

December 20, 2001

Honorable William D. Johnson, Mayor  
And Distinguished Members of the City Council  
Saco, Maine

The comprehensive annual financial report of the City of Saco, Maine for the fiscal year ended June 30, 2001, 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 Saco issue annually a report of its financial position and activity, and that this report be audited by an independent firm of certified public accountants. This is the first year that the City's Department of Finance has prepared this report using the new reporting requirements as prescribed by GASB Statement No. 34. Responsibility for both the accuracy of the data presented, and the completeness and fairness of the presentation including all disclosures, rests with the City of Saco. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the City of Saco on a government wide and fund basis. All disclosures necessary to enable the reader to gain the maximum understanding of the City's activities have been included.

The comprehensive annual financial report is prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). The report is presented in three sections: introductory, financial and statistical, and includes the following:

1. Introductory Section – Letter of Transmittal with comments on the operations of the City, the City's organizational chart, and a list of principal officials.
2. Financial Section – Basic Financial Statements and Required Supplementary Information. The Basic financial statements include Management's Discussion and Analysis, Government-Wide Financial Statements, Fund Financial Statements, Notes to the Basic Financial Statements and Required Supplementary Information as well as the auditors' report on the financial statements and schedules.
3. Statistical Section – Selected financial and demographic information, generally presented on a multi-year basis.

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 Budget's Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The "Single Audit" is designed to meet the special needs of 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 federal financial assistance, findings, 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.

Accounting Principles Generally Accepted in the United States of America (GAAP) require 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 MD&A and should be read in conjunction with it. The City of Saco, Maine's MD&A can be found immediately following the report of the independent auditors.

## **Governmental Structure, Local Economic Condition and Outlook**

The City of Saco, Maine, incorporated in 1867, is located at the mouth of the Saco River on the southerly side of Saco Bay in the Gulf of Maine, in the southern coastal section of the State and is approximately the tenth largest City in the State of Maine. The City of Saco continues to be a key area within the state for residential growth, as well as a key area where industrial and commercial companies are investing. The City of Saco has ranked among the top five cities within the State of Maine for this growth. Saco has a land area of 38.5 square miles and a population of 16,822. The City is empowered to levy a property tax on both real and personal property located within its boundaries.

The City operates under the Mayor -Council – City Administrator form of government. Policy making and legislative authority are vested in the seven member City Council. The Council is elected on a non-partisan basis. The mayor and all council members are elected to two-year terms from seven districts (wards). The City Council is responsible, among other things, for passing ordinances, adopting the budget, confirming mayoral nominations of committees and the City Administrator. The City Administrator is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the City's departments, some with City Council confirmation.

The City of Saco, Maine provides a full range of services, including police and fire protection; sanitation services; the construction and maintenance of highways, streets and infrastructure; waste water treatment plant; solid waste collection; public education; health and social welfare; recreation; general administration and economic development.

The annual budget serves as the foundation for the City of Saco's financial planning and control. All departments of the City of Saco 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. The City Administrator then presents this proposed budget to the City Council for review in March of each year. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of the City's fiscal year. The appropriated budget is prepared by fund and department. Both transfers of appropriations within a department and between various departments require the approval of the governing council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented on page 38 as part of the basic financial statements for the governmental funds.

### **Major Initiatives Fiscal Year 2000-2001**

After much work, financial planning and commitment to our vision of making Saco a community with a high quality of life for all its citizens, the City again ends the year in a solid financial position. Central to this vision is a sustainable economy that offers an opportunity for everyone to have rewarding employment and for business to prosper, now and in the future. The people of Saco have brought this vision into reality by working together and building on our tradition of hard work, dedication and ingenuity.

**Economic Development.** The City has worked tirelessly to improve the economic development climate in Saco and the proof of those efforts is the steady increase in the City's assessed valuation which is due primarily to growth in the industrial and commercial sector. Notable additions to the City's economic development base are due primarily to the City's continually expanding industrial park project which now includes several new businesses. There are also numerous residential dwellings being constructed.

**Assessed Valuation.** For the 11th consecutive year, the City's valuation has steadily increased, with the exception of fiscal year June 30, 1999 where the valuation slightly decreased due to the State mandated homestead exemption of approximately \$25 million. This exemption reduced the taxable valuation for the taxpayers of the City but was substituted by a reimbursement from the State. Since fiscal year 1992, the assessed valuation has risen from \$732,678,500, to this year's \$838,691,850. This equates to a 14% increase over this 10 year period. However, this increase has been reflected proportionately between residential and commercial growth. In 1990, residential property accounted for 68% of the City's valuation. This year, residential property taxes will also account for approximately 68% of the taxes paid, while business/industry will account for 32%.

**Financial Management.** The City is committed to ensuring sound financial management of the public's funds. This includes development of a 5 year Financial Plan (1997-2001), which incorporates City Council goals and objectives, maintaining sufficient fund balances in major governmental funds, and adhering to the highest management standards. This financial plan will be updated in the next fiscal year, for another 5 year period, once our new City Council is elected.

**Capital Improvements & Debt Service.** The City has prepared a 5 year Capital Improvement Plan Policy. This policy outlines all of the fixed assets currently owned by the City, their historical costs, their estimated useful lives, and their estimated replacement years and costs. With this information, the City will be better able to plan for replacements which will aid in our budget preparation in future years as we have a better idea of fiscal impacts due to replacement being projected. In the current fiscal year, approximately \$3.5 million dollars was budgeted to fund various capital improvement projects including an Amtrak train platform and additions to the City's Industrial Park. In addition to funding a responsible level of capital improvements, the City has also retired more debt principal than the City acquired during the fiscal year.

**Comprehensive Plan.** A comprehensive plan for the City's development was adopted in October of 1999. This plan sets out development policies and goals for capital planning for the next decade.

**Interlocal service efforts with the City of Biddeford and the Town of Old Orchard Beach.** Saco, Biddeford and Old Orchard Beach continue to build among the many services we provide jointly, including the harbor river patrol efforts, various training efforts for employees, combined purchasing to take advantage of economies of scale, and combined negotiations of cable franchise agreements, to name just a few.

**Biddeford-Saco-Old Orchard Beach Transit Committee-** The City is member of the Biddeford-Saco-Old Orchard Beach Transit Committee which is a jointly governed organization. The Committee operates a public mass transit passenger bus service within and between the three municipalities under a voluntary interlocal agreement. The City of Saco's contribution to the committee for the year ended June 30, 2001 was \$45,000. The Transit Committee does not meet the definition of a component unit or a joint venture because there is no ongoing financial interest or responsibility by the participating governments.

### **Major Initiatives- Looking Ahead: 2001-2002 Goals**

During the coming year, the City will build upon the successes we experienced this year. The City will continue to focus its efforts on economic development, fiscal accountability, expanding Saco's tax base and reaffirming our commitment to the public to improve service delivery and enhance the quality of life in our community. The City Council adopted a Goal Setting, Measurement and Reporting Policy in October of 1999. This policy provides guidance in goal setting, measurement, and reporting. First, the goal is developed, then results and decisions toward the goal recorded, commitment, action steps/follow up are described, and finally a summation of activities directed towards the goal is presented. The following represents the City Council vision statement and goals for the new fiscal year and the major undertakings that are planned.

**Vision Statement- Our vision is a high quality of life for Saco citizens. Central to this vision is a sustainable economy that offers an opportunity for everyone to have rewarding employment and for business to prosper, now and in the future. The people of Saco bring this vision into reality by working together and building on our tradition of hard work, dedication and ingenuity.**

- **To implement the recommendations of the Camp Ellis Beach erosion Study Report and Saco Bay Beach Regional Beach Management Report.** These reports call for applying sand from the river to the beach and lowering, shortening, and roughening the jetty. Legal action in support of the changes to the jetty also needs to be evaluated. The City Council is committed to applying resources to meeting this goal.
- **To continue downtown infrastructure improvements.** The City Council has agreed to make improvements by completing parking areas on Free Street and Cutts Avenue, making York Hill parking and traffic improvements, and installing new gateway and orientation signage in the downtown area. The construction of the train station and additional parking areas will be embarked on in the next fiscal year. Funding for these projects will come from the Economic Development Fund and the TIF Funds.
- **To complete a 5-year recreation facility improvement plan.** The City Council is committed to begin these improvements once the plan is adopted, perhaps with implementation of a landfill reuse plan, and the development of a recreational impact fee system to pay for new facilities. They will continue to find non-general fund sources for additional facilities. The Capital Improvement Plan Policy addresses this goal.
- **To provide greater public access to City Hall and better services to citizen customers by utilizing E-commerce technology and adding evening hours at City Hall.** The City Council has supported a reorganizational effort between the Finance and City Clerk's offices so that all employees are now cross trained to be able to provide all services at every window. This effort is intended to minimize wait times at City Hall. The City is also 1 of 13 communities who are part of a pilot program with the State of Maine offering vehicle re-registrations on-line. The City Council has also encouraged the Library and Museum to serve greater community roles. The next years budget recognizes an increased level of funding to the library for this purpose and addresses this goal.
- **To inventory and assess the City organization and service delivery system and adopt the best practices in response to issues identified.** The City Council is committed to increase efficiencies by reorganizing departments, if necessary. This is a non-monetary goal that is currently being discussed by management and the City Council to assure that efficiencies are being maximized and has been tested by the current reorganization of the Finance and City Clerk's offices.
- **To utilize criteria for prioritizing public improvements and to follow the recommendations adopted in the Comprehensive Plan.** The City Council is committed to developing a mechanism to manage population growth within the City. The Comprehensive Plan Implementation Committee has been meeting to discuss this subject. The Capital Improvement Plan addresses this as well through the recommendation of a City Wide Geographic Information System.
- **To provide more opportunity for public participation at Council meetings and workshops.** This is another non-monetary goal that will be achieved by the improved ability to televise City Council and other City meeting throughout the new fiscal year.
- **To acquire land for the completion of the Spring Hill Section of the Industrial Park and evaluate large parcels suitable for the next industrial or business park.** The City Council has committed resources in the new fiscal year for these types of land acquisitions. The economic development director is currently pursuing these land acquisitions for the City.

- **To build the Amtrak Station.** The City Council had committed resources in the new fiscal year for this project as well as secured various federal and state grants to assist in the funding of the project. The City will begin construction of the building, with parking and traffic improvements, and work toward implementing other Saco Island recommendations of the Saco Island/Downtown Plan.
- **To continue to work to assess and construct sidewalks and bike paths.** The City Council is committed to this construction, particularly on Route 9, Route 112 and Route 5 and especially Route 1. Sidewalks will be completed in the new fiscal year from the Cascade Road all the way to the Scarborough City line.

Within the City of Saco, City Councilors are elected for terms of two years. They therefore set their goals and objectives at the beginning of their 2-year terms and remain committed to these goals throughout their term. This fiscal year marks the end of their two year terms with these stated goals. Once the new City Council is elected in November of 2001, they will set new 2 year goals as a united group.

Each individual department head has also established various independent goals for their various departments for the up and coming fiscal year. Achievement of these goals will be used as a measurement of that departments performance over the course of the fiscal year.

### **Significant Accomplishments of Fiscal Year 2000-2001**

- The City received its record of decision on the closure of its landfill Superfund Site.
- With the completion of the James Street Combined Sewer Overflow (CSO) project, the City has successfully met their CSO master plan goals through the year 2010.
- The City completed an entire inventory and needs assessment of all Parks and Recreation facilities.
- The City adopted numerous code changes to implement the 1999 Comprehensive Plan.
- The City ratified all 7 union contracts which were up for negotiation.
- The City successfully early implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, which included the completion of a complete inventory and condition assessment of all City owned infrastructure assets.
- The City was awarded with the Margaret Chase Smith Maine State Quality Award for Level 1 (State of Maine's version of the National Malcolm Baldrige Award based on the same criteria), which signified the City's commitment towards customer satisfaction and quality practices.
- The City voters approved an \$8.4 million bond issue for renovations to all existing school buildings. Of which, the school was successful at obtaining \$2.5 million through the State Revolving Loan Fund with a portion at no interest and a portion to be forgiven by the State.
- The City was successful at selling 50% of the available commercial lots within their newly developed industrial park.

### **Financial Information**

The City's Finance Department is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that the adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal controls being used are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the costs of control procedures are weighed against the expected benefits to be derived, and that the evaluation of costs and benefits requires educated estimates and professional judgments by management. All of the City's internal accounting control evaluations occur within this framework.

As a recipient of federal, state and local financial assistance, the City is also responsible for ensuring that adequate internal controls are in place to ensure and document compliance with applicable laws and regulations related to these programs. These internal controls are subject to periodic evaluation by management and the finance department staff of the City.

The City adopts fiscal year budgets that are established in accordance with the various laws that govern the City's operations as authorized by the Council. The budget is divided into monthly budget allocations based on expenditure expectations and on historical trends, whenever possible. These allocations are reviewed monthly against actual expenditures, and variances are addressed in the monthly financial reports presented to the City Council. At mid year, unless conditions dictate an earlier need, budgets are reviewed, year end projections made, and adjustments to the financial plan considered and any necessary changes are legally adopted through the passage of an appropriation resolve.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

***Cash Management Policies and Practices:*** Cash temporarily idle during the year was invested in demand deposits, certificates of deposit, U.S. Government obligations, and repurchase agreements. The average yield on all investments was approximately 6.0%. The City's General Fund investment income during the year amounted to \$414,251.

The City's investment policy, adopted in February of 1997, is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, the majority of investments were held in the government's name by the counterparty financial institution's trust department. Remaining deposits were either insured by federal depository insurance or collateralized.

***Risk Management:*** During fiscal year 2001, the City continued to aggressively manage all aspects of its risk management program. Included in the risk management program are property and casualty risks as well as Worker's Compensation.

The City's Finance Director is the person primarily responsible for most risk management functions. Insurance coverage, reporting and claims management functions have been centralized providing better coordination, efficiency and cost effectiveness. The City anticipates conducting a review of its coverages and loss prevention program in the summer of 2002. Additional information on the City of Saco's risk management activity can be found in Note 16 of the notes to the financial statements.

#### **Other information:**

***Independent Audit:*** State Statute and the City Charter require an annual audit of all financial records by independent certified public accountants. The audit of fiscal year 2001 was performed for the City Council, by the firm of Runyon, Kersteen, Ouellette, a firm of licensed Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Saco, for the fiscal year ended June 30, 2001, 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 concluded based upon the audit that there was a reasonable basis for rendering an unqualified opinion that the City of Saco's financial statements for the fiscal year ending June 30, 2001, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the federal Single Audit Act of 1984 and the related U.S. Office of Management and Budget's Circular A-133. Auditing Standards Generally Accepted in the United States of America and the

standards set forth in the General Accounting Office's *Government Auditing Standards* were used by the auditors in conducting the engagement. The auditors' reports on internal controls and compliance with applicable laws and regulations can be found in a separately issued report.

**Awards:** This is the second year in which the City of Saco will apply for the prestigious Certificate of Achievement for Excellence in Reporting to the City for its comprehensive annual financial report through the Government Finance Officers Association (GFOA). In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy 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 year comprehensive annual financial report meets the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility.

In addition, the City of Saco also applied for the GFOA's Distinguished Budget Presentation Award for its annual budget document dated August 23, 2001. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document will be judged for proficiency in several categories, including as a policy document, a financial plan, an operations guide and a communications device.

Lastly, the City of Saco has recently received a Level I, Margaret Chase Smith Maine State Quality Award. The award, first administered in 1991, became a multi-level award in 1996, recognizing organizations for achievement to Level I, Commitment; Level II, Progress or Level III, Excellence. The award is intended to increase the awareness of quality improvement as a sound economic development strategy for all types of Maine organizations. The Margaret Chase Smith Maine State Quality Award criteria provides a framework that identifies the key components of a quality improvement strategy. The criteria focuses on an organizations overall performance management system. This framework can help Maine organizations aspire to higher levels of quality in product, service and performance through sound quality management principles. The Quality Award criteria are based on the National Quality Program's Malcolm Baldrige Award, an internationally recognized standard for excellence.

**Acknowledgements:** The preparation of this report would not have been possible without the cooperation of all City department heads as well as the members of the Finance Department. Appreciation is also extended to the City Administrator, Richard Michaud, for his consistent support of these efforts. Credit must also be extended to the Mayor and the governing City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Saco, Maine's finances. I wish to acknowledge the efforts of our independent auditor's Runyon, Kersteen, Ouellette for the professional audit work they provided and for all their assistance.

Respectfully submitted,

Lisa R. Parker, CPA  
Finance Director