CITY OF HALLOWELL, MAINE

ANNUAL FINANCIAL REPORT
with Independent Auditors Report

For the Year Ending June 30, 2014

KEEL J. HOOD

Certified Public Accountant

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

INDEPENDENT AUDITORS REPORT

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, 2014, 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 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, 2014, 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 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 15, 2014, 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.

Jeffrey Hood, CPA

July 15, 2014

Statement 1

CITY OF HALLOWELL, MAINE
Statement of Net Position
June 30, 2014

	Governmental Activities
ASSETS	
Current Assets:	
Cash	$ 1,734,673
Receivables	
Taxes	1,100
Liens	183,855
Accounts	49,708
Total Current Assets	1,969,336
Noncurrent Assets:	
Capital assets, net	4,004,114
Total Assets	5,973,450
LIABILITIES	
Current Liabilities:	
Accrued wages	45,635
Accounts payable	35,100
Due to other funds	479,128
Bonds payable within one year	155,000
Total Current Liabilities	714,863
Noncurrent Liabilities:	
Long-term portion of due to other funds	504,000
Bonds payable	1,115,000
Total Noncurrent Liabilities	1,619,000
Total Liabilities	2,333,863
NET POSITION	
Invested in capital assets, net of related debt	2,734,114
Unrestricted	905,473
Total net position	$ 3,639,587

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, 2014

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	373,293	67,256	25,673		(280,364)
Public safety	735,753	74,054			(661,699)
Public works	641,875	10,026			(631,849)
Human services	34,921		2,414		(32,507)
Leisure Services	5,748				(5,748)
Special assessments	2,705,110				(2,705,110)
Unclassified	79,517				(79,517)
Debt service	52,038				(52,038)
Capital outlay	131,632				(131,632)
Total governmental activities	4,759,887	151,336	28,087	0	(4,580,464)

	Governmental Activities
Net (expense) / revenue	
General revenues:	
Property taxes	4,104,457
Excise taxes	375,489
Interest and costs on taxes	17,647
Intergovernmental:	
State revenue sharing	121,219
Local roads assistance	17,400
Homestead exemption	47,650
Snowmobile	278
Tree growth	592
Veterans reimbursement	1,411
BETE	10,849
Unrestricted interest	1,083
Miscellaneous	101
Transfer In from Trust Fund	15,750
Total general revenues	4,713,926
Change in Net Position	133,462
Net Position - beginning	3,506,125
Net Position - ending $	3,639,587

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, 2014

ASSETS	General Fund	Total Governmental Funds
Cash	$ 1,734,673	$ 1,734,673
Receivables		
Taxes	1,100	1,100
Liens	183,855	183,855
Accounts	49,708	49,708
Total Assets	1,969,336	1,969,336
LIABILITIES		
Accounts payable	45,635	45,635
Due to other funds	983,128	983,128
Accrued compensated absences	35,100	35,100
Total Liabilities	1,063,863	1,063,863
UNEARNED REVENUES		
Unearned property taxes	172,000	172,000
Total Liabilities and Unearned Revenue	1,235,863	1,235,863
FUND BALANCES		
Fund Balances		
Committed:		
Capital purchases	420,503	420,503
Assigned:		
Revenues	35,842	35,842
Unassigned	277,128	277,128
Total Fund Equity	733,473	733,473
Total Liabilities and Fund Equity	$ 1,969,336	$

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.	4,004,114
Other long-term assets are not available to pay for current-periods expenditures and therefore are deferred in the funds.	172,000
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	(1,270,000)
Net assets of governmental activities	$ 3,639,587

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, 2014

	General Fund	Total Governmental Funds
Revenues:		
Taxes	$ 4,497,593	4,497,593
Intergovernmental	202,352	202,352
Charges for services	80,354	80,354
Interest	1,083	1,083
Miscellaneous	96,218	96,218
Total Revenues	4,877,600	4,877,600
Expenditures:		
Current:		
General government	355,311	355,311
Public safety	706,802	706,802
Public works	484,462	484,462
Human services	34,921	34,921
Special assessments	2,705,110	2,705,110
Unclassified	79,517	79,517
Debt service	207,038	207,038
Capital outlay	131,632	131,632
Total Expenditures	4,704,793	4,704,793
Excess of Revenues Over (Under) Expenditures	172,807	172,807
Other Financing Sources (Uses):		
Operating Transfer In (Out)	15,750	15,750
Total Other Financing Sources (Uses):	15,750	15,750
Net Change in Fund Balances	188,557	188,557
Fund Balances - beginning	544,916	544,916
Fund Balances - ending	$ 733,473	$ 733,473

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, 2014

Net change in fund balances - total governmental funds	$	188,557
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		25,378
Depreciation expense		(235,473)
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
Change in Net Position of Governmental Activities	$	133,462

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, 2014

		Private Purpose Trust Fund
ASSETS		
Due from general fund, current portion	$	479,128
Due from general fund, more than one year		504,000
Total Assets		983,128
NET POSITION		
Held in Trust		983,128
Total Liabilities	$	983,128

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

Statement 7

CITY OF HALLOWELL, MAINE

Statement of Changes in Fiduciary Net Position

Cemeteries

June 30, 2014

	Private Purpose Trust Fund
Additions:	
Investment income	$ 16,257
Donations	3,650
Total Additions	19,907
Deductions:	
Other miscellaneous	10,000
Total deductions	10,000
Total Additions	19,907
Change in Net Position	9,907
Other Financing Uses:	
Transfers out	(15,750)
Change in Net Position after Transfers	(5,843)
Net Position - beginning	988,971
Net Position - ending	983,128

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 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 $1,734,673. The bank balances for all funds totaled $1,556,098. 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, 2014, 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 2013	Increases	Decreases	Balance June 30 2014
Assets not being depreciated				
Land and easements	$ 119,600	$	$	$ 119,600
Assets being depreciated				
Buildings	1,907,200			1,907,200
Vehicles and equipment	1,551,536	25,378		1,576,914
Infrastructure	3,634,678			3,634,678
	7,213,014	25,378	0	7,238,392
Less accumulated depreciation				
Buildings	1,010,721	23,509		1,034,230
Vehicles	1,085,074	110,725		1,195,799
Infrastructure	903,010	101,239		1,004,249
	2,998,805	235,473	0	3,234,278
Capital Assets, net	$ 4,214,209	$ (210,095)	$ 0	$ 4,004,114

Depreciation Expense:	
General government	$ 17,982
Public safety	28,951
Leisure services	5,748
Public works	182,792
	235,473

5. Property Tax

Property taxes for the year were committed on August 15, 2013, on the assessed value listed as of April 1, 2014, for all taxable real and personal property located in the City. Payment of taxes was due September 19, 2013, and March 1, 2014 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, 2014. The assessed value for the list of April 1, 2014 upon which the levy for the year ended June 30, 2014, was based, was $231,478,921. 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, 2014:

Long-term debt payable at July 1, 2013	1,425,000
Debt Retired	(155,000)
Debt Proceeds	
Long-term debt payable at June 30, 2014	1,270,000
Interest Paid	46,288

6. Long-term Debt, continued

Long-term debt payable at June 30, 2014 is comprised of the following:

	Interest rate	Final maturity date	Balance end of year
General Long-term Debt			
2009 Bond	2.5% - 4.5%	2030	$ 1,270,000
			$ 1,270,000

The annual requirement to amortize all long-term debt outstanding as of June 30, 2014 are as follows:

Year	Bonds and Notes	
	Principal	Interest
2015	155,000	41,138
2016	155,000	36,488
2017	155,000	31,838
2018	155,000	26,994
2019	150,000	22,038
2020-2024	290,000	22,038
2025-2029	175,000	26,600
2030	35,000	788
Total	$ 1,270,000	$ 207,922

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, 2014, the City was in compliance with these regulations.

7. General Fund Committed Balances

The General Fund reserves consists of the following:

	Special
CDBG loan funds	$ 91,962
Capital	328,541
	$ 420,503

8. Unassigned General Fund Fund Equity

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

Balance - July 1, 2013		$ 193,707
Increase (Decrease):		
Estimated under actual revenues	123,176	
Appropriations over expenditures	193,378	
Budgeted utilization of fund equity	(233,133)	
Net Increase (Decrease)		83,421
Balance - June 30, 2014		$ 277,128

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, 2014:

Local roads	$	4,851
State Revenue Sharing		30,991
Total	$	35,842

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. 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, 2014, are unknown. Therefore, the General Fund contains no provision for, and does not present, estimated claims.

12. Overlapping Debt

The Town is liable for its proportional share of any defaulted debt issued by entities of which it is a member. The overlapping bonded debt applicable to the Town at year-end, consists of the following:

Entity		Total		City's Share	Percentage
RSU #2	$	1,261,144	$	243,022	19.27%

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. In total the borrowing was for $630,000 and is expected to be repaid over 5 years at a 2.5% interest rate, requiring annual principle payments of $126,000. In the general fund the interfund loan is required by generally accepted accounting principles to be reflected as a liability, unlike borrowing from an outside source. This results in an unassigned fund equity position lower by $630,000 than had the borrowing been from a financial institution. As of June 30, 2014, the City of Hallowell's committed balances include $252,000 as a sinking fund to repay the loan from the Cemetery fund.

For the fiscal year budget July 1, 2014 to June 30, 2015 the City of Hallowell utilized the sinking fund to reduce the amount needed to be raised by taxation. As a result, the borrowing from the trust fund will now be repaid over the five years ending June 30, 2019.

Schedule 1

CITY OF HALLOWELL, MAINE
Budget Comparison Schedule
General Fund
For the year ended June 30, 2014

	Budgeted Amounts			Variance with final budget positive (negative)
	Original	Final	Actual	
Revenues:	$	$	$	$
Taxes	4,462,924	4,462,924	4,497,593	34,669
Intergovernmental	193,732	193,732	202,352	8,620
Interest	900	900	1,083	183
Charges for services	63,950	63,950	80,354	16,404
Miscellaneous	12,200	12,200	96,218	84,018
Total revenues	4,733,706	4,733,706	4,877,600	143,894
Expenditures:				
Current:				
General government	341,415	374,415	355,311	19,104
Public safety	755,134	757,483	706,802	50,681
Public works	537,716	537,716	484,462	53,254
Human services	36,673	36,673	34,921	1,752
Special assessments	2,718,209	2,718,209	2,705,110	13,099
Unclassified	55,950	81,840	79,517	2,323
Debt service	343,038	343,038	207,038	136,000
Capital outlay	133,215	133,215	131,632	1,583
Total expenditures	4,921,350	4,982,589	4,704,793	277,796
Excess (deficiency) of revenues over (under expenditures	(187,644)	(248,883)	172,807	421,690
Other Financing Uses:				
Transfer from Trust Fund	15,750	15,750	15,750	0
Total other financing sources	15,750	15,750	15,750	0
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	(171,894)	(233,133)	188,557	421,690
Fund Balance - beginning	544,916	544,916	544,916	0
Fund Balance - ending	$ 373,022	$ 311,783	$ 733,473	$ 421,690

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

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

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, 2014, 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 15, 2014.

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.

Paul J. Hood CPA

July 15, 2014