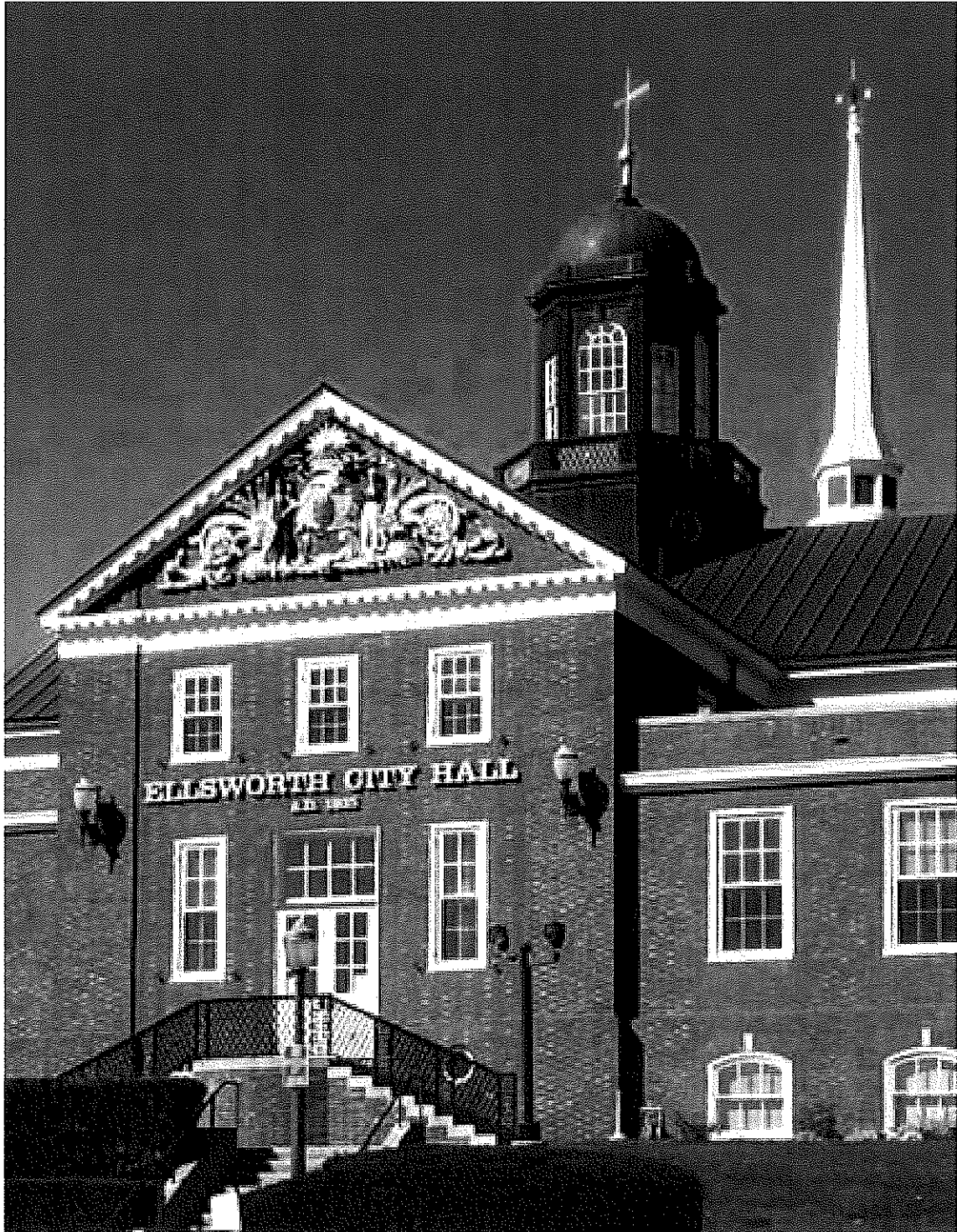


CITY OF ELLSWORTH, MAINE
COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the Fiscal Year Ending
June 30, 2013

CITY OF ELLSWORTH, MAINE

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

Prepared by the Finance Department

CITY OF ELLSWORTH, MAINE
For the Fiscal Year Ended June 30, 2013
Comprehensive Annual Financial Report

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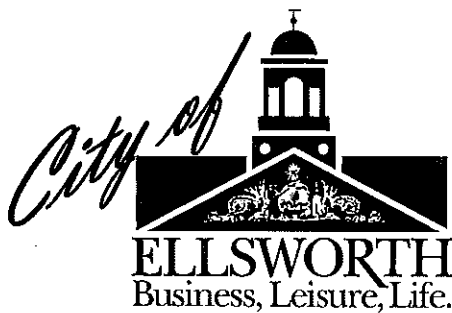
CITY OF ELLSWORTH, MAINE
For the Fiscal Year Ended June 30, 2013
Comprehensive Annual Financial Report

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Office of the City Treasurer

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www.ellsworthmaine.gov

To the Honorable Chairman,
Members of the Ellsworth City Council, and
Citizens of Ellsworth

The City of Ellsworth's comprehensive annual financial report for the fiscal year ended June 30, 2013 is hereby submitted in accordance with the requirements of both our City Charter and State Statutes. The Charter and statutes require that the City of Ellsworth issue annually a report of its financial position and activity, and that this report be audited by an independent firm of certified public accountants. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all the disclosures, rests with the City of Ellsworth. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the City of Ellsworth on a government wide and fund basis.

The City is responsible for establishing and maintaining an internal control framework designed to ensure that the assets of the City are protected from loss, theft, and misuse and that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the costs of control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management.

The City's financial statements have been audited by Runyon Kersteen Ouellette. The goal of the independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor's unmodified opinion is presented as the first component of the financial section of this report.

The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budgets Circular A-133, Audits of States, Local Government and Non-Profit Organizations. The "Single Audit" is designed to meet the special needs of the federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. Information related to this single audit, including a schedule of expenditures of federal awards, findings, questioned costs, recommendations, and the independent auditor's reports on the internal control structure and compliance with applicable laws and regulations are included in a separately issued single audit report.

GASB requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the independent auditor's report.

Profile of the Government

The City of Ellsworth, incorporated in 1869, is located in the center of the County of Hancock in the southeastern coastal region of the State of Maine, also referred to as "Down East". Ellsworth is the only city in Hancock County and has served as its county seat since 1837. Ellsworth is situated at the head of the Union River Bay with the Union River passing southward through the center of the City.

The City of Ellsworth is an urban, commercial, industrial and residential community with some rural characteristics. The City's area includes tracts of forest and farmlands, open space and river front areas. The City is comprised of Rural Residential, Urban Residential, Commercial or Industrial zones, and has the distinction of being the "largest" city in Maine with its 93.37 square miles of area.

The City operates under a charter adopted in 1869, as amended (the "Charter"), providing for a Council-Manager form of government with a seven member City Council elected from the registered voters of the City, at-large, for three year staggered terms. The Charter grants to the Council all powers to enact, amend, or repeal rules, ordinances, orders or resolutions relating to the City's property, affairs and government, to preserve the public peace, health and safety, to establish personnel policies, give effect to any vote of the City authorizing the issuance of debt, and provide for an annual audit of the City's accounts. The City Manager is the chief administrative officer of the City and appointed by the Council, as are the Assessor, City Clerk, Tax Collector, and Treasurer.

The City provides general governmental services for the territory within its boundaries, including police and fire protection, a library, highways, streets and sidewalks, parks and recreational areas, business and economic development, planning, code enforcement, health and welfare, and general administrative services. Public education is provided for grade Kindergarten ("K") through 12 through the City's affiliation with Regional School Unit 24 (RSU). The City operates its own water system and wastewater treatment system and is accounted for in the City's Proprietary Funds.

The City's budgeting process is structured around its fiscal year, which begins on July 1st and ends on the following June 30th. The City annually adopts budgets for its general fund and two proprietary funds. All departments of the City are required to submit requests for appropriation to the Finance Director in January of each year. The City's Finance Director uses these requests as the starting point for developing a proposed budget. It is then forwarded to the City Manager for any necessary changes and recommendations. The City Charter requires that the City Manager submit a recommended budget to the Council by the second Monday in April. The budget, which must be in balance, contains estimates of all non-tax revenues and receipts expected to be received during the next fiscal year, the expenditures necessary to support City operations, debt service requirements, and the tax levy required to achieve balance between revenues and expenditures. The Council may modify recommended expenditures and the recommended tax levy. If the Appropriation Resolve increases the property tax levy from the prior year by more than a specified Growth Limitation factor then the excess of the appropriation must be approved by a majority of the entire City Council. The school budget is subject to referendum by the voters of the RSU through a Budget Validation process. If the Council fails to adopt a budget by July 1st, the Council may make appropriations by a continuing resolution to the various departments and accounts in the amounts sufficient to finance the necessary expenses until the budget resolve is in force. Upon adoption of the budget, a property tax levy is then established and filed with the City Assessor.

The City Manager may transfer any unencumbered appropriation balance or portion thereof from line item to line item within cost centers, but may not expend funds in excess of the cost center appropriation. The Council may, by Council Order, transfer any unencumbered appropriation balance or portion thereof between cost centers. Additional appropriations within the budget may be made by Council order if the Treasurer verifies that there are sufficient unanticipated and unappropriated revenues. Additional appropriations may also be covered by an appropriation from a reserve account or an interfund transfer from the General Fund or other fund.

The annual budget serves as the foundation for the City of Ellsworth's financial planning and control. The City Manager may transfer resources within a department; however, transfers between departments require Council action.

Special revenue funds do not have adopted budgets. Budgetary controls are maintained on other governmental funds through formal authorizations by the City Council and through grant agreements. All budgets are legally adopted by the City Council through the passage of an appropriation resolve.

Local Economy

The City of Ellsworth is the service center for the entire Downeast region of the State of Maine for retail, wholesale, distribution, transportation, banking, legal, medical, recreational, and other major services. Several malls are located throughout the City's commercial areas and its downtown area provides a blend of specialty shops, restaurants and consumer services. A recent market feasibility study was done by a private developer that verified that more than 63,000 people are served by the City for shopping, recreation, and professional services.

Ellsworth has a stable and varied economic base. Major employers include a diversified mix of healthcare, educational, professional, retail, manufacturing, and governmental entities.

The City's assessed value for tax year 2012-2013 is \$1,063,958,739, an approximate decrease of .69 percent from the 2011-2012 tax assessment. Approximately 33 percent of the tax base is commercial and industrial with the remainder being residential (these figures include vacant parcels as well as developed parcels). The City's rate of tax collection remains constant at 95 percent for last year.

The City is committed to preserving its viable economic base while creating new opportunities for future economic growth. In 2007, the Ellsworth City Council adopted an Economic Development Strategy that was recommended by the 2004 Comprehensive Plan. This strategy addresses economic diversification, capital improvements, determination of improvements that are necessary to attract businesses, assessment of future land needs, development criteria for economic development projects, community recommendations, the development of specific strategies on the use of tax increment financing, and staffing needs. After this strategy was approved, City staff and the Ellsworth Economic Development Committee established a long-term economic development road map for the community and highlighted the need for further diversifying the tax base by encouraging a balanced mix of development in residential, retail, office, warehouse, and manufacturing. The City desires to facilitate projects that will meet the sustainable balance and create new employment opportunities to improve the economy.

Long-term Financial Planning

The City maintains an ongoing ten-year capital improvement plan (CIP) that serves as a tool for the City Manager and City Council to make strategic investments in the community. In Fiscal Year 2013, the Capital Improvement budget included \$385,000 to fund street, sidewalk, and drainage improvements; \$92,000 to fund technology improvements; \$10,000 to fund Highway Garage improvements; \$25,000 to fund library improvements; \$258,300 to fund upgrades in police, fire, and highway equipment; and \$57,750 to fund miscellaneous capital improvements.

The City's Water Department, Wastewater Department, and Tax Increment Financing Districts capital improvement plans are designed to be fully self-supporting and are, therefore, presented as separate items in the City's CIP process.

Major Initiatives

The construction of the new K-8 Ellsworth Elementary/Middle School has left the City as the owner of two empty school properties within a two-block radius. A committee was created to evaluate the properties and to create plans for utilizing each property in ways that would be the most advantageous to Ellsworth's citizens. After much debate and consideration, including citizen surveys and public hearings, it was determined that both properties would remain in the ownership of the City.

One of the parcels has been identified as a perfect location for a community park due to the proximity to residential areas, community centers, both schools and the downtown area. The City has formed a Knowlton Community Park Committee that is tasked with finding creative ways of raising \$1.2 million in park funds through grants and private donations.

The second parcel has City Council members voting favorably of moving forward with plans for a \$3.5 million renovation of the historical school site. The renovated building will serve as a senior center as well as a community wide building that will house daycare facilities and a non-profit organization that provides services for senior citizens.

The City of Ellsworth recognizes that senior citizens are a demographic that requires help from the City at this time. The Maine State Housing Authority Agency has the City rated as a 5, on a scale of 1-5, with 5 being the worst, in regards to the availability of low-income senior housing. In an effort to tackle this issue, the City reached an agreement with Penquis Housing, Inc. to convey a 1.87-acre lot for the construction of a 26-unit affordable housing complex. In order to assist the developer, the City also created a low-income housing TIF district so that 50% of the TIF revenues will be reimbursed to the developer through a credit enhancement agreement. The City will retain the other 50% for future projects within the district. This project, along with the aforementioned senior center, will help the City make great strides in better servicing the elderly population.

The Ellsworth residents voted favorably on a petition to withdraw from Regional School Unit #24 (RSU) and become a separate municipal school administrative unit comprised solely of Ellsworth. Representatives were appointed to the withdrawal committee according to state statute and are responsible for negotiating a withdrawal agreement with the RSU. An agreement that addressed the required statutory requirements was reached on March 20, 2013 and approved by the State of Maine Department of Education Commissioner. An election will be held in November 2013 to determine if the voters in Ellsworth are in favor of withdrawing from the RSU subject to the terms and conditions of the withdrawal agreement.

Significant Accomplishments of Fiscal Year 2013

- The City continued its own investment into public infrastructure by improving parking lots, streetscapes, water and sewer mains and local roads throughout the City.
- In order to eliminate discharge violations, improve treatment process reliability and capacity, accommodate current and expected future population growth, and to support the City's goals for development and environmental responsibility, the City decided to build a new wastewater treatment plant. This project costs approximately \$20.7 million. The City has qualified for grants in the amount of \$8.6 million from USDA, DEP, CDBG and a USDA and Clean Water State Revolving Fund loans for approximately \$12.1 million. A contract was awarded in the amount of \$13,975,500 for the construction of the plant and will be completed and was in full operation in December 2013.
- The City of Ellsworth was selected as the host site for the 50th Annual Maine State Federation of Firefighters Convention in September 2013. This milestone event is expected to bring a great economic boost to the City from the thousands of participants and fundraising and planning projects are well underway.

- A committee comprised of interested residents was formed to begin preparing for the City's sescentennial (250th) celebration in August 2013.
- The City Council authorized the financing of \$862,800 in general obligation bonds to fund additional improvements to the new Wastewater Treatment Plant.
- The City Council approved a parcel of property for the future construction of an intersection to help alleviate traffic congestion near the elementary/middle school and high school.
- The City Council authorized \$380,000 of financing to purchase new municipal software and related hardware. The City has operated the same financial software for over 25 years with minimal upgrades that was not meeting the City's or the taxpayers' technological needs.
- The City continued with Knowlton Park fundraising efforts in building a community park. Construction is expected to begin in May 2014.
- City Council approved the sale of a city-owned, two-acre parcel located at the previous Moore School location. First Atlantic Health Care will construct a nursing home on this location.
- Research has started on the process of bringing natural gas to the City as an alternate source of energy for businesses and residents.
- The City Council has accepted a concept plan of establishing the Ellsworth Business Development Corporation. The purpose of this corporation is to engage in business development activities potentially including fostering new companies, encouraging companies to locate in the Ellsworth area, partnering with existing companies to expand their current operations in Ellsworth, and attempting to enhance the business climate.

Relevant Financial Policies

The City has established a formal Investment Policy. Under its policy, the City's investment practice is to maintain a cash and investment pool that is available for use by all funds and consist of short-term investments. The City is invested principally in direct obligations of the United States government and its agencies. The City is not invested in any obligations typically referred to as derivatives, meaning obligations created from, or whose value depends on or is derived from the value of one or more underlying assets or indexes of asset values in which the municipality owns no direct interest.

The City's Fund Balance Ordinance requires maintaining the City's unassigned fund balance at no less than 10% and no more than 20% of the previous fiscal year's audited gross expenditures. Any fund balance in excess of 20% shall be used to increase designated reserves, the City's appropriated contingency account, or the appropriated capital improvement fund. In the event that the unassigned fund balance is anticipated to fall below 10% prior to appropriating fund balance, the City is required to create a written plan that will replenish the fund balance in a maximum of three fiscal years.

The City's Procurement Policy was recently updated to provide for a more detailed and comprehensive policy for City purchases. The City's new policy provides for a definition section for easy reference; procedures for obtaining purchase orders; field purchases and cooperative purchases; informal and formal bidding processes; procurement procedures for engineering services, professional services; sole sourcing, and emergency purchases.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Ellsworth, Maine, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. This was the 2nd consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements. However, management has decided not to submit this report to GFOA for determination of its eligibility for another certificate this year. It was determined that the comprehensive annual financial report will be submitted to GFOA every other year to meet our needs.

The preparation of this report would not have been possible without the various departments, as well as members of the Finance Office, providing the necessary information needed to complete this comprehensive annual financial report. Appreciation is also extended to the City Manager and the City Council for their support of the efforts to improve the City's level of financial reporting. I wish to acknowledge the efforts of our independent auditors, Runyon, Kersteen, Ouellette, for the professional audit work they provided and for all their support and assistance.

Respectfully submitted,

A handwritten signature in black ink that reads "Tammy Mote". The signature is written in a cursive, flowing style.

Tammy Mote
Finance Director
February 18, 2014



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Ellsworth
Maine**

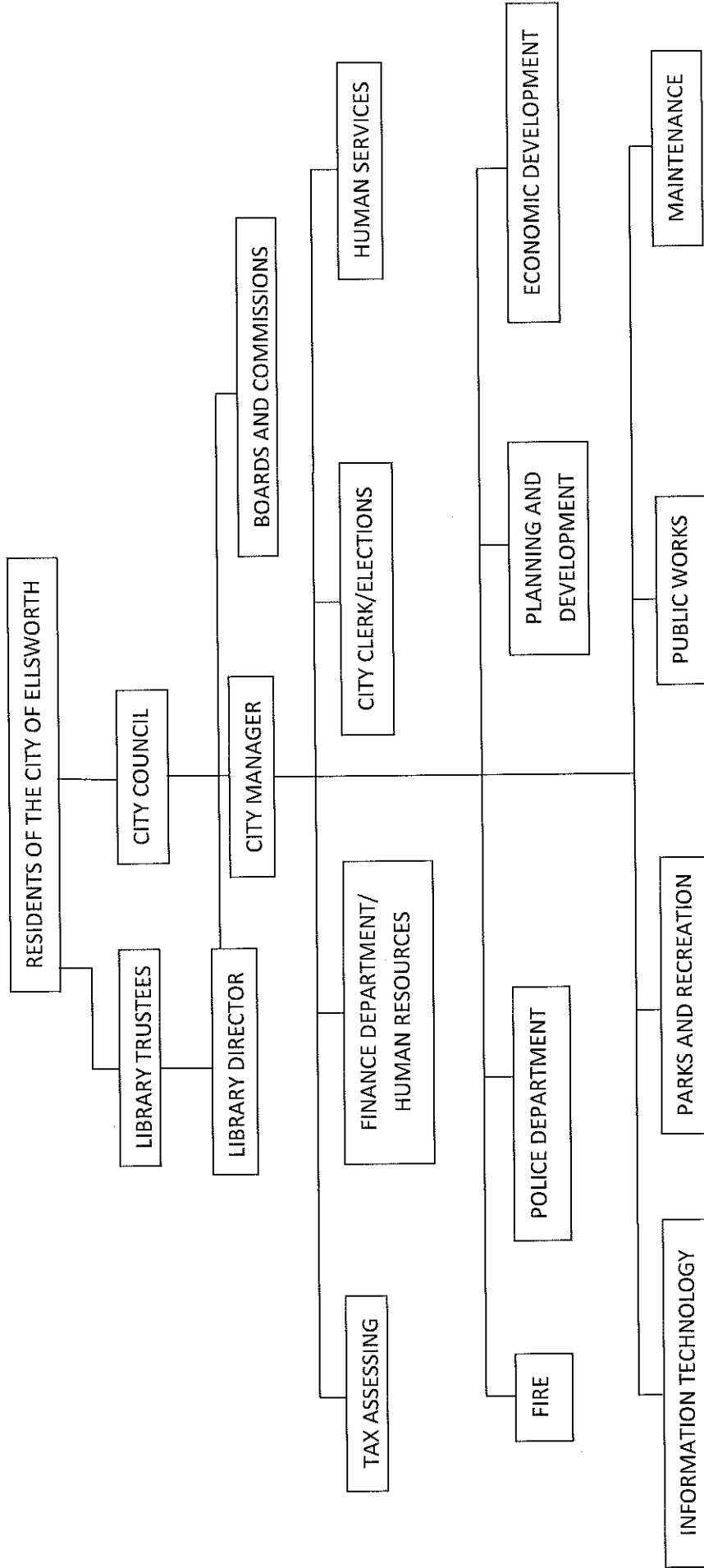
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

CITY OF ELLSWORTH, MAINE

Organizational Chart



City of Ellsworth, Maine

List of Principal Officials

June 30, 2013

Elected Officials

Gary Fortier	City Council Chairperson
Stephen Beathem	City Councilor
Robert Crosthwaite	City Councilor
John Phillips	City Councilor
Marc Blanchette	City Councilor
John Moore	City Councilor
Pamela Perkins	City Councilor

Appointed Officials and Department Heads

Michelle Beal, City Manager

Charlene Churchill, Library Director	Jason Ingalls, Technology Coordinator
John Deleo, Chief of Police	Steve Joyal, Maintenance Supervisor
Michele Gagnon, City Planner	Richard Tupper, Fire Chief
Larry Gardner, City Assessor	Tammy Mote, Finance Director
Heidi Noel Grindle, City Clerk	Dwight Tilton, Code Enforcement Officer
Michael Harris, Wastewater Superintendent	Larry Wilson, Public Works Director & Water Superintendent

Independent Auditors' Report

To the City Council
City of Ellsworth, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ellsworth, Maine, as of and for the year ended June 30, 2013, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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.

City Council
City of Ellsworth, Maine

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, each major fund, and the aggregate remaining fund information of the City of Ellsworth, Maine, as of June 30, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Funding Progress on pages 4 and 36, respectively, 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 Ellsworth, Maine's basic financial statements. The introductory section, combining and individual fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

City Council
City of Ellsworth, Maine

The combining and individual nonmajor fund financial statements 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 and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2014 on our consideration of the City of Ellsworth, Maine'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 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 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 the City of Ellsworth, Maine's internal control over financial reporting and compliance.



February 18, 2014
South Portland, Maine