554</u>	<u>2,304,554</u>
LIABILITIES		
Accounts payable	37,256	37,256
Due to other funds	979,739	979,739
Accrued compensated absences	60,017	60,017
Total Liabilities	<u>1,077,012</u>	<u>1,077,012</u>
UNEARNED INCOME		
Deferred property tax revenue	86,000	86,000
Total Liabilities and Unearned Income	<u>1,163,012</u>	<u>1,163,012</u>
FUND BALANCES		
Fund Balances		
Committed:		
Capital purchases	290,783	290,783
Assigned:		
Revenues	47,319	47,319
Unassigned	803,440	803,440
Total Fund Equity	<u>1,141,542</u>	<u>1,141,542</u>
Total Liabilities and Fund Equity	<u>\$ 2,304,554</u>	<u>\$</u>

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

Capital assets used in governmental activities are financial resources and, therefore, are not reported in the funds.	3,546,267
Other long-term assets are not available to pay for current-periods expenditures and therefore are deferred in the funds.	86,000
Long-term liabilities, including bonds and notes are not due and payable in the current period and therefore are not reported in the funds.	
Bonds payable	(805,000)
Net pension liability including related outflows and inflows of resources	(156,514)
Net assets of governmental activities	<u>\$ 3,812,295</u>

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

CITY OF HALLOWELL, MAINE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Revenues:		
Taxes	\$ 5,133,781	5,133,781
Intergovernmental	223,004	223,004
Charges for services	92,019	92,019
Interest	1,361	1,361
Miscellaneous	41,007	41,007
Total Revenues	5,491,172	5,491,172
Expenditures:		
Current:		
General government	463,896	463,896
Public safety	820,000	820,000
Public works	449,363	449,363
Human services	47,386	47,386
Special assessments	3,164,111	3,164,111
Unclassified	58,691	58,691
Leisure services	35,012	35,012
Debt service	187,338	187,338
Capital outlay	270,920	270,920
Total Expenditures	5,496,717	5,496,717
Excess of Revenues Over (Under) Expenditures	(5,545)	(5,545)
Net Change in Fund Balances	(5,545)	(5,545)
Fund Balances - beginning	1,147,087	1,147,087
Fund Balances - ending	\$ 1,141,542	\$ 1,141,542

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

CITY OF HALLOWELL, MAINE
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances
 of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2017

Net change in fund balances - total governmental funds	\$	(5,545)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. While governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Depreciation expense		(226,537)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Capital bond obligation principle payments		155,000
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Unearned property tax revenue		(9,000)
Some expenses reported in the Statement of Activities do not Require the use of current financial resources and therefore Are not reported as expenditures ingovernmental funds. They Increase liabilities in the Statement of Net Position.		
Change in net pension liability with deferred inflows and And outflows		(6,272)
Change in Net Position of Governmental Activities	\$	(92,354)

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

CITY OF HALLOWELL, MAINE
Statement of Net Position
Fiduciary Fund - Cemeteries
June 30, 2017

	Private Purpose <u>Trust Fund</u>
ASSETS	
Due from general fund, current portion	\$ 979,739
Total Assets	<u>979,739</u>
NET POSITION	
Held in Trust	979,739
Total Liabilities	<u>\$ 979,739</u>

Statement 7

CITY OF HALLOWELL, MAINE
Statement of Changes in Fiduciary Net Position
Cemeteries
June 30, 2017

		Private Purpose <u>Trust Fund</u>
Additions:		
Investment income	\$	2,279
Donations		300
Total Additions		<u>2,579</u>
Deductions:		
None		
Total deductions		<u>0</u>
Total Additions		<u>2,579</u>
Change in Net Position		2,579
Net Position - beginning		<u>977,160</u>
Net Position - ending		<u><u>979,739</u></u>

CITY OF HALLOWELL, MAINE
Notes to Combined Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies

The City of Hallowell was incorporated in 1869 under the laws of the State of Maine. The City operates under the City Manager/City Council form of government.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

In evaluating how to define the reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit is made by applying the criteria set forth in GAAP which defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Application of this criterion and determination of type of presentation involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. Based upon the application of these criteria, there were no potential component units required to be included in this report.

B. Government-wide and Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. 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 support.

1. Summary of Significant Accounting Policies, continued

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 City has elected not to allocate indirect costs among the programs, functions and segments. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided 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 instead 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.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Licenses, permits, fees, excise taxes and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Interest income and charges for services are recorded as revenues when earned, since they are measurable and available.

Those revenues susceptible to accrual are property taxes, interest, and charges for services. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

1. Summary of Significant Accounting Policies, continued

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

The City reports the following major governmental fund:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the City reports the following fund types:

Fiduciary Funds

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Private-purpose trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

D. Capital Assets

Capital assets, which include property, plant, and equipment are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost if purchased or constructed. Donated capital assets are

1. Summary of Significant Accounting Policies, continued

recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives ranging from 3 to 50 years.

E. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts, as well as issuance costs, if material, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, 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 issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

F. Short-term Interfund Receivables/Payables

During the course of operation, numerous transactions occur between individual funds primarily for cash flow purposes. These interfund receivables and payables are classified as "due from other funds or due to other funds" on the balance sheets.

G. Fund Equity

Committed fund balance indicates that a portion of the fund balance is constrained for a specific future use, and is indicated by the title of each purpose listed in the balance sheet. Committed fund balances are voted on by Council Vote. Assigned fund balances indicate amounts which either are intended to be carried forward by law or contractual agreement, or which the City Council has voted to carry forward.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the

1. Summary of Significant Accounting Policies, continued

reporting period. Actual results could differ from those estimates.

2. Budgetary Accounting

A budget is formally adopted for the General Fund, only, through the passage of a City warrant, and is prepared on a basis consistent with generally accepted accounting principles. Commitments for goods and services at the end of the year are recorded as encumbrances for budgetary control. These encumbrances lapse at the end of the year and become part of the following year's budgetary amounts. In the General Fund, the level of control (level at which expenditures may not exceed budget and applied revenues) is the accounts within each department. Generally, unexpended appropriations are not carried forward to future years (assigned), and unexpended revenues are lapsed at the close of the year. Once adopted, the budget can only be amended by City Council vote.

3. Deposits

The City's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines, while avoiding unreasonable risk. The City includes in cash, balances in certificates of deposits that are available for withdrawal.

At year end, the City's carrying amount of deposits was \$2,170,938. The bank balances for all funds totaled \$2,179,002. Custodial credit risk is the risk that, in the event of a bank failure the City's deposits might not be recovered. As of June 30, 2017, all of the Town's deposits were insured or collateralized by securities held in the government's name.

4. Operating Property

Operating and nonoperating property are recorded at cost or, in the case of contributed property, at the fair market value at the date of acquisition. Depreciation is computed on the straight line method based upon the estimated useful lives of the assets as follows:

4. Operating Property, continued

Governmental Activities:	Balance July 1 2016	<u>Increases</u>	<u>Decreases</u>	Balance June 30 2017
Assets not being depreciated				
Land and easements \$	119,600	\$	\$	119,600
Assets being depreciated				
Buildings	1,907,200			1,907,200
Vehicles and equipment	1,673,912			1,673,912
Infrastructure	3,716,640			3,716,640
	<u>7,417,352</u>	<u>0</u>	<u>0</u>	<u>7,417,352</u>
Less accumulated depreciation				
Buildings	1,081,248	23,509		1,104,757
Vehicles	1,353,295	100,150		1,453,445
Infrastructure	1,210,005	102,878		1,312,883
	<u>3,644,548</u>	<u>226,537</u>	<u>0</u>	<u>3,871,085</u>
Capital Assets, net \$	<u>3,772,804</u>	<u>\$(226,537)</u>	<u>0</u>	<u>\$ 3,546,267</u>
Depreciation Expense:				
General government	\$ 17,982			
Public safety	18,708			
Leisure services	5,748			
Public works	184,099			
	<u>226,537</u>			

5. Property Tax

Property taxes for the year were committed on August 9, 2016, on the assessed value listed as of April 1, 2016, for all taxable real and personal property located in the City. Payment of taxes was due September 1, 2016, and March 1, 2017 with interest at 7% on all tax bills unpaid as of those dates.

Assessed values are periodically established by the City's Assessor at 100% of assumed market value. The last revaluation was completed for the list of April 1, 2016. The assessed value for the list of April 1, 2016 upon which the levy for the year ended June 30, 2017, was based, was \$248,548,786. This assessed value was 100% of the estimated market value.

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

Property taxes levied during the year were recorded as receivables at the time the levy was made. The receivables collected during the year and in the first sixty days following the end of the fiscal year have been recorded as revenues. The remaining receivables have been recorded as deferred revenues.

6. Long-term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2017:

Long-term debt payable at July 1, 2016	960,000
Debt Retired	(155,000)
Debt Proceeds	
Long-term debt payable at June 30, 2017	<u>805,000</u>
Interest Paid	<u>32,338</u>

6. Long-term Debt, continued

Long-term debt payable at June 30, 2017 is comprised of the following:

<u>General Long-term Debt</u>	<u>Interest rate</u>	<u>Final maturity date</u>	<u>Balance end of year</u>
2009 Bond	3%	2030	\$ 805,000
			<u>\$ 805,000</u>

The annual requirement to amortize all long-term debt outstanding as of June 30, 2017 are as follows:

<u>Year</u>	<u>Bonds and Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2017	155,000	26,994
2017	150,000	22,038
2018	150,000	16,975
2019	35,000	13,738
2020	35,000	12,425
2021-2025	175,000	41,038
2026-2030	105,000	7,000
Total	<u>\$ 805,000</u>	<u>\$ 140,208</u>

In accordance with 30-A MRSA, Section 5702, as amended, no municipality shall incur debt for specified purposes in excess of 15 percent of the state valuation of such municipality. At June 30, 2017, the City was in compliance with these regulations.

7. General Fund Committed Balances

The General Fund reserves consists of the following:

	<u>Special</u>
Capital	\$ 290,783
	<u>\$ 290,783</u>

8. Unassigned General Fund Fund Equity

The undesignated General Fund fund equity reflected a change for the current year as follows:

Balance - July 1, 2016	\$ 362,958
Increase (Decrease):	
Estimated under actual revenues	22,883
Appropriations over expenditures	642,599
Budgeted utilization of fund equity	<u>(225,000)</u>
Net Increase (Decrease)	440,482
Balance - June 30, 2017	<u>\$ 803,440</u>

9. Assigned for Subsequent Year's Revenues

The portion of the General Fund fund equity which has been assigned by budgeting decisions represents amounts received during the current accounting period that are to be budgeted as revenues in the subsequent year. These accounts, were as follows at June 30, 2017:

Local roads	\$	3,503
State Revenue Sharing		43,816
Total	\$	<u>47,319</u>

10. Section 457 Plan

Employees of the City of Hallowell may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

The deferred compensation plan is available to all employees of the City. Under the plan, employees may elect to defer a portion of their salaries 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 deferred compensation plan is administered by an unrelated financial institution. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are maintained in a trust with the beneficiary the City.

11. MePERS Plan

Plan Description

The City of Hallowell is a member of the Participating Local District of the Maine Public Employees Retirement System. Benefit terms are established in Maine statute. MePers issues a publickly available financial report that can be obtained at www.maineipers.org.

Benefits Provided

Benefit terms are established in Maine statute; in the case of the PLD Consolidated Plan, an advisory group, also established by statute, reviews the terms of the plan and periodically makes recommendations to the Legislature to amend them. The system's retirement programs provide defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting (ie., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit (effective October 1, 1999, the prior ten year requirement was reduced by legislative action to five years for employees of the PLD). In some cases, vesting occurs on the earning of one year of service credit immediately preceedng retirement at or after normal retirement age. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. For PLD members, normal retirement age is 60 or 65. The monthly benefit of members who reire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and

11. MePERS Plan, continued

death benefits which are established by statute for State employee and teacher members and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 5%

Member and Employer Contributions

Retirement benefits are funded by contributions from members and employers and by earnings on investments. Disability and death benefits are funded by employer normal cost contributions and by investment earnings. Member and employer contribution rates are each a percentage of applicable member compensation. Member employer contribution rates are defined by law or Board rule and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined through actuarial valuations.

Financial Reporting

The plan issues stand alone financial reports which can be found online at the web address noted previously.

Pension Liabilities, Pension Expense, and Deferred Outflows or Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017 the Town reported a liability for its share of the net pension liability of \$281,255.

The net pension liability was measured as of June 30, 2016, and the total pension liability was determined by an actuarial valuation as of that date. The city's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2016 the City's proportion was 0.0529%.

Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. The Plans change in the discount rate from 7.125% to 6.875% was the only change in assumption in the 2016 valuation.

For the year ended June 30, 2016, the city recognized pension expense of \$27,745. At June 30, 2016 the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

11. MePERS Plan, continued

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 2,410	18,090
Change of assumptions	30,151	
Net difference between projected and actual earnings on pension plan investments	103,933	43,255
Changes in proportion and differences between School Unit contributions and proportionate share of contributions	21,112	260
School Unit contributions subsequent to the measurement	27,740	
	<u>185,346</u>	<u>61,605</u>

\$27,740 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:
Year ended June 30:

2017	\$24,438
2018	17,468
2019	38,884
2020	16,210

Actuarial Methods and Assumptions

The collective total pension liability for the Plans was determined by an actuarial valuation as of June 30, 2016 and 2015 using the following methods and assumptions applied to all periods included in the measurement.

Actuarial Cost Method

The Entry Age Normal actuarial funding method is used to determine costs. Under this funding method, the total employer contribution rate consists of two elements: the normal cost rate and the unfunded actuarial (UAL) rate.

The individual entry age normal method is used to determine liabilities. Under the individual entry age normal method, a normal cost rate is calculated for each employee. This rate is determined by taking the value, as of age at entry into the plan, of the members projected future benefits, and dividing it by the value, also as of the members entry age, of his or her expected future salary. The normal cost for each employee is the product of his or her pay and his or her normal cost rate. The normal cost of the group is the sum of the normal costs for all members.

Experience gains and losses, i.e., decreases or increases in liabilities and/or in assets when actual experience differs from the actuarial assumptions, affect the unfunded actuarial accrued liability.

11. MePERS Plan, continued

Asset Valuation Method

The actuarial valuation employs a technique for determining the actuarial value of assets which dampens the swing in the market value. The specific technique adopted in this valuation recognizes in a given year one-third of the investment return that is different from the actuarial assumption for investment return.

Amortization

The net pension liability of the PLD Consolidated Plan as of June 30, 2016 is amortized on a level percentage of payroll using a method where a separate twenty-year closed period is established annually for the gain or loss for that year.

To the actuarial as of June 30, 2016, the net pension liability of the PLD Plan wa amortized on an open basis over a period of fifteen years.

Significant acturial assumptions employed by the actury for funding purposes for funding purposes as of June 30, 2016 are as follows:

Investment Rate of Return - 6.875% per annum for the year ended June 30, 2016 and 7.125% fo the year ended June 30, 2015, compounded annually.

Salary Increases, Merit and Inflation - members of the PLD consolidated Plan, 2.75% to 9% per year.

Mortality Rates - For nondiabled retirees of the participating local districts, the RP2014 Tables projected forward to 2016 using Scale AA are used; for all recipients of disability benefits, the Revenue Ruling 96-7 Disabled Mortality table for Males and Females is used.

Cost of Living Benefit Increases - 2.2% fo the year ended June 30, 2016 and 2.55% for the year ended June 30, 2015 for participating local districts.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expecting rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expecting inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
US equities	20%	5.2%
Non-US equities	20%	5.5%
Private equity	10%	7.6%
Real estate	10%	3.7%
Infrastructure	10%	4.0%
Hard assets	5%	4.8%
Fixed income	25%	0.7%
Total	100%	

11. MePERS Plan, continued

Discount Rate

The discount rate used to measure the pension liability was 6.875%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from participating local School Units will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School Unit's proportionate share of the net pension liability to changes in the discount rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.875%, as well as what the School Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.875%) or 1 percentage-point higher (7.875%) than the current rate:

	1% Decrease (.875%)	Current Discount Rate (6.875%)	1% Increase (7.875%)
City's proportionate share of the net pension liability	466,832	281,255	106,540

12. Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the past several years the City has obtained coverage from the Maine Municipal Association risk pool. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonable estimated. In determining claims, events that might create claims but for which none have been reported, are considered.

The City's Management estimates that the amount of actual or potential claims against the City as of June 30, 2017, are unknown. Therefore, the General Fund contains no provision for, and does not present, estimated claims.

13. Long-term due to trust fund

The City of Hallowell borrowed from the trust fund in lieu of borrowing from a financial institution. This borrowing was for major capital construction. The amount was repaid early and the long-term portion no longer exists.

CITY OF HALLOWELL, MAINE
Budget Comparison Schedule
General Fund
For the year ended June 30, 2017

	<u>Budgeted Amounts</u>			Variance with final budget positive (negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:	\$	\$	\$	\$
Taxes	5,066,872	5,066,872	5,133,781	66,909
Intergovernmental	227,853	227,853	223,004	(4,849)
Interest	1,100	1,100	1,361	261
Charges for services	122,600	122,600	92,019	(30,581)
Miscellaneous	37,500	37,500	41,007	3,507
Total revenues	<u>5,455,925</u>	<u>5,455,925</u>	<u>5,491,172</u>	<u>35,247</u>
Expenditures:				
Current:				
General government	417,819	417,819	463,896	(46,077)
Public safety	868,810	868,810	820,000	48,810
Public works	511,404	512,204	449,363	62,841
Human services	34,200	34,200	47,386	(13,186)
Special assessments	3,279,132	3,279,132	3,164,111	115,021
Leisure services	39,150	39,150	35,012	4,138
Unclassified	60,572	60,572	58,691	1,881
Debt service	299,838	299,838	187,338	112,500
Capital outlay	170,000	381,472	270,920	110,552
Total expenditures	<u>5,680,925</u>	<u>5,893,197</u>	<u>5,496,717</u>	<u>396,480</u>
Excess (deficiency) of revenues over (under expenditures)	<u>(225,000)</u>	<u>(437,272)</u>	<u>(5,545)</u>	<u>431,727</u>
Fund Balance - beginning	1,147,087	1,147,087	1,147,087	0
Fund Balance - ending	<u>\$ 922,087</u>	<u>\$ 709,815</u>	<u>\$ 1,141,542</u>	<u>\$ 431,727</u>

KEEL J. HOOD

Certified Public Accountant

PO Box 302 - Fairfield, Maine 04937 - (207)453-2006

INDEPENDENT AUDITOR'S 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

July 18, 2017

City Council
City of Hallowell, Maine
Hallowell, Maine

I have audited, in accordance with the auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of City of Hallowell, Maine as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Hallowell, Maine's basic financial statements, and have issued my report thereon dated July 18, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hallowell, Maine's financial statements are free from material misstatement, I 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 my audits, and accordingly, I do not express such an opinion. The

results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Jan J. Hood, CPA