



Annual Financial Report

June 30, 2017

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Independent Auditors' Report

City Council
City of Westbrook
Westbrook, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the City of Westbrook, Maine (the City), as of and for the year ended June 30, 2017, 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 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.

Auditors' Responsibility

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the City of Westbrook, Maine, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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To the City Council
City of Westbrook, Maine

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the schedule of funding progress on page 46, the schedule of proportionate share of net pension liability on page 47 and the schedule of contributions on page 48, 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. We 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 and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Westbrook's basic financial statements. The combining nonmajor fund schedules on pages 49 to 64 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 28, 2017, on our consideration of the City of Westbrook's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Westbrook's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Westbrook's internal control over financial reporting and compliance.

Macpage LLC

South Portland, Maine
December 28, 2017

MANAGEMENT'S DISCUSSION & ANALYSIS

As management of the City of Westbrook, Maine (the City), we offer this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017.

FINANCIAL HIGHLIGHTS

- Total net position as of the year ended June 30, 2017 was \$128,643,407. A portion of that amount, \$107,638,006, is a net investment in capital assets, while the next largest portion, \$20,287,527, is unrestricted, the remainder, \$717,874, is restricted for various purposes. Total net position for the year ended June 30, 2016 was \$127,479,261. A portion of that amount, \$107,523,179, was a net investment in capital assets while the next largest portion, \$19,239,001, was unrestricted, the remainder of \$717,081, is restricted for various purposes. Total net position for governmental activities was \$76,919,663 and business-type activities was \$51,723,744 as of the year ended June 30, 2017.
- Net position increased by \$1,164,146 and increased by \$1,036,726 for the years ended June 30, 2017 and 2016, respectively. Net position increased by \$899,480 for governmental activities and increased by \$264,666 for business-type activities for the year ended June 30, 2017.
- The governmental funds reported combined fund balances of \$22,873,693, a decrease of \$5,296,891 from the prior year. The decrease in fund balance is attributed to a decrease in the General Fund fund balance of \$518,071 combined with a decrease in the Other Governmental Funds fund balance of \$4,778,820, which was primarily the result of the expenditure of capital project funds at the City and School Department.
- Total bonds and notes payable, including bond premiums, decreased to \$56,882,036 as compared to \$62,499,888 from the prior year, as a result of repayments of bond principal in the amount of \$5,295,000 and the amortization of bond premiums in the amount of \$322,852.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The City's Basic Financial Report has three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

All of the funds of the City are reported using the economic resources measurement focus and the accrual basis of accounting. The accrual basis of accounting is similar to the accounting method used by non-public businesses, in that, revenues and expenditures are recorded in the current year regardless of when the revenue is collected or paid out.

Government-Wide Financial Statements

- Government-wide financial statements report information on all of the non-fiduciary activities of the City's Governmental activities and Business-Type Activities which are normally supported by taxes and intergovernmental revenues.
- The City's financial statements are comprised of a series of statements such as the statement of net position and the statement of activities. These statements provide an overview of the activities of the government as a whole.
- The statement of net position provides a picture of the difference between assets (including infrastructure), deferred outflows of resources and liabilities and deferred inflows of resources. This is called *net position*. The statement of activities provides a look at how the net position has changed from the prior year to the current year. Increases or decreases in net position can show whether the City is improving or deteriorating. Other factors such as changes in the City's property tax base and the condition of the City's capital assets also need to be considered to assess the overall health of the City.

MANAGEMENT'S DISCUSSION & ANALYSIS

Fund Financial Statements

- The fund financial statements provide details of the City's most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, management establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. Examples of funds within the City's financial statements follow.
- *General Fund* – This is the primary operating fund for the City. Most of the City's basic services are reported in the general fund. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- *Other Governmental Funds* – This is the remaining special revenue funds, capital projects funds and permanent funds that do not meet the criteria for reporting as a major fund.
- *Fiduciary Funds* – These funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. The City is the trustee, or *fiduciary*, for Trust Funds that are set up primarily as scholarships or funds for people in need. These assets, because of a trust arrangement, can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-45 of this document.

THE CITY AS A WHOLE

The following information is a condensed version of the statement of net position.

	Governmental Activities		Business-Type Activities	
	2017	2016	2017	2016
Current and other assets	\$ 28,663,144	\$ 36,666,348	\$ 8,236,187	\$ 10,152,709
Capital assets, net	112,678,362	111,136,652	48,721,302	47,065,414
Total assets	141,341,506	147,803,000	56,957,489	57,218,123
Deferred Outflows of Resources	9,023,348	7,272,191		
Current liabilities	4,894,148	7,728,860	297,745	516,545
Noncurrent liabilities	65,684,521	67,636,206	4,936,000	5,242,500
Total liabilities	70,578,669	75,365,066	5,233,745	5,759,045
Deferred Inflows of Resources	2,866,522	3,689,942		
Net investment in capital assets	61,682,794	60,860,267	45,955,212	46,662,912
Restricted	717,874	717,081		
Unrestricted	14,518,995	14,442,835	5,768,532	4,796,166
Total net position	\$ 76,919,663	\$ 76,020,183	\$ 51,723,744	\$ 51,459,078

MANAGEMENT'S DISCUSSION & ANALYSIS

Current and other assets are substantially all comprised of cash and investments. Capital assets, which include property, plant, equipment, and infrastructure, are generally defined by the City as assets with an initial, individual cost of greater than or equal to \$10,000 (ten thousand dollars) and an estimated useful life in excess of one year. Capital assets increased in 2017 as new investments in capital assets exceeded depreciation. The governmental activities increase in total net position is due primarily to revenues raised being more than with the budget and expenditures were kept below anticipated budget amounts. The business-type activities increase is primarily due to operating revenues exceeding operating expenses. By far the largest portion of the City's net position reflects its investment in capital assets less any related debt to acquire those assets still outstanding. There was no new debt issued in the current year. Detail of the activity of capital assets and long-term debt can be found in the notes to the financial statements.

The following schedule, the statement of activities, focuses on changes in net position of the City's activities.

	Governmental Activities		Business-Type Activities	
	2017	2016	2017	2016
Program Revenues:				
Charges for services	\$ 2,066,244	\$ 2,103,905	\$ 4,590,703	\$ 4,613,943
Operating grants and contributions	<u>26,409,912</u>	<u>25,394,417</u>		
	<u>28,476,156</u>	<u>27,498,322</u>	<u>4,590,703</u>	<u>4,613,943</u>
General Revenues:				
Property and other taxes	38,160,212	37,123,899		
Licenses, permits and fees	667,117	961,439		
Grants and contributions not restricted to specific programs	2,665,168	2,450,183		
Interest income	68,600	30,810		
Miscellaneous	<u>1,151,152</u>	<u>702,374</u>	<u>1,154,818</u>	
	<u>42,712,249</u>	<u>41,268,705</u>	<u>1,154,818</u>	
Total Revenues	<u>71,188,405</u>	<u>68,767,027</u>	<u>5,745,521</u>	<u>4,613,943</u>
Program Expenses:				
General government	5,505,065	4,534,444		
Public safety	7,474,278	7,760,197		
Public works	5,636,519	5,463,420		
Human services	943,793	932,166		
Culture and recreation	2,032,274	1,860,353		
Employee benefits	3,629,506	3,936,623		
Education	42,516,758	39,103,371		
Unclassified	1,280,572	1,778,391		
Interest on debt	803,593	807,578		
Capital outlay	466,567	866,547		
Sewer department			5,262,810	5,038,860
Parking garage			<u>218,045</u>	<u>262,292</u>
Total Expenses	<u>70,288,925</u>	<u>67,043,090</u>	<u>5,480,855</u>	<u>5,301,152</u>
Change in Net Position	899,480	1,723,937	264,666	(687,209)
Net Position, Beginning of Year	<u>76,020,183</u>	<u>74,296,246</u>	<u>51,459,078</u>	<u>52,146,287</u>
Net Position, End of Year	<u>\$ 76,919,663</u>	<u>\$ 76,020,183</u>	<u>\$ 51,723,744</u>	<u>\$ 51,459,078</u>

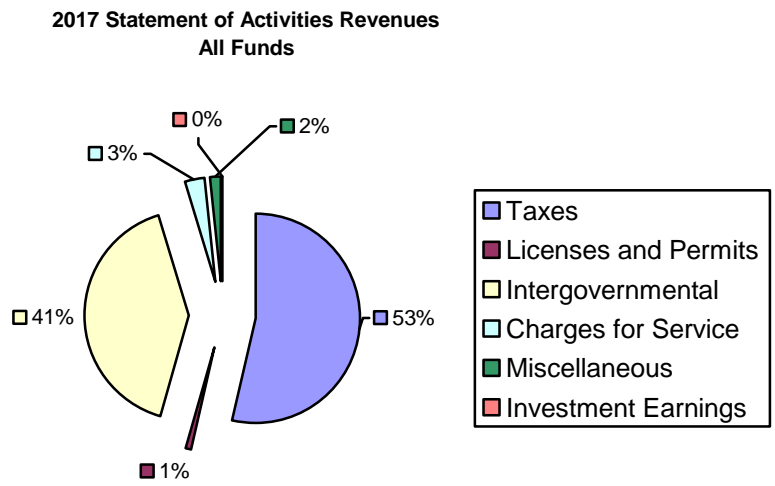
MANAGEMENT’S DISCUSSION & ANALYSIS

The cost of all governmental activities this year was \$70,288,925, which represents an increase of \$3,245,835 from prior year. Of this amount, Westbrook taxpayers funded \$38,160,212 through property, personal and excise taxes. Municipal and educational departments have continued to aggressively pursue grant revenue to cover programs and services and to help reduce the tax burden to residents.

Special revenue fund program expenses are expenditures from City and School funds, such as the City recreation and school programs, the lunch program and other specifically grant funded programs. These programs are found in the “All Other Governmental Funds” section of this report.

In the statement of activities capital outlay represents the net amount paid for items that are not capital in nature such as paving, maintenance and repairs. Interest on debt indicates the debt service amounts paid from the City and School general fund and the TIF fund.

Governmental Activities



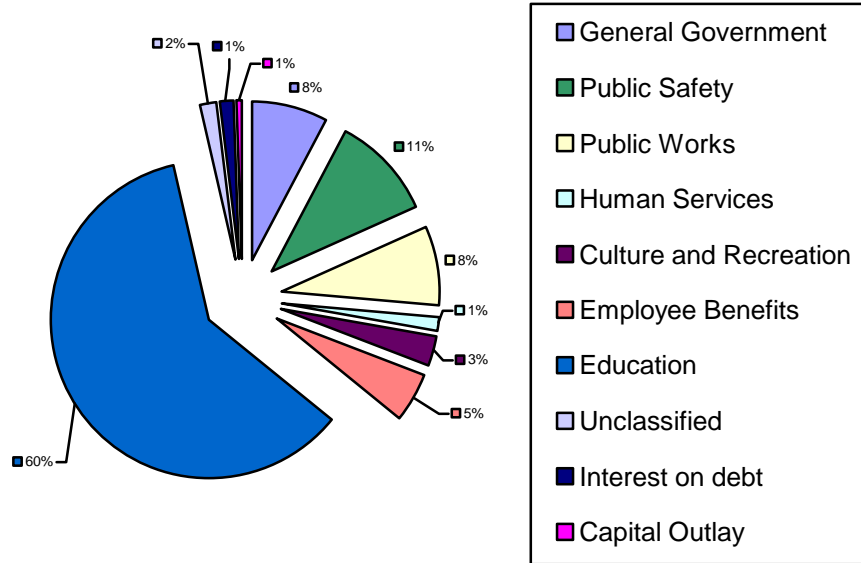
Taxes	Includes real property, personal property and excise taxes
Licenses and permits	Includes city clerk and code enforcement revenue
Intergovernmental	Includes State revenue sharing, homestead, federal and state grants
Charges for service	Includes revenue from the various departments for services
Miscellaneous	Includes miscellaneous revenue, grant revenue, sale of City assets, and contributions
Investment earnings	Includes interest income from general fund investment money

As the revenue chart shows, the major sources of revenue for the City are taxes and intergovernmental revenue.

MANAGEMENT'S DISCUSSION & ANALYSIS

Governmental Activities – Continued

**2017 Statement of Activities Expenditures
All Funds**



As the above chart indicates, education is the department with the largest expenditure with public safety and public works following, respectively.

FUND FINANCIAL STATEMENTS HIGHLIGHTS

Total governmental fund balance decreased by \$5,296,891 for the year ended June 30, 2017. Fund balance for the general fund decreased by \$518,071 primarily as a result of expenditures exceeding revenues by \$50,385, and other financing sources of \$556,382 for proceeds from capital leases, offset by other financing uses of \$1,024,068 representing transfers out which exceeded transfers in as money was transferred to the tax increment financing district funds, and also based on the City's policy to transfer unassigned fund balance in excess of 20% over the tax commitment to the capital projects funds. Fund balance for other governmental funds decreased by \$4,778,820 for the year ended June 30, 2017. The most significant activity contributing to the decrease in other governmental fund balance was a decrease in capital project fund balance of \$4,482,912, primarily due to expenditures for major capital projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total budgeted revenues were \$59,243,728, and actual revenues were \$59,796,843, resulting in a positive variance of \$553,115. Total budgeted expenditures were \$59,553,978, and actual expenditures were \$59,208,953, resulting in a positive variance of \$345,025. For the year, the General Fund had a decrease in fund balance of \$436,178, resulting from transfers out exceeding transfers in by \$1,024,068.

MANAGEMENT'S DISCUSSION & ANALYSIS

ECONOMIC FACTORS AND THE CITY'S BUDGET

The valuation for the City increased by approximately \$5.9 million or 0.3% in fiscal year ended June 30, 2017. Real estate valuation increased by approximately \$17.3 million or 1.1% while Personal Property decreased approximately \$11.4 million or 4.3%.

The unemployment rate for the City at fiscal year-end was an estimated 2.9%, which was down from 3.5% from prior year. The rate is below the estimated State average of 3.5% and below the estimated National rate of 4.4%. These figures are from the Maine Center for Workforce Research and Information website.

The 2016/2017 budget adopted by the City Council resulted in an increase in the mil rate to 18.40 mils from the 2015/2016 rate of 17.96 mils.

LD 1, adopted in 2005, imposes a property tax levy limit, which is based on a combination of the State's average personal income growth factor and the property growth factor of each individual municipality. The budget adopted by the City Council was within the limits established by the law.

REVENUES FROM THE STATE OF MAINE

The State provides revenue to the City in a number of areas including aid to the City in the areas of education and road maintenance, reimbursement for general assistance, homestead exemption, and BETE, and revenue sharing. The amount of revenue in each category is based upon a number of formulas, many of which contain variables that change annually. Further, most categories of State aid are governed by laws that may be changed by the State Legislature and are subject to appropriation by the State Legislature in its budgetary process.

The State subsidizes most local school administrative units through the Essential Programs and Services ("EPS") model of calculating and distributing state education aid. EPS utilizes a number of factors that are subject to change each year. In addition, the EPS model itself is subject to change by the Legislature.

Furthermore, subsidies for school administrative units are an annual item in the State's budgetary process and are subject to legislative appropriation in that process. The following table displays state aid received by the City for the last five fiscal periods:

Fiscal Year Ending June 30,	State Revenue Sharing	State School Subsidy	Reimbursements			Other State Aid	Total From State
			BETE	General Assistance	Homestead		
2017	\$ 876,607	\$ 14,417,254	\$ 1,243,331	\$ 492,640	\$ 509,702	\$ 222,570	\$ 17,762,104
2016	946,162	14,507,377	1,147,966	502,265	333,427	213,462	17,650,659
2015	965,718	14,481,936	966,471	150,871	323,274	210,996	17,099,266
2014	1,061,987	13,909,849	834,926	266,210	328,262	262,574	16,663,808
2013	1,515,532	11,870,300	779,776	230,730	334,341	220,240	14,950,919

In addition to the amounts listed above, the State makes an annual contribution to the Maine Public Employees Retirement System Teachers Fund in excess of \$2 million annually.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the *City's Finance Director, 2 York Street, Westbrook, Maine 04092.*

BASIC FINANCIAL STATEMENTS

Statement of Net Position

June 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and short-term investments	\$ 25,884,550	\$ 5,090,309	\$ 30,974,859
Investments	1,060,776		1,060,776
Receivables, net of allowance for uncollectibles:			
Property taxes	1,887,044		1,887,044
Accounts receivable - services	756,877	458,047	1,214,924
Intergovernmental	1,130,488	40,861	1,171,349
Loans	92,555		92,555
Internal balances	(2,646,970)	2,646,970	
Inventory	61,551		61,551
Prepaid items	436,273		436,273
Capital assets:			
Capital assets not being depreciated	3,559,863	4,037,377	7,597,240
Capital assets, net of accumulated depreciation	109,118,499	44,683,925	153,802,424
Total Assets	<u>141,341,506</u>	<u>56,957,489</u>	<u>198,298,995</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	2,368,751		2,368,751
Deferred pension items	6,654,597		6,654,597
Total Deferred Outflows of Resources	<u>9,023,348</u>		<u>9,023,348</u>
LIABILITIES			
Accounts payable	953,603		953,603
Line of credit payable	19,250		19,250
Accrued salaries and benefits	3,155,041		3,155,041
Retainage payable		297,745	297,745
Accrued interest payable	389,282		389,282
Due to fiduciary funds	162,057		162,057
Unearned revenue	214,915		214,915
Noncurrent liabilities:			
Due within one year:			
Bonds and notes payable	5,315,003	306,500	5,621,503
Capital leases payable	453,389		453,389
Accrued landfill postclosure care costs	20,000		20,000
Accrued compensated absences	67,889		67,889
Due in more than one year:			
Bonds and notes payable	46,631,033	4,629,500	51,260,533
Capital leases payable	499,908		499,908
Accrued landfill postclosure care costs	280,000		280,000
Accrued compensated absences	1,333,193		1,333,193
Other post-employment benefits liability	651,573		651,573
Net pension liability	10,432,533		10,432,533
Total Liabilities	<u>70,578,669</u>	<u>5,233,745</u>	<u>75,812,414</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension items	2,866,522		2,866,522
Total Deferred Inflows of Resources	<u>2,866,522</u>		<u>2,866,522</u>
NET POSITION			
Net investment in capital assets	61,682,794	45,955,212	107,638,006
Restricted for:			
Nonexpendable trust principal	469,611		469,611
Expendable trust principal	248,263		248,263
Unrestricted	14,518,995	5,768,532	20,287,527
Total Net Position	<u>\$ 76,919,663</u>	<u>\$ 51,723,744</u>	<u>\$ 128,643,407</u>

The accompanying notes are an integral part of these financial statements.

Statement of Activities

Year Ended June 30, 2017

	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
General government	\$ 5,505,065	\$ 47,845	\$ 153,192	\$ (5,304,028)		\$ (5,304,028)
Public safety	7,474,278	1,022,916	278,222	(6,173,140)		(6,173,140)
Public works	5,636,519	24,368	950,630	(4,661,521)		(4,661,521)
Human services	943,793		492,640	(451,153)		(451,153)
Culture and recreation	2,032,274	679,413	300,913	(1,051,948)		(1,051,948)
Employee benefits	3,629,506			(3,629,506)		(3,629,506)
Education	42,516,758	291,702	24,231,893	(17,993,163)		(17,993,163)
Unclassified	1,280,572		2,422	(1,278,150)		(1,278,150)
Interest on debt	803,593			(803,593)		(803,593)
Capital outlay	466,567			(466,567)		(466,567)
Total Governmental Activities	<u>70,288,925</u>	<u>2,066,244</u>	<u>26,409,912</u>	<u>(41,812,769)</u>		<u>(41,812,769)</u>
Business-Type Activities						
Sewer department	5,062,807	4,342,357			\$ (720,450)	(720,450)
Parking garage	218,045	248,346			30,301	30,301
Total Business-Type Activities	<u>5,280,852</u>	<u>4,590,703</u>			<u>(690,149)</u>	<u>(690,149)</u>
Total	<u>\$ 75,569,777</u>	<u>\$ 6,656,947</u>	<u>\$ 26,409,912</u>	<u>(41,812,769)</u>	<u>(690,149)</u>	<u>(42,502,918)</u>
General Revenues						
Taxes:						
Real estate				29,823,074		29,823,074
Excise				3,501,629		3,501,629
Personal property				4,674,185		4,674,185
Other				161,324		161,324
Licenses and permits				667,117		667,117
Grants and contributions not restricted to specific programs				2,665,168		2,665,168
Interest income				68,600		68,600
Miscellaneous				1,151,152	954,815	2,105,967
Total general revenues				<u>42,712,249</u>	<u>954,815</u>	<u>43,667,064</u>
Change in Net Position				899,480	264,666	1,164,146
Net Position, Beginning of year, as restated				<u>76,020,183</u>	<u>51,459,078</u>	<u>127,479,261</u>
Net Position, End of year				<u>\$ 76,919,663</u>	<u>\$ 51,723,744</u>	<u>\$ 128,643,407</u>

The accompanying notes are an integral part of these financial statements.

Governmental Funds

Balance Sheet

June 30, 2017

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and short-term investments	\$ 25,831,592	\$ 52,958	\$ 25,884,550
Investments		1,060,776	1,060,776
Receivables, net of allowance for uncollectibles:			
Taxes	1,887,044		1,887,044
Accounts receivable - services	673,915	82,962	756,877
Intergovernmental	16,743	1,113,745	1,130,488
Loans		92,555	92,555
Interfund receivable		5,349,370	5,349,370
Inventory		61,551	61,551
Prepaid items	436,273		436,273
Total Assets	<u>28,845,567</u>	<u>7,813,917</u>	<u>36,659,484</u>
LIABILITIES			
Accounts payable	623,205	330,398	953,603
Line of credit		19,250	19,250
Accrued salaries and benefits	2,952,154	202,887	3,155,041
Accrued compensated absences	67,889		67,889
Interfund payable	5,047,508	3,110,889	8,158,397
Unearned revenue	44,599	170,316	214,915
Total Liabilities	<u>8,735,355</u>	<u>3,833,740</u>	<u>12,569,095</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	1,216,696		1,216,696
Total Deferred Inflows of Resources	<u>1,216,696</u>		<u>1,216,696</u>
FUND BALANCES			
Nonspendable	436,273	531,162	967,435
Restricted	146,512	2,152,028	2,298,540
Committed	11,604,231	3,698,717	15,302,948
Assigned	960,108		960,108
Unassigned	5,746,392	(2,401,730)	3,344,662
Total Fund Balances	<u>\$ 18,893,516</u>	<u>\$ 3,980,177</u>	<u>\$ 22,873,693</u>

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities in the Statement of Net Assets

June 30, 2017

Total Governmental Fund Balances	\$ 22,873,693
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	112,678,362
• Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds. Property taxes	1,216,696
• Deferred outflows/inflows of resources represent a consumption/acquisition of net position that applies to a future period, therefore will not be recognized as an expenditure or revenue until then, and therefore, are not reported in the funds.	6,156,826
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(389,282)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds and notes payable	(48,299,000)
Unamortized bond premium	(3,647,036)
Capital leases payable	(953,297)
Compensated absences	(1,333,193)
Liability for hazardous waste-site cleanup	(300,000)
Other Post-Employment Benefits (OPEB) liability	(651,573)
Net pension liability	<u>(10,432,533)</u>
Net Position of Governmental Activities	<u>\$ 76,919,663</u>

Governmental Funds**Statement of Revenues, Expenditures and Changes in Fund Balances**

Year Ended June 30, 2017

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 38,173,607	\$ 757,371	\$ 38,930,978
Licenses, permits and fees	424,461		424,461
Intergovernmental	21,479,188	6,225,904	27,705,092
Charges for services	1,164,417	1,134,659	2,299,076
Miscellaneous	700,170	771,073	1,471,243
Total Revenues	<u>61,941,843</u>	<u>8,889,007</u>	<u>70,830,850</u>
Expenditures			
Current:			
General government	4,034,233	991,736	5,025,969
Public safety	6,983,584	391,187	7,374,771
Public works	4,039,154	1,041	4,040,195
Human services	943,793		943,793
Culture and recreation	1,064,372	754,505	1,818,877
Employee benefits	3,629,506		3,629,506
Unclassified	1,276,744	3,828	1,280,572
Cemeteries		56,047	56,047
Education	37,338,401	6,569,274	43,907,675
Debt service	2,682,441	893,770	3,576,211
Capital outlay		5,030,507	5,030,507
Total Expenditures	<u>61,992,228</u>	<u>14,691,895</u>	<u>76,684,123</u>
Deficiency of Revenues Over Expenditures	<u>(50,385)</u>	<u>(5,802,888)</u>	<u>(5,853,273)</u>
Other Financing Sources (Uses)			
Transfers in	675,000	2,253,733	2,928,733
Transfers out	(1,699,068)	(1,229,665)	(2,928,733)
Proceeds from capital leases	556,382		556,382
Total Other Financing Sources (Uses)	<u>(467,686)</u>	<u>1,024,068</u>	<u>556,382</u>
Net change in fund balances	(518,071)	(4,778,820)	(5,296,891)
Fund Balances, Beginning of Year, As Restated	<u>19,411,587</u>	<u>8,758,997</u>	<u>28,170,584</u>
Fund Balances, End of Year	<u>\$ 18,893,516</u>	<u>\$ 3,980,177</u>	<u>\$ 22,873,693</u>

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended June 30, 2017

Net Changes in Fund Balances - Total Governmental Funds	\$ (5,296,891)																						
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 20px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">4,973,075</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(3,431,365)</td> </tr> </table> <p style="margin-left: 20px;">Certain of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. However, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net position.</p> <p style="text-align: right;">(556,383)</p> • Deferred outflows/inflows of resources represent a consumption/acquisition of net position that applies to a future period, but the change in the balances affects reporting in the financial statements. <p style="text-align: right;">(3,846,025)</p> • Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., property taxes) differ between the two statements. This amount represents the net change in deferred revenue. <table border="0" style="margin-left: 20px;"> <tr> <td>Property taxes</td> <td style="text-align: right;">(13,395)</td> </tr> </table> • The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table border="0" style="margin-left: 20px;"> <tr> <td>Repayments of debt</td> <td style="text-align: right;">4,988,500</td> </tr> <tr> <td>Repayments of capital leases</td> <td style="text-align: right;">481,971</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due, this amount reflects the change in accrued interest. <p style="text-align: right;">73,905</p> • 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 the governmental funds: <table border="0" style="margin-left: 20px;"> <tr> <td>Decrease in liability for compensated absences</td> <td style="text-align: right;">159,695</td> </tr> <tr> <td>Increase in net pension liability</td> <td style="text-align: right;">3,316,316</td> </tr> <tr> <td>Increase in OPEB liability</td> <td style="text-align: right;">(80,745)</td> </tr> <tr> <td>Decrease in liability for hazardous waste-site cleanup</td> <td style="text-align: right;">20,000</td> </tr> <tr> <td>Amortization of bond premiums</td> <td style="text-align: right;">322,852</td> </tr> <tr> <td>Amortization of deferred charge</td> <td style="text-align: right;">(212,030)</td> </tr> </table> 		Capital outlay purchases	4,973,075	Depreciation	(3,431,365)	Property taxes	(13,395)	Repayments of debt	4,988,500	Repayments of capital leases	481,971	Decrease in liability for compensated absences	159,695	Increase in net pension liability	3,316,316	Increase in OPEB liability	(80,745)	Decrease in liability for hazardous waste-site cleanup	20,000	Amortization of bond premiums	322,852	Amortization of deferred charge	(212,030)
Capital outlay purchases	4,973,075																						
Depreciation	(3,431,365)																						
Property taxes	(13,395)																						
Repayments of debt	4,988,500																						
Repayments of capital leases	481,971																						
Decrease in liability for compensated absences	159,695																						
Increase in net pension liability	3,316,316																						
Increase in OPEB liability	(80,745)																						
Decrease in liability for hazardous waste-site cleanup	20,000																						
Amortization of bond premiums	322,852																						
Amortization of deferred charge	(212,030)																						
Changes in Net Position of Governmental Activities	\$ 899,480																						

The accompanying notes are an integral part of these financial statements.

**Statement of Revenues and Other Financing Sources,
and Expenditures and Other Financing Uses -
Budget and Actual (Budgetary Basis) - General Fund**

Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenue				
Taxes	\$ 37,498,402	\$ 37,498,402	\$ 38,173,607	\$ 675,205
Licenses, permits and fees	690,400	690,400	424,461	(265,939)
Intergovernmental	19,161,563	19,161,563	19,334,188	172,625
Charges for services	725,100	725,100	1,164,417	439,317
Miscellaneous	1,168,263	1,168,263	700,170	(468,093)
Total Revenues	<u>59,243,728</u>	<u>59,243,728</u>	<u>59,796,843</u>	<u>553,115</u>
Expenditures				
Current:				
General government	4,196,509	4,197,759	4,034,227	163,532
Public safety	6,762,258	6,762,258	6,983,590	(221,332)
Public works	4,175,745	4,175,745	4,039,154	136,591
Human services	697,256	697,256	943,793	(246,537)
Culture and recreation	1,181,418	1,181,418	1,064,372	117,046
Employee benefits	3,539,691	3,539,691	3,629,506	(89,815)
County tax	1,276,754	1,276,754	1,276,744	10
Education	35,040,650	35,040,650	34,555,126	485,524
Debt service:				
Principle	2,011,039	2,011,039	2,011,049	(10)
Interest	671,408	671,408	671,392	16
Total Expenditures	<u>59,552,728</u>	<u>59,553,978</u>	<u>59,208,953</u>	<u>345,025</u>
Excess (Deficiency) of Revenues Over Expenditures	(309,000)	(310,250)	587,890	898,140
Other Financing Sources (Uses)				
Transfers in	675,000	675,000	675,000	
Transfer out	(1,572,000)	(1,572,000)	(1,699,068)	(127,068)
Total Other Financing Sources (Uses)	<u>(897,000)</u>	<u>(897,000)</u>	<u>(1,024,068)</u>	<u>(127,068)</u>
Net Change in Fund Balance - Budgetary Basis	(1,206,000)	(1,207,250)	(436,178)	771,072
Beginning Fund Balance Utilized - Budgetary Basis	<u>\$ 1,206,000</u>	<u>\$ 1,207,250</u>	<u>19,244,586</u>	<u>18,037,336</u>
Fund Balance, End of Year - Budgetary Basis			<u>18,808,408</u>	<u>\$ 18,808,408</u>
Add encumbrances			85,108	
Fund Balance, End of Year, Per Fund Financial Statements			<u>\$ 18,893,516</u>	

Proprietary Funds**Statement of Net Position**

June 30, 2017

	Business-Type Activities Enterprise Funds		
	Sewer Department	Parking Garage	Total
ASSETS			
Current:			
Cash and cash equivalents	\$ 5,090,309		\$ 5,090,309
Accounts receivable, net of allowance for uncollectible	458,047		458,047
Intergovernmental receivable	40,861		40,861
Interfund receivable	2,018,745	\$ 628,225	2,646,970
Total current assets	<u>7,607,962</u>	<u>628,225</u>	<u>8,236,187</u>
Noncurrent:			
Capital assets:			
Land and construction in progress	3,996,888	40,489	4,037,377
Buildings and building improvements	2,789,000	7,072,318	9,861,318
Machinery and equipment	417,588	31,102	448,690
Infrastructure	81,145,349		81,145,349
Less accumulated depreciation	<u>(44,901,529)</u>	<u>(1,869,903)</u>	<u>(46,771,432)</u>
Total noncurrent assets	<u>43,447,296</u>	<u>5,274,006</u>	<u>48,721,302</u>
Total Assets	<u>51,055,258</u>	<u>5,902,231</u>	<u>56,957,489</u>
LIABILITIES			
Current:			
Accounts payable	294,746	2,999	297,745
Current portion of long-term liabilities:			
Bonds payable	<u>306,500</u>		<u>306,500</u>
Total current liabilities	<u>601,246</u>	<u>2,999</u>	<u>604,245</u>
Noncurrent:			
Bonds payable, noncurrent	<u>4,629,500</u>		<u>4,629,500</u>
Total noncurrent liabilities	<u>4,629,500</u>		<u>4,629,500</u>
Total Liabilities	<u>5,230,746</u>	<u>2,999</u>	<u>5,233,745</u>
NET POSITION			
Net investment in capital assets	40,681,206	5,274,006	45,955,212
Unrestricted	<u>5,143,306</u>	<u>625,226</u>	<u>5,768,532</u>
Total Net Position	<u>\$ 45,824,512</u>	<u>\$ 5,899,232</u>	<u>\$ 51,723,744</u>

Proprietary Funds**Statement of Revenues, Expenses and Changes in Net Position**

Year Ended June 30, 2017

	Business-Type Activities Enterprise Funds		
	Sewer Department	Parking Garage	Total
Operating Revenues			
Sewer assessments	\$ 4,342,357		\$ 4,342,357
Parking garage revenue		\$ 248,346	248,346
Total Operating Revenues	<u>4,342,357</u>	<u>248,346</u>	<u>4,590,703</u>
Operating Expenses			
Portland Water District assessment	2,533,176		2,533,176
Sewer operations	797,887		797,887
Parking garage		76,598	76,598
Depreciation expense	1,520,595	141,447	1,662,042
Total Operating Expenses	<u>4,851,658</u>	<u>218,045</u>	<u>5,069,703</u>
Operating Income (Loss)	<u>(509,301)</u>	<u>30,301</u>	<u>(479,000)</u>
Nonoperating Revenues (Expenses)			
Miscellaneous	954,815		954,815
Interest on bonds	(211,149)		(211,149)
Total Nonoperating Revenues (Expenses) Net	<u>743,666</u>		<u>743,666</u>
Change in Net Position	234,365	30,301	264,666
Net Position, Beginning of Year, As Restated	<u>45,590,147</u>	<u>5,868,931</u>	<u>51,459,078</u>
Net Position, End of Year	<u>\$ 45,824,512</u>	<u>\$ 5,899,232</u>	<u>\$ 51,723,744</u>

Proprietary Funds**Statement of Cash Flows**

Year Ended June 30, 2017

	Business-Type Activities Enterprise Funds		
	Sewer Department	Parking Garage	Total
Cash Flows From Operating Activities:			
Receipts from customers and users	\$ 6,468,582	\$ 73,599	\$ 6,542,181
Payments to suppliers and employees	<u>(3,352,859)</u>	<u>(73,599)</u>	<u>(3,426,458)</u>
Net Cash Provided by Operating Activities	<u>3,115,723</u>		<u>3,115,723</u>
Cash Flows From Capital and Related Financing Activities:			
Purchase of capital assets	(3,517,935)		(3,517,935)
Principal payments on bonds and notes	(306,500)		(306,500)
Interest paid on bonds and notes	(211,149)		(211,149)
Other financing sources	954,815		954,815
Net Cash Used for Capital and Related Financing Activities	<u>(3,080,769)</u>		<u>(3,080,769)</u>
Net Change in Cash and Cash Equivalents	34,954		34,954
Cash and Cash Equivalents, Beginning of Year	<u>5,055,355</u>		<u>5,055,355</u>
Cash and Cash Equivalents, End of Year	<u>5,090,309</u>		<u>5,090,309</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	(509,301)	30,301	(479,000)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	1,520,595	141,447	1,662,042
Loss from disposition of capital assets	200,003		200,003
(Increase) decrease in operating assets:			
Accounts receivable	8,761		8,761
Interfund receivable	2,117,464	(174,747)	1,942,717
Increase (decrease) in operating liabilities:			
Accounts payable	(221,799)	\$ 2,999	(218,800)
Net Cash Provided by Operating Activities	<u>\$ 3,115,723</u>		<u>\$ 3,115,723</u>

Fiduciary Funds

Statement of Fiduciary Net Position

June 30, 2017

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and short term investments	\$ 438,216	\$ 251,602
Due from other funds	121,925	40,132
Total Assets	<u>560,141</u>	<u>291,734</u>
LIABILITIES		
Accounts payable	12,000	
Due to student groups		251,602
Escrow and performance deposits		40,132
Total Liabilities	<u>12,000</u>	<u>\$ 291,734</u>
NET POSITION		
Held in Trust	<u>\$ 548,141</u>	

Fiduciary Funds

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2017

	Private Purpose Trust Funds
Additions	
Investment earnings	\$ 1,950
Contributions	114,201
Total Additions	<u>116,151</u>
Deductions	
Disbursements by agent	<u>140,913</u>
Total deductions	<u>140,913</u>
Change in Net Position	(24,762)
Net Position	
Beginning of year	<u>572,903</u>
End of year	<u><u>\$ 548,141</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Westbrook, Maine (the City/Government) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (standards and interpretations), constitute GAAP for governmental units. GAAP also includes guidance from the American Institute of Certified Public Accountants in the publication entitled State and Local Governments. The more significant of the City's accounting policies are described below.

Reporting Entity

The City of Westbrook is a municipal corporation governed by an elected Mayor and seven-member City Council consisting of five members elected by ward and two elected at-large. In evaluating the City as a reporting entity, management has addressed all potential component units for which the City may be financially accountable and, as such, should be included within the City's financial statements. In accordance with GASB Statement No. 14 as amended by GASB Statement No. 61, the City is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading. The City identified one organization as a blended component unit, although legally separate is, in substance, part of the government's operations.

Blended component unit – The Westbrook Environmental Improvement Corporation is a nonprofit corporation organized by the City of Westbrook for the purpose of coordinating the implementation of tax increment financing districts and undertaking various environmental improvement projects. The Westbrook Environmental Improvement Corporation (WEIC) activity has been reported as a blended component unit in the Special Revenue Funds.

Related organizations are excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments. The City participates in the following related organization:

Greater Portland Transit District – The City, in conjunction with one other community, participates in the District. The District provides public transportation services to the residents of the participating communities. The District is managed by a Board of Directors selected by the elected municipal officers of each participating municipality. Except for members' proportional share of bonds payable, which are repaid through member assessments, no participant has any obligation or entitlement and the City's share of any residual interest has not been determined. Audited financial statements are available from the organization.

Government-Wide and Fund Financial Statements

Government Wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole, excluding fiduciary activities. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and city general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges for the City's services; and (2) operating grants and contributions, which finance annual operating activities including restricted investment income. These revenues are subject to externally imposed restrictions to these program uses. Taxes and revenue from other sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual, governmental and proprietary funds are reported in separate columns with composite columns for the nonmajor governmental funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Fiduciary fund financial statements also report using this same basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property tax revenues are recognized in the year for which they are levied, while grants are recognized when grantor eligibility requirements are met. The agency funds are custodial in nature and do not measure results of operations.

Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation debt principal and interest, which are reported as expenditures in the year due.

Major revenues susceptible to accrual are real estate and personal property taxes, intergovernmental amounts, charges for services, and investment income. In general, other revenues are recognized when cash is received.

The City reports the General Fund as the only major fund – Reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

The City reports the following major enterprise funds:

Sewer Department Fund – Accounts for the operating activities of the City's sewer system.

Parking Garage Fund – Accounts for the operating activities of the City's parking garage

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The City reports the following fiduciary funds:

Private Purpose Trust Funds account for assets that benefit other entities or individuals.

Agency Funds – Account for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others. Agency funds are used to account for various student-managed activities and minor city employee funds.

Cash and Investments

The laws of the State of Maine require that the City's treasurer have custody of all monies belonging to the City and pay out the same only upon orders of the Mayor and City Council. The treasurer shall deposit all monies in accordance with Maine State Statute 30-A §5706. Investments are stated at fair value based on quoted market prices.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the City uses various methods, including market, income and cost approaches. Based on these approaches, the City often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The City utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the City is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
- Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In determining the appropriate levels, the City performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Receivables

Management has reviewed property taxes receivable, accounts receivable, intergovernmental receivables and loans receivable for collectability and has recorded an allowance for uncollectible amounts as is considered necessary. The most significant account needing an allowance is the allowance for uncollectible rescue/ambulance billings receivable for which there is an allowance of \$868,117 at June 30, 2017.

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets and Depreciation

The City's property, plant and equipment with useful lives of more than one year are stated at historical cost or estimated historical cost and reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of \$10,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are, as follow:

	Years
Buildings and building improvements	25 – 50
Machinery and equipment	5 – 20
Vehicles	5 – 15
Infrastructure	50

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused, sick, vacation, and general leave time at various rates in accordance with union contracts and the City's personnel policy. In the fund financial statements, these amounts for accumulated vacation and vested sick leave are only recorded as a liability if they have matured, for example, as a result of paid time off or employee resignations and retirements, as applicable. All accumulated leave is accrued when incurred on the government-wide financial statements.

Deferred Outflows of Resources and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category. One item is deferred outflows related to the pension liability as is more fully disclosed in the pension footnote and the other item is the deferred charge on refunding, both reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item reported in the statement of net position that qualifies for reporting in this category. It is the deferred inflows related to the pension liability as is more fully disclosed in the pension footnote. The City's balance sheet under governmental funds reports one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category, unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, if material to the basic financial statements, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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 is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balances

The governmental funds financial statements fund balance is reported in five classifications.

Nonspendable fund balance represents fund balance amounts that are not in spendable form or legally or contractually required to be maintained intact.

Restricted fund balance represents resources with constraints placed through external creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through constitutional provision or by enabling legislation.

Committed fund balance represents resources that are determined by the City's highest decision-making level of authority, and remain binding unless removed in the same manner. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution prior to the fiscal year, commit a fund balance.

Assigned fund balance is the portion of fund balance that has been approved by formal action of the City Council for appropriation in future budgets. The amounts are not for a highly specified purpose and their use has some discretion by the administration.

Unassigned fund balance is fund balance that has not been reported in any other classification. Note that in all governmental funds other than the general fund, amounts expended in excess of resources that do not meet the above categories are classified here – i.e. residual deficits.

The City has no formal revenue spending policy for programs with multiple revenue sources. The City uses resources in the following hierarchy unless otherwise directed by Statute or the City Council: Bond proceeds, federal funds and state funds, local non-City funds, and City funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Recently Adopted Accounting Pronouncements

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosure*. This pronouncement established reporting standards for disclosure of information about the nature and magnitude of tax abatements and was adopted by the City as of June 30, 2017.

Recent Accounting Pronouncements

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plan Other Than Pension Plans*. This statement improves accounting and financial reporting for OPEB. This statement replaces GASB Statement No. 45, and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense. The new statement is effective for periods beginning after June 15, 2017.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. Unless encumbered, all appropriations lapse at year-end. The City is allowed to use beginning fund balance to balance the budget.

Each year, the Mayor submits to the City Council a budget for the ensuing fiscal year. It provides a complete financial plan of the City's General Fund. It begins with a general summary of its contents and shows in detail all estimated income, indicating the proposed property tax levy affecting the General Fund, and all proposed expenditures, including debt service, for the ensuing fiscal year, arranged to show comparative figures for actual and estimated income and expenditures to the preceding fiscal year.

The Mayor, with City Council approval, may transfer budgeted amounts between departments. The City Council may, by resolution, appropriate additional amounts but only up to the amount of excess revenues and unencumbered budget surplus remaining after the purpose of the original appropriation has been satisfied. At the end of the fiscal year, all unencumbered appropriations lapse unless specifically continued by resolution of the City Council. No supplementary appropriations of the City's fund balance were made during the year ended June 30, 2017.

Encumbrance accounting is employed by the governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as assignments of fund balances and do not constitute expenditures or liabilities because they will be added to the appropriations voted in the subsequent year. Encumbrances are treated as expenditures under the budgetary basis.

Revenues are budgeted by source. Expenditures are budgeted by functions as follow: General government, public safety, public works, human services, culture and recreation, employee benefits, unclassified, debt service and capital outlay.

Notes to Financial Statements

June 30, 2017

Deficit Fund Equity

Following is a list of other individual projects within the following funds having deficits exceeding \$50,000 as of June 30, 2017:

Nonmajor Governmental Funds	
Tax Increment Financing District Funds:	
Downtown TIF	\$(917,410)
Miscellaneous Special Revenue Funds – School Grants:	
IDEA Local Entitlement	(190,053)
Medicaid	(188,791)
Title I Disadvantaged	(88,554)
Capital Projects Funds – School Capital Projects	
Saccarappa School	(1,029,692)
Middle School	(204,567)
Other Capital Projects	(189,733)

The deficit in the Downtown TIF fund is the result of the amount of tax recovered in the districts being less than the annual debt payments. The City expects future tax amounts will be greater than the annual debt payments as the captured value increases with development.

The deficits in the other funds will be eliminated through future grant reimbursements, departmental revenues and transfers from other funds. The Sacarappa School and Middle School capital projects are covered by the bond issuance on November 1, 2017.

NOTE 3 – CASH AND INVESTMENTS

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2017, the City reported deposits of \$31,664,677, with a bank balance of \$33,641,389. Of the City's bank balances of \$30,974,859, \$104,462 was exposed to custodial credit risk as uninsured and uncollateralized; the remainder was covered by the FDIC or is secured by additional collateral pledged on behalf of the City by the respective banking institutions.

Included in cash is \$5,090,309 of bond proceeds that are restricted for capital projects.

Investments

Maine statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. Agencies, commercial paper, repurchase agreements and certain corporate stocks and bonds.

As of June 30, 2017, the City's reporting entity had the following investments:

Certificates of Deposit	\$ 456,392
Mutual Funds	604,384
	<u>\$ 1,060,776</u>

Notes to Financial Statements

June 30, 2017

NOTE 3 – CASH AND INVESTMENTS – CONTINUED

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City does not have an investment policy that places any restrictions on its investment choices.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City does not have an investment policy that addresses limiting interest rate risk.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City does not have an investment policy that addresses concentration of credit risk. As of June 30, 2017, there are no investments representing more than 5% of the total investments.

Custodial Credit Risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The City has no investments with material exposure to custodial credit risk.

Fair Value

Fair values of assets measured on a recurring basis at June 30, 2017 are as follows:

	Total	Level 1	Level 2	Level 3
June 30, 2017				
Certificates of deposit	\$ 456,392	\$ 456,392		
Mutual funds	604,384	604,384		
	<u>\$ 1,060,776</u>	<u>\$ 1,060,776</u>	<u>\$</u>	<u>\$</u>

There were no assets classified as Level 2 or 3 as of June 30, 2017.

NOTE 4 – PROPERTY TAX

Property taxes for the current year were committed on June 28, 2016 on the assessed value listed as of the previous April 1 for all real and personal property located in the City. All real and personal property taxes were due in four installments, 25% on August 15, 2016, 25% on November 15, 2016, 25% on February 15, 2017, and 25% on May 15, 2017. Interest at the rate of 7% per annum was charged on any amounts remaining unpaid after these respective due dates. Assessed values are periodically established by the City's Assessor at 100% of assumed market value. The assessed value was 100% of the estimated market value and 100% of the 2016 state valuation of \$1,879,835,900.

The City is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$383,292 for the year ended June 30, 2017.

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 the 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 60 days following the end of the fiscal year have been recorded as revenues. The remaining receivables, in the funds financial statements, have been recorded as a deferred inflow of resources, unavailable revenue – property taxes.

Notes to Financial Statements

June 30, 2017

NOTE 4 –PROPERTY TAX – CONTINUED

The tax rates and amounts assessed for the year ended June 30, 2017 were, as follows:

Valuation:	
Real estate	\$ 1,625,670,300
Personal property	254,165,600
Total assessed valuation	<u>1,879,835,900</u>
Total assessed valuation	1,879,835,900
Tax rate (per \$1,000)	18.40
Total tax commitment	<u>34,588,981</u>
The following details the taxes receivable at year-end:	
Taxes receivable - current year	1,030,078
Taxes receivable - prior years	856,966
Taxes receivable	<u>\$ 1,887,044</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Generally, outstanding balances between funds reported as "interfund receivables/payables" include outstanding charges by one fund to another for goods or services, subsidy commitments outstanding at year-end, or other miscellaneous amounts. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is also reported as "interfund receivables/payables."

As of June 30, 2017, the balances of interfund loans receivable/payable were, as follows:

	Interfund Loans Receivable	Interfund Loans Payable
General fund		\$ 5,047,508
Other governmental funds	\$ 2,238,481	
Sewer department	2,018,745	
Parking garage	628,225	
Fiduciary funds	162,057	
Totals	<u>\$ 5,047,508</u>	<u>\$ 5,047,508</u>

Notes to Financial Statements

June 30, 2017

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS – CONTINUED

Transfers

Transfers within the reporting entity are substantially for the purposes of distributing tax revenues to the fund for which the appropriation was made, and distributing trust income to the applicable fund, and other voted amounts. The government-wide statement of activities eliminates transfers reported within the governmental activities columns.

The following schedule reports transfers within the reporting entity:

	Transfers In		
	General Fund	Nonmajor Governmental Funds	Total
Transfers out:			
Governmental funds:			
General		\$ 1,699,068	\$ 1,699,068
Nonmajor	\$ 675,000	554,665	1,229,665
	\$ 675,000	\$ 2,253,733	\$ 2,928,733

The amount transferred to the nonmajor funds from the General Fund represents the transfer of tax revenues to the tax increment finance (TIF) districts and other funds in accordance with the various agreements and voted amounts. The amount to the General Fund from the nonmajor funds represents transfers from the TIF districts in accordance with the agreements. The amounts from the nonmajor funds to other nonmajor funds represents transfers of the balances of bond proceeds from completed capital projects to other ongoing capital projects, and transfers from the TIF districts in accordance with the agreements.

Notes to Financial Statements

June 30, 2017

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was, as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 2,284,662			\$ 2,284,662
Construction in progress	6,448,753	\$ 1,275,201	\$ (6,448,753)	1,275,201
Total capital assets not being depreciated	<u>8,733,415</u>	<u>1,275,201</u>	<u>(6,448,753)</u>	<u>3,559,863</u>
Being depreciated:				
Buildings and improvements	74,653,136	8,609,272	(12,000)	83,250,408
Machinery and equipment	5,748,757	168,778	(165,856)	5,751,679
Vehicles	10,188,740	342,686	(737,574)	9,793,852
Infrastructure	80,010,523	1,136,771		81,147,294
Total capital assets being depreciated	<u>170,601,156</u>	<u>10,257,507</u>	<u>(915,430)</u>	<u>179,943,233</u>
Total all capital assets	<u>179,334,571</u>	<u>11,532,708</u>	<u>(7,364,183)</u>	<u>183,503,096</u>
Less accumulated depreciation:				
Buildings and improvements	(17,014,998)	(1,241,421)	11,671	(18,244,748)
Machinery and equipment	(3,773,040)	(321,806)	151,628	(3,943,218)
Vehicles	(6,538,694)	(526,722)	641,251	(6,424,165)
Infrastructure	(40,871,187)	(1,341,416)		(42,212,603)
Total accumulated depreciation	<u>(68,197,919)</u>	<u>(3,431,365)</u>	<u>804,550</u>	<u>(70,824,734)</u>
Net book value, capital assets being depreciated	<u>102,403,237</u>	<u>6,826,142</u>	<u>(110,880)</u>	<u>109,118,499</u>
Net book value, total capital assets	<u>\$111,136,652</u>	<u>\$ 8,101,343</u>	<u>\$ (6,559,633)</u>	<u>\$119,237,995</u>
Business-type activities:				
Not being depreciated:				
Land	\$ 148,840		\$ (2,018)	\$ 146,822
Construction in progress	372,622	\$ 3,517,933		3,890,555
Total capital assets not being depreciated	<u>521,462</u>	<u>3,517,933</u>	<u>(2,018)</u>	<u>4,037,377</u>
Being depreciated:				
Buildings and improvements	9,861,318			9,861,318
Machinery and equipment	31,102			31,102
Vehicles	417,588			417,588
Infrastructure	81,799,849		(654,500)	81,145,349
Total capital assets being depreciated	<u>92,109,857</u>		<u>(654,500)</u>	<u>91,455,357</u>
Total all capital assets	<u>92,631,319</u>	<u>3,517,933</u>	<u>(656,518)</u>	<u>95,492,734</u>
Less accumulated depreciation:				
Buildings and improvements	(2,880,631)	(208,023)		(3,088,654)
Machinery and equipment	(31,102)			(31,102)
Vehicles	(186,399)	(28,308)		(214,707)
Infrastructure	(42,467,773)	(1,425,711)	456,515	(43,436,969)
Total accumulated depreciation	<u>(45,565,905)</u>	<u>(1,662,042)</u>	<u>456,515</u>	<u>(46,771,432)</u>
Net book value, capital assets being depreciated	<u>46,543,952</u>	<u>(1,662,042)</u>	<u>(197,985)</u>	<u>44,683,925</u>
Net book value, total capital assets	<u>\$ 47,065,414</u>	<u>\$ 1,855,891</u>	<u>\$ (200,003)</u>	<u>\$ 48,921,305</u>

Notes to Financial Statements

June 30, 2017

NOTE 6 – CAPITAL ASSETS – CONTINUED

Depreciation expense was charged to functions or activities of the City, as follows:

Governmental Activities		Business-type activities:	
General government	\$ 251,151	Sewer department	\$ 1,520,595
Public safety	344,625	Parking garage	141,447
Public works	1,635,339	Total depreciation expense	<u>\$ 1,662,042</u>
Culture and recreation	224,444		
Education	975,806		
Total depreciation expense	<u>\$ 3,431,365</u>		

Construction-in-progress as of June 30, 2017 consists of school renovations, community center renovations, and various sewer projects. These projects are expected to be completed during 2018 and 2019 and the total cost of the projects is expected to be approximately \$27.3 million for the School Department and \$5 million for the City community center.

NOTE 7 – LONG-TERM DEBT

Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 53,287,500		\$ (4,988,500)	\$ 48,299,000	\$ 4,988,500
Unamortized bond premium	3,969,886		(322,850)	3,647,036	316,503
Capital leases	878,885	\$ 556,383	(481,971)	953,297	453,389
Net pension liability	7,116,217	3,316,316		10,432,533	
Compensated absences	1,492,888		(91,806)	1,401,082	67,889
Other post-employment benefits	570,828	80,745		651,573	
Landfill postclosure care costs	320,000		(20,000)	300,000	20,000
Long-term liabilities	<u>\$ 67,636,204</u>	<u>\$ 3,953,444</u>	<u>\$ (5,905,127)</u>	<u>\$ 65,684,521</u>	<u>\$ 5,846,281</u>
Business-Type Activities					
General obligation bonds	\$ 5,242,500		\$ (306,500)	\$ 4,936,000	\$ 306,500
Long-term liabilities	<u>\$ 5,242,500</u>		<u>\$ (306,500)</u>	<u>\$ 4,936,000</u>	<u>\$ 306,500</u>

General Obligation Bonds

General obligation bonds and notes are approved by the voters and repaid with general revenues (taxes). These notes are backed by the full faith and credit of the City.

School Construction

In November 2016, the taxpayers approved bonds for expansion projects at Saccarappa School for \$23 million and the Middle School for \$4.3 million. Construction began in the summer of 2017 with completion anticipated in August 2018 for the Middle School and spring 2019 for Saccarappa School. The bonds for the school renovations were issued on November 1, 2017.

Notes to Financial Statements

June 30, 2017

NOTE 7 – LONG-TERM DEBT – CONTINUED

Bonds payable currently outstanding in the governmental activities are, as follows:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding At 6/30/2017	Current Portion
General obligation bonds payable:						
2009 General Obligation Bond	\$ 38,276,000	2009	2029	4.99	\$ 4,150,000	\$ 2,075,000
2011 General Obligation Bond	12,350,000	2011	2031	3.24	5,319,000	1,203,500
2012 General Obligation Bond	7,745,000	2012	2028	1.00-3.5	6,120,000	800,000
2014 General Obligation Bond	1,760,000	2014	2039	2.00-4.25	1,275,000	210,000
2014 GOB Refunding	5,985,000	2014	2039	0.35-5.10	5,510,000	165,000
2015 GOB and Refunding	\$ 26,470,000	2015	2036	3.00-5.00	25,925,000	545,000
					<u>\$48,299,000</u>	<u>\$ 4,998,500</u>

Bonds payable currently outstanding in the business-type activities are, as follows:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding At 6/30/2017	Current Portion
General obligation bonds payable:						
2011 General Obligation Bond	\$ 1,215,000	2011	2031	3.24	\$ 831,000	\$ 61,500
2014 General Obligation Bond	\$ 4,840,000	2014	2034	2.00-4.25	4,105,000	245,000
Total					<u>\$ 4,936,000</u>	<u>\$ 306,500</u>

The annual debt service requirements to maturity for the bonds outstanding as of year-end are, as follows:

For Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 4,998,500	\$ 1,941,940	\$ 6,940,440
2019	4,993,500	1,749,675	6,743,175
2020	4,353,500	1,562,220	5,915,720
2021	4,348,500	1,382,495	5,730,995
2022	3,485,000	1,216,891	4,701,891
2023-2027	14,970,000	4,061,923	19,031,923
2028-2032	7,050,000	1,430,845	8,480,845
2033-2037	3,330,000	524,638	3,854,638
2038-2039	770,000	39,775	809,775
Totals	<u>\$ 48,299,000</u>	<u>\$ 13,910,402</u>	<u>\$ 62,209,402</u>

For Year Ending June 30,	Business-Type Activities		
	Principal	Interest	Total
2018	\$ 306,500	\$ 173,298	\$ 479,798
2019	306,500	166,169	472,669
2020	306,500	158,809	465,309
2021	306,500	150,224	456,724
2022	305,000	140,444	445,444
2023-2027	1,500,000	546,670	2,046,670
2028-2032	1,425,000	246,870	1,671,870
2033-2037	480,000	20,400	500,400
Totals	<u>\$ 4,936,000</u>	<u>\$ 1,602,884</u>	<u>\$ 6,538,884</u>

Notes to Financial Statements

June 30, 2017

NOTE 7 – LONG-TERM DEBT – CONTINUED

The City is subject to a statutory limitation by the State of Maine of its general long-term debt equal to 15% of the State's valuation of the City. Based on a valuation of \$1,879,835,900, the City's debt limit is \$281,975,385. The City's outstanding long-term debt of \$48,299,000 at June 30, 2017 was within the statutory limit.

Conduit Debt and Overlapping Debt

The City has, from time to time, assisted third parties in financing capital activities by participating in conduit debt transactions. The City is not obligated in any manner for this debt and, as a result, has not reported these liabilities or any related assets in the basic financial statements. The outstanding principal balance of conduit debt, as of June 30, 2017, was approximately \$5,398,600. The City is directly liable for a line of credit used for the purpose of providing loans to local businesses as part of the Revolving Loan Fund program, which had an outstanding balance of \$19,250 as of June 30, 2017. Also, the City is potentially liable for a portion of the June 30, 2017 overlapping debt of Cumberland County, in the amount of \$1,728,554 and the Portland Water District, in the amount of \$7,233,760, should either of these entities default on their debt payments.

Capital Leases

The City and School Department have lease agreements for modular buildings, equipment, vehicles and school buses. Those leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the date of their inception in the government-wide financial statements. The following is a schedule of future minimum lease payments under the capital leases and the present value of the minimum lease payments at June 30, 2017:

For Year Ending June 30,	Principal	Interest	Total
2018	\$ 453,389	\$ 26,836	\$ 330,389
2019	316,376	14,013	157,387
2020	152,303	5,084	32,131
2021	31,229	902	1,000,132
Totals	<u>\$ 953,297</u>	<u>\$ 46,835</u>	<u>\$ 1,520,039</u>

The total costs of capital assets held under capital leases was \$1,842,629, accumulated depreciation was \$477,641 and net book value was \$1,364,988, as of June 30, 2017.

NOTE 8 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The City presently has two landfills, both of which have been closed. Use of the Sandy Hill landfill ceased in 1987 and it has been covered with clay. The City ceased the use of the Rocky Hill Demolition Debris landfill in 1999. Federal and State laws and regulations require that the City continue to perform certain maintenance and monitoring functions at the landfill sites. A liability is being recognized based on the postclosure care costs that will be incurred. The estimated total current cost of the landfill postclosure care has a balance of \$300,000 as of June 30, 2017, which is based on the amount that would be paid if all equipment, facilities, and services required to monitor and maintain the landfill were acquired as of June 30, 2017. However, the actual cost of postclosure care may be higher or lower due to inflation, changes in technology, or changes in landfill laws and regulations. The City annually appropriates an amount for postclosure care costs.

Notes to Financial Statements

June 30, 2017

NOTE 9 – POST-EMPLOYMENT HEALTH CARE

Plan Description

The City is a member of the Maine Municipal Employees Health Trust (the "Health Trust"). In addition to providing pension benefits, the City provides health care benefits for certain retired employees. Eligibility to receive health care benefits follows the same requirement as Maine PERS. Eligible retirees are required to pay 100% of the health insurance premiums to receive health benefit coverage. The City does not supplement the cost of this coverage directly, but recognizes the liability for the inclusion of implicit rate subsidies to the retirees. The subsidy occurs because when a blended rate is used for a group of individuals that includes younger and presumably healthier people along with older, retired people, implicitly, the active employees are subsidizing the retirees. As of January 1, 2017, the date of the most recent Actuarial Valuation Report, there were sixteen retirees with three spouses, and one hundred thirty three employees.

Benefits Provided

The City provides medical, dental and prescription drug coverage to retirees and their eligible spouses and dependents. Pre-Medicare retirees are offered the same plans that are available to the active employees. The Plans are provided through the Health Trust, and include the Indemnity Choice Plan, the Traditional Point of Service Plan, the Comprehensive Point of Service Plan, and Comprehensive Point of Service Plan B, and the PPO Value Plan.

Funding Policy

Retirees contribute all of the premiums as determined by the City, but the remainder of the costs, as derived from the implicit subsidy, is paid by the City on a pay-as-you-go basis.

Annual OPEB Costs and Net OPEB Obligation

The City's annual OPEB expense for the fiscal year 2017 was calculated based on the annual required contribution of the City (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period not to exceed thirty years.

The City's annual OPEB cost for the fiscal year ended June 30, 2017, including the amount actually contributed to the plan and the change in the City's net OPEB obligation using the level funding amortization method, is as follows:

Normal cost	\$ 48,475
Amortization of unfunded liability	68,719
Interest	2,321
Annual required contribution	<u>119,515</u>
Interest on net OPEB contribution	22,833
Adjustment to annual required contribution	<u>(33,011)</u>
Annual OPEB cost	109,337
Contributions made	<u>(28,592)</u>
2016 OPEB liability expense	80,745
Net OPEB Obligation (NOO), beginning	<u>570,828</u>
Net OPEB Obligation (NOO), ending	<u><u>\$ 651,573</u></u>

Notes to Financial Statements

June 30, 2017

NOTE 9 – POST-EMPLOYMENT HEALTH CARE - CONTINUED

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation, were as follows for the previous three years:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 109,337	26.15%	\$ 651,573
2016	\$ 148,483	26.94%	\$ 570,828
2015	\$ 150,520	24.13%	\$ 462,361

The funded status of the plan as of June 30, 2017 was, as follows:

Actuarial Accrued Liability	\$ 1,235,824
Actuarial Value of Plan Assets	
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 1,235,824</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll of Active Plan Members	\$ 8,506,144
UAAL as a Percentage of Covered Payroll	14.5%

Methods of Assumptions

The projected unit credit (PUC) cost method was used for the valuation. The amortization method is the level dollar open, amortized over 30 years. Under the PUC method, benefits are projected for life, and their present value is determined. The present value is divided into equal parts, which are earned from date of hire to each decrement age. An open 30 year amortization period was used. The amortization method is a level dollar amortization method. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Open
Amortization Period	30 Years
Asset Valuation Method	N/A
Actuarial Assumptions	
Discount Rate	4.00%
Rate of Salary Increases	2.75%
Ultimate Rate of Medical Inflation	4.00%

Notes to Financial Statements

June 30, 2017

NOTE 10 – PENSION PLANS

Plan Descriptions

The City contributes to the Maine Public Employees Retirement System as part of the State Employee and Teacher Plan (the Teacher Plan) and also the Participating Local District Consolidated Plan (the PLD plan) or (the Plans), which are cost sharing multiple employer defined benefit pension plans. The Plans were established as the administrator of a public employee retirement system under the Laws of the State of Maine. Within the City of Westbrook, the School Department's teaching certified employees, plus other qualified educators, are eligible to participate in the Teacher Plan. The Teacher Plan covers 236 participating employers. The City's Police, Fire/Rescue and certain other City employees and the City's school custodians, school lunch personnel, and other non-teacher personnel, including some educational technicians (Ed Techs), central office employees, and secretarial employees have the option to participate in the PLD Plan. The PLD Plan covers 283 participating employers.

Employee membership data related to the Plans, as of June 30, 2017 was, as follows:

	Teachers	PLD
Current participants: Vested and non-vested	39,836	11,195
Terminated participants: Vested	8,010	2,234
Terminated participants: Inactive due refunds	38,463	7,274
Retirees and beneficiaries receiving benefits	34,870	9,006
	<u>121,179</u>	<u>29,709</u>

Benefit terms are established by Maine statute. In the case of the PLD Plan, an advisory group, also established by statute, reviews the terms of the Plan and periodically makes recommendations. The Plans' retirement programs provide defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting (i.e., 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). In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for Teacher Plan members is age 60, 62 or 65. 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 Plan 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 Plans also provides disability and death benefits, which are established by statute for State employee 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 Plan's Board of Trustees and is currently 5%.

For the year ended June 30, 2017, the City's total payroll for all employees was \$33,794,444. Total covered payroll was \$18,270,655 for the Teacher Plan and \$7,254,647 for the PLD Plan. Covered payroll refers to all compensation paid by the City to active employees covered by the Plan.

Notes to Financial Statements

June 30, 2017

NOTE 10 – PENSION PLANS - CONTINUED

Contributions

The contribution requirements of the Teacher Plan members are defined by law or the Plan's Board. Teacher Plan members of the City of Westbrook school department are required to contribute 7.65% of covered compensation to the Teacher Plan. Employee contributions are deducted from the employee's wages or salary and remitted by the City of Westbrook's school department to the Teacher Plan on a monthly basis. The State is statutorily required to contribute 10.02% of annual Teacher wages, excluding wages covered by grants, which pays for the unfunded liability for the teachers. Employer contribution rates are determined through actuarial valuations. The School Department's required contribution rate for the year ended June 30, 2017, was 3.36% percent of annual Teacher payroll, plus 10.02% for grant fund wages, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year (normal cost contributions). The Westbrook School Department's contributions to the Teacher Plan for the year ended June 30, 2017 were \$749,776.

The contribution requirements of the PLD Plan members are defined by law or the Plan's Board. Employees of the City of Westbrook and school department, other than Police and Fire/Rescue, are required to contribute 8.0% of covered compensation to the PLD Plan. The Police and Fire/Rescue required contribution rate for the year ended June 30, 2017 was between 8%-9.5%. The contributions are deducted from the employee's wages or salary and remitted by the City of Westbrook to the Plan on a monthly basis. Employer contribution rates are determined through actuarial valuations. The City of Westbrook's contribution rate for school and city employees, other than Police and Fire/Rescue, for the year ended June 30, 2017, was 9.5% percent of annual payroll. The Police and Fire/Rescue contribution rate for the year ended June 30, 2017 was between 9.5%-14.2%. The contribution rates are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City of Westbrook's contributions to the Plan for the year ended June 30, 2017 were \$837,537.

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

Teacher Plan

At June 30, 2017, the City of Westbrook School Department reported a liability for its proportionate share of the net pension liability that reflected a reduction of State pension support provided to the City of Westbrook School Department. The amount recognized by the City of Westbrook School Department as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the City of Westbrook School Department were, as follows:

City of Westbrook School Department's proportionate share of the net pension liability	\$ 1,739,490
State's proportionate share of the net pension liability associated with the City of Westbrook School Department	24,385,665
Total	<u>\$ 26,125,155</u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Westbrook School Department's proportion of the net pension liability was based on a projection of the School Department's long-term share of contributions relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2016, the School Department's proportion was 0.098 percent, which was a decrease of 0.001 from its proportion measured as of June 30, 2015.

Notes to Financial Statements

June 30, 2017

NOTE 10 – PENSION PLANS - CONTINUED

For the year ended June 30, 2017, the School Department recognized pension expense of \$805,044 and revenue of \$1,629,536 for support provided by the State. In addition, the School Department reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 33,641	\$ 3,285
Changes of assumptions		44,675
Net difference between projected and actual earnings on Plan investments	555,458	227,601
Changes in proportion and differences between contributions and proportionate share of contributions	60,414	5,220
Contributions subsequent to the measurement date	<u>749,776</u>	
Total	<u>\$ 1,399,289</u>	<u>\$ 280,781</u>

The \$749,776 of deferred outflows of resources resulting from the School Department's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be netted and recognized in pension expense (reduction in expense), as follows:

Years ending June 30,	
2018	\$ 90,679
2019	35,487
2020	156,445
2021	<u>86,121</u>
Total	<u>\$ 368,732</u>

PLD Plan

At June 30, 2017, the City and the City School Department reported a liability of \$8,693,043 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City and the City School Department's proportion of the net pension liability was based on a projection of the City and the City School Department's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City and the City School Department's proportion was 1.64%, which was a decrease of 0.15% from its proportion measured as of June 30, 2015.

Notes to Financial Statements

June 30, 2017

NOTE 10 – PENSION PLANS - CONTINUED

For the year ended June 30, 2017, the City and the City School Department recognized pension expense of \$1,311,988. At June 30, 2017, the City and the City School Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 105,379	\$ 559,125
Changes of assumptions	931,916	
Net difference between projected and actual earnings on Plan investments	3,212,362	1,336,943
Changes in proportion and differences between contributions and proportionate share of contributions	168,104	689,673
Contributions subsequent to the measurement date	837,547	
Total	<u>\$ 5,255,308</u>	<u>\$ 2,585,741</u>

The \$837,547 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be netted and recognized in pension expense (reduction in expense), as follows:

Years ending June 30,	
2018	\$ 253,284
2019	157,003
2020	920,715
2021	501,018
Total	<u>\$ 1,832,020</u>

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	Teachers Plan 2.75% and PLD Plan 2.75%, per annum
Salary increases	Teachers Plan 2.75%-14.5% and PLD Plan 2.75%-9%, per year
Investment rate of return	Teachers Plan 6.875% and PLD Plan 6.875%, per annum, compounded annually

Mortality rates for active members and non-disabled retirees were based on the RP2014 Total Dataset Healthy Annuitant Mortality Table for Males or Females. For all recipients of disability benefits, the RP2014 Total Dataset Disabled Annuitant Mortality Table is used.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period of July 1, 2012 to June 30, 2015.

Notes to Financial Statements

June 30, 2017

NOTE 10 – PENSION PLANS - CONTINUED

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 expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation %	Long-term Expected Real Rate of Return
Fixed income	25%	2.9 %
U.S. equities	20%	5.7 %
Non-U.S. equities	20%	5.5 %
Real estate	10%	5.2 %
Infrastructure	10%	5.3 %
Private equity	10%	7.6 %
Hard Assets	5%	5.0 %
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 6.875% for each of the Teacher Plan and the PLD Plan. 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 employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

Teacher Plan

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

	Discount rate	City School Department's proportionate share of net pension liability
1% decrease	5.875%	\$ 2,785,366
Current discount rate	6.875%	\$ 1,739,490
1% increase	7.875%	\$ 867,761

Notes to Financial Statements

June 30, 2017

NOTE 10 – PENSION PLANS - CONTINUED

PLD Plan

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

	Discount Rate	City and School Department's Proportionate Share of Net Pension Liability
1% decrease	5.875%	\$ 14,428,886
Current discount rate	6.875%	\$ 8,693,043
1% increase	7.875%	\$ 3,292,953

Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued Maine Public Employees Retirement System financial report.

On-Behalf Payments

The State of Maine makes a contribution to the Maine Public Employees Retirement System Teachers Fund for the teachers of the City's School Department. The actual payment, which is made by the State, is determined by an actuary for the entire teachers' fund. The Maine Public Employees Retirement System estimates the payment made on-behalf of the City School Department to approximate 10.02% of the qualified teachers' salaries, plus an additional 3.36% for health insurance. For the year ended June 30, 2017, the total amount of on-behalf payments was approximately \$2,145,000 and was recognized in the fund financial statements. The amount of on-behalf payments recognized in the government wide financial statements for pension expense was approximately \$2,401,000.

Deferred Compensation Plan

The City provides pension benefits for certain of its full-time employees through both Section 401(a) and Section 457(k) of the Internal Revenue Code, as amended, Deferred Compensation Plans (the "DCP") administered by International City Managers Association Retirement Corporation ("ICMA/RC"). In a DCP, benefits depend solely on amounts contributed to the plan, plus investment earnings. Participation for fixed-term contract employees is provided in lieu of the defined benefit through MSRS. Covered employees are eligible to participate and are fully vested from the date of employment. The City contributes to the Section 401(a) DCP at various rates depending upon employment contracts.

In addition, all City employees may participate in the 457 plan and defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. In applying the provisions of Governmental Accounting Standards Board Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the City determined that, effective July 1, 1997, it is no longer required to record assets and associated liability of the plan.

Notes to Financial Statements

June 30, 2017

NOTE 10 – PENSION PLANS - CONTINUED

Other Retirement

The City participates in the Social Security Administration's Retirement Program ("FICA") for its employees, except for Public Safety employees and certain School Department employees; and the Medicare supplement for all employees, including Public Safety employees and School Department employees, hired as of and after March 31, 1986.

NOTE 11 – OTHER INFORMATION

Risk Management

The City is exposed to various risks from loss-related torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which the City either carries commercial insurance or is self-insured.

As of the date of this report, there are no unpaid claims outstanding, nor is the City aware of any potential claims, which have been incurred yet remain unreported and which should be recorded at June 30, 2017.

Contingent Liabilities

There are various legal claims and suits pending against the City, which arose in the normal course of the City's activities. In the opinion of management, the ultimate disposition of these various claims and suits will not have a material effect on the financial position of the City.

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement from the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the City believes such disallowances, if any, will be immaterial.

NOTE 12 – FUND BALANCE AND NET POSITION

Restatement of Beginning Equity

Beginning net position and fund balances were adjusted between governmental activities and business-type activities as a result of a change in classification of the Sewer Capital Projects fund. During fiscal year 2017, management determined that this fund should be reported as part of the Sewer Fund, it had previously been classified as an Other Governmental Fund. This reclassification did not result in a change in the total net position.

Beginning net position for the Business-Type Activities and fund balance for the Sewer Fund was also restated for the effects of the correction of an accounting error relating to expenditures for capital assets which were not capitalized during the year ending June 30, 2016.

Notes to Financial Statements

June 30, 2017

NOTE 12 – FUND BALANCE AND NET POSITION – CONTINUED

Restatement of Beginning Equity – Continued

Net position and fund balances at July 1, 2016 were restated to reflect the following adjustments:

	Governmental Activities	Business-Type Activities	Other Governmental Funds	Sewer Fund
Net position/fund balance as previously reported	\$ 76,491,924	\$ 50,614,717	\$ 9,230,738	\$ 44,745,786
Add: correction of an accounting error		372,620		372,620
Add/(less): reclassification of Sewer Capital Projects Fund	<u>(471,741)</u>	<u>471,741</u>	<u>(471,741)</u>	<u>471,741</u>
Net position/fund balance, as restated	<u>\$ (76,020,183)</u>	<u>\$ 51,459,078</u>	<u>\$ 8,758,997</u>	<u>\$ 45,590,147</u>

The following is a schedule of fund balance classifications for the governmental funds as of June 30, 2017:

	General Fund	Nonmajor Funds
Nonspendable:		
Endowments		\$ 469,611
Prepaid items and inventory	\$ 436,273	61,551
Total nonspendable	<u>436,273</u>	<u>531,162</u>
Restricted:		
Endowments		248,263
School	146,512	146,512
Capital projects funds		1,903,765
Total restricted	<u>146,512</u>	<u>2,152,028</u>
Committed:		
Open space funds		254,999
Revolving loan funds		3,746
Capital project reserve funds		1,052,917
City special revenue funds		1,588,442
City capital projects funds		798,613
Employee retirement reserve	9,992,531	
Capital outlay	1,611,700	
Total committed	<u>11,604,231</u>	<u>3,698,717</u>
Assigned:		
Subsequent budget - School	500,000	
Subsequent budget - City	375,000	
Encumbrances	85,108	
Total assigned	<u>960,108</u>	
Unassigned		
City	5,746,392	
School capital projects funds		(1,423,992)
School special revenue funds		(324,116)
Tax increment financing funds		(653,622)
Total unassigned	<u>5,746,392</u>	<u>(2,401,730)</u>
Total fund balance	<u>\$ 18,893,516</u>	<u>\$ 3,980,177</u>

Notes to Financial Statements

June 30, 2017

NOTE 12 – FUND BALANCE AND NET POSITION – CONTINUED

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds payable adding back any unspent proceeds. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City’s net position invested in capital assets, net of related debt was calculated as follows at June 30, 2017:

	Governmental Activities	Business-Type Activities
Capital assets	\$183,503,096	\$ 95,492,734
Accumulated depreciation	(70,824,734)	(46,771,432)
Bond payable, total	(51,946,036)	(4,936,000)
Unspent bond proceeds	1,903,765	2,169,910
Capital leases payable, total	(953,297)	
Total invested in capital assets, net of related debt	<u>\$ 61,682,794</u>	<u>\$ 45,955,212</u>

NOTE 13 – TAX ABATEMENTS AND TAX INCREMENT FINANCING DISTRICTS

The City entered into property tax abatement agreements (credit enhancement agreements) with local businesses under Municipal Tax Increment Financing Districts approved by the State of Maine Department of Economic and Community Development. Under the agreements, the City may grant reimbursement limited to incremental taxes from the new actual increased assessed value projected at 50 percent to 100 percent of the increase. The agreements may be granted to businesses located within the City that is providing economic development.

For the fiscal year ended June 30, 2017, the City abated property taxes totaling \$631,293 under the program, including the following tax abatement agreements that each exceed 10 percent of the total amount abated:

A 67 percent property tax abatement to IDEXX. The abatement amounted to \$149,167.

A 100 percent property tax abatement to TAF. The abatement amounted to \$300,000.

All the remaining businesses abatements in the aggregate totaled \$182,126, each with a percent of property tax abatement of 50 percent.

The City also has a downtown tax increment financing district with local tax captured of \$524,862 for which the tax revenues are set aside and utilized primarily for debt service.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information - Schedule of Funding Progress

June 30, 2017

Other Post-Employment Benefits							
Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a % of Covered Payroll
2017	January 1, 2017	\$0	\$ 1,235,824	\$ 1,235,824	0%	\$ 8,506,144	14.5%
2016	January 1, 2015	\$0	\$ 1,672,651	\$ 1,672,651	0%	\$ 8,278,486	20.2%
2015	January 1, 2015	\$0	\$ 1,672,651	\$ 1,672,651	0%	\$ 8,278,486	20.2%
2014	January 1, 2013	\$0	\$ 1,453,010	\$ 1,453,010	0%	\$ 8,037,365	18.0%
2013	January 1, 2013	\$0	\$ 1,453,010	\$ 1,453,010	0%	\$ 8,037,365	18.0%
2012	January 1, 2011	\$0	\$ 1,821,745	\$ 1,821,745	0%	\$ 7,803,267	23.3%
2011	January 1, 2011	\$0	\$ 1,821,745	\$ 1,821,745	0%	\$ 7,803,267	23.3%

Required Supplementary Information - Schedule of Proportionate Share of Net Pension Liability

June 30, 2017

Maine Public Employees Retirement System

Teacher Plan

Fiscal Year	Actuarial Valuation Date	Town Proportion of the Net Pension Liability	Town's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability	Total Net Pension Liability	Covered Employee Payroll	Town Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	06-30-2016	0.098%	\$ 1,739,490	\$ 24,385,665	\$ 26,125,155	\$ 18,270,655	9.52%	76.21%
2016	06-30-2015	0.099%	\$ 1,334,160	\$ 19,029,949	\$ 20,364,109	\$ 17,364,382	7.68%	81.18%
2015	06-30-2014	0.087%	\$ 934,691	\$ 14,716,914	\$ 15,651,605	\$ 16,836,599	5.55%	83.91%

PLD Plan

Fiscal Year	Actuarial Valuation Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Employee Payroll	Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	06-30-2016	1.64%	\$ 8,693,043	\$ 7,254,647	119.83%	81.61%
2016	06-30-2015	1.81%	\$ 5,782,057	\$ 6,797,421	85.06%	88.27%
2015	06-30-2014	1.85%	\$ 2,841,527	\$ 7,056,623	40.27%	94.10%

Required Supplementary Information - Schedule of Contributions

June 30, 2017

Maine Public Employees Retirement System

Teachers Plan

Fiscal Year	Actuarial Valuation Date	Contractually Required Contributions	Contributions Relative to Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2017	06-30-2016	\$ 749,776	\$ 749,776	\$ 0	\$ 18,270,655	4.10%
2016	06-30-2015	\$ 561,938	\$ 561,938	\$ 0	\$ 17,364,382	3.24%
2015	06-30-2014	\$ 604,585	\$ 604,585	\$ 0	\$ 16,836,599	3.59%

PLD Plan

Fiscal Year	Actuarial Valuation Date	Contractually Required Contributions	Contributions Relative to Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2017	06-30-2016	\$ 837,547	\$ 837,547	\$ 0	\$ 7,254,647	11.54%
2016	06-30-2015	\$ 762,842	\$ 762,842	\$ 0	\$ 6,797,421	11.22%
2015	06-30-2014	\$ 771,553	\$ 771,553	\$ 0	\$ 7,056,623	10.93%

COMBINING NONMAJOR FUND SCHEDULES - GOVERNMENTAL AND FIDUCIARY FUND

Non-Major Governmental Funds

Combining Balance Sheet

Tax Increment Financing District Funds

June 30, 2017

	All Funds
LIABILITIES	
Interfund payable	\$ 653,622
Total Liabilities	<u>653,622</u>
FUND BALANCES	
Unassigned	(653,622)
Total Fund Balances (Deficit)	<u>\$ (653,622)</u>

Non-Major Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Tax Increment Financing District Funds

Year Ended June 30, 2017

	All Funds
Revenues	
Taxes	\$ 757,371
Total Revenues	<u>757,371</u>
Expenditures	
Current:	
General government	602,722
Debt service	742,467
Total Expenditures	<u>1,345,189</u>
Deficiency of Revenues Over Expenditures	<u>(587,818)</u>
Other Financing Sources (Uses)	
Transfers in	1,616,769
Transfers out	<u>(1,045,119)</u>
Total Other Financing Sources (Uses)	<u>571,650</u>
Net Change in Fund Balances	(16,168)
Fund Balances, Beginning of Year (Deficit)	<u>(637,454)</u>
Fund Balances, End of Year (Deficit)	<u>\$ (653,622)</u>

Non-Major Governmental Funds

Combining Balance Sheet

Open Space Funds

June 30, 2017

	All Funds
ASSETS	
Interfund receivable	\$ 254,999
Total Assets	<u>254,999</u>
LIABILITIES	
Accounts payable	<u> </u>
Total Liabilities	<u> </u>
FUND BALANCES	
Committed	254,999
Total Fund Balances	<u>\$ 254,999</u>

Non-Major Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Open Space Funds

Year Ended June 30, 2017

	All Funds
Revenues	
Miscellaneous	\$ 4,202
Total Revenues	<u>4,202</u>
Expenditures	
Current:	
General government	8,115
Total Expenditures	<u>8,115</u>
Excess (Deficiency) of Revenues	(3,913)
Other Financing Sources (Uses)	
Transfers out	<u>(10,000)</u>
Total Other Financing Sources (Uses)	<u>(10,000)</u>
Net Change in Fund Balances	(13,913)
Fund Balances, Beginning of Year	<u>268,912</u>
Fund Balances, End of Year	<u>\$ 254,999</u>

Non-Major Governmental Funds

Combining Balance Sheet

Revolving Loan Funds

June 30, 2017

	All Funds
ASSETS	
Loans receivable	\$ 92,555
Total Assets	<u>92,555</u>
LIABILITIES	
Line of credit payable	19,250
Interfund payable	<u>69,559</u>
Total Liabilities	<u>88,809</u>
FUND BALANCES	
Committed	<u>3,746</u>
Total Fund Balances	<u>\$ 3,746</u>

Non-Major Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Revolving Loan Funds

Year Ended June 30, 2017

	All Funds
Revenues	
Miscellaneous	\$ 4,113
Total Revenues	<u>4,113</u>
Expenditures	
Current:	
Debt service	367
Total Expenditures	<u>367</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,746</u>
Net Change in Fund Balances	3,746
Fund Balances, Beginning of Year	<u> </u>
Fund Balances, End of Year	<u><u>\$ 3,746</u></u>

Non-Major Governmental Funds

Combining Balance Sheet

Capital Projects - Reserve Funds

June 30, 2017

	All Funds
ASSETS	
Interfund receivable	\$ 1,072,885
Total Assets	<u>1,072,885</u>
LIABILITIES	
Accounts payable	19,968
Total Liabilities	<u>19,968</u>
FUND BALANCES	
Committed	1,052,917
Total Fund Balances	<u><u>\$ 1,052,917</u></u>

Non-Major Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Capital Projects - Reserve Funds

Year Ended June 30, 2017

	All Funds
Revenues	
Miscellaneous	\$ 186,842
Total Revenues	<u>186,842</u>
Expenditures	
Current:	
Public safety	78,391
Culture and recreation	10,411
Total Expenditures	<u>88,802</u>
Excess of Revenues Over Expenditures	<u>98,040</u>
Other Financing Sources (Uses)	
Transfers in	12,000
Transfers out	<u>(18,878)</u>
Total Other Financing Sources (Uses)	<u>(6,878)</u>
Net Change in Fund Balances	91,162
Fund Balances, Beginning of Year	<u>961,755</u>
Fund Balances, End of Year	<u>\$ 1,052,917</u>

Non-Major Governmental Funds

Combining Balance Sheet

Miscellaneous Special Revenue Funds

June 30, 2017

	City Grants	School Grants	Total
ASSETS			
Cash and short-term investments		\$ 40	\$ 40
Investments	\$ 430,977		430,977
Receivables, net of allowance for uncollectibles:			
Accounts	82,962		82,962
Intergovernmental		1,113,745	1,113,745
Interfund receivable	1,272,805		1,272,805
Inventory		61,551	61,551
Total Assets	<u>1,786,744</u>	<u>1,175,336</u>	<u>2,962,080</u>
LIABILITIES			
Accounts payable	27,986	197,631	225,617
Interfund payable		1,037,383	1,037,383
Accrued payroll		202,887	202,887
Unearned revenue	170,316		170,316
Total Liabilities	<u>198,302</u>	<u>1,437,901</u>	<u>1,636,203</u>
FUND BALANCES			
Nonspendable		61,551	61,551
Committed	1,588,442		1,588,442
Unassigned		(324,116)	(324,116)
Total Fund Balances	<u>\$ 1,588,442</u>	<u>\$ (262,565)</u>	<u>\$ 1,325,877</u>

Non-Major Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Miscellaneous Special Revenue Funds

Year Ended June 30, 2017

	City Grants	School Grants	Total
Revenues			
Intergovernmental	\$ 325,993	\$ 5,852,514	\$ 6,178,507
Charges for services	842,957	291,702	1,134,659
Miscellaneous	124,004		124,004
Total Revenues	<u>1,292,954</u>	<u>6,144,216</u>	<u>7,437,170</u>
Expenditures			
Current:			
General government	380,899		380,899
Public safety	312,796		312,796
Public works	1,041		1,041
Culture and recreation	739,220		739,220
Unclassified	3,828		3,828
Education		6,569,274	6,569,274
Debt service	150,936		150,936
Total Expenditures	<u>1,588,720</u>	<u>6,569,274</u>	<u>8,157,994</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(295,766)</u>	<u>(425,058)</u>	<u>(720,824)</u>
Other Financing Sources (Uses)			
Transfers in	419,296		419,296
Transfers out	(60,000)		(60,000)
Total Other Financing Sources (Uses)	<u>359,296</u>		<u>359,296</u>
Net Change in Fund Balances	63,530	(425,058)	(361,528)
Fund Balances, Beginning of Year	<u>1,524,912</u>	<u>162,493</u>	<u>1,687,405</u>
Fund Balances, End of Year	<u>\$ 1,588,442</u>	<u>\$ (262,565)</u>	<u>\$ 1,325,877</u>

Non-Major Governmental Funds

Combining Balance Sheet

Capital Projects Funds

June 30, 2017

	Capital Projects	Major Capital Projects	School Capital Projects	Total
ASSETS				
Interfund receivable	\$ 563,442	\$ 2,150,082		\$ 2,713,524
Total Assets	<u>563,442</u>	<u>2,150,082</u>	<u></u>	<u>2,713,524</u>
LIABILITIES				
Accounts payable	8,950	2,196	\$ 73,667	84,813
Interfund payable			1,350,325	1,350,325
Total Liabilities	<u>8,950</u>	<u>2,196</u>	<u>1,423,992</u>	<u>1,435,138</u>
FUND BALANCES				
Restricted	370,409	1,533,356		1,903,765
Committed	184,083	614,530		798,613
Unassigned			(1,423,992)	(1,423,992)
Total Fund Balances (Deficit)	<u>\$ 554,492</u>	<u>\$ 2,147,886</u>	<u>\$ (1,423,992)</u>	<u>\$ 1,278,386</u>

Non-Major Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Capital Projects Funds

Year Ended June 30, 2017

	Capital Projects	Major Capital Projects	School Capital Projects	Total
Revenues				
Intergovernmental		\$ 47,397		\$ 47,397
Miscellaneous	\$ 185,101	205,097		390,198
Total Revenues	<u>185,101</u>	<u>252,494</u>		<u>437,595</u>
Expenditures				
Capital outlay	829,660	2,953,016	\$ 1,247,831	5,030,507
Total Expenditures	<u>829,660</u>	<u>2,953,016</u>	<u>1,247,831</u>	<u>5,030,507</u>
Deficiency of Revenues Over Expenditures	<u>(644,559)</u>	<u>(2,700,522)</u>	<u>(1,247,831)</u>	<u>(4,592,912)</u>
Other Financing Sources (Uses)				
Transfers in	110,000	95,668		205,668
Transfers out	(95,668)			(95,668)
Total Other Financing Sources (Uses)	<u>14,332</u>	<u>95,668</u>		<u>110,000</u>
Net Change in Fund Balances	(630,227)	(2,604,854)	(1,247,831)	(4,482,912)
Fund Balances, Beginning of Year	<u>1,184,719</u>	<u>4,752,740</u>	<u>(176,161)</u>	<u>5,761,298</u>
Fund Balances, End of Year (Deficit)	<u>\$ 554,492</u>	<u>\$ 2,147,886</u>	<u>\$ (1,423,992)</u>	<u>\$ 1,278,386</u>

Non-Major Governmental Funds

Combining Balance Sheet

Permanent Funds

June 30, 2017

	All Funds
ASSETS	
Cash and cash equivalents	\$ 52,918
Investments	629,799
Interfund receivable	35,157
Total Assets	<u>717,874</u>
LIABILITIES	
Accounts payable	<u> </u>
Total Liabilities	<u> </u>
FUND BALANCES	
Nonspendable	469,611
Restricted	248,263
Total Fund Balances	<u>\$ 717,874</u>

Non-Major Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Permanent Funds

Year Ended June 30, 2017

	All Funds
Revenues	
Miscellaneous	\$ 61,714
Total Revenues	<u>61,714</u>
Expenditures	
Current:	
Cemeteries	56,047
Culture and recreation	4,874
Total Expenditures	<u>60,921</u>
Deficiency of Revenues Over Expenditures	<u>793</u>
Other Financing Sources (Uses)	
Transfers out	<u> </u>
Total Other Financing Sources (Uses)	<u> </u>
Net Change in Fund Balances	793
Fund Balances, Beginning of Year	<u>717,081</u>
Fund Balances, End of Year	<u>\$ 717,874</u>

Combining Statement of Fiduciary Net Position

Private Purpose Trust Funds

June 30, 2017

	City Trusts	School Trusts	Total
ASSETS			
Cash and cash equivalents	\$ 58,158	\$ 380,058	\$ 438,216
Due from other funds	121,925		121,925
Total Assets	<u>180,083</u>	<u>380,058</u>	<u>560,141</u>
LIABILITIES			
Accounts payable	12,000		12,000
Total Liabilities	<u>12,000</u>		<u>12,000</u>
NET POSITION			
Held in Trust	<u>\$ 168,083</u>	<u>\$ 380,058</u>	<u>\$ 548,141</u>

Combining Statement of Changes in Fiduciary Net Position

Private Purpose Trust Funds

Year Ended June 30, 2017

	City Trusts	School Trusts	Total
Additions			
Investment earnings	\$ 399	\$ 1,551	\$ 1,950
Contributions		114,201	114,201
Total Additions	<u>399</u>	<u>115,752</u>	<u>116,151</u>
Deductions:			
Disbursements by agent		140,913	140,913
Total Deductions		<u>140,913</u>	<u>140,913</u>
Change in Net Position	399	(25,161)	(24,762)
Net Position, Beginning of Year	<u>167,684</u>	<u>405,219</u>	<u>572,903</u>
Net Position, End of Year	<u>\$ 168,083</u>	<u>\$ 380,058</u>	<u>\$ 548,141</u>



City of Westbrook, Maine

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CORRECTIVE ACTION PLAN

December 28, 2017

U.S. Department of Education

City of Westbrook, Maine respectfully submits the following corrective action plan for the year ended June 30, 2017.

Name and address of independent public accounting firm: Macpage LLC, 30 Long Creek Drive, South Portland, Maine 04106. Audit period: July 1, 2016 – June 30, 2017.

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FINANCIAL STATEMENT AUDIT

2017-001 Prior Period Adjustment to Net Position

Recommendation: Procedures should be implemented to ensure that all capital asset activity is captured and capitalized to fixed assets.

Action Taken: Management agrees with the finding and will implement the recommendations.

If the U.S. Department of Education has questions regarding this plan, please call Suzanne Knight at (207) 591-8104 or Dean Flanagin at (207) 854-0800.

Sincerely yours,

Suzanne Knight, Finance Director



Single Audit Act

June 30, 2017

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Independent Auditors' 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 Westbrook, Maine
Westbrook, Maine

We 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 business-type activities, the major fund, and the aggregate remaining fund information of City of Westbrook, Maine, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Westbrook, Maine's basic financial statements, and have issued our report thereon, dated December 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Westbrook, 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Westbrook, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Westbrook, 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.

Our 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, finding 2017-001.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Westbrook, Maine's financial statements are free from material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

City of Westbrook, Maine's Response to Finding

City of Westbrook, Maine's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Westbrook, 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 our 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.

Macpage LLC

South Portland, Maine
December 28, 2017

Independent Auditors' Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance and Report on the Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance

City Council
City of Westbrook, Maine
Westbrook, Maine

Report on Compliance for Each Major Federal Program

We have audited City of Westbrook, Maine's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of City of Westbrook, Maine's major federal programs for the year ended June 30, 2017. City of Westbrook, Maine's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of City of Westbrook, Maine's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Westbrook, Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Westbrook, Maine's compliance.

Opinion on Each Major Program

In our opinion, City of Westbrook, Maine complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.



Report on Internal Control over Compliance

Management of City of Westbrook, Maine is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Westbrook, Maine's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Westbrook, Maine's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards as Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of City of Westbrook, Maine, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Westbrook, Maine's basic financial statements. We issued our report thereon, dated December 28, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macpage LLC

South Portland, Maine
December 27, 2017

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
U.S. Department of Education				
<u>Pass-Through State of Maine Department of Education</u>				
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies	84.010	013-3107	\$ 903,050	
Total Title I, Part A Cluster			<u>903,050</u>	
Special Education Cluster (IDEA)				
Special Education - Grants to States	84.027	013-3046	761,654	
Special Education - Preschool Grants	84.173	013-6247	23,761	
Total Special Education Cluster (IDEA)			<u>785,415</u>	
Migrant Education Coordination Program	84.144	013-3356	165,068	
Career and Technical Education – Basic Grants to States	84.048	013-3030	197,116	
McKinney Homeless Assistance	84.196	013-3104	39,396	
Migrant Education State Grant Program	84.011	013-3115	52,595	
Improving Teacher Quality State Grants	84.367	013-3042	121,527	
Total U.S. Department of Education			<u>2,264,167</u>	
U.S. Department of Agriculture				
<u>Pass-Through State of Maine Department of Education</u>				
Child Nutrition Cluster				
School Breakfast Program	10.556	013-3014	234,943	
National School Lunch Program	10.555	013-3020	42,825	
National School Lunch Program	10.555	013-3022	82,278	
National School Lunch Program	10.555	013-3023	17,498	
National School Lunch Program	10.555	013-3024	514,217	
Summer Food Service Program for Children	10.559	013-3016	50,908	
Summer Food Service Program for Children	10.559	013-3018	5,278	
Total Child Nutrition Cluster			<u>947,947</u>	
Food Distribution Cluster				
Commodity Supplemental Food Program	10.565	013-6134	54,590	
Total Food Distribution Cluster			<u>54,590</u>	
Fresh Fruit and Vegetable Program	10.582	013-3028	70,281	
State Administrative Expenses for Child Nutrition	10.560	013-3125	15,427	
Total U.S. Department of Agriculture			<u>1,088,245</u>	
U.S. Department Housing and Urban Development				
<u>Pass-Through Cumberland County</u>				
Community Development Block Grant	14.218	N/A	206,753	
Balance Forward			<u>\$ 3,559,165</u>	

See accompanying independent auditors' report on schedule of expenditures of federal awards
The accompanying notes are an integral part of this schedule.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
Balance Forward			\$ 3,559,165	
U.S. Department of Justice				
<u>Direct Program</u>				
Edward Byne Memorial Justice Assistance Grant Program	16.738	N/A	12,868	
Bulletproof Vest Partnership Program	16.607	N/A	4,972	
			<u>17,840</u>	
<u>Pass-Through State of Maine Department of Public Safety</u>				
State and Community Highway Safety	20.600	N/A	<u>5,197</u>	
Total U.S. Department of Justice			<u>23,037</u>	
U.S. Department of Health and Human Services				
<u>Direct Program</u>				
Drug-Free Communities Support Program Grants	93.276	N/A	<u>126,770</u>	
<u>Pass-Through State of Maine Department of Education</u>				
Refugee and Entrant Assistance - Discretionary Grants	93.576	013-3120	<u>15,874</u>	
Total U.S. Department of Health and Human Services			<u>142,644</u>	
U.S. Department of Homeland Security				
<u>Pass-Through State of Maine Department of Defense, Veterans, and Emergency Management</u>				
Disaster Grants – Public Assistance	97.036		8,742	
Homeland Security Grant Program	97.067		<u>14,140</u>	
Total U.S. Department of Homeland Security			<u>22,882</u>	
Total Expenditures of Federal Awards			<u>\$3,747,728</u>	<u>\$ 0</u>

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of City of Westbrook, Maine under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of City of Westbrook, Maine, it is not intended to and does not present the financial position of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of City of Westbrook, Maine, as of June 30, 2017, and respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
2. Pass-through entity identifying numbers are presented where available.
3. The City of Westbrook, Maine has not elected to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

NOTE 3 – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities consumed. At June 30, 2017, the City had food commodities totaling \$61,551 in inventory.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Section I Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes √ No

Significant deficiency(ies) identified?

√ Yes _____ None reported

Noncompliance material to financial statements noted?

_____ Yes √ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ √ No

Significant deficiency(ies) identified?

_____ Yes √ None reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported
in accordance with Section 2 CFR 200.516(a) of the
Uniform Guidance?

_____ Yes √ No

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

84.010 Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between
Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

√ Yes _____ No

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Section II Financial Statement Finding

SIGNIFICANT DEFICIENCIES

2017-001 Prior Period Adjustment to Net Position

Condition: A prior period adjustment was necessary to the Sewer Department Fund as a result of prior year invoices which should have been capitalized to construction in progress but were recorded to expenditures instead.

Criteria: Internal controls should be in place that provide reasonable assurance that all capital asset activity is captured and capitalized to fixed assets.

Cause: When accumulating the fixed asset schedule in the prior year, invoices which had been recorded to expenditures through accounts payable were omitted from the determination of the amount for construction in progress and were left in expenditures.

Effect: These invoices totaled \$372,622 and resulted in an understatement of construction in progress and an overstatement of expenditures for this amount in the prior year. As a result, the beginning of year net position for the current audit period was understated by this amount. A prior period adjustment was posted to increase beginning net position.

Recommendation: Procedures should be implemented to ensure that all capital asset activity is captured and capitalized to fixed assets.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and will implement the recommendations.

Section III Federal Award Findings

NONE



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Financial Statement Findings

SIGNIFICANT DEFICIENCIES

2016-001 Reconciling Grant Accounts Receivable and Revenue

Condition: Grant revenue is not being reconciled on a regular basis.

Recommendation: Procedures should be implemented to ensure a monthly reconciliation is performed of both the general ledger and Grant Tracker module.

Current Status: Corrective action has been taken and the comment has not been repeated in the current year.

2016-002 Internal Controls Over Cash Receipts

Condition: Non-federal cash receipts totaling approximately \$118,000 were misappropriated by an employee of the City of Westbrook.

Recommendation: An individual should be responsible for reconciling the teller cash drawers and a separate individual should ensure receipt of original supporting documentation, review and compare to the amount of the deposit to the original supporting documentation and make the deposit. The accounting department should also review and compare the original supporting documentation to the deposit made and the transaction posted to the general ledger.

Current Status: Corrective action has been taken and the comment has not been repeated in the current year.