

CITY OF HALLOWELL, MAINE

ANNUAL FINANCIAL REPORT  
with Independent Auditors Report

For the Year Ending June 30, 2015

CITY OF HALLOWELL, MAINE  
ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2015  
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# KEEL J. HOOD

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## 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, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the City of Hallowell, Maine as of June 30, 2015, and the respective changes in financial position, and where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters****Required Supplementary Information**

Management has omitted Management's Discussion & Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion of the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge I obtain during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report Dated August 15, 2015 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.

August 18, 2015

CITY OF HALLOWELL, MAINE  
Statement of Net Position  
June 30, 2015

Statement 1

	<b>Governmental</b>
	<b><u>Activities</u></b>
<b>ASSETS</b>	
Current Assets:	
Cash	\$ 1,991,059
Receivables	
Taxes	573
Liens	114,356
Accounts	42,557
Tax acquired property	2,899
Total Current Assets	<u>2,151,444</u>
Noncurrent Assets:	
Capital assets, net	3,980,514
Total Assets	<u>6,131,958</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accrued wages	87,217
Accounts payable	52,752
Due to other funds	472,535
Bonds payable within one year	155,000
Total Current Liabilities	<u>767,504</u>
Long term due to other funds:	
Bonds payable	960,000
Total Noncurrent Liabilities	<u>960,000</u>
Total Liabilities	<u>1,727,504</u>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	2,865,514
Unrestricted	1,034,940
Total net position	<u>\$ 3,900,454</u>

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

CITY OF HALLOWELL, MAINE  
Statement of Activities  
For the Year Ended June 30, 2015

Function/Programs	Program Revenues			Net (Expense) Revenues
	<u>Expenses</u>	Charges for <u>Services</u>	Operating grants and <u>contributions</u>	
Governmental activities:	\$			
General government	380,463	103,065	68,734	(208,664)
Public safety	768,758	60,428		(708,330)
Public works	495,060	31,435		(463,625)
Human services	32,626		3,531	(29,095)
Leisure Services	39,731	37,405		(2,326)
Special assessments	2,919,912			(2,919,912)
Unclassified	54,611			(54,611)
Debt service	41,638			(41,638)
Capital outlay	206,351			(206,351)
Total governmental activities	4,939,150	232,333	72,265	(4,634,552)

	<u>Governmental Activities</u>
Net (expense) / revenue	
General revenues:	
Property taxes	4,288,782
Excise taxes	379,113
Interest and costs on taxes	23,904
Intergovernmental:	
State revenue sharing	115,317
Local roads assistance	15,820
Homestead exemption	36,659
Snowmobile	548
Tree growth	553
Veterans reimbursement	1,485
BETE	14,202
Transfer in from trust	15,750
Unrestricted interest	3,286
Total general revenues	<u>4,895,419</u>
Change in Net Position	260,867
Net Position - beginning	3,639,587
Net Position - ending	<u>\$ 3,900,454</u>

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

CITY OF HALLOWELL, MAINE  
Balance Sheet  
Governmental Funds  
June 30, 2015

Statement 3

ASSETS	General Fund	Total Governmental Funds
Cash	\$ 1,991,059	\$ 1,991,059
Receivables		
Taxes	573	573
Liens	114,356	114,356
Accounts	42,557	42,557
Tax acquired property	2,899	2,899
Total Assets	2,151,444	2,151,444
<b>LIABILITIES</b>		
Accounts payable	87,217	87,217
Due to other funds	976,535	976,535
Accrued compensated absences	52,752	52,752
Deferred property taxes	104,000	104,000
Total Liabilities	1,220,504	1,220,504
<b>FUND BALANCES</b>		
Fund Balances		
Committed:		
Capital purchases	677,061	677,061
Assigned:		
Revenues	40,415	40,415
Unassigned	213,464	213,464
Total Fund Equity	930,940	930,940
Total Liabilities and Fund Equity	\$ 2,151,444	\$ 2,151,444

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

Capital assets used in governmental activities are financial resources and, therefore, are not reported in the funds.	3,980,514
Other long-term assets are not available to pay for current-periods expenditures and therefore are deferred in the funds.	104,000
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	(1,115,000)
Net assets of governmental activities	\$ 3,900,454

CITY OF HALLOWELL, MAINE  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2015

	General <u>Fund</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>		
Taxes	\$ 4,759,799	4,759,799
Intergovernmental	188,730	188,730
Charges for services	180,451	180,451
Interest	3,286	3,286
Miscellaneous	120,001	120,001
Total Revenues	5,252,267	5,252,267
<b>Expenditures:</b>		
Current:		
General government	362,481	362,481
Public safety	756,457	756,457
Public works	507,489	507,489
Human services	32,626	32,626
Special assessments	2,919,912	2,919,912
Unclassified	54,611	54,611
Debt service	196,638	196,638
Capital outlay	206,351	206,351
Leisure services	33,984	33,984
Total Expenditures	5,070,549	5,070,549
Excess of Revenues Over (Under) Expenditures	181,718	181,718
Net Change in Fund Balances	181,718	181,718
<b>Other financing sources</b>		
Operating Transfer In (Out)	15,750	15,750
Net Change in Fund Balances	197,468	197,468
Fund Balances - beginning	733,472	733,472
Fund Balances - ending	\$ 930,940	\$ 930,940

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



CITY OF HALLOWELL, MAINE  
Statement of Net Position  
Fiduciary Fund - Cemeteries  
June 30, 2015

			Private Purpose <u>Trust Fund</u>
<b>ASSETS</b>			
Due from general fund, current portion	\$	472,535	
Due from general fund, more than one year		504,000	
Total Assets		<u>976,535</u>	
<b>NET POSITION</b>			
Held in Trust		976,535	
Total Liabilities	\$	<u>976,535</u>	

CITY OF HALLOWELL, MAINE  
Statement of Changes in Fiduciary Net Position  
Cemeteries  
June 30, 2015

		Private Purpose <u>Trust Fund</u>
Additions:		
Investment income	\$	14,607
Donations		4,550
Total Additions		19,157
Deductions:		
Other miscellaneous		10,000
Total deductions		10,000
Total Additions		19,157
Change in Net Position		9,157
Other Financing Uses:		
Transfers out		(15,750)
Change in Net Position after Transfers		(6,593)
Net Position - beginning		983,128
Net Position - ending		976,535

CITY OF HALLOWELL, MAINE  
Notes to Combined Financial Statements  
June 30, 2015

1. Summary of Significant Accounting Policies

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

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

**A. Reporting Entity**

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

**B. Government-wide and Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

1. Summary of Significant Accounting Policies, continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City has elected not to allocate indirect costs among the programs, functions and segments. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

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

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

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

1. Summary of Significant Accounting Policies, continued

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

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

The City reports the following major governmental fund:

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

Additionally, the City reports the following fund types:

**Fiduciary Funds**

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

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

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

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

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

**D. Capital Assets**

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

1. Summary of Significant Accounting Policies, continued

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

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

**E. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts, as well as issuance costs, if material, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt.

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

**F. Short-term Interfund Receivables/Payables**

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

**G. Fund Equity**

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

**H. Use of Estimates**

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

1. Summary of Significant Accounting Policies, continued

reporting period. Actual results could differ from those estimates.

2. Budgetary Accounting

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

3. Deposits

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

At year end, the City's carrying amount of deposits was \$1,991,059. The bank balances for all funds totaled \$1,958,336. 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 2014	<u>Increases</u>	<u>Decreases</u>	Balance June 30 2015
Assets not being depreciated				
Land and easements	\$ 119,600	\$	\$	\$ 119,600
Assets being depreciated				
Buildings	1,907,200			1,907,200
Vehicles and equipment	1,576,914	96,998		1,673,912
Infrastructure	3,634,679	81,961		3,716,640
	<u>7,238,393</u>	<u>178,959</u>	<u>0</u>	<u>7,417,352</u>
Less accumulated depreciation				
Buildings	1,034,230	23,509		1,057,739
Vehicles	1,195,799	76,173		1,271,972
Infrastructure	1,004,249	102,878		1,107,127
	<u>3,234,278</u>	<u>202,560</u>	<u>0</u>	<u>3,436,838</u>
Capital Assets, net	\$ <u>4,004,115</u>	\$ <u>(23,601)</u>	\$ <u>0</u>	\$ <u>3,980,514</u>
Depreciation Expense:				
General government	\$ 17,982			
Public safety	12,302			
Leisure services	5,748			
Public works	166,528			
	<u>202,560</u>			

5. Property Tax

Property taxes for the year were committed on August 14, 2014, 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 15, 2014, and March 2, 2015 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, 2015, was based, was \$243,680,768. 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, 2015:

Long-term debt payable at July 1, 2014	1,270,000
Debt Retired	(155,000)
Debt Proceeds	
Long-term debt payable at June 30, 2015	<u>1,115,000</u>
Interest Paid	<u>41,138</u>

6. Long-term Debt, continued

Long-term debt payable at June 30, 2015 is comprised of the following:

<u>General Long-term Debt</u>	<u>Interest rate</u>	<u>Final maturity date</u>	<u>Balance end of year</u>
2009 Bond	3%	2030	\$ 1,115,000
			<u>\$ 1,115,000</u>

The annual requirement to amortize all long-term debt outstanding as of June 30, 2015 are as follows:

<u>Year</u>	<u>Bonds and Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2016	155,000	36,488
2017	155,000	31,838
2018	155,000	26,994
2019	150,000	22,038
2020	150,000	16,975
2021-2025	175,000	55,038
2026-2030	175,000	19,163
Total	<u>\$ 1,115,000</u>	<u>\$ 208,534</u>

In accordance with 30-A MRSA, Section 5702, as amended, no municipality shall incur debt for specified purposes in excess of 15 percent of the state valuation of such municipality. At June 30, 2015, the City was in compliance with these regulations.

7. General Fund Committed Balances

The General Fund reserves consists of the following:

	<u>Special</u>
Capital	\$ 677,061
	<u>\$ 677,061</u>

8. Unassigned General Fund Fund Equity

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

Balance - July 1, 2014	\$ 277,127
Increase (Decrease):	
Estimated under actual revenues	70,354
Appropriations over expenditures	3,164
Budgeted utilization of fund equity	<u>(137,181)</u>
Net Increase (Decrease)	(63,663)
Balance - June 30, 2015	<u>\$ 213,464</u>

9. Assigned for Subsequent Year's Revenues

The portion of the General Fund fund equity which has been assigned by budgeting decisions represents amounts received during the current accounting period that are to be budgeted as revenues in the subsequent year. These accounts, were as follows at June 30, 2015:

Local roads	\$	3,271
State Revenue Sharing		37,144
Total	\$	<u>40,415</u>

10. Section 457 Plan

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

The deferred compensation plan is available to all employees of the City. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

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

11. 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, 2015, are unknown. Therefore, the General Fund contains no provision for, and does not present, estimated claims.

12. 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, 2015, the City of Hallowell's committed balances include \$372,000 as a sinking fund to repay the loan from the Cemetery fund.

CITY OF HALLOWELL, MAINE  
Budget Comparison Schedule  
General Fund  
For the year ended June 30, 2015

	<u>Budgeted Amounts</u>			Variance with final budget positive (negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:	\$	\$	\$	\$
Taxes	4,665,282	4,665,282	4,759,799	94,517
Intergovernmental	182,963	182,963	188,730	5,767
Interest	800	800	3,286	2,486
Charges for services	104,400	104,400	180,451	76,051
Miscellaneous	32,400	86,375	120,001	33,626
Total revenues	<u>4,985,845</u>	<u>5,039,820</u>	<u>5,252,267</u>	<u>212,447</u>
Expenditures:				
Current:				
General government	369,918	369,918	362,481	7,437
Public safety	798,601	798,601	756,457	42,144
Public works	538,640	532,640	507,489	25,151
Human services	35,629	35,629	32,626	3,003
Special assessments	2,969,625	2,992,338	2,919,912	72,426
Unclassified	52,753	52,753	54,611	(1,858)
Debt service	338,388	338,388	196,638	141,750
Capital outlay	271,472	271,472	206,351	65,121
Leisure services	0	59,975	33,984	25,991
Total expenditures	<u>5,375,026</u>	<u>5,451,714</u>	<u>5,070,549</u>	<u>381,165</u>
Excess (deficiency) of revenues over (under expenditures)	<u>(389,181)</u>	<u>(411,894)</u>	<u>181,718</u>	<u>593,612</u>
Transfer in from trust			15,750	15,750
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	(389,181)	(411,894)	197,468	609,362
Fund Balance - beginning	733,472	733,472	733,472	0
Fund Balance - ending	<u>\$ 344,291</u>	<u>\$ 321,578</u>	<u>\$ 930,940</u>	<u>\$ 609,362</u>

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

# 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, 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, 2015, 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 18, 2015.

### 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.

August 18, 2015