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Audited Financial Statements
and Other Financial Information

Town of Southwest Harbor, Maine

June 30, 2016



Proven Expertise and Integrity

TOWN OF SOUTHWEST HARBOR, MAINE

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JUNE 30, 2016

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Revenues and Expenses

Revenues for the Town's governmental activities decreased by 1.80%, while total expenses increased by 22.06%. The main decrease in revenues was in capital grants and contributions and the largest increase in expenses was in public works.

Proprietary fund revenues and expenses are only presented for six months due to the formation of the Southwest Harbor Public Utilities District effective January 1, 2016.

Financial Analysis of the Town's Fund Statements

Governmental funds: The financial reporting focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information may be useful in assessing the Town's financial requirements. In particular, unassigned fund balance may serve as a useful measure of a government's financial position at the end of the year, and the net resources available for spending.

Table 3
Town of Southwest Harbor, Maine
Fund Balances - Governmental Funds
June 30,

	<u>2016</u>	<u>2015</u>
Major funds:		
General fund:		
Nonspendable	\$ 619,862	\$ 606,562
Restricted	82,299	82,299
Assigned	6,000	-
Unassigned	1,908,855	1,890,372
Subtotal general fund	<u>2,617,016</u>	<u>2,579,233</u>
Capital projects fund:		
Restricted	-	129,429
Permanent fund - cemetery trust:		
Restricted	108,149	106,518
Total major funds	<u><u>\$ 2,725,165</u></u>	<u><u>\$ 2,815,180</u></u>
Nonmajor funds:		
Special revenue funds:		
Restricted	\$ 347,490	\$ 541,463
Committed	1,449,465	1,512,707
Unassigned	(67,133)	(6,054)
Total nonmajor funds	<u><u>\$ 1,729,822</u></u>	<u><u>\$ 2,048,116</u></u>

The general fund total fund balance increased by \$37,783 from the prior fiscal year. The other major fund balances decreased by \$127,798 from the prior fiscal year. The nonmajor fund balances decreased by \$318,294 from the prior fiscal year.

Proprietary funds: The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Budgetary Highlights

There were no significant differences between the original and final budget for the general fund.

The general fund actual revenues exceeded the budget by \$69,388. This was mainly the result of excise taxes, education, and transfers from other funds revenue categories being receipted in excess of the budgeted amounts.

The general fund actual expenditures were over the budget by \$38,932. All expenditure categories were under budget with the exception of general government and education.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2016, the net book value of capital assets recorded by the Town decreased by \$8,615,117. This decrease was the result of current year additions of \$149,898, less current year depreciation of \$905,173, less net disposals of \$26,747, and the transfer of water and sewer assets to the Southwest Harbor Public Utilities District of \$7,833,095. Refer to Note 6 of Notes to Financial Statements for more detailed information.

Table 2
Town of Southwest Harbor, Maine
Change in Net Position
For the Years Ended June 30,

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues				
<i>Program Revenues:</i>				
Charges for Services	\$ 246,333	\$ 239,950	\$ 696,218	\$ 1,149,679
Operating Grants and Contributions	455,797	609,252	-	-
Capital Grants and Contributions	-	333,334	10,680	627,502
<i>General Revenues:</i>				
Taxes	7,486,737	7,389,832	-	-
Grants and Contributions Not Restricted to Specific Programs	87,207	113,364	-	-
Miscellaneous	347,498	95,702	27,421	11,653
Total Revenues	<u>8,623,572</u>	<u>8,781,434</u>	<u>734,319</u>	<u>1,788,834</u>
Expenses				
General Government	682,371	300,714	-	-
Protection	1,117,538	1,127,472	-	-
Health & Sanitation	503,210	426,246	-	-
Public Works	1,214,398	197,701	-	-
Education	4,432,329	4,506,313	-	-
County Tax	244,901	237,208	-	-
Social Services	201,164	203,564	-	-
Unclassified	348,456	202	-	-
State of Maine On-behalf Payments	179,027	194,113	-	-
Interest on Long-term Debt	83,842	111,908	-	-
Debt Service Assessments	-	74,148	-	-
Water Fund	-	-	479,116	593,660
Sewer Fund	-	-	405,638	596,457
Total Expenses	<u>9,007,236</u>	<u>7,379,589</u>	<u>884,754</u>	<u>1,190,117</u>
Transfers	<u>(61,807)</u>	<u>-</u>	<u>61,807</u>	<u>81,398</u>
Transfer of assets to Southwest Harbor Public Utilities District	<u>-</u>	<u>-</u>	<u>(3,823,571)</u>	<u>-</u>
Change in Net Position	(445,471)	1,401,845	(3,912,199)	680,115
Net Position - July 1, Restated	<u>16,240,587</u>	<u>14,838,742</u>	<u>3,912,199</u>	<u>3,232,084</u>
Net Position - June 30	<u><u>\$ 15,795,116</u></u>	<u><u>\$ 16,240,587</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,912,199</u></u>

Table 1
Town of Southwest Harbor, Maine
Net Position
June 30,

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2016</u>	<u>2015</u> <u>(Restated)</u>	<u>2016</u>	<u>2015</u> <u>(Restated)</u>
Assets				
Current Assets	\$ 5,026,317	\$ 5,388,530	\$ -	\$ 302,890
Capital Assets	14,975,174	16,604,510	4,365,144	8,080,872
Total Assets	<u>20,001,491</u>	<u>21,993,040</u>	<u>4,365,144</u>	<u>8,383,762</u>
Deferred Outflows of Resources				
Unamortized Bond Issue Cost	-	-	-	9,597
Deferred Engineering Studies	-	-	-	3,387
Acquisition Adjustment - Net	-	-	-	185,487
Deferred Outflows Related to Pensions	67,362	67,727	-	-
Total Deferred Outflows of Resources	<u>67,362</u>	<u>67,727</u>	<u>-</u>	<u>198,471</u>
Liabilities				
Current Liabilities	912,239	1,979,611	278,968	1,048,553
Long-term Debt Outstanding	3,323,231	3,792,557	4,086,176	3,621,481
Total Liabilities	<u>4,235,470</u>	<u>5,772,168</u>	<u>4,365,144</u>	<u>4,670,034</u>
Deferred Inflows of Resources				
Prepaid Taxes	18,081	22,364	-	-
Deferred Inflows Related to Pensions	20,186	25,648	-	-
Total Deferred Inflows of Resources	<u>38,267</u>	<u>48,012</u>	<u>-</u>	<u>-</u>
Net Position				
Net Investment in Capital Assets	11,240,479	12,403,584	-	3,410,072
Restricted	537,938	859,709	-	-
Unrestricted (Deficit)	4,016,699	2,977,294	-	502,127
Total Net Position	<u>\$ 15,795,116</u>	<u>\$ 16,240,587</u>	<u>\$ -</u>	<u>\$ 3,912,199</u>

Other Supplementary Information

Other supplementary information follows the required supplementary information. These combining and other schedules provide information in regards to nonmajor funds, capital asset activity and other detailed budgetary information for the general fund.

Government-Wide Financial Analysis

Our analysis below focuses on the net position, and changes in net position of the Town's governmental activities and business-type activities. The Town's total governmental net position decreased by \$445,471 from \$16,240,587 to \$15,795,116. The Town's total business-type net position decreased by \$3,912,199 from \$3,912,199 to \$0. Effective January 1, 2016, the Southwest Harbor Water and Sewer Departments formed the Southwest Harbor Public Utilities District and their operations are no longer a part of the Town of Southwest Harbor.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased for governmental activities to a balance of \$4,016,699 at the end of this year. Unrestricted net position for business-type activities decreased to a balance of \$0.

comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Town of Southwest Harbor presents four columns in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances. The Town's major governmental funds are the general fund, capital projects fund, and cemetery trust fund. All other funds are shown as nonmajor and are combined in the "Special Revenue Funds" column on these statements.

The general fund is the only fund for which the Town legally adopted a budget. The Budgetary Comparison Schedule – Budgetary Basis – Budget and Actual – General Fund provides a comparison of the original and final budget and the actual expenditures for the current year.

Proprietary Funds: The Town of Southwest Harbor maintains two proprietary funds, the water fund and sewer fund. These funds are used to show activities that operate more like those of commercial enterprises. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. No reconciliation is needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

Fiduciary Funds: These funds are used to account for resources held for the benefit of parties outside the Town of Southwest Harbor. These funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Town's own programs. The accounting used for fiduciary funds are much like that of proprietary funds. They use the accrual basis of accounting.

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 the Fund Financial Statements. The Notes to Financial Statements can be found following the Statement of Changes in Fiduciary Net Position - Fiduciary Funds.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information, which includes a Budgetary Comparison Schedule – Budgetary Basis – Budget and Actual – General Fund, a Schedule of Proportionate Share of the Net Pension Liability and a Schedule of Contributions.

Both of the above mentioned financial statements have separate columns for the two different types of Town activities. The types of activities presented for the Town of Southwest Harbor are:

- *Governmental activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal and state grants). Most of the Town's basic services are reported in governmental activities, which include general government, protection, public works, social services, health and sanitation and education.
- *Business-type activities* – These activities are normally intended to recover all or a significant portion of their costs through user fees and/or charges to external users for goods and/or services. These activities for the Town of Southwest Harbor include the water fund and sewer fund.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Southwest Harbor, like other local governments uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. All of the funds of the Town of Southwest Harbor can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds: Most of the basic services provided by the Town are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balance of spendable resources available at the end of the fiscal year. Such information will be useful in evaluating the government's near-term financing requirements. This approach is known as the current financial resources measurement focus and the modified accrual basis of accounting. Under this approach, revenues are recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the Town's finances to assist in determining whether there will be adequate financial resources available to meet the current needs of the Town.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this

**REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

(UNAUDITED)

The following management's discussion and analysis of Town of Southwest Harbor, Maine's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the Town's financial statements.

Financial Statement Overview

The Town of Southwest Harbor's basic financial statements include the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes required supplementary information which consists of the general fund budgetary comparison schedule and pension information, and other supplementary information which includes combining and other schedules.

Basic Financial Statements

The basic financial statements include financial information in two differing views: the government-wide financial statements and the fund financial statements. These basic financial statements also include the notes to financial statements that explain in more detail certain information in the financial statements and also provide the user with the accounting policies used in the preparation of the financial statements.

Government-Wide Financial Statements

The government-wide financial statements provide a broad view of the Town's operations in a manner that is similar to private businesses. These statements provide both short-term as well as long-term information in regards to the Town's financial position. These financial statements are prepared using the accrual basis of accounting. This measurement focus takes into account all revenues and expenses associated with the fiscal year regardless of when cash is received or paid. The government-wide financial statements include the following two statements:

The Statement of Net Position – this statement presents *all* of the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference being reported as net position.

The Statement of Activities – this statement presents information that shows how the government's net position changed during the period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Sub-chapter 1(K) of the Maine Revised Statutes as amended, and is also not a required part of the basic financial statements.

The Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue Funds, the Schedule of Departmental Operations – General Fund, capital asset schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and related 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 Schedule of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue Funds, the Schedule of Departmental Operations – General Fund, capital asset schedules and the Schedule of Expenditures of Federal Awards 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 March 7, 2017, on our consideration of the Town of Southwest Harbor, Maine's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 Town of Southwest Harbor, Maine's internal control over financial reporting and compliance.

RHR Smith & Company

Buxton, Maine
March 7, 2017

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, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Southwest Harbor, Maine, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof 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, budgetary comparison information, and pension information on pages 4 through 12 and 58 through 60 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 Town of Southwest Harbor, Maine's basic financial statements. The Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue Funds, the Schedule of Departmental Operations – General Fund and capital asset schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 20-A MRSA §6051,



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INDEPENDENT AUDITORS' REPORT

Board of Selectmen
Town of Southwest Harbor
Southwest Harbor, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Southwest Harbor, Maine, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Southwest Harbor, Maine'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 of material misstatement.

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

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Table 4
Town of Southwest Harbor, Maine
Capital Assets (Net of Depreciation)
June 30,

	<u>2016</u>	<u>2015</u> (Restated)
Land and improvements	\$ 570,964	\$ 647,720
Buildings and building improvements	4,218,268	4,397,393
Machinery and equipment	525,121	595,337
Vehicles	847,881	825,538
Construction in progress	2,569,448	2,569,448
Infrastructure	<u>6,243,492</u>	<u>14,554,855</u>
Total	<u>\$ 14,975,174</u>	<u>\$ 23,590,291</u>

Long-Term Debt Activity

At June 30, 2016, the Town had \$8,086,721 in bonds outstanding versus \$8,034,122 last year. Other obligations include capital leases payable, accrued vacation and sick time, and net pension liability. Refer to Note 7 of Notes to Financial Statements for more detailed information.

Economic Factors and Next Year's Budgets and Rates

The Town currently maintains a sufficient unassigned fund balance to sustain government operations for a period of approximately two months, while also maintaining reserve accounts for future capital and program needs.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Manager or Finance Director at P.O. Box 745, Southwest Harbor, Maine 04679.

STATEMENT A

TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 4,036,851	\$ -	\$ 4,036,851
Investments	107,076	-	107,076
Accounts receivable (net of allowance for uncollectibles):			
Taxes	2,950	-	2,950
Liens	151,231	-	151,231
Other	14,438	-	14,438
Inventory	13,334	-	13,334
Tax acquired property	50,242	-	50,242
Due from other governments	650,195	-	650,195
Total current assets	5,026,317	-	5,026,317
Noncurrent assets:			
Receivable for long-term debt obligation from Southwest Harbor Public Utilities District	-	4,365,144	4,365,144
Capital assets:			
Land and other assets not being depreciated	1,935,521	-	1,935,521
Depreciable assets, net of accumulated depreciation	13,039,653	-	13,039,653
Total noncurrent assets	14,975,174	4,365,144	19,340,318
TOTAL ASSETS	20,001,491	4,365,144	24,366,635
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	67,362	-	67,362
TOTAL DEFERRED OUTFLOWS OF RESOURCES	67,362	-	67,362
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 20,068,853	\$ 4,365,144	\$ 24,433,997
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 201,788	\$ -	\$ 201,788
Accrued payroll and benefits	181,545	-	181,545
Other liabilities	224	-	224
Current portion of long-term obligations	528,682	278,968	807,650
Total current liabilities	912,239	278,968	1,191,207
Noncurrent liabilities:			
Noncurrent portion of long-term obligations:			
Bonds payable	3,263,515	4,086,176	7,349,691
Capital leases payable	9,879	-	9,879
Net pension liability	49,837	-	49,837
Total noncurrent liabilities	3,323,231	4,086,176	7,409,407
TOTAL LIABILITIES	4,235,470	4,365,144	8,600,614
DEFERRED INFLOWS OF RESOURCES			
Prepaid taxes	18,081	-	18,081
Deferred inflows related to pensions	20,186	-	20,186
TOTAL DEFERRED INFLOWS OF RESOURCES	38,267	-	38,267
NET POSITION			
Net investment in capital assets	11,240,479	-	11,240,479
Restricted	537,938	-	537,938
Unrestricted (deficit)	4,016,699	-	4,016,699
TOTAL NET POSITION	15,795,116	-	15,795,116
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 20,068,853	\$ 4,365,144	\$ 24,433,997

See accompanying independent auditors' report and notes to financial statements.

STATEMENT B

TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-	Total
						type Activities	
Governmental activities:							
General government	\$ 682,371	\$ 107,075	\$ -	\$ -	\$ (575,296)	\$ -	\$ (575,296)
Protection	1,117,538	-	-	-	(1,117,538)	-	(1,117,538)
Health & sanitation	503,210	29,711	-	-	(473,499)	-	(473,499)
Public works	1,214,398	83,772	17,660	-	(1,112,966)	-	(1,112,966)
Education	4,432,329	25,775	259,110	-	(4,147,444)	-	(4,147,444)
County tax	244,901	-	-	-	(244,901)	-	(244,901)
Social services	201,164	-	-	-	(201,164)	-	(201,164)
Unclassified	348,456	-	-	-	(348,456)	-	(348,456)
State of Maine on-behalf payments	179,027	-	179,027	-	-	-	-
Interest on long-term debt	83,842	-	-	-	(83,842)	-	(83,842)
Total governmental activities	9,007,236	246,333	455,797	-	(8,305,106)	-	(8,305,106)
Business-type activities:							
Water fund	479,116	377,959	-	10,680	-	(90,477)	(90,477)
Sewer fund	405,638	318,259	-	-	-	(87,379)	(87,379)
Total business-type activities	884,754	696,218	-	10,680	-	(177,856)	(177,856)
Total government	\$ 9,891,990	\$ 942,551	\$ 455,797	\$ 10,680	(8,305,106)	(177,856)	(8,482,962)

STATEMENT B (CONTINUED)
TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net position:			
Net (expense) revenue	<u>(8,305,106)</u>	<u>(177,856)</u>	<u>(8,482,962)</u>
General revenues:			
Taxes:			
Property taxes, levied for general purposes	7,059,191	-	7,059,191
Excise taxes	427,546	-	427,546
Grants and contributions			
not restricted to specific programs	87,207	-	87,207
Miscellaneous	347,498	27,421	374,919
Transfers	<u>(61,807)</u>	<u>61,807</u>	<u>-</u>
Total general revenues and transfers	<u>7,859,635</u>	<u>89,228</u>	<u>7,948,863</u>
Transfer of assets to Southwest Harbor Public Utilities District	<u>-</u>	<u>(3,823,571)</u>	<u>(3,823,571)</u>
Change in net position	(445,471)	(3,912,199)	(534,099)
NET POSITION - JULY 1, RESTATED	<u>16,240,587</u>	<u>3,912,199</u>	<u>20,152,786</u>
NET POSITION - JUNE 30	<u>\$ 15,795,116</u>	<u>\$ -</u>	<u>19,618,687</u>

See accompanying independent auditors' report and notes to financial statements.

STATEMENT C

TOWN OF SOUTHWEST HARBOR, MAINE

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Special Revenue Funds	Capital Projects Fund	Permanent Fund - Cemetery Trust	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 3,590,786	\$ 444,992	\$ -	\$ 1,073	\$ 4,036,851
Investments	-	-	-	107,076	107,076
Accounts receivables (net of allowance for uncollectibles):					
Taxes	2,950	-	-	-	2,950
Liens	151,231	-	-	-	151,231
Other	14,438	-	-	-	14,438
Inventory	13,334	-	-	-	13,334
Tax acquired property	50,242	-	-	-	50,242
Due from other governments	650,195	-	-	-	650,195
Due from other funds	-	1,284,830	-	-	1,284,830
TOTAL ASSETS	\$ 4,473,176	\$ 1,729,822	\$ -	\$ 108,149	\$ 6,311,147
LIABILITIES					
Accounts payable	\$ 201,788	\$ -	\$ -	\$ -	\$ 201,788
Accrued payroll	181,545	-	-	-	181,545
Other liabilities	224	-	-	-	224
Due to other funds	1,284,830	-	-	-	1,284,830
TOTAL LIABILITIES	1,668,387	-	-	-	1,668,387
DEFERRED INFLOWS OF RESOURCES					
Prepaid taxes	18,081	-	-	-	18,081
Deferred tax revenue	169,692	-	-	-	169,692
TOTAL DEFERRED INFLOWS OF RESOURCES	187,773	-	-	-	187,773
FUND BALANCES					
Nonspendable	619,862	-	-	-	619,862
Restricted	82,299	347,490	-	108,149	537,938
Committed	-	1,449,465	-	-	1,449,465
Assigned	6,000	-	-	-	6,000
Unassigned	1,908,855	(67,133)	-	-	1,841,722
TOTAL FUND BALANCES	2,617,016	1,729,822	-	108,149	4,454,987
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 4,473,176	\$ 1,729,822	\$ -	\$ 108,149	\$ 6,311,147

See accompanying independent auditors' report and notes to financial statements.

STATEMENT D

TOWN OF SOUTHWEST HARBOR, MAINE

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

	Total Governmental Funds
Total Fund Balances	\$ 4,454,987
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation	14,975,174
Deferred outflows of resources related to pensions are not financial resources and therefore are not reported in the funds	67,362
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds shown above:	
Taxes and liens receivable	169,692
Long-term liabilities shown below, are not due and payable in the current period and therefore are not reported in the funds shown above:	
Capital leases payable	(13,118)
Bonds payable	(3,721,577)
Accrued compensated absences	(60,554)
Net pension liability	(56,664)
Deferred inflows of resources related to pensions are not financial resources and therefore are not reported in the funds	(20,186)
Net position of governmental activities	<u>\$ 15,795,116</u>

See accompanying independent auditors' report and notes to financial statements.

STATEMENT E

TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Special Revenue Funds	Capital Projects Fund	Permanent Fund - Cemetery Trust	Total Governmental Funds
REVENUES					
Taxes:					
Property Taxes	\$ 7,022,005	\$ -	\$ -	\$ -	\$ 7,022,005
Excise Taxes	427,546	-	-	-	427,546
Intergovernmental Revenues	477,055	-	-	-	477,055
Interest Revenues	16,644	6,475	-	3,528	26,647
Charges for Services	246,333	-	-	-	246,333
Miscellaneous Revenues	231,483	85,868	-	3,500	320,851
TOTAL REVENUES	8,421,066	92,343	-	7,028	8,520,437
EXPENDITURES					
Current:					
General Government	369,958	307,036	-	-	676,994
Protection	965,982	97,776	-	-	1,063,758
Health & Sanitation	355,180	148,030	-	-	503,210
Public Works	391,141	553,832	-	-	944,973
Education	4,527,836	-	-	-	4,527,836
County Tax	244,901	-	-	-	244,901
Social Services	201,164	-	-	-	201,164
Unclassified	209,909	-	95,340	5,397	310,646
State of Maine On-behalf Payments	113,078	-	-	-	113,078
Debt Service:					
Principal	196,537	-	-	-	196,537
Interest	83,842	-	-	-	83,842
TOTAL EXPENDITURES	7,659,528	1,106,674	95,340	5,397	8,866,939
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	761,538	(1,014,331)	(95,340)	1,631	(346,502)
OTHER FINANCING SOURCES (USES)					
Transfers In	67,089	710,985	-	-	778,074
Transfers (Out)	(790,844)	(14,948)	(34,089)	-	(839,881)
TOTAL OTHER FINANCING SOURCES (USES)	(723,755)	696,037	(34,089)	-	(61,807)
NET CHANGE IN FUND BALANCES	37,783	(318,294)	(129,429)	1,631	(408,309)
FUND BALANCES - JULY 1	2,579,233	2,048,116	129,429	106,518	4,863,296
FUND BALANCES - JUNE 30	\$ 2,617,016	\$ 1,729,822	\$ -	\$ 108,149	\$ 4,454,987

See accompanying independent auditors' report and notes to financial statements.

STATEMENT F

TOWN OF SOUTHWEST HARBOR, MAINE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds (Statement E)	\$ (408,309)
Amounts reported for governmental activities in the Statement of Activities (Statement B) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense allocated to those expenditures over the life of the assets:	
Capital asset purchases	129,218
Depreciation expense	(663,463)
	<u>(534,245)</u>
Deferred outflows of resources are a consumption of net position by the government that are applicable to a future reporting period and therefore are not reported in the funds	<u>(365)</u>
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position	<u>466,231</u>
Deferred inflows of resources are an acquisition of net position by the government that are applicable to a future reporting period and therefore are not reported in the funds	<u>5,462</u>
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 governmental funds:	
Accrued compensated absences	(3,090)
Net pension liability	(8,341)
	<u>(11,431)</u>
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Taxes and liens receivable	<u>37,186</u>
Change in net position of governmental activities (Statement B)	<u>\$ (445,471)</u>

See accompanying independent auditors' report and notes to financial statements.

STATEMENT G

TOWN OF SOUTHWEST HARBOR, MAINE

BALANCE SHEET - PROPRIETARY FUNDS
JUNE 30, 2016

	Enterprise Funds		Total
	Water Fund	Sewer Fund	Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ -	\$ -	\$ -
Due from other funds	-	-	-
Total current assets	-	-	-
Noncurrent assets:			
Receivable for long-term debt obligation from Southwest Harbor Public Utilities District	2,720,998	1,644,146	4,365,144
Total noncurrent assets	2,720,998	1,644,146	4,365,144
TOTAL ASSETS	\$ 2,720,998	\$ 1,644,146	\$ 4,365,144
LIABILITIES			
Current liabilities:			
Due to other funds	\$ -	\$ -	\$ -
Current portion of long-term obligations	188,100	90,868	278,968
Total current liabilities	188,100	90,868	278,968
Noncurrent liabilities:			
Noncurrent portion of long-term obligations:			
Bonds payable	2,532,898	1,553,278	4,086,176
Total noncurrent liabilities	2,532,898	1,553,278	4,086,176
TOTAL LIABILITIES	2,720,998	1,644,146	4,365,144
NET POSITION			
Net investment in capital assets	-	-	-
Restricted	-	-	-
Unrestricted	-	-	-
TOTAL NET POSITION	-	-	-
TOTAL LIABILITIES AND NET POSITION	\$ 2,720,998	\$ 1,644,146	\$ 4,365,144

See accompanying independent auditors' report and notes to financial statements.

STATEMENT H

TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Funds		Total
	Water Fund	Sewer Fund	Enterprise Funds
OPERATING REVENUES			
Charges for services	\$ 377,959	\$ 318,259	\$ 696,218
Other	19,379	7,968	27,347
TOTAL OPERATING REVENUES	<u>397,338</u>	<u>326,227</u>	<u>723,565</u>
OPERATING EXPENSES			
Salaries and benefits	118,449	110,543	228,992
Utilities	40,807	19,809	60,616
Chemicals	7,059	1,349	8,408
Materials and supplies	10,180	3,615	13,795
Contractual services	18,746	12,818	31,564
Vehicles, equipment, repairs and maintenance	38,250	23,971	62,221
Insurance	8,919	10,109	19,028
Wastewater disposal	-	81,901	81,901
Depreciation and amortization	171,925	80,220	252,145
Miscellaneous expenses	38,806	25,199	64,005
TOTAL OPERATING EXPENSES	<u>453,141</u>	<u>369,534</u>	<u>822,675</u>
OPERATING INCOME (LOSS)	<u>(55,803)</u>	<u>(43,307)</u>	<u>(99,110)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	28	46	74
Interest expense	(25,975)	(36,104)	(62,079)
Contributions in aid of construction	10,680	-	10,680
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(15,267)</u>	<u>(36,058)</u>	<u>(51,325)</u>
NET INCOME (LOSS) BEFORE TRANSFERS	<u>(71,070)</u>	<u>(79,365)</u>	<u>(150,435)</u>
TRANSFERS			
Transfers in	22,912	65,895	88,807
Transfers out	-	(27,000)	(27,000)
Transfer of assets to Southwest Harbor Public Utilities District	(3,103,567)	(720,004)	(3,823,571)
TOTAL TRANSFERS	<u>(3,080,655)</u>	<u>(681,109)</u>	<u>(3,761,764)</u>
CHANGE IN NET POSITION	<u>(3,151,725)</u>	<u>(760,474)</u>	<u>(3,912,199)</u>
NET POSITION - JULY 1, RESTATED	<u>3,151,725</u>	<u>760,474</u>	<u>3,912,199</u>
NET POSITION - JUNE 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditors' report and notes to financial statements.

STATEMENT I

TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Funds		Total Enterprise Funds
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 569,343	\$ 853,413	\$ 1,422,756
Other receipts	19,379	7,968	27,347
Internal activity - receipts (payments) from/to other funds	-	(568,539)	(568,539)
Payments to suppliers	21,304	(199,756)	(178,452)
Payments to employees	(128,821)	(110,543)	(239,364)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	481,205	(17,457)	463,748
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	28	46	74
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	28	46	74
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from (to) other funds	22,912	38,895	61,807
Transfer to Southwest Harbor Public Utilities District	(3,103,567)	(720,004)	(3,823,571)
Long-term debt obligation from Southwest Harbor Public Utilities District	(2,720,998)	(1,644,146)	(4,365,144)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(5,801,653)	(2,325,255)	(8,126,908)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital asset acquisitions	(10,680)	(10,000)	(20,680)
Disposal of capital assets	-	26,747	26,747
Contributions in aid of construction	10,680	-	10,680
Net capital assets transferred to Southwest Harbor Public Utilities District	5,401,869	2,431,226	7,833,095
Repayment of short-term debt	(780,000)	-	(780,000)
Bond proceeds	780,000	-	780,000
Principal payments on long-term debt	(152,445)	(117,369)	(269,814)
Interest paid on long-term debt	(25,922)	(36,104)	(62,026)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	5,223,502	2,294,500	7,518,002
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(96,918)	(48,166)	(145,084)
CASH AND CASH EQUIVALENTS - JULY 1, RESTATED	96,918	48,166	145,084
CASH AND CASH EQUIVALENTS - JUNE 30	\$ -	\$ -	\$ -
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (55,803)	\$ (43,307)	\$ (99,110)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	171,925	80,220	252,145
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	47,085	535,154	582,239
(Increase) decrease in accrued revenue	144,299	-	144,299
(Increase) decrease in unamortized bond issue costs	9,597	-	9,597
(Increase) decrease in deferred engineering studies	3,387	-	3,387
(Increase) decrease in acquisition adjustment	175,052	-	175,052
Increase (decrease) in accounts payable	(3,965)	(20,985)	(24,950)
Increase (decrease) in accrued payroll and benefits	(10,372)	-	(10,372)
Increase (decrease) in due to other funds	-	(568,539)	(568,539)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 481,205	\$ (17,457)	\$ 463,748

See accompanying independent auditors' report and notes to financial statements.

STATEMENT J

TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2016

	Private-Purpose Trust Funds				Total	Agency Funds
	Dickey Fund	Johnson Fund	Student Activities	PTO	Private-Purpose Trust Funds	General Trust
ASSETS						
Cash and cash equivalents	\$ 759	\$ 70,581	\$ 6,839	\$ 8,193	\$ 86,372	\$ 1,011
Investments, at fair value	37,683	-	-	-	37,683	50,218
TOTAL ASSETS	<u>\$ 38,442</u>	<u>\$ 70,581</u>	<u>\$ 6,839</u>	<u>\$ 8,193</u>	<u>\$ 124,055</u>	<u>\$ 51,229</u>
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deposits held for others	-	-	-	-	-	51,229
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 51,229</u>
NET POSITION						
Restricted-held in trust for special purposes	38,442	70,581	6,839	8,193	124,055	
TOTAL NET POSITION	<u>38,442</u>	<u>70,581</u>	<u>6,839</u>	<u>8,193</u>	<u>124,055</u>	
TOTAL LIABILITIES AND NET POSITION	<u>\$ 38,442</u>	<u>\$ 70,581</u>	<u>\$ 6,839</u>	<u>\$ 8,193</u>	<u>\$ 124,055</u>	

See accompanying independent auditors' report and notes to financial statements.

STATEMENT K

TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

	Private-Purpose Trust Funds				Total Private-Purpose Trust Funds
	Dickey Fund	Johnson Fund	Student Activities	PTO	
ADDITIONS					
Trust fund income	\$ -	\$ 24,000	\$ -	\$ -	\$ 24,000
Student activities	-	-	29,916	13,464	43,380
Investment earnings, net of unrealized gains/(losses)	(1,708)	127	-	-	(1,581)
Total additions	(1,708)	24,127	29,916	13,464	65,799
DEDUCTIONS					
Miscellaneous	310	37,664	-	-	37,974
School activities	-	-	25,880	13,523	39,403
Total deductions	310	37,664	25,880	13,523	77,377
Change in net position	(2,018)	(13,537)	4,036	(59)	(11,578)
NET POSITION - JULY 1	40,460	84,118	2,803	8,252	135,633
NET POSITION - JUNE 30	\$ 38,442	\$ 70,581	\$ 6,839	\$ 8,193	\$ 124,055

See accompanying independent auditors' report and notes to financial statements.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Town of Southwest Harbor, Maine was incorporated under the laws of the State of Maine. The Town operates under the selectmen-manager form of government and provides the following services: general government services, protection, public works, health and sanitation, education and social services.

The Town's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The Town's combined financial statements include all accounts and all operations of the Town. We have determined that the Town has no component units as described in GASB Statement No. 14 and amended by GASB Statements No. 39 and No. 61.

Implementation of New Accounting Standards

During the year ended June 30, 2016, the following statements of financial accounting standards issued by the Governmental Accounting Standards Board became effective:

Statement No. 72, "*Fair Value Measurement and Application*". The objective of the Statement is to expand comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will improve fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. Management has determined the impact of this Statement is not material to the financial statements.

Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*". The objective of the Statement is to improve financial reporting by instituting a single framework for the presentation of information about pensions, thereby expanding the comparability of pension-related information reported by state and local governments. Management has determined that this Statement is not applicable.

Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*". The objective of this Statement is to identify-in the

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

context of the current governmental financial reporting environment-the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Management has determined the impact of this Statement is not material to the financial statements.

Statement No. 79, "*Certain External Investment Pools and Pool Participants*". This Statement establishes specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

This Statement also establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. Management has determined the impact of this Statement is not material to the financial statements.

Government-Wide and Fund Financial Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds).

Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's water and sewer funds are categorized as business-type activities. All other activities of the Town are categorized as governmental.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net position are reported in three parts – net investment in capital assets;

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

restricted net position; and unrestricted net position. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions and business-type activities (general government, public safety, etc.). The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, miscellaneous revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. For the most part, the interfund activity has been eliminated from these government-wide financial statements.

The net costs (by function) are normally covered by general revenue (taxes, certain intergovernmental revenues and charges for services, etc.).

The Town does not allocate indirect costs. All costs are charged directly to the corresponding department.

The government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities.

Measurement Focus - Basic Financial Statements & Fund Financial Statements

The financial transactions of the Town are reported in the individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The following fund types are used by the Town:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major Funds

- a. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities or equipment.
- c. The Permanent Fund – Cemetery Trust is used to account for assets held by the Town that are legally restricted pursuant to Title 30-A, §5653 of the Maine State Statutes, as amended, and unless otherwise specified, only earnings, and not principal, may be used for purposes that benefit the Town or its citizenry. The Town's policy for authorizing and spending investment income follows State statutes.

Nonmajor Funds

- d. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

2. Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Operating revenues include charges for services, intergovernmental reimbursements and other miscellaneous fees which are a direct result of the proprietary activity. Non-operating revenues are any revenues which are generated outside of the general proprietary activity, i.e. interest income. The following is a description of the proprietary funds of the Town:

- a. Enterprise Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) established fees and charges based on a pricing policy designed to recover similar costs.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. The reporting focus is on net assets and changes in net position and is reported using accounting principles similar to proprietary funds.

The Town's fiduciary funds are presented in the fiduciary fund financial statements by type (private-purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenses of either the fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

1. Accrual

Governmental activities in the government-wide financial statements and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Budget

The Town's policy is to adopt an annual budget for operations. The budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

The following procedures are followed in establishing budgetary data reflected in the financial statements:

1. Early in the second half of the year the Town prepares a budget for the fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the inhabitants of the Town is called for the purpose of adopting the proposed budget after public notice of the meeting is given.
3. The budget is adopted subsequent to passage by the inhabitants of the Town.
4. The Town does not adopt budgets for Special Revenue Funds.

Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

It is the Town's policy to value investments at fair value. None of the Town's investments are reported at amortized cost. For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. The Town Treasurer is authorized by State Statutes to invest all excess funds in the following:

- Obligations of the U.S. Government, its agencies and instrumentalities.
- Certificates of deposits and other evidences of deposits at banks, savings and loan associations, and credit unions.
- Repurchase agreements
- Money market mutual funds

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Town of Southwest Harbor, Maine has a formal investment policy, and also follows the State of Maine Statutes.

Inventories

Inventories consist of expendable supplies held for consumption and are valued at cost determined using the last-in, first-out (LIFO) method. Under the consumption method, the costs of inventory items are recognized as expenditures when used. In the general fund, inventory under this method consists of diesel fuel and gasoline and totals \$11,970. The school lunch fund portion of general fund inventory of \$1,364, consists of school nutrition supplies and food on hand at the end of the year, valued at cost. The cost value is determined using the first-in, first-out (FIFO) method.

Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Any residual balances outstanding between governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances".

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is estimated to be \$0 as of June 30, 2016.

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Infrastructure such as streets, traffic signals, and signs are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful lives.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The assets are valued at historical cost when available and estimated historical cost where actual invoices or budgetary data was unavailable. Donated fixed assets are valued at their estimated fair market value on the date received. All retirements have been recorded by eliminating the net carrying values.

Infrastructure assets include roads, bridges, underground pipe (other than related to independently owned utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Town. The Town has not retroactively recorded infrastructure.

Estimated useful lives are as follows:

Buildings	20 - 50 years
Infrastructure	50 - 100 years
Machinery and equipment	3 - 50 years
Vehicles	3 - 25 years

Long-term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in government-wide statements. The long-term debt consists primarily of bonds payable, capital leases payable, compensated absences and net pension liability.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The Town's policies regarding vacation and sick time do permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources,

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

while the proprietary funds report the liability as it is incurred. As of June 30, 2016, the Town's liability for compensated absences is \$60,554.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employee and Teacher (SET) Plan and additions to/deductions from the SET Plan's fiduciary net position have been determined on the same basis as they are reported by the SET Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or restricted net position.

Fund Balances

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

Nonspendable – This includes amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted – This includes amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – This includes amounts that can be used only for specific purposes determined by a formal action of the inhabitants of the Town. The inhabitants of the Town through Town meetings are the highest level of decision-making authority of the Town. Commitments may be established, modified, or rescinded only through a Town meeting vote.

Assigned – This includes amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The authority for assigning fund balance is expressed by the Board of Selectmen.

Unassigned – This includes all other spendable amounts. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Town meeting vote has provided otherwise in its commitment or assignment actions.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will at times 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 Town currently has one item in this category: deferred outflows related to pensions.

In addition to liabilities, the statement of financial position and or balance sheet will at times 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 Town has three types of items, deferred tax revenues, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, this item is reported in the governmental

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

funds balance sheet. Prepaid taxes also qualify for reporting in this category. This item is reported in both the statements of net position and governmental funds balance sheet. Deferred inflows related to pensions qualify for reporting in this category as well. This item is reported only in the statement of net position. All items in this category are deferred and recognized as inflows of resources in the period that the amounts become available.

Revenue Recognition - Property Taxes - Modified Accrual Basis

The Town's property tax for the current year was levied July 1, 2015 on the assessed value listed as of April 1, 2015, for all real and personal property located in the Town. Taxes were due on in two installments on September 1, 2015 and February 1, 2016. Interest on unpaid taxes commenced on September 2, 2015 and February 2, 2016, at 7% per annum.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. The remaining receivables have been recorded as deferred revenues.

The Town 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 \$121,053 for the year ended June 30, 2016.

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The Town has the authority to foreclose on property eighteen months after the filing of the lien if tax liens and associated costs remain unpaid.

Program Revenues

Program revenues include all directly related income items applicable to a particular program (charges to customers or applicants for goods, services, or privileges provided; operating or capital grants and contributions, including special assessments).

Operating/Non-Operating Proprietary Fund Revenues

Operating revenues consist mainly of direct revenue sources and/or charges for services applicable to that fund's ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end. The Town does not utilize encumbrance accounting for its general fund.

Use of Estimates

During the preparation of the Town's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent items as of the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results may differ from these estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Town's investment policies, which follow state statutes, require that all investments be made considering the safe and sound investment of principal and preservation of capital in the overall portfolio, maintenance of sufficient liquidity to meet day-to-day operations and other cash requirements and maximization of income, within established investment risk guidelines, with consistent cash flows throughout the budgetary cycle. These investment policies apply to all Town funds.

Deposits:

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Town will not be able to recover its deposits. The Town does not have a policy specifically covering custodial credit risk for deposits. However, the Town maintains deposits in qualifying financial institutions that are members of the F.D.I.C. as defined in Title 30-A, Section 5706 of the Maine Revised Statutes. As of June 30, 2016, the Town reported cash and cash equivalents of \$4,124,234 with bank and invested balances of \$4,165,524. Of the Town's bank and invested balances, \$2,871,475 were covered by F.D.I.C. insurance and therefore not exposed to custodial credit risk. Balances of \$1,190,517 were covered by securities held by the financial institution in the Town's name. Cash equivalents of \$2,843 were covered by the Securities Investor Protection Corporation (SIPC) and the remaining cash equivalents of \$100,689 were not collateralized or insured.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

<u>Account Type</u>	<u>Bank Balance</u>
Checking accounts	\$ 1,446,406
Savings accounts	2,271,025
Money market accounts	313,012
Cerificates of deposit	31,549
Cash equivalents	103,532
	<u>\$ 4,165,524</u>

Investments:

Custodial credit risk for investments is that, in the event of failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Currently, the Town does not have a specific policy for custodial credit risk for investments. The Town's investments totaling \$25,203 were fully covered by federal depository insurance and therefore were not exposed to custodial credit risk. The remaining investments totaling \$169,774 were covered by the Securities Investor Protection Corporation (SIPC).

At June 30, 2016, the Town had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>N/A</u>	<u>> 1 Year</u>	<u>1 - 5 Years</u>
Debt securities:				
U.S. Government agency obligations	\$ 75,819	\$ -	\$ -	\$ 75,819
Brokered certificates of deposit	25,203	-	-	25,203
Mutual funds:				
Equity	54,967	54,967	-	-
Fixed income	38,988	38,988	-	-
	<u>\$ 194,977</u>	<u>\$ 93,955</u>	<u>\$ -</u>	<u>\$ 101,022</u>

Fair Value Hierarchy

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Town has the following recurring fair value measurements as June 30, 2016:

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

	June 30, 2016 Total	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Investments by fair value level				
Debt securities				
U.S. Government agency obligations	\$ 75,819	\$ -	\$ 75,819	\$ -
Brokered certificates of deposit	25,203	-	25,203	-
Total debt securities	<u>101,022</u>	<u>-</u>	<u>101,022</u>	<u>-</u>
Equity securities				
Mutual funds and exchange-traded funds	93,955	93,955	-	-
Total equity securities	<u>93,955</u>	<u>93,955</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>194,977</u>	<u>\$ 93,955</u>	<u>\$ 101,022</u>	<u>\$ -</u>
Cash equivalents measured at the net asset value (NAV)				
Money market mutual funds	2,843			
Total cash equivalents measured at the NAV	<u>2,843</u>			
Total investments and cash equivalents measured at fair value	<u>\$ 197,820</u>			

Equity securities classified in Level I of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued from publicly reliable sources or using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The Town has no Level 3 investments. The fair value of money market mutual funds that are measured at NAV per share (or its equivalent) is calculated as of June 30, 2016 in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies. Certificates of deposit held with local financial institutions for \$31,549 are excluded from the hierarchy as these investments are considered held to maturity and are therefore not measured at fair value.

Credit risk – Statutes for the State of Maine authorize the Town to invest in obligations of the U.S. Treasury, agencies and instrumentalities, other states and Canada, provided such securities are rated within the three highest grades by an approved rating service of the State of Maine, corporate stocks and bonds within statutory limits, financial institutions, mutual funds and repurchase agreements. As of June 30, 2016, the Town's investments in U.S. Government agency obligations were rated AA+ (\$75,819) by Standard & Poor's Rating Service. The Town's investment in brokered certificates of deposit totaling \$25,203 were not rated.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest rate risk – is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from fluctuations in interest rates.

NOTE 3 - LONG-TERM RECEIVABLE

As of January 1, 2016, the sewer and water departments formed Southwest Harbor Public Utilities District. The District Plan requires that the District be responsible for payment of all sewer and water-related long-term debt on behalf of the Town. As of June 30, 2016, a long-term receivable has been recorded for \$4,365,144, which represents water and sewer-related general obligation bonds.

NOTE 4 - BUDGETARY VS. GAAP BASIS OF ACCOUNTING

As required by accounting principles generally accepted in the United States of America (GAAP), the Town of Southwest Harbor has recorded a revenue and expenditure for Maine Public Employees Retirement contributions made by the State of Maine on behalf of Southwest Harbor School Department. These amounts have not been budgeted in the General Fund and result in a difference in reporting on a budgetary basis of accounting vs. reporting under generally accepted accounting principles of \$113,078. These amounts have been included as intergovernmental revenue and as education expenditures in the General Fund on Statement E (GAAP basis). There is no effect on the total fund balance at the end of the year.

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2016 consisted of the following individual fund receivables and payables:

	Receivables (Due from)	Payables (Due to)
General fund	\$ -	\$ 1,284,830
Nonmajor special revenue funds - reserves	1,284,830	-
Totals	<u>\$ 1,284,830</u>	<u>\$ 1,284,830</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2016:

	Balance, 7/1/15 (Restated)	Additions	Deletions	Balance, 6/30/16
<u>Governmental activities:</u>				
Non-depreciated assets:				
Land	\$ 461,164	\$ -	\$ -	\$ 461,164
Construction in progress	1,474,357	-	-	1,474,357
	<u>1,935,521</u>	<u>-</u>	<u>-</u>	<u>1,935,521</u>
Depreciated assets:				
Land improvements	277,797	-	-	277,797
Buildings & improvements	7,900,057	11,068	-	7,911,125
Machinery & equipment	1,293,004	10,000	-	1,303,004
Vehicles	1,834,914	108,150	-	1,943,064
Infrastructure	12,927,048	-	-	12,927,048
	<u>24,232,820</u>	<u>129,218</u>	<u>-</u>	<u>24,362,038</u>
Less: accumulated depreciation	<u>(10,658,922)</u>	<u>(663,463)</u>	<u>-</u>	<u>(11,322,385)</u>
	<u>13,573,898</u>	<u>(534,245)</u>	<u>-</u>	<u>13,039,653</u>
Net capital assets	<u>\$ 15,509,419</u>	<u>\$ (534,245)</u>	<u>\$ -</u>	<u>\$ 14,975,174</u>
	Balance 7/1/15 (Restated)	Additions	Deletions	Balance, 6/30/16
<u>Business-type activities:</u>				
Non-depreciated assets:				
Land - Water	\$ 32,014	\$ -	\$ (32,014)	\$ -
Land - Sewer	27,525	-	(27,525)	-
	<u>59,539</u>	<u>-</u>	<u>(59,539)</u>	<u>-</u>
Depreciated assets:				
Water System	7,311,839	10,680	(7,322,519)	-
Sewer System	5,531,588	10,000	(5,541,588)	-
	<u>12,843,427</u>	<u>20,680</u>	<u>(12,864,107)</u>	<u>-</u>
Less: accumulated depreciation				
Water System	(1,791,174)	(161,490)	1,952,664	-
Sewer System	(3,030,920)	(80,220)	3,111,140	-
	<u>(4,822,094)</u>	<u>(241,710)</u>	<u>5,063,804</u>	<u>-</u>
Net capital assets	<u>\$ 8,080,872</u>	<u>\$ (221,030)</u>	<u>\$ (7,859,842)</u>	<u>\$ -</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Current year depreciation:

Governmental activities:

General government	\$	4,232
Protection		124,609
Education		178,893
Public works		317,919
Town-wide		37,810
Total governmental activities depreciation expense	\$	<u>663,463</u>

Business-type activities:

Water	\$	161,490
Sewer		80,220
Total business-type activities depreciation expense	\$	<u>241,710</u>

Effective January 1, 2016, the water and sewer departments formed the Southwest Harbor Public Utilities District. As such, the net capital assets of the business-type activities have been transferred from the Town to the District.

NOTE 7 - LONG-TERM DEBT

The following is a summary of changes in the long-term debt for the year ended June 30, 2016:

	Balance, 7/1/15 (Restated)	Additions	Deletions	Balance, 6/30/16	Current Portion
<u>Governmental activities:</u>					
Bonds payable	\$ 4,179,164	\$ -	\$ (457,587)	\$ 3,721,577	\$ 458,062
Capital leases payable	21,762	-	(8,644)	13,118	3,239
Accrued compensated absences	57,464	3,090	-	60,554	60,554
Net pension liability	48,323	74,655	(66,314)	56,664	6,827
	<u>\$ 4,306,713</u>	<u>\$ 77,745</u>	<u>\$ (532,545)</u>	<u>\$ 3,851,913</u>	<u>\$ 528,682</u>
<u>Business-type activities:</u>					
Bonds payable	\$ 3,854,958	\$ 780,000	\$ (269,814)	\$ 4,365,144	\$ 278,968
	<u>\$ 3,854,958</u>	<u>\$ 780,000</u>	<u>\$ (269,814)</u>	<u>\$ 4,365,144</u>	<u>\$ 278,968</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 7 - LONG-TERM DEBT (CONTINUED)

The following is a summary of outstanding bonds payable:

Governmental activities:

\$5,339,115, 2000B School Construction bond due in annual principal installments of \$261,050 through November of 2020. The interest rate varies from 5.028% to 5.903% per annum.	\$ 1,305,250
\$1,100,000, 2005C New Fire Station bond due in annual principal installments of \$44,000 through November of 2031. The interest rate is 4.75% per annum.	660,000
\$868,730, 2010F Wesley Ave/Mansell Lane General Fund bond due in annual principal installments of \$38,141 through November of 2030. The interest rate varies from 0.831% to 5.094% per annum.	679,327
\$780,000, 2013B Main Street Project bond due in annual principal installments of \$39,000 through May of 2034. The interest rate varies from 0.45% to 4.57% per annum.	702,000
\$750,000, 2011 Fire Truck bond due in annual principal installments of \$75,000 through September of 2021. The interest rate is 3.08% per annum.	<u>375,000</u>
Total governmental activities	<u>3,721,577</u>

Business-type activities:

\$1,207,820, 2010 Bond payable to Maine Municipal Bond Bank, due in annual principal payments varying from \$53,805 to \$24,107. Interest is charged at a rate varying from 5.500% to 2.000% per annum. Maturity in November of 2033.	938,795
\$420,855, 2010F Wesley Ave/Mansell Lane Water bond due in annual principal installments of \$18,477 through November of 2030. The interest rate varies from 0.8310% to 5.094% per annum.	329,098
\$440,000, 2013 Bond payable to Maine Municipal Bond Bank, due in annual principal payments varying from \$19,047 to \$25,227. Interest is charged at a rate of 1.490% per annum. Maturity in October of 2033.	401,622
\$1,066,046, 2010 Bond payable to Maine Municipal Bond Bank, due in annual principal payments varying from \$80,662 to \$17,707. Interest is charged at a rate varying from 5.500% to 2.000% per annum. Maturity in November of 2027.	662,736
\$511,180, 2009 Bond payable to Maine Municipal Bond Bank, due in semiannual principal payments of \$6,202 with principal forgiveness of \$263,100. No interest is charged. Maturity in October of 2029.	167,454
\$442,820, 2009 Bond payable to Maine Municipal Bond Bank, due in semiannual principal payments of \$11,071. No interest is charged. Maturity in October of 2029.	298,904
\$388,415, 2010F Wesley Ave/Mansell Lane Sewer bond due in annual principal installments of \$17,053 through November of 2030. The interest rate varies from 0.8310% to 5.094% per annum.	303,729
\$696,354, 2012 Bond payable to Maine Municipal Bond Bank, due in annual principal payments of \$18,569 with principal forgiveness of \$139,271. No interest is charged. Maturity in April of 2042.	482,806
\$1,418,182, 2013 Bond payable to Maine Municipal Bond Bank, due in annual principal payments varying from \$35,424 to \$42,796 with principal forgiveness of \$638,182. Interest is charged at a rate of 1.000% per annum. Maturity in October of 2035.	<u>780,000</u>
Total business-type activities	<u>4,365,144</u>
Total bonds payable	<u>\$ 8,086,721</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 - LONG-TERM DEBT (CONTINUED)

The following is a summary of outstanding bond principal and interest requirements for the following fiscal years ending June 30:

Governmental activities:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2017	\$ 458,062	\$ 152,320	\$ 610,382
2018	458,662	132,172	590,834
2019	459,358	111,716	571,074
2020	460,130	90,986	551,116
2021	460,962	72,364	533,326
2022-2026	638,653	267,599	906,252
2027-2031	668,725	123,216	791,941
2032-2036	117,025	7,999	125,024
	<u>\$ 3,721,577</u>	<u>\$ 958,372</u>	<u>\$ 4,679,949</u>

Business-type activities:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2017	\$ 278,968	\$ 84,889	\$ 363,857
2018	280,174	80,490	360,664
2019	281,477	75,937	357,414
2020	282,859	70,381	353,240
2021	261,037	64,985	326,022
2022-2026	1,288,970	257,317	1,546,287
2027-2031	1,071,344	129,549	1,200,893
2032-2036	508,922	17,443	526,365
2037-2041	92,847	-	92,847
2042-2046	18,546	-	18,546
	<u>\$ 4,365,144</u>	<u>\$ 780,991</u>	<u>\$ 5,146,135</u>

No interest costs were capitalized during the period. The amount of interest costs incurred and charged to expense for the year ended June 30, 2016 was \$253,079.

The following is a summary of the outstanding capital lease payable:

\$17,500, 2015 Capital lease payable to Gorham Leasing Group for copiers, due in monthly installments of \$307 through April of 2020. Interest is charged at a rate of 3.829% per annum.

\$ 13,118

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 - LONG-TERM DEBT (CONTINUED)

The following is a summary of outstanding capital lease requirements for the following fiscal years ending June 30:

Year Ending June 30:	
2017	\$ 3,685
2018	3,685
2019	3,685
2020	3,071
Total minimum lease payments	14,126
Less amount representing interest	(1,008)
Present value of future minimum lease payments	<u>\$ 13,118</u>

NOTE 8 - EXPENDITURES OVER APPROPRIATIONS

The following expenditures were overspent at June 30, 2016:

Administration	\$ 27,536
Fire department	6,318
Street lights	117
Primary - general fund	59,872
Boards and committees	344
Facility maintenance	2,899
	<u>\$ 97,086</u>

NOTE 9 - NONSPENDABLE FUND BALANCES

At June 30, 2016, the Town had the following nonspendable fund balances:

General Fund:	
Due From Southwest Harbor Public Utilities District	\$ 557,649
Inventory	11,971
Tax Acquired Property	50,242
	<u>\$ 619,862</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 - RESTRICTED FUND BALANCES

At June 30, 2016, the Town had the following restricted fund balances:

General Fund:	
School Department	\$ 82,299
Nonmajor Special Revenue Funds	347,490
Permanent Fund - Cemetery Trust	108,149
	<u>\$ 537,938</u>

NOTE 11 - COMMITTED FUND BALANCES

At June 30, 2016, the Town has the following committed fund balances:

Nonmajor Special Revenue Funds	<u>\$ 1,449,465</u>
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NOTE 12 - ASSIGNED FUND BALANCES

At June 30, 2016, the Town has the following assigned fund balances:

General Fund:	
Sprinkler System	<u>\$ 6,000</u>

NOTE 13 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town either carries commercial insurance, participates in a public entity risk pool, or is effectively self-insured. Currently the Town participates in several public-entity and self-insured risk pools sponsored by the Maine Municipal Association.

Based on the coverage provided by the pools described above, as well as coverage provided by commercial insurance purchased, the Town is not aware of any material actual or potential claim liabilities which should be recorded at June 30, 2016. There were no significant reductions in insurance coverage from that of the prior year and amounts of settlements have not exceeded insurance coverage in the past three years.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 14 - OVERLAPPING DEBT

The Town is contingently liable for its proportionate share of any defaulted debt by entities of which it is a member. At June 30, 2016, the Town's share was approximately:

	<u>Outstanding Debt</u>	<u>Town's Percentage</u>	<u>Total Share</u>
County of Hancock	\$ 900,000	4.51%	<u>\$ 40,560</u>

NOTE 15 - DEFINED BENEFIT PENSION PLAN

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description

All school teachers, plus other qualified educators, participate in the Maine Public Employees Retirement System's (MainePERS) State Employee and Teacher (SET) Plan. The teacher's program is a multi-employer cost-sharing plan with a special funding situation, established by the Maine State Legislature. The State of Maine is also a non-employer contributing entity in that the State pays the initial unfunded actuarial liability on behalf of teachers, while school districts contribute the normal cost, calculated actuarially, for their teacher members. Title 5 of the Maine Revised Statutes Annotated assigns the authority to establish and amend benefit provisions to the State Legislature. The Maine Public Employees Retirement System issues a publicly available financial report that includes financial and actuarial information for the SET Plan. That report may be obtained online at www.maineopers.org or by contacting the System at (207) 512-3100.

Benefits Provided

The Maine Public Employees Retirement System provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the State Legislature. The System's 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 for State employees and teachers). 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 State employees and teachers is age 60, 62 or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

specific dates, as established by statute. 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 System also provides disability and death benefits which are established by statute for State employee and teacher members.

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 System's Board of Trustees and is currently 5.0%.

Contributions

Retirement benefits are funded by contributions from members and employers and by earnings on investments. Disability and death benefits are funded by employer normal cost contributions and by investment earnings. The Town's teachers are required to contribute 7.65% of their compensation to the retirement system. The Town's payroll for teachers covered by this program was approximately \$1,162,391 for the year ended June 30, 2016. Title 5 of the Maine Revised Statutes Annotated requires the State to contribute 10.02% of the Town's contractually required contributions, which 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 (UAL). Contributions paid by the State were approximately \$113,078 for the year ended June 30, 2016. Title 5 of the Maine Revised Statutes Annotated also requires the Town to contribute at an actuarially determined normal cost rate of 3.36%, which totaled \$39,056 for 2016. In addition, the Town is required to contribute toward the UAL of the plan and pay a small percentage of payroll towards the administrative costs for federally funded teachers, which amounts to 10.57% of compensation and totaled \$3,580 the year ended June 30, 2016.

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

At June 30, 2016, the Town reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Town. The amount recognized by the Town 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 Town were as follows:

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Town's proportionate share of the net pension liability	\$ 56,664
State's proportionate share of the net pension liability associated with the Town	<u>1,450,412</u>
Total	<u><u>\$ 1,507,076</u></u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating school Units and the State, actuarially determined. At June 30, 2015, the Town's proportion was 0.004197%, which was a decrease of 0.000276% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized total pension expense of \$69,193 and revenue of \$65,949 for support provided by the State of Maine. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SET Plan	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 394
Changes of assumptions	1,562	-
Net difference between projected and actual earnings on pension plan investments	11,990	14,552
Changes in proportion and differences between employer contributions and proportionate share of contributions	11,174	5,240
Contributions subsequent to the measurement date	<u>42,636</u>	<u>-</u>
Total	<u><u>\$ 67,362</u></u>	<u><u>\$ 20,186</u></u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

\$42,636 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	SET Plan
Year ended June 30:	
2017	\$ 6,827
2018	(3,432)
2019	(1,853)
2020	2,998
2021	-
Thereafter	-

Actuarial Methods and Assumptions

The collective total pension liability for the Plan was determined by an actuarial valuation as of June 30, 2015 and 2014, using the following methods and assumptions applied to all periods included in the measurement:

Actuarial Cost Method

The Entry Age Normal actuarial funding method is used to determine costs. Under this funding method, the total employer contribution rate consists of two elements: the normal cost rate and the unfunded actuarial liability (UAL) rate.

The individual entry age normal method is used to determine liabilities. Under the individual entry age normal method, a normal cost rate is calculated for each employee. This rate is determined by taking the value, as of age at entry into the plan, of the member's projected future benefits, and dividing it by the value, also as of the member's entry age, of his or her expected future salary. The normal cost for each employee is the product of his or her pay and his or her normal cost rate. The normal cost for the group is the sum of the normal costs for all members.

Experience gains and losses, i.e., decreases or increases in liabilities and/or in assets when actual experience differs from the actuarial assumptions, affect the unfunded actuarial accrued liability.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Asset Valuation Method

The actuarial valuation employs a technique for determining the actuarial value of assets which dampens the swing in the market value. The specific technique adopted in this valuation recognizes in a given year one-third of the investment return that is different from the actuarial assumption for investment return.

Amortization

The net pension liability of the State Employee and Teacher Retirement Plan is amortized on a level percentage of payroll over the amortization period then in effect under statutory and constitutional requirements.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2015 and June 30, 2014 are as follows:

Investment Rate of Return - For the State Employee and Teacher Plan, 7.125% per annum for the years ended June 30, 2015 and 2014, compounded annually.

Salary Increases, Merit and Inflation - State Employees, 3.50% to 10.50% per year; Teachers, 3.50% to 13.5% per year.

Mortality Rates - For participating local districts and state employee members, the RP2000 Tables projected forward to 2015 using Scale AA are used; for active members and non-disabled retirees of the teachers' plan, the ages are set back two years; for all recipients of disability benefits, the Revenue Ruling 96-7 Disabled Mortality Table for Males and Females is used.

Cost of Living Benefit Increases - 2.55% per annum for State employees and Teachers for the years ended June 30, 2015 and 2014.

The long-term expected rate of return on pension plan assets 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 class of assets. 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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as June 30, 2015 are summarized in the following table:

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Asset Class	SET Plan	
	Target Allocation	Long-term Expected Real Rate of Return
US equities	20%	5.2%
Non-US equities	20%	5.5%
Private equity	10%	7.6%
Real assets:		
Real estate	10%	3.7%
Infrastructure	10%	4.0%
Hard assets	5%	4.8%
Fixed income	25%	0.7%

Discount Rate

The discount rate used to measure the collective total pension liability was 7.125% for 2015 and 2014 for the State Employee and Teacher Plan. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table shows how the collective net pension liability/(asset) as of June 30, 2015 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rate is 7.125% for the State Employee and Teacher Plan.

	1% Decrease	Discount Rate	1% Increase
<u>SET Plan:</u>			
Discount rate	6.125%	7.125%	8.125%
Town's proportionate share of the net pension liability	\$ 99,206	\$ 56,664	\$ 21,232

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Changes in Net Pension Liability

Changes in net pension liability are recognized in pension expense for the year ended June 30, 2015 with the following exceptions:

Differences between Expected and Actual Experience

The difference between expected and actual experience with regard to economic or demographic factors were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. For 2015 and 2014, this was 3 years for the SET Plan.

Differences between Projected and Actual Investment Earnings

Differences between projected and actual investment earnings were recognized in pension expense using a straight-line amortization method over a closed five-year period.

Changes in Assumptions

Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. There were no changes in assumptions for the SET Plan.

Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions

Differences resulting from a change in proportionate share of contributions and differences between total employer contributions and the employer's proportionate share of contributions were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. Differences between total employer contributions and the employer's proportionate share of contributions may arise when an employer has a contribution requirement for an employer specific liability.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Plan Fiduciary Net Position

Additional financial and actuarial information with respect to the Plan can be found in the MainePERS' 2015 Comprehensive Annual Financial Report available online at www.maineopers.org or by contacting the System at (207) 512-3100.

NOTE 16 - DEFINED CONTRIBUTION PLAN

Plan Description

The Town offers its employees a defined contribution plan created in accordance with Internal Revenue Code Section 401. The plan, available to all full-time Town employees, permits them to defer a portion of their salary until retirement. The deferred amount and the vested portion of the employer match is not available to the employee until retirement or death, or in case of other life events as allowed by law.

Funding Policy

Plan provisions and contribution requirements are established and may be amended by the Town Selectmen. Under the 401 plan, the Town matches up to 6% of a participant's earnings for the plan year. For the year ended June 30, 2016, employee contributions totaled \$27,189, and the Town recognized pension expense of \$27,047.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in Town contributions and earnings on Town contributions after completion of 5 years of continuous employment with the Town. Nonvested Town contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan's administrative expenses.

For the year ended June 30, 2016, there were no forfeitures to reduce the Town's pension expense.

NOTE 17 - DEFERRED COMPENSATION PLAN

INTERNATIONAL CITY MANAGERS ASSOCIATION RETIREMENT CORP.

Plan Description

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457(f) and maintained by International City Managers Association Retirement Corporation (ICMA). The plan, available to all full-time Town employees, permits them to defer a portion of their salary until retirement.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 17 - DEFERRED COMPENSATION PLAN (CONTINUED)

The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) to be held in a trust for the exclusive benefit of the participants and their beneficiaries.

It is the opinion of the Town's management that the Town has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

Funding Policy

Participating members may contribute up to amounts allowed by law of their annual covered salary. The Town has no matching requirements in this plan. The employee's contribution is tax deferred for federal and state taxes until the withdrawal date. The employee's contribution vests 100% with the employee when contributed. The employees' contributions to the plan for the year ended June 30, 2016 were \$5,047.

NOTE 18 - BENEFICIAL INTERESTS IN ASSETS HELD BY OTHERS

The Town is an income beneficiary of assets held by Maine Community Foundation (MCF) as a result of making reciprocal transfers of assets to MCF and specifying itself as the beneficiary. As such, the Town receives distributions amounting to a percentage of the fair value of these assets each year. The Town has granted variance power to MCF. The Board of Trustees of the MCF has the power to modify, consistently with State law, including seeking approval of the appropriate court or Attorney General, where applicable, any restriction or condition on the distribution of funds for any specified entities if, in the sole judgment of the Board (without the necessity of the approval of any participating trustee, custodian, or agent), such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. Annual distributions from these assets have been reported as revenue.

The estimated fair market value of the beneficial interest in the assets, which approximate the present values of the expected future cash flows from the assets, are recognized in the statement of financial position as investments. This amounted to \$100,689 for the year ended June 30, 2016.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 19 - DEFICIT FUND BALANCES

The following funds have deficit fund balances at June 30, 2016:

Special revenue funds:		
Legal and Accounting	\$	2,935
School safety		645
Police Equipment		300
Computer		6,236
Municipal Building Engineering		8,923
Police Cruiser		8,614
Highway Loader		30,713
Police 2007 Ford Expedition		1,379
Jaws of life		631
Ford Pick Up - Chief's Truck		4,536
Municipal		2,221
	\$	<u>67,133</u>

NOTE 20 - CONTINGENCIES

With regard to pending legal claims or any unasserted claims, it is not feasible at this time to predict or determine their outcome. Management believes, however, that settlement amounts, if any, will not have a material adverse effect on the Town's financial position.

The Town participates in various intergovernmental grant programs which may be subject to future program compliance audits by the grantors or their representatives. Accordingly, the Town's compliance with applicable grant requirement may be established at some future date. The amount, if any, of any liabilities arising from the disallowance of expenditures or ineligibility of grant revenues cannot be determined at this time.

NOTE 21 - RESTATEMENTS

The beginning net position of the governmental activities has been restated as of July 1, 2015. This balance was restated to correct the capital leases balance. The governmental activities were restated by (\$16,236).

The beginning capital asset balance and the beginning short-term debt balance of the governmental activities have been restated as of July 1, 2015. These balances were adjusted since they had previously been included in the business-type activities. The capital assets and short-term debt were both adjusted by (\$1,095,091). The net restatement to the governmental activities net position was \$0.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 21 - RESTATEMENTS (CONTINUED)

The beginning net position of the business-type activities has been restated as of July 1, 2015. This balance was restated to correct the accumulated depreciation balance in the sewer fund. The business-type activities were restated by \$101,915.

The beginning net position of the business-type activities has been restated as of July 1, 2015. This balance was restated to present the water fund balance on the same fiscal year as the Town. The business-type activities were restated by \$109,768.

The net restatement to the governmental activities and business-type activities was (\$16,236) and \$211,683, respectively.

NOTE 22 - COMPARATIVE DATA/RECLASSIFICATIONS

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the Town's financial position and operations. Also, certain amounts presented in the prior year's data have been reclassified to be consistent with the current year's presentation.

Required Supplementary Information

Required supplementary information includes financial information and disclosures that are required by the Government Accounting Standards Board but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule - Budgetary Basis - Budget and Actual - General Fund
- Schedule of Proportionate Share of the Net Pension Liability
- Schedule of Contributions

SCHEDULE 1

TOWN OF SOUTHWEST HARBOR, MAINE

BUDGETARY COMPARISON SCHEDULE – BUDGETARY BASIS – BUDGET AND
ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes:				
Property Taxes	\$ 7,050,631	\$ 7,054,665	\$ 7,022,005	\$ (32,660)
Excise Taxes	343,000	343,000	427,546	84,546
Intergovernmental Revenues:				
State Revenue Sharing	50,000	50,000	57,878	7,878
Homestead Reimbursement	24,000	24,000	26,833	2,833
Local Road Assistance	19,000	19,000	17,660	(1,340)
Education	130,000	130,000	259,110	129,110
BETE	700	700	434	(266)
Other	30,396	30,396	2,062	(28,334)
Interest Income	12,000	12,000	16,644	4,644
Interest on Taxes/Lien Costs	24,000	24,000	28,304	4,304
Charges for services:				
Solid Waste Revenues	40,500	40,500	29,711	(10,789)
Permits, Fees and Other Revenue	110,550	110,550	106,876	(3,674)
Docks and Floats Revenue	85,800	85,800	83,772	(2,028)
Education	1,500	1,500	25,775	24,275
Other	300	300	199	(101)
Miscellaneous Revenues	24,000	190,666	199,932	9,266
Misc. School Department Revenues	-	-	3,247	3,247
Transfers from Other Funds	-	33,000	67,089	34,089
Use of Unassigned Fund Balance	-	84,000	-	(84,000)
Use of Fund Balance - School	71,612	71,612	-	(71,612)
Revenues and Other Sources	<u>8,017,989</u>	<u>8,305,689</u>	<u>8,375,077</u>	<u>69,388</u>
Charges to Appropriations (Outflows):				
General Government	345,888	351,888	369,958	(18,070)
Protection	1,060,980	975,480	965,982	9,498
Health & Sanitation	366,275	366,275	355,180	11,095
Public Works	435,430	396,430	391,141	5,289
Education	4,467,964	4,467,964	4,527,836	(59,872)
County Tax	244,901	244,901	244,901	-
Social Services	201,164	201,164	201,164	-
Debt Service:				
Principal	196,537	196,537	196,537	-
Interest	85,126	85,126	83,842	1,284
Unclassified	134,053	221,753	209,909	11,844
Transfers to Other Funds	472,344	790,844	790,844	-
Expenditures and Other Uses	<u>8,010,662</u>	<u>8,298,362</u>	<u>8,337,294</u>	<u>(38,932)</u>
Excess of Revenues over Expenditures	<u>\$ 7,327</u>	<u>\$ 7,327</u>	37,783	<u>\$ 30,456</u>
Fund Balance, July 1			<u>2,579,233</u>	
Fund Balance, June 30			<u>\$ 2,617,016</u>	

See accompanying independent auditors' report and notes to financial statements.

SCHEDULE 2

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 FISCAL YEARS*

	2016	2015
<u>SET Plan:</u>		
Town's proportion of the net pension liability	0.0042%	0.0045%
Town's proportionate share of the net pension liability	\$ 56,664	\$ 48,323
State's proportionate share of the net pension liability associated with the Town	1,450,412	1,225,807
Total	<u>\$ 1,507,076</u>	<u>\$ 1,274,130</u>
Town's covered-employee payroll	\$ 1,162,391	\$ 1,277,901
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	4.87%	3.78%
Plan fiduciary net position as a percentage of the total pension liability	81.18%	83.91%

* The amounts presented for each fiscal year are for those years for which information is available.

See accompanying independent auditors' report and notes to financial statements.

SCHEDULE 3

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS*

	2016	2015	2014
<u>SET Plan:</u>			
Contractually required contribution	\$ 42,636	\$ 42,051	\$ 41,965
Contributions in relation to the contractually required contribution	<u>(42,636)</u>	<u>(42,051)</u>	<u>(41,965)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 1,162,391	\$ 1,277,901	\$ 1,322,209
Contributions as a percentage of covered- employee payroll	3.67%	3.29%	3.17%

* The amounts presented for each fiscal year are for those years for which information is available.

See accompanying independent auditors' report and notes to financial statements.

Other Supplementary Information

Other supplementary information includes financial statements and schedules not required by the Government Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

- Combining Schedule of Revenues, Expenditure and Changes in Fund Balances – Nonmajor Special Revenue Funds
- Schedule of Departmental Operations – General Fund
- Schedule of General Capital Assets by Function
- Schedule of Changes in General Capital Assets by Function

SCHEDULE A

TOWN OF SOUTHWEST HARBOR, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Town Funds</u>	Beginning Balance	Revenues	Transfers from Funds	Investment Earnings	Expenditures	Transfers to Funds	Ending Balance
State Revenue Sharing	\$ 16,129	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,129
Wage & Benefit	1,983	-	10,000	50	4,361	-	7,672
Abatements	17,756	-	-	46	1,776	2,734	13,292
Legal and Accounting	14,442	-	18,000	76	35,453	-	(2,935)
Professional Development	9,264	6,731	59,000	60	19,119	-	55,936
D.A.R.E. Program	391	-	-	1	-	-	392
Comprehensive Planning	596	-	-	2	500	-	98
Unemployment	25,242	-	-	82	36	-	25,288
Shellfish	4,269	-	-	14	78	-	4,205
Sand and Salt Shed	-	-	30,000	-	-	-	30,000
General Assistance	-	1,084	5,000	11	2,234	-	3,861
Junior Fire Department	128	-	-	1	-	-	129
School Safety	(516)	-	-	-	129	-	(645)
Map Update	1,338	-	60	3	127	-	1,274
Police Equipment	-	600	-	-	900	-	(300)
Swap Shop	2,810	363	-	10	21	-	3,162
Lower Town Dock	6	-	-	-	-	-	6
Antenna Relocation, etc.	8,262	-	-	27	-	-	8,289
Safe Routes to School Grant	9,883	-	-	3	-	-	9,886
Trail Grant	4,276	-	-	-	-	-	4,276
Septic Tank Grant	131	-	-	-	-	-	131
Wellness Grant	125	-	-	-	-	-	125
Conservation Commission	136,854	26,014	-	-	35,634	-	127,234
Police	1,360	626	-	-	443	-	1,543
School Playground	3,203	-	-	-	-	-	3,203
Total Town Funds	257,932	35,418	122,060	386	100,811	2,734	312,251

SCHEDULE A (CONTINUED)

TOWN OF SOUTHWEST HARBOR, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

CIP Funds	Beginning Balance	Revenues	Transfers from Funds	Investment Earnings	Expenditures	Transfers to Funds	Ending Balance
Municipal Software	28,227	-	-	91	10,164	-	18,154
Computer	12,090	-	3,000	50	21,376	-	(6,236)
Record Preservation	14,900	-	1,000	44	4,354	-	11,590
Municipal Building Engineering	6,916	-	-	22	15,861	-	(8,923)
Building Renovations	67,034	-	-	217	28,479	-	38,772
Police Cruiser	8,191	-	5,000	40	21,845	-	(8,614)
Police Station Engineering	3	-	-	-	3	-	-
Police Station Construct	3	-	-	-	3	-	-
Dispatch Console	6,043	-	800	22	6,848	-	17
Dispatch Security Cameras	(819)	-	817	2	-	-	-
Thermal Imaging Camera	20	-	-	-	-	-	20
Harbor Master Boat Motor	10,668	-	500	36	-	-	11,204
4 X 16 Spruce - Manset	11,629	-	1,280	41	-	-	12,950
Lower Town Dock Pier	4,574	-	-	2	-	4,562	14
Highway 1 Ton Pickup	60,716	-	3,000	175	59,939	-	3,952
Highway #1 Plow Truck	31,077	-	6,000	118	-	-	37,195
Highway #2 Plow Truck	77,813	-	18,000	302	-	-	96,115
Highway Loader	34,658	-	-	194	65,565	-	(30,713)
Highway Garage	90,254	-	-	292	-	-	90,546
Road Projects	292,608	9,642	115,000	899	342,008	-	76,141
Sidewalks Projects	1,977	-	54,000	20	1,202	-	54,795
Harbor Hoists Upgrade	10,535	-	-	34	1,535	-	9,034
Pilings/Wall Replacement	21,035	-	2,200	74	-	-	23,309
Manset Dock Float Bridge	1,054	-	1,000	6	-	-	2,060
Cross Bracing Replacement	11,375	-	2,100	43	-	-	13,518
Lower Town Dock Parking Lot	3	-	-	-	3	-	-
Ladder Replacement	5,335	-	-	17	-	-	5,352
Town Office Copier	5,217	-	-	17	-	-	5,234
Vote Counter	6,417	-	250	21	-	-	6,688
Revaluation	44,455	-	-	144	-	-	44,599
Cable Access Equipment	1,116	-	1,500	8	2,000	-	624
Police 2007 Ford Expedition	23,168	-	5,000	89	29,636	-	(1,379)

SCHEDULE A (CONTINUED)

TOWN OF SOUTHWEST HARBOR, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

<u>CIP Funds (Continued)</u>	Beginning Balance	Revenues	Transfers from Funds	Investment Earnings	Expenditures	Transfers to Funds	Ending Balance
Police In-Car Camera	1	-	-	-	1	-	-
Town Wide Communication	864	-	-	3	-	-	867
Explosive & Hazard Gas Monitor	2,131	-	900	10	-	-	3,041
Jaws of Life	(1,378)	-	750	-	3	-	(631)
SCBA	15,472	-	3,000	58	-	-	18,530
Quint Pumper	23	-	-	-	-	-	23
Manset Harbormaster Office	48,355	-	2,000	162	-	-	50,517
John Deere 4X4 Tractor	65,876	33	10,000	72	73,203	-	2,778
Parking Lot Improvement	30,278	-	10,000	126	13,497	-	26,907
Storm Water Management	13,364	-	-	38	2,053	-	11,349
Boat Trailer	344	-	-	1	-	-	345
Trap Slides	2,036	-	1,014	10	-	-	3,060
Electrical Conduit - Manset Dock	1,887	-	484	8	-	-	2,379
Light Post - Upper Town Dock	1,512	-	250	6	-	-	1,768
Mooring Plan Update	9,631	-	-	16	-	5,600	4,047
Sidewalk Plow/Blower	7,394	-	6,000	41	8,327	-	5,108
Infrastructure Feasibility	(1)	-	1	-	-	-	-
John Deere Lawn Mower	1,924	-	500	8	-	-	2,432
16 x 24 Floats Lower Town Dock	2,241	-	2,155	14	-	-	4,410
Sup Pile	19,893	-	5,600	80	-	-	25,573
Stl Pile	1,095	-	395	4	-	-	1,494
Street Sweeper	37,869	-	4,489	135	-	-	42,493
6 x 20 Finger Floats Lower Dock	552	-	305	3	-	-	860
Water/Sewer Infrastructure	149,699	-	185,000	663	148,030	-	187,332
Harbor	10,239	-	4,460	46	-	-	14,745
Ford Pick Up - Chief's Truck	19,232	10,000	-	52	33,820	-	(4,536)
Deck Planning	31,880	-	5,727	119	-	-	37,726
Ramp Resurfacing	18,525	-	3,652	71	-	-	22,248

SCHEDULE A (CONTINUED)

TOWN OF SOUTHWEST HARBOR, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

CIP Funds (Continued)	Beginning Balance	Revenues	Transfers from Funds	Investment Earnings	Expenditures	Transfers to Funds	Ending Balance
Catwalk/Step Replacement	16,331	-	7,000	72	-	-	23,403
Pressurized Line Striper	4,430	-	1,100	17	-	-	5,547
Ford Rescue/Mini Pumper	86,957	-	-	281	-	-	87,238
Speed Trailer	2,057	-	-	-	5	2,052	-
Harbor	4,983	-	1,732	21	-	-	6,736
Municipal	571	-	-	1	-	-	572
Harbor	5,309	-	1,759	22	-	-	7,090
Harbor	1,935	-	-	7	-	-	1,942
Administration	2,172	-	7,500	7	-	-	9,679
Highway	(1,283)	-	1,280	3	-	-	-
Police	(2,057)	-	5,053	3	925	-	2,074
Harbor	16,571	-	2,454	60	-	-	19,085
Harbor	4,043	-	1,355	17	-	-	5,415
Municipal	15,218	9,025	84,000	27	110,491	-	(2,221)
Dispatch	4,862	-	-	17	4,687	-	192
Emergency Repairs	-	-	8,563	24	-	-	8,587
Total CIP Funds	1,541,329	28,700	588,925	5,345	1,005,863	12,214	1,146,222
School Funds							
Bus Purchase	47,508	3,750	-	121	-	-	51,379
Special Education	153,427	-	-	498	-	-	153,925
Maintenance	47,920	18,000	-	125	-	-	66,045
Total School Funds	248,855	21,750	-	744	-	-	271,349
Total Special Revenue Funds	\$ 2,048,116	\$ 85,868	\$ 710,985	\$ 6,475	\$ 1,106,674	\$ 14,948	\$ 1,729,822

See accompanying independent auditors' report and notes to financial statements.

SCHEDULE B

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF DEPARTMENTAL OPERATIONS – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Budget Adjustments	Final Budget	Actual	Variance Positive (Negative)
General Government -					
Administration	\$ 243,497	\$ -	\$ 243,497	\$ 271,033	\$ (27,536)
Assessing & Planning	76,401	-	76,401	75,290	1,111
Municipal Offices	25,990	6,000	31,990	23,635	8,355
	<u>345,888</u>	<u>6,000</u>	<u>351,888</u>	<u>369,958</u>	<u>(18,070)</u>
Protection -					
Fire Department	83,970	(20,100)	63,870	70,188	(6,318)
Dispatch Service	260,188	(14,000)	246,188	245,831	357
Hydrant Rental	201,025	-	201,025	201,025	-
Police Protection	455,097	(51,400)	403,697	398,848	4,849
Street Lights	25,000	-	25,000	25,117	(117)
Insurance	35,700	-	35,700	24,973	10,727
	<u>1,060,980</u>	<u>(85,500)</u>	<u>975,480</u>	<u>965,982</u>	<u>9,498</u>
Health & Sanitation -					
Solid Waste/Recycling	366,275	-	366,275	355,180	11,095
	<u>366,275</u>	<u>-</u>	<u>366,275</u>	<u>355,180</u>	<u>11,095</u>
Public Works -					
Highway Department	328,929	(39,000)	289,929	287,861	2,068
Harbor	106,501	-	106,501	103,280	3,221
	<u>435,430</u>	<u>(39,000)</u>	<u>396,430</u>	<u>391,141</u>	<u>5,289</u>

SCHEDULE B (CONTINUED)

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF DEPARTMENTAL OPERATIONS – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Budget Adjustments	Final Budget	Actual	Variance Positive (Negative)
Education -					
Primary - General Fund	3,324,360	-	3,324,360	3,384,232	(59,872)
Secondary	1,143,604	-	1,143,604	1,143,604	-
	<u>4,467,964</u>	<u>-</u>	<u>4,467,964</u>	<u>4,527,836</u>	<u>(59,872)</u>
County Tax	<u>244,901</u>	<u>-</u>	<u>244,901</u>	<u>244,901</u>	<u>-</u>
Social Services -					
Bar Harbor Food Pantry	2,500	-	2,500	2,500	-
Downeast Health Services	1,080	-	1,080	1,080	-
Downeast Horizons	1,800	-	1,800	1,800	-
Eastern Area on Aging	1,500	-	1,500	1,500	-
Hancock County Homecare	1,870	-	1,870	1,870	-
Harbor House	56,340	-	56,340	56,340	-
Hospice of Hancock County	1,000	-	1,000	1,000	-
Island Connections	2,000	-	2,000	2,000	-
Island Explorer	10,000	-	10,000	10,000	-
Mt. Heights Cemetery	3,500	-	3,500	3,500	-
Library	55,000	-	55,000	55,000	-
Nursing Service	58,000	-	58,000	58,000	-
WHCA	3,574	-	3,574	3,574	-
MDI Comm. Campfire Coalition	3,000	-	3,000	3,000	-
	<u>201,164</u>	<u>-</u>	<u>201,164</u>	<u>201,164</u>	<u>-</u>
Debt Service -					
Principal	196,537	-	196,537	196,537	-
Interest	85,126	-	85,126	83,842	1,284
	<u>281,663</u>	<u>-</u>	<u>281,663</u>	<u>280,379</u>	<u>1,284</u>

SCHEDULE B (CONTINUED)

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF DEPARTMENTAL OPERATIONS – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Budget Adjustments	Final Budget	Actual	Variance Positive (Negative)
Unclassified -					
Boards and committees	4,000	-	4,000	4,344	(344)
Facility maintenance	9,000	-	9,000	11,899	(2,899)
Construction projects	-	166,666	166,666	166,666	-
Truck purchase	-	27,000	27,000	27,000	-
Overlay	121,053	(105,966)	15,087	-	15,087
	<u>134,053</u>	<u>87,700</u>	<u>221,753</u>	<u>209,909</u>	<u>11,844</u>
Transfers to Other Funds -					
Special revenue funds	383,537	318,500	702,037	702,037	-
Water department	22,912	-	22,912	22,912	-
Sewer department	65,895	-	65,895	65,895	-
	<u>472,344</u>	<u>318,500</u>	<u>790,844</u>	<u>790,844</u>	<u>-</u>
Totals	<u>\$ 8,010,662</u>	<u>\$ 287,700</u>	<u>\$ 8,298,362</u>	<u>\$ 8,337,294</u>	<u>\$ (38,932)</u>

See accompanying independent auditors' report and notes to financial statements.

General Capital Assets

General capital assets are those assets related to activities reported in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position.

SCHEDULE C

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF GENERAL CAPITAL ASSETS BY FUNCTION
JUNE 30, 2016

	Land and Non-depreciable Assets	Buildings, Building Improvements & Land Improvements	Furniture, Fixtures, Equipment & Vehicles	Infrastructure	Total
General Government	\$ -	\$ 48,136	\$ 92,187	\$ -	\$ 140,323
Protection	213,556	1,828,820	1,600,931	-	3,643,307
Education	-	5,457,168	505,783	-	5,962,951
Public Works	1,520,320	434,707	603,010	12,927,048	15,485,085
Town-wide	201,645	420,091	444,157	-	1,065,893
Total General Capital Assets	1,935,521	8,188,922	3,246,068	12,927,048	26,297,559
Less: Accumulated Depreciation	-	(2,765,763)	(1,873,066)	(6,683,556)	(11,322,385)
Net General Capital Assets	<u>\$ 1,935,521</u>	<u>\$ 5,423,159</u>	<u>\$ 1,373,002</u>	<u>\$ 6,243,492</u>	<u>\$ 14,975,174</u>

See accompanying independent auditors' report and notes to financial statements.

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF CHANGES IN GENERAL CAPITAL ASSETS BY FUNCTION
FOR THE YEAR ENDED JUNE 30, 2016

	General Capital Assets 7/1/15 (Restated)	Additions	Deletions	General Capital Assets 6/30/16
General Government	\$ 140,323	\$ -	\$ -	\$ 140,323
Protection	3,573,651	69,656	-	3,643,307
Education	5,951,883	11,068	-	5,962,951
Public Works	15,436,591	48,494	-	15,485,085
Water	7,343,853	10,680	(7,354,533)	-
Sewer	5,559,113	10,000	(5,569,113)	-
Town-wide	1,065,893	-	-	1,065,893
Total General Capital Assets	39,071,307	149,898	(12,923,646)	26,297,559
Less: Accumulated Depreciation	(15,481,016)	(905,173)	5,063,804	(11,322,385)
Net General Capital Assets	<u>\$ 23,590,291</u>	<u>\$ (755,275)</u>	<u>\$ (7,859,842)</u>	<u>\$ 14,975,174</u>

See accompanying independent auditors' report and notes to financial statements.



Proven Expertise and Integrity

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

Board of Selectmen
Town of Southwest Harbor
Southwest Harbor, 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, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Southwest Harbor, Maine as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Southwest Harbor, Maine's basic financial statements, and have issued our report thereon dated March 7, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Southwest Harbor, 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 the Town of Southwest Harbor, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Southwest Harbor, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Southwest Harbor, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of 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.

RHR Smith & Company

Buxton, Maine
March 7, 2017

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures to Subrecipients	Federal Expenditures
U.S. Department of Agriculture Passed through State of Maine - Department of Education and Cultural Services:				
Child Nutrition Cluster:				
National School Lunch Program	10.555	013-05A-7128-05	\$ -	\$ 13,557
Federal Performance Based Lunch	10.555	013-05A-7142-05	-	700
School Breakfast Program	10.556	013-05A-7127-05	-	2,351
Subtotal Child Nutrition Cluster			-	16,608
Food Distribution	10.560	N/A	-	3,493
Total U.S. Department of Agriculture			-	20,101
U.S. Department of Education Passed through State of Maine - Department of Education and Cultural Services:				
Special Education Cluster (IDEA):				
Title VI, Part B - Local Entitlement	84.027	013-05A-3046-12	-	42,564
Title VI, Part B - Local Entitlement Preschool	84.173	013-05A-3009-10	-	175
Subtotal Special Education Cluster (IDEA)			-	42,739
Rural School Achievement Program	84.358	N/A	-	10,046
Passed through the Bar Harbor School Department NCLB Title 1A - Basic Compensatory Education	84.010	013-05A-3057-13	-	18,169
Total U.S. Department of Education			-	70,954
TOTAL FEDERAL ASSISTANCE			\$ -	\$ 91,055

DISCLOSURES:

This Town is not required to have a federal 2 C.F.R. Part 200 Uniform Guidance Audit.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Town of Southwest Harbor, Maine under programs of the federal government for the year ended June 30, 2016. 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 the Town of Southwest Harbor, Maine, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Southwest Harbor, Maine.

2. Summary of Significant Accounting Policies

- a. 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 and/or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b. The Town of Southwest Harbor, Maine has not elected to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.