CITY OF HALLOWELL, MAINE

ANNUAL FINANCIAL REPORT
with Independent Auditors Report

For the Year Ending June 30, 2019

CITY OF HALLOWELL, MAINE

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2019

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KEEL J. HOOD

Certified Public Accountant

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INDEPENDENT AUDITORS REPORT

August 24, 2019

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, 2019, and the related notes to the financial statements, which collectively comprise the City'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 Unites 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, 2019, 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 Unites States of America require that the budgetary comparison information, Schedule of City's Proportionate Share of the Net Pension Liability, Schedule of Changes in the City's Total Health Plan OPEB Liability and Related Ratios, and the Schedules of City Contributions 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 August 24, 2019 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.

Jack Hood CPA

Statement 1

CITY OF HALLOWELL, MAINE
Statement of Net Position
June 30, 2019

	Governmental Activities
ASSETS	
Current Assets:	
Cash	$ 1,015,464
Receivables	
Taxes	6,100
Liens	143,284
Accounts	4,032
Tax acquired property	529
Due from trust fund	100,967
Total Current Assets	1,270,376
Noncurrent Assets:	
Capital assets, net	6,302,183
Total Assets	7,572,559
DEFERRED OUTFLOWS OF RESOURCES	
Pension related	66,867
OPEB related	9,591
Total Deferred Outflows of Resources	76,458
LIABILITIES	
Current Liabilities:	
Accrued wages	30,494
Accounts payable	83,471
Lease payable within one year	37,907
Bonds payable within one year	274,211
Total Current Liabilities	426,083
Noncurrent Liabilities:	
Lease payable	9,910
Bonds payable	2,121,503
Net pension liability	155,419
Net OPEB liability	67,705
Total Noncurrent Liabilities	2,354,537
Total Liabilities	2,780,620
DEFERRED INFLOWS OF RESOURCES	
Pension related	41,976
OPEB related	6,447
Total Deferred Inflows of Resources	48,423
NET POSITION	
Invested in capital assets, net of related debt	3,858,652
Unrestricted	961,322
Total net position	$ 4,819,974

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

Statement 2

CITY OF HALLOWELL, MAINE
Statement of Activities
For the Year Ended June 30, 2019

Function/Programs	Expenses	Charges for Services	Program Revenues: Operating grants and contributions	Program Revenues: Capital grants and contributions	Net (Expense) Revenues
Governmental activities:	$				
General government	448,472	30,564			(417,908)
Public safety	1,132,410	52,766			(1,079,644)
Public works	1,595,310	89,121	18,210		(1,487,979)
Human services	40,425		5,139		(35,286)
Leisure Services	47,709	45,556			(2,153)
Special assessments	3,406,280				(3,406,280)
Unclassified	58,007				(58,007)
Debt service	74,199				(74,199)
Capital outlay	148,851				(148,851)
Total governmental activities	6,951,663	218,007	23,349	0	(6,710,307)

		Governmental Activities
Net (expense) / revenue		
General revenues:		
Property taxes		4,890,855
Excise taxes		427,197
Interest and costs on taxes		16,436
Intergovernmental:		
State revenue sharing		145,911
Local roads assistance		16,460
Homestead exemption		103,777
Tree growth		448
Snowmobile		166
Veterans reimbursement		1,630
BETE		15,732
Unrestricted interest		6,852
Donation		
Total general revenues		5,625,464
Change in Net Position		(1,084,843)
Net Position - beginning		5,962,336
Prior Period Entry		(57,519)
Net Position - restated		5,904,817
Net Position - ending	$	4,819,974

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

Statement 3

CITY OF HALLOWELL, MAINE
Balance Sheet
Governmental Funds
June 30, 2019

ASSETS	General Fund	Capital Projects	Total Governmental Funds
Cash	$ 938,873	$ 76,591	$ 1,015,464
Receivables			
Taxes	6,100		6,100
Liens	143,284		143,284
Accounts	4,032		4,032
Tax acquired property	529		529
Due from other funds	98,655	2,312	100,967
Total Assets	1,191,473	78,903	1,270,376
LIABILITIES			
Accounts payable	30,494		30,494
Accrued wages	83,471		83,471
Total Liabilities	113,965	0	113,965
UNEARNED INCOME			
Deferred property tax revenue	120,000		120,000
Total Liabilities and Unearned Income	233,965	0	233,965
FUND BALANCES			
Fund Balances			
Committed:			
Capital purchases	320,818	78,903	399,721
Assigned:			
Revenues	66,053		66,053
Unassigned	570,637		570,637
Total Fund Equity	957,508	78,903	1,036,411
Total Liabilities and Fund Equity	$ 1,191,473	$ 78,903	

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.	6,302,183
Other long-term assets are not available to pay for current-periods expenditures and therefore are deferred in the funds.	120,000
Long-term liabilities, including bonds and notes are not due and payable in the current period and therefore are not reported in the funds.	
Lease payable	(47,817)
Bonds payable	(2,395,714)
Net pension liability including related outflows and inflows of resources	(130,528)
Net OPEB liability including related outflows and inflows of resources	(64,561)
Net assets of governmental activities	$ 4,819,974

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

Statement 4

CITY OF HALLOWELL, MAINE

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2019

	General Fund	Capital Projects	Total Governmental Funds
Revenues:			
Taxes	$ 5,307,488		5,307,488
Intergovernmental	307,741		307,741
Charges for services	188,050		188,050
Interest	6,722	130	6,852
Miscellaneous	29,689		29,689
Total Revenues	5,839,690	130	5,839,820
Expenditures:			
Current:			
General government	430,870		430,870
Public safety	905,931	256,656	1,162,587
Public works	685,107	767,257	1,452,364
Human services	40,425		40,425
Special assessments	3,506,280		3,506,280
Unclassified	58,007		58,007
Leisure services	41,962		41,962
Debt service	283,612		283,612
Capital outlay	148,851		148,851
Total Expenditures	6,101,045	1,023,913	7,124,958
Excess of Revenues Over (Under) Expenditures	(261,355)	(1,023,783)	(1,285,138)
Other Financing Sources (Uses):			
Operating Transfer In (Out)	(75,000)	75,000	0
Debt issuance proceeds	28,630	521,924	550,554
Total Other Financing Sources	(46,370)	596,924	550,554
Net Change in Fund Balances	(307,725)	(426,859)	(734,584)
Fund Balances - beginning	1,265,233	505,762	1,770,995
Fund Balances - ending	$ 957,508	$ 78,903	$ 1,036,411

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

Statement 5

City of Hallowell

Reconciliation of the Statement of Revenues,

Expenditures, and Changes in Fund Balances

of Governmental Funds in Statement of Activities

For the Fiscal Year Ended June 30, 2019

Net change in fund balances - total governmental funds	$	(734,584)
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:		
Capital asset purchases capitalized		
Depreciation expense		(178,506)
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 lease obligation principal payments		35,203
Capital bond obligation principle payments		274,211
Bond proceeds provide current financial resources to governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Capital Bond Obligation Proceeds		(550,554)
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		27,000
Some expenses reported in the Statement of Activities do not Require the use of current financial resources and therefore Are not reported as expenditures in governmental funds. They Increase liabilities in the Statement of Net Position.		
Change in net pension liability with deferred inflows and outflows		49,429
Change in net OPEB liability with deferred inflows and outflows		(7,042)
Change in Net Position of Governmental Activities	$	(1,084,843)

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

Statement 6

CITY OF HALLOWELL, MAINE
Statement of Net Position
Fiduciary Fund - Cemeteries
June 30, 2019

	Private Purpose Trust Fund
ASSETS	
Cash	$ 18,973
Investment	1,090,373
Total Assets	1,109,346
Liabilities	
Due to general fund	100,967
NET POSITION	
Held in Trust	1,008,379
Total Net Position	$ 1,008,379

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

Statement 7

TOWN OF HALLOWELL, MAINE

Statement of Changes in Fiduciary Net Assets

June 30, 2019

	Private Purpose Trust Fund
Additions:	
Investment income	$ 51,488
Total Additions	51,488
Deductions:	
Other miscellaneous	0
Total deductions	0
Change in Net Assets	51,488
Net Position - beginning	956,891
Net Position - ending	$ 1,008,379

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

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 Fund 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.

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.

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

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 $1,034,438. The bank balances for all funds totaled $1,119,695. 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, 2019, 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 2018	Increases	Decreases	Balance June 30 2019
Assets not being depreciated				
Land and easements	$ 119,600	$	$	$ 119,600
Assets being depreciated				
Buildings	3,644,092			3,644,092
Vehicles and equipment	1,784,369			1,784,369
Infrastructure	5,003,187			5,003,187
	10,551,248	0	0	10,551,248
Less accumulated depreciation				
Buildings	1,127,886	23,129		1,151,015
Vehicles	1,526,912	52,499		1,579,411
Infrastructure	1,415,761	102,878		1,518,639
	4,070,559	178,506	0	4,249,065
Capital Assets, net	$ 6,480,689	$ (178,506)	$ 0	$ 6,302,183

Depreciation Expense:	
General government	$ 17,602
Public safety	12,210
Leisure services	5,748
Public works	142,946
	178,506

5. Property Tax

Property taxes for the year were committed on August 16, 2018, on the assessed value listed as of April 1, 2018, for all taxable real and personal property located in the City. Payment of taxes was due September 4, 2018, and March 1, 2019 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, 2018. The assessed value for the list of April 1, 2018 upon which the levy for the year ended June 30, 2019, was based, was $247,828,245. 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, 2019:

Long-term debt payable at July 1, 2018	$ 2,202,391
Debt Retired	(309,414)
Debt Proceeds	550,554
Long-term debt payable at June 30, 2019	$ 2,443,531
Interest Paid	$ 74,199

6. Long-term Debt, continued

Long-term debt payable at June 30, 2019 is comprised of the following:

	Interest rate	Final maturity date	Balance end of year
General Long-term Debt			
2009 Bond	3%	2030	$ 500,000
2017 Bond	2.99%	2037	1,895,714
Lease	2.89%	2020	28,369
2018 Lease	3.89%	2021	19,448
			$ 2,443,531

The annual requirement to amortize all long-term debt outstanding as of June 30, 2019 are as follows:

Year	Bonds and Notes	
	Principal	Interest
2019	$ 312,118	$ 83,733
2020	169,120	75,418
2021	159,211	70,006
2022	159,211	64,892
2023	159,211	59,910
2024-2028	796,053	221,747
2029-2033	656,053	103,047
2034-2038	372,632	16,768
Total	$ 2,783,609	$ 695,521

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, 2019, the City was in compliance with these regulations.

The debt payment schedule is calculated to show the full approved $2,360,000 2018 bond which has not been fully drawn down as of June 30, 2019. Of the approved $2,360,000 the city has drawn $2,029,924 and made one principal payment of $124,210, leaving an unpaid balance of $1,895,714 as of June 30, 2019.

7. Unassigned General Fund Fund Equity

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

Balance - July 1, 2018		$ 986,343
Increase (Decrease):		
Estimated under actual revenues	(13,156)	r
Appropriations over expenditures	(2,229)	
Budgeted utilization of fund equity	(400,321)	
Net Increase (Decrease)		(415,706)
Balance - June 30, 2019		$ 570,637

8. General Fund Committed Balances

The General Fund reserves consists of the following:

	Special
Capital	$ 320,818
	$ 320,818

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, 2019:

Local roads	$ 3,983
State Revenue Sharing	62,070
Total	$ 66,053

10. Capital Projects Fund Equity

The portion of the Capital Project Fund fund equity which is committed to capital projects is the funds remaining on two major town projects. The first project is a capital bonding for major road and structure renovations around the city; this project is ongoing and further drawdowns on the capital bond will be made during the subsequent year. The second major project accounts for a donation for the construction of a new city Fire Department Building. These accounts, were as follows at June 30, 2019:

Bonding Project	$ 53,586
Fire Station project	25,317
Total	$ 78,903

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 publicly available financial report that can be obtained at www.mainepers.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 preceding 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 retire 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 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, 2019 the City reported a liability for its share of the net pension liability of $155,419.

The net pension liability was measured as of June 30, 2019, 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 local districts, actuarially determined. At June 30, 2019 the City's proportion was 0.05679%.

Differences due to changes in assumptions about future economic or demographic factors of 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 made no changes in assumption in the 2018 valuation.

For the year ended June 30, 2019, the City recognized pension expense of $17,902. At June 30, 2019 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 Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 487	$ 1,707
Change of assumptions	24,807	
Net difference between projected and actual earnings on pension plan investments		37,528
Changes in proportion and differences between City contributions and proportionate share of contributions	10,453	2,741
Contributions subsequent to the measurement	31,120	
	66,867	41,976

$31,120 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, 2019.

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:

2019	$ 29,431
2020	(433)
2021	(25,530)
2022	(9,691)

Actuarial Methods and Assumptions

The collective total pension liability for the Plans was determined by an actuarial valuation as of June 30, 2019 and 2018 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.

Asset Valuation Method

11. MePERS Plan, continued

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, 2019 is amortized as a level percentage of payroll over a thirty-year period on a closed basis.

As of June 30, 2019, there were 12 years remaining in the amortization schedule for the PLD plan.

Significant actuarial assumptions employed by the actuary for funding purposes for funding purposes as of June 30, are as follows:

Investment Rate of Return - 6.75% per annum for the year ended June 30, 2019 and 6.875% for the year ended June 30, 2018, compounded annually.

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

Mortality Rates - For non disabled retirees of the participating local districts, the RP2014 Tables projected forward to 2019 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 - 1.91% for the year ended June 30, 2019 and 1.91% for the year ended June 30, 2018 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:

Asset Class	Long-term Expected Real Rate of Return
Public equities	6.0%
US government	2.3%
Private equity	7.6%
Real estate	5.2%
Infrastructure	5.3%
Natural resources	5.0%
Traditional credit	3.0%
Alternative credit	4.2%
Diversifiers	5.9%

11. MePERS Plan, continued

Discount Rate

The discount rate used to measure the pension liability was 6.75%. 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 Districts 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. Therefor, 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 City'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 6.75%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.75%) or 1 percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
City's proportionate share of the net pension liability	366,301	155,419	(41,699)

12. Health Insurance Trust OPEB Plan

Plan Description

Plan administration. The Maine Municipal Employees Health Trust (the Trust), an irrevocable trust, is a cost sharing multi-employer agent defined other post employment benefit plan administered by the Trust and the Trust's Board of Directors that is used to provide post employment benefits other than pensions (OPEB) for employees of the Fund. City employees may become eligible for these benefits if they reach normal retirement age with five years working for the City. The City of Hallowell implemented GASB No.75 with its reporting for the June 30, 2019 year.

Benefits provided. The Fund provides certain healthcare insurance benefits for retired employees. Benefits are fully self-insured by the Trust and are administered through a third-party administrator. The full cost of benefits is covered by the plan. Management of the Trust has the authority to establish and amend benefit provisions to the Plan.

Employees covered by benefit terms. At June 30, 2019, there were no retirees currently receiving benefits payments and ten active plan members.

Contributions. The Trust is pay as you go and is not funded.

12. Health Insurance Trust OPEB Plan, continued

Net OPEB Liability. The components of the NET OPEB liability of the Trust at June 30, 2019, were as follows:

Total OPEB Liability	$	67,705
Trust Fiduciary Net Position		0
Net OPEB Liability	$	67,705
Deferred Inflows		6,447
Deferred Outflows		9,591
Net Impact on Statement of Net Position	$	64,561
OPEB Expense	$	7,247
OPEB Expense as a percent of payroll		1.70%

At the end of the reporting year, the City of Hallowell would report a total Net OPEB Liability of $67,705, Deferred Inflows of $6,447 and Deferred Outflows of $9,591. Consequently, the net impact on the City of Hallowell's Statement of Net Position due to the Plan would be $64,561 at the end of the reporting year.

For the reporting year ending December 31, 2019, the annual OPEB expense is $7,247 or 1.7% of payroll. This amount is not expected to be the same as the City of Hallowell's contribution to the Plan of $205, but instead represents the change in the net impact on the employers' Statement of net Position plus employer contributions ($64,561 - $57,519 + $205).

This valuation reflects a roll forward of City of Hallowell's January 1, 2019 valuation.

Actuarial assumptions and methods. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions and methods:

Valuation Date	January 1, 2019
Actuarial Method	Entry Age Normal
Amortization Method	Level dollar
Amortization Period	Open 30-year

Rates of mortality are based on 104% and 120% of the RP-2014 Total Dataset Healthy Annuitant Mortality Table, respectively, for males and females, using the RP-2014 Total Dataset Employee Mortality Table for ages prior to start of the Healthy Annuitant Mortality Table, both projected from the 2006 base rates using the REPC_2015 model, with an ultimate ratio of .85$ for ages 20-85 grading down to an ultimate rate of 0% for ages 111-120, and convergence to the ultimate rate in the year 2020. As prescribed by the Trust mortality rates were taken from the assumptions for the Maine State Retirement Consolidated Plan for Participating Local Districts at June 30, 2016.

Sensitivity of the net OPEB liability to changes in the discount rates. The following presents the net OPEB liability of the Trust, as well as what the Fund's net OPEB liability would be if it were calculated using discount rates that are one-percentage-point lower or one-percentage-point higher than the current discount rates:

12. Health Insurance Trust OPEB Plan, continued

	1% Decrease (3.10%)	Current Discount Rate (4.10%)	1% Increase (5.10%)
Total OPEB Liability	79,524	67,705	58,078

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the Trust, as well as what the Fund's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Discount Rate	1% Increase
Total OPEB Liability	57,373	67,705	80,615

OPEB Expense and Deferred Outflows of resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Trust recognized OPEB expense of $7,247. At June 30, 2019 the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	992	
Change of assumptions	8,599	6,447
Net difference between projected and actual earnings on OPEB plan investments		
measurement		
	9,591	6,447

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30:	
2020	$ 844
2021	844
2022	844
2023	844
2024	840
Thereafter	(1,072)

13. 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

13. Risk Management, continued

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, 2018, are unknown. Therefore, the General Fund contains no provision for, and does not present, estimated claims.

14. Subsequent Events

The City's management has concluded that no events that occurred prior to June 30, 2019 and before August 24, 2019 require disclosure as subsequent events.

Schedule 1

CITY OF HALLOWELL, MAINE
Budget Comparison Schedule
General Fund
For the year ended June 30, 2019

	Budgeted Amounts			Variance with final budget positive (negative)
	Original	Final	Actual	
Revenues:	$	$	$	$
Taxes	5,260,416	5,260,416	5,307,488	47,072
Intergovernmental	273,645	291,855	307,741	15,886
Interest	4,000	4,000	6,722	2,722
Charges for services	126,550	208,171	188,050	(20,121)
Miscellaneous	6,500	6,500	29,689	23,189
Total revenues	5,671,111	5,770,942	5,839,690	68,748
Expenditures:				
Current:				
General government	433,405	433,405	430,870	2,535
Public safety	941,309	941,309	905,931	35,378
Public works	594,099	723,049	685,107	37,942
Human services	42,370	42,370	40,425	1,945
Special assessments	3,490,526	3,490,526	3,506,280	(15,754)
Leisure services	44,000	44,000	41,962	2,038
Unclassified	56,286	56,286	58,007	(1,721)
Debt service	247,416	247,416	283,612	(36,196)
Capital outlay		146,531	148,851	(2,320)
Total expenditures	5,849,411	6,124,892	6,101,045	23,847
Excess (deficiency) of revenues over (under expenditures	(178,300)	(353,950)	(261,355)	92,595
Other Financing Sources (Uses):				
Gain on sale of assets		28,630	28,630	0
Operating transfer out		(75,000)	(75,000)	0
Total Other Financing Sources (Uses)	0	(46,370)	(46,370)	0
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	(178,300)	(400,320)	(307,725)	92,595
Fund Balance - beginning	1,265,233	1,265,233	1,265,233	0
Fund Balance - ending	$ 1,086,933	$ 864,913	$ 957,508	$ 92,595

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

Schedule 2

City of Hallowell, Maine
Schedule of City' s Proportionate Share of the Net Pension Liability
Maine Public Employees Retirement System Consolidated Plan
Last 10 Fiscal Years*

Fiscal Year Ending June 30,		2019		2018
City's proportion of the net pension liability		0.0568%		0.0577%
City's proportionate share of the net pension Liability	$	155,419	$	236,536
City's covered payroll		324,165		311,688
City's proportion share of the net pension liability as a percentage of its covered payroll		47.94%		75.89%
Plan fiduciary net position as a percentage of the total pension liability		91.10%		86.43%
Total	$	155,420	$	236,537
City's employee payroll		854,041		772,455
City's proportion share of the net pension liability as a percentage of its covered-employee payroll		18.20%		30.62%

*Only two years of information available

**The amounts presented for each fiscal year were determined as of the prior fiscal year.

Schedule 3

CITY OF HALLOWELL, MAINE
Required Supplementary Information
Schedule of Changes in the City's Total Health Plan OPEB
Liability and Related Ratios

Last 10 Fiscal Years*

	2019	2018
Service cost (BOY)	$ 3,898	2,992
Interest (includes interest on service cost)	2,505	2,027
Changes of benefit terms	0	0
Differences between expected and actual experience	0	1,390
Changes of assumptions	(7,522)	12,039
Benefit payments, including refunds of member contributions	(205)	(97)
Net change in total OPEB liability	**(1,324)**	**18,351**
Total OPEB liability- beginning	**69,029**	**50,678**
Total OPEB liability- ending	**67,705**	**69,029**
Plan fiduciary net position		
Contributions- employer	205	97
Contributions- member	0	0
Net investment income		
Benefit payments, including refunds of member contributions	(205)	(97)
Administrative expense	0	0
Net change in plan fiduciary net position	**0**	**0**
Plan fiduciary net position- beginning	**0**	**0**
Plan fiduciary net position- ending	**0**	**0**
Net OPEB liability- ending	**67,705**	**69,029**
Plan fiduciary net position as a percentage of the total OPEB liability	0.0%	0.0%
Covered employee payroll	438,336	438,336
Net OPEB liability as a percentage of employee payroll	15.4%	15.7%

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

City of Hallowell
Schedule of City Contributions
Maine Public Employees Retirement System Consolidated Plan
As of June 30
Last 10 Fiscal Years*

	2019	2018	2017	2016
Contractually required contribution	$ 31,120	$ 29,610	$ 24,839	$ 10,893
Contributions in relation to the contractually required contribution	(31,120)	(29,610)	(24,839)	(10,893)
Contribution deficiency (excess)	0	0	0	0
City's covered employee payroll	324,165	311,688	279,095	212,088
Contributions as a percentage of covered employee payroll	9.6%	9.5%	9.5%	5.3%

*Only four years of information available

KEEL J. HOOD

Certified Public Accountant

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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

City Council
City of Hallowell
Hallowell, Maine

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of City of Hallowell, Maine as of and for the year ended June 30, 2019, 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 August 24, 2019.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, 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. Accordingly, I 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify a certain deficiency in control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that I consider to be a significant deficiency.

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.

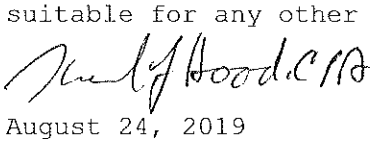
However, providing an opinion on compliance with those provisions was not an objective of my audits, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Hallowell, Maine's Response to Finding

The City of Hallowell, Maine's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Hallowell, Maine's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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. Accordingly, this communication is not suitable for any other purpose.



August 24, 2019

Section II- Findings Required to be Reported Under Government Auditing Standards

SIGNIFICANT DEFICIENCY

2019-001 Preparation of Financial Statements (repeated)

Auditing Standards require external auditors to determine whether or not client personnel designed as having responsibility over the financial reporting process possess the expertise to identify all financial reporting matters in compliance with generally accepted accounting principles without the reliance on external auditors. This means that these individuals would need to have the knowledge of all the various financial statement disclosure requirements in addition to an understanding of fund financial statements and government-wide financial statements. From a practical standpoint , the costs of maintaining the expertise in-house to meet these requirements often exceed the benefit. As a result, it is common practice for governmental entities to rely on assistance from their auditing firm to assist in the preparation of the financial statements and the related disclosures. When the auditing firm prepares the financial statements, the City must assign a competent management level individual to oversee this service. Additionally, management must review, approve, and accept responsibility for the financial statements and related notes.

Unfortunately, when this approach is taken, the City is considered to have a control deficiency in the design of internal controls over the preparation of the financial statements in accordance with generally accepted accounting principles, and as a result, I am required to report this as such in this letter.

Management's response/corrective action plan:
Regarding the noted significant deficiency pertaining to the preparation of the financial statements, management for the City of Hallowell, Maine understands the current accounting standards. The cost of having an expert in-house to prepare the financial statements exceeds the benefits; therefore, we hire an outside audit firm to prepare our financial statements.

Estimated date of corrective action:
N/A