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TOWN OF HARPSWELL, MAINE

Annual Financial Report

For the Year Ended December 31, 2017

TOWN OF HARPSWELL, MAINE
Annual Financial Report
For the Year Ended December 31, 2017

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Proven Expertise and Integrity

INDEPENDENT AUDITORS' REPORT

Board of Selectmen
Town of Harpswell
Harpswell, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Harpswell, Maine, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town of Harpswell, 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.

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An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Harpswell, Maine, as of December 31, 2017, and, the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension related information on pages 5 through 12 and 21 through 22 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 Harpswell, Maine's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018, on our consideration of the Town of Harpswell, 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 Harpswell, Maine's internal control over financial reporting and compliance.

R.H.R. Smith & Company

Buxton, Maine
January 31, 2018

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis
December 31, 2017

As management of the Town of Harpswell, Maine, we present this narrative to provide you with an overview and analysis of our annual financial statements for the year ended December 31, 2017. This information, in conjunction with the notes to the financial statements, can be considered when reading the Town's financial statements.

Financial Highlights

- ❖ The total net position (total assets less liabilities) of the Town of Harpswell is \$14,333,626. Total assets include the costs, net of accumulated depreciation, of the Town's capital assets which totaled \$11,554,951 at December 31, 2017. Capital assets include the Town's infrastructure assets, (i.e., roads and dry hydrants), as well as Town-owned land, buildings and equipment, and an easement.
- ❖ The Statement of Activities shows an increase in net position of \$469,235 for the fiscal year.
- ❖ During 2017, the Town repaid \$421,000 of principal on its long-term borrowings as scheduled and incurred interest of \$47,996 on its long and short-term borrowings.
- ❖ The 2017 Town Meeting authorized an amount not to exceed \$5 million to fund the demolition of an industrial pier at Mitchell Field. Work on this project, which is currently expected to cost \$3.5 million, was begun in December of 2017. Costs in the amount of \$350,750 were incurred in 2017 and funded with the proceeds of a Bond Anticipation Note.
- ❖ The ending fund balance for all governmental funds is \$4,786,883. The ending fund balance for the General Fund is \$4,353,450, an increase of \$340,392 from the previous year. Of this balance, \$946,934 is assigned for specific purposes, and \$17,830 is nonspendable. This leaves an unassigned balance of \$3,388,686, which is sufficient for compliance with the Town's Fund Balance Policy. This Policy requires the Town to maintain a minimum unassigned fund balance of one month, 8.33% (with a target of two months) of operating expenditures, defined as the total of prior year's general fund expenditures less any expenditure made from reserve funds.
- ❖ In addition to its General Fund, the Town has funds restricted for capital projects, which include an interest-bearing dedicated fund for emergency vehicle purchases (\$195,018); a fund for road projects (\$67,315); and a fund for the demolition of the Mitchell Field pier (\$124,250). The Town also has funds for its special revenue activities, which include recreation programs (\$46,469) and grants (\$381).

Overview of Financial Statements

The Town of Harpswell's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* provide a broad overview of the Town of Harpswell's finances, in a manner similar to private-sector business. Financial information is presented in two statements – *statement of net position* and *statement of activities*.

The *statement of net position* presents information about the Town's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information about how the Town's net position has changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

Both of the government-wide financial statements distinguish functions of the Town of Harpswell that are principally supported by taxes and intergovernmental revenues. The governmental activities of the Town of Harpswell include general government, public works (roads, solid waste disposal, snow removal), protection and safety (law enforcement, fire protection, rescue services), health and welfare, culture and recreation, debt service and capital expenses.

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 Harpswell, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the 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 Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The Town of Harpswell maintains six individual governmental funds. Information for the General Fund, the Road Project Fund, and the Mitchell Field Pier Demolition Fund are presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in the report.

The Town of Harpswell adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 19-20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-44 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual statements and schedules can be found on pages 47-57 of this report.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

Statement of Net Position Information

The following information is a condensed version of the Statement of Net Position.

	Net Position	
	Governmental	
	Activities	
	<u>2017</u>	<u>2016</u>
Assets:		
Current & other assets	\$ 5,372,417	\$ 4,970,290
Receivable-Harpswell Coastal Academy	80,000	90,000
Capital assets	11,554,951	11,127,942
Total Assets	<u>17,007,368</u>	<u>16,188,232</u>
Deferred Outflows of Resources		
Deferred outflows related to pensions	67,499	41,028
Liabilities:		
Bond anticipation note	(475,000)	-
Long-term debt outstanding	(1,844,222)	(2,133,000)
Other liabilities	(394,222)	(191,216)
Total Liabilities	<u>(2,713,444)</u>	<u>(2,324,216)</u>
Deferred Inflows of Resources		
Deferred inflows related to pensions	(27,797)	(40,653)
Net Position:		
Net investment in capital assets	9,492,201	8,928,363
Restricted	386,964	650,848
Unrestricted	4,454,461	4,285,180
Total Net Position	<u>\$14,333,626</u>	<u>\$13,864,391</u>

The Town's Total Net Position increased by \$469,235 during 2017.

Asset changes included an increase in cash balances of \$270,387. Capital assets increased in 2017 primarily as a result of the purchase of a pumper for \$413,394 which is being leased to one of the Town's volunteer fire departments.

The Bond Anticipation Note provides short-term financing for the Mitchell Field pier demolition project. The Town has the ability to draw up to \$3.5 million in principal on this Note, which is expected to be refinanced with long-term general obligation bonds in the first half of 2018.

Long-term debt obligations decreased in 2017 by \$421,000, as principal repayments were made as scheduled and there was no new long-term borrowing. Other long-term liabilities in 2017 include the Town's proportionate share of the net pension liability of the Maine Public Employees Retirement System (\$112,010). Additionally, prepaid taxes (\$284,898) increased significantly in 2017 due to changes in the U.S. tax law.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

66.2% of the Town's Net Position at December 31, 2017 is represented by its capital assets less any outstanding debt that was used to acquire those assets. Although the Town's investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

\$386,964 of the 2017 Net Position (2.7%) is restricted for capital projects and grants. This includes \$195,018 for the purchase of emergency services vehicles, \$67,315 for capital road projects, and \$124,250 for the demolition of the Mitchell Field pier. Unrestricted Net Position includes amounts assigned or committed for expenditures for certain purposes in subsequent years.

Statement of Activities Information

The following information is a condensed version of the Statement of Activities.

	Changes in Net Position	
	Governmental Activities	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program Revenues		
Charges for services	\$ 219,194	\$ 218,748
Operating grants & contributions	107,144	73,377
General Revenues		
Property and excise taxes	13,124,488	12,844,167
Intergovernmental	175,257	145,967
Interest earned	11,174	8,756
Other	429,648	389,480
Total revenues	<u>14,066,905</u>	<u>13,680,495</u>
Expenses:		
General government	1,476,645	1,391,842
Public works	1,079,794	1,021,114
Protection and safety	1,294,404	1,219,228
Health and welfare	30,856	29,075
Culture and recreation	366,810	391,111
Education	7,744,079	7,697,700
County taxes	1,294,498	1,254,940
Overlay/abatements	1,468	108
Interest on long-term debt	47,996	57,307
Capital and special projects	261,120	320,903
Total expenses	<u>13,597,670</u>	<u>13,383,328</u>
Increase/(decrease) in net position	<u>\$469,235</u>	<u>\$297,167</u>

Governmental Activities

Governmental activities increased the Town's net position by \$469,235 as a 1.6% increase in expenses was offset by a 2.8% increase in revenues. Total program revenues increased by \$34,213 or 11.7% on a year to year basis, with the increase occurring in operating grants and contributions (\$33,767). The increase in grants resulted primarily from the Town obtaining two substantial Cumberland County Development Block Grants for the Orr's/Bailey's Islands Fire station renovations and a home repair program for seniors.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

Property and excise tax revenues increased from 2016 by \$190,139 and \$90,182, respectively. The mil rate increased from \$6.40 to \$6.46. License, permits and fees increased by \$14,486, primarily due to an increase in land use permits. The State homestead exemption reimbursement increased by \$23,231 and the cable franchise fees increased by \$11,509.

Expenses relating to capital and special projects in the Statement of Activities exclude \$836,814 in net capital outlays which have been capitalized in the Statement of Net Position. Other expenses declined as increases in expenses used to fund vehicles used by contracted law enforcement and marine patrol deputies were offset by a decline in funding of the Harpswell Heritage Land Trust and certain pre-demolition activities at the pump house related to the Mitchell Field pier.

To aid in the understanding of the Statement of Activities, some additional explanation is provided. Please note that the format differs from that of the Statement of Revenues, Expenditures, and Changes in Fund Balances. Expenses for each activity are listed in the left-most column with revenues generated by that particular activity reported to the right. Subtracting one from the other results in a Net (Expense)/Revenue. This format provides information about the relative financial burden on the Town's taxpayers of each activity. It should be noted, however, that while these revenues may be generated by specific activities, the Town does not have dedicated revenue sources, except for recreation programs whose revenues, to the extent they exceed program costs, are retained for future programs. Accordingly, revenues from specific activities are deposited to the Town's General Fund, as are all tax payments received. From this fund, the Town makes all its expenditures.

Examples of activities which produce some level of revenue are:

<i>Public works</i>	Transfer Station fees and recycling revenues Local Road Assistance
<i>Health and welfare</i>	General Assistance state reimbursement
<i>Cultural and recreational</i>	Fees for recreation programs and bandstand donations
<i>Capital and special projects</i>	Grants for restricted projects

All other governmental revenues are reported as general revenues. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

Net Cost of Governmental Activities

The following information is a breakdown of each of the Town's major functional activities.

Net Cost of Governmental Activities

Function / Program	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
General government	\$1,476,645	\$1,391,842	\$1,476,645	\$1,391,842
Public works	1,079,794	1,021,114	863,179	809,874
Protection and safety	1,294,404	1,219,228	1,294,404	1,219,228
Health and welfare	30,856	29,075	23,084	21,051
Culture and recreation	366,810	391,111	315,585	340,733
Education	7,744,079	7,697,700	7,744,079	7,697,700
County taxes	1,294,498	1,254,940	1,294,498	1,254,940
Overlay/abatements	1,468	108	1,468	108
Interest on long-term debt	47,996	57,307	47,996	57,307
Capital and special projects	261,120	320,903	210,394	298,420
Total governmental activities	\$13,597,670	\$13,383,328	\$13,271,332	\$13,091,203

Total Cost of Services and Net Cost of Services increased from 2016 to 2017 by 1.6% and 1.4%, respectively.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As of December 31, 2017, the Town's governmental fund balance totaled \$4,786,883.

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The financial performance of the Town as a whole is reflected in its governmental funds.

Governmental funds: The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances available for spending. Governmental funds report the differences between their assets, liabilities and deferred inflows as fund balances. Nonspendable, committed, restricted and assigned amounts reflect that which is not available to be spent while unassigned amounts reflect amounts that are.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town's General Fund balance increased from \$4,013,058 in 2016 to \$4,353,450 in 2017. The increase was attributable to an excess of revenues over expenditures of \$454,242, less the transfer of \$100,000 to the emergency vehicles fund and \$13,850 for recreation programs. Additionally, Town Meeting authorized the use of \$470,000 of unassigned fund balance to reduce the tax commitment. A Special Town Meeting authorized the use of \$50,000 from unassigned fund balance for assistance with the Federal Emergency Management Agency's flood map revisions.

The 2017 Town Meeting authorized an amount not to exceed \$5 million to fund the demolition of an industrial pier at Mitchell Field. Work on this project, which is currently expected to cost \$3.5 million, was begun in December of 2017. Costs in the amount of \$350,750 were incurred in 2017 and funded with the proceeds of a Bond Anticipation Note.

Revenues: 2017 property tax revenue increased by \$190,139 relative to 2016. Total appropriations increased by \$306,676 with increases in the MSAD 75 assessment of \$46,379, in the County tax of \$39,558 and in total municipal appropriations of \$134,740 (2.7%). Overlay increased in 2017 by \$85,999.

The Town experienced an increase in non-property tax revenue sources in 2017, primarily in excise tax receipts, the Town's largest source of non-property tax revenue, which increased by \$90,182. There was also an increase in licenses and permit fees (\$14,486), and in the cable franchise fees (\$11,509). The State Homestead exemption reimbursement increased in 2017 by \$23,231.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

The 2017 mil rate increased to \$6.46 from \$6.40 and the property tax base expanded by approximately \$11.9 million. Of the 2017 commitment, 96.77% was collected prior to year-end. A healthy collection rate has been experienced for several years.

Unexpended Appropriations. Notable unexpended appropriations lapsing to the General Fund in 2017 occurred in the areas of Cedar Beach/Cedar Island (\$41,417), municipal fire assistance (\$39,131), and employee benefits (\$37,720). The matter relating to Cedar Beach/Cedar Island was resolved and the Town Meeting required the lapsing of the remaining funds on December 31, 2017. With respect to municipal fire assistance for the volunteer entities, the planned hiring of per diem firefighters was delayed from 2017 to 2018 generating a positive variance (expenditures were less than the budgeted amount) of \$87,131. Of this amount, \$48,000 is being carried over into 2018 for firefighting equipment for the new firefighters. The employee benefits budget was not fully utilized as eligible employees declined to participate in the Town's health insurance program and 457 deferred compensation plan.

Overlay. Of the \$137,871 raised for overlay, \$1,468 was used to provide abatements and the remainder lapsed to the General Fund.

Contingency. The contingency fund was increased by a \$10,000 appropriation in 2017 and there was no use of contingency in 2017.

Harpswell maintains a healthy General Fund balance, which when supplemented with tax anticipation note financing, is used to fund expenditures until such time as property tax revenue is collected.

The annual Town Meeting, which is held in March of each year, votes on the budget as recommended by the Selectmen.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2017, the Town's investment in capital assets, net of accumulated depreciation was \$11,554,951 and its outstanding debt \$ 2,187,000, including \$475,000 drawn against a Bond Anticipation Note. All outstanding debt was incurred for capital purposes. The Bond Anticipation Note, which has a principal amount not to exceed \$3.5 million, will be used to demolish the Mitchell Field pier which was constructed by the U.S. Navy and transferred to the Town in 2001. The Note, which is repayable on or before May 30, 2018, is expected to be replaced by 20 year General Obligation Bonds of the Town of Harpswell prior to that date. The remaining outstanding debt of \$1,712,000 funded either road projects (\$1,470,000) or the emergency services vehicles account (\$230,000). Additionally, the Town is a party of a capital lease which funded, in part, the purchase of certain media equipment. A lease balance of \$12,000 was outstanding at the end of 2017. The two remaining principal payments will be funded by grants to the Town by the holder of its cable franchise.

Net Investment in Capital Assets

	Capital Assets		Accumulated Depreciation		Net Investment in Capital Assets	
	2017	2016	2017	2016	2017	2016
	Land	\$2,164,271	\$2,164,271	-	-	\$2,164,271
Construction in progress	350,750	4,489	-	-	350,750	4,489
Other non-depreciable assets	281,900	281,900	-	-	281,900	281,900
Buildings and building						
Improvements	4,237,097	4,237,097	(2,452,209)	(2,368,711)	1,784,888	1,868,386
Equipment, vehicles and furniture	2,837,689	2,419,988	(1,148,110)	(1,002,319)	1,689,579	1,417,669
Infrastructure	7,964,988	7,939,176	(2,681,425)	(2,547,949)	5,283,563	5,391,227

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

The 2017 increase in construction in progress includes \$350,750 in payments for demolition work on the Mitchell Field pier. The Town has entered into contracts related to the demolition project which total \$3,197,515. The project is expected to be completed during 2018, at which time project costs will be classified as a land improvement of the Mitchell Field property, a 119 acre deep-water site.

Additions to Equipment, vehicles and furniture in 2017 include the purchase of a pumper for \$413,394 that is leased to the Cundy's Harbor Volunteer Fire Department. Other additions include two floats used at the Pott's Point dock and the completion of upgrades to the Truffant-Summerton field, which were begun in 2016.

Infrastructure assets increased by \$64,940 in 2017 as Oceanside Road on Bailey Island was rehabilitated. The road rehabilitation also resulted in the removal of \$39,128 and \$27,390 from cost of infrastructure and accumulated depreciation of infrastructure, respectively.

Looking forward, the Town will continue to assess the need to upgrade the infrastructure at Mitchell Field, a major asset with business development possibilities. Additionally, the Town anticipates replacing the industrial pier at Mitchell Field with a seasonal float and ramp facility serving a wide range of users. This facility may cost in the neighborhood of \$320,000 and the Town expects to seek grant funding for half that amount.

Another major capital project under consideration is the construction of a fire station in a central location near the Town office. While initial site planning and architectural design has not yet been completed, it is thought that the station may cost as much as \$2 to \$3 million.

The recycling center building is approaching 40 years old. Rehabilitation of the building, which will follow the assessment of the neighboring site for the central fire station, may cost \$120,000. Additionally, the Town will consider moving to a four compactor system at the recycling center, the cost of which is estimated to be \$300,000. Finally, replacement of a backhoe used primarily at the transfer station is expected to cost about \$125,000 and is expected to be purchased in 2018.

Generally, the Town expects that its long-term capital needs, including its ongoing road rehabilitation and emergency vehicles programs, will be funded with a combination of existing capital reserves and annual appropriations to increase those reserves. Expenditures of up to \$5 million for the Mitchell Field pier demolition project were authorized, however, the Town believes that total costs will not exceed \$3.5 million. Upon completion of the pier demolition project, the Town will re-assess its debt capacity and determine whether its capital needs should be funded with additional borrowing.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Since the downturn of 2008, the area's economy has shown signs of steady improvement. A key indicator for the Town is the amount of vehicle excise tax collected during the calendar year. In 2017, the Town's estimate was exceeded by over \$90,000, with revenue totaling almost \$1.3 million. The excise estimate, which is the largest non-property tax revenue category used to offset committed taxes, is expected to continue its upward trend. Other revenue such as the State of Maine's revenue sharing has been holding steady over the last several years at about \$65,000 a year. The Town's fund balance policy was amended in 2015 to allow for greater flexibility in terms of the amount of fund balance that can be used to offset anticipated tax increases.

While the 2018 budget has been developed and is anticipated to increase appropriations by less than 3.5%, it will have to wait until the annual Town Meeting in March to be considered. The proposed budget does not include any new borrowing, which has been the norm for the last several years with the exception of the pier demolition borrowing in 2017, so that existing debt obligations will decline before the impact of the pier demolition debt begins to affect taxpayers in 2019. The cost of the pier project was initially estimated to be in the neighborhood of \$5 million. Now that the contract for demolition has been signed, the actual cost of \$3.2 million has eased concerns about how the pier project will impact future tax rates.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

In 2018, there are no significant changes proposed to the operations of the Town other than having the municipal firefighter model fully implemented to supplement our current volunteer service providers. There is a substantial increase to the Town's risk management costs in 2018 as a result of both workplace injuries and the addition of a full year of municipal firefighters to the payroll. If the injury factor is reduced over the next couple of years, then risk management costs should decrease accordingly. While there is a coordinated planning effort underway to design a new centralized emergency services building for the municipal firefighters, their equipment and vehicles, the need for this new construction may not be urgent if the municipal firefighter model is effective in its delivery of service from current stations located within the Town.

Harpswell is part of a school district that has approved building a new high school. Early phases of the project have begun, but construction of the new building will get underway in 2018 with completion scheduled for some time in 2019. The effect of this project on Harpswell's tax rate is likely to be seen in the latter part of 2019.

The real estate market, particularly for waterfront property, continues to be very active. The Town has experienced a consistent trend of adding over \$10 million of taxable value annually to its tax rolls.

While the Town's tax rate may rise in 2018, it is expected to be manageable and not of significant magnitude.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designated to provide our citizens, taxpayers, customers, 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 information, contact the Selectmen's Office at P. O. Box 39, 263 Mountain Road, Harpswell, Maine 04079-0039 or by phone at (207) 833-5771.

BASIC FINANCIAL STATEMENTS

TOWN OF HARPSWELL, MAINE
Statement of Net Position
December 31, 2017

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 4,826,967
Receivables:	
Taxes	381,918
Liens	42,579
Accounts	103,123
Prepaid items	17,830
Receivable from Harpswell Coastal Academy	80,000
Capital assets:	
Capital assets, not being depreciated	2,796,921
Other capital assets, net of accumulated depreciation	8,758,030
Total assets	17,007,368
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	67,499
Total deferred outflows of resources	67,499
LIABILITIES	
Accounts payable and other current liabilities	87,411
Unearned revenue	298,123
Bond Anticipation Note	475,000
Accrued interest	8,688
Noncurrent liabilities:	
Due within one year	421,000
Due in more than one year	1,423,222
Total liabilities	2,713,444
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	27,797
Total deferred inflows of resources	27,797
NET POSITION	
Net investment in capital assets	9,492,201
Restricted for:	
Capital projects and grants	386,964
Unrestricted	4,454,461
Total net position	\$ 14,333,626

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Statement of Activities
For the year ended December 31, 2017

Functions/programs	Expenses	Program Revenues			Net (expense) revenue and changes in net position Governmental activities
		Charges for services	Operating grants and contributions	Capital grants and contributions	
Governmental activities:					
General government	\$ 1,476,645	-	-	-	(1,476,645)
Public works	1,079,794	181,035	35,580	-	(863,179)
Protection and safety	1,294,404	-	-	-	(1,294,404)
Health and welfare	30,856	-	7,772	-	(23,084)
Cultural and recreation	366,810	38,159	13,066	-	(315,585)
Education	7,744,079	-	-	-	(7,744,079)
County taxes	1,294,498	-	-	-	(1,294,498)
Overlay/abatements	1,468	-	-	-	(1,468)
Interest expense	47,996	-	-	-	(47,996)
Capital and special projects	261,120	-	50,726	-	(210,394)
Total governmental activities	13,597,670	219,194	107,144	-	(13,271,332)

General revenues:

Property taxes, levied for general purposes	11,827,558
Excise taxes	1,296,930
Interest and fees on property taxes	16,813
Intergovernmental	175,257
Interest earned	11,174
Miscellaneous	412,835
Total general revenues	13,740,567

Change in net position 469,235

Net position - beginning 13,864,391

Net position - ending \$ 14,333,626

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Balance Sheet
Governmental Funds
December 31, 2017

	General	Road Projects	Mitchell Field Pier Demolition	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 4,826,967	-	-	-	4,826,967
Receivables:					
Taxes	381,918	-	-	-	381,918
Liens	42,579	-	-	-	42,579
Other	103,123	-	-	-	103,123
Interfund receivables	-	67,315	124,250	241,868	433,433
Prepaid items	17,830	-	-	-	17,830
Total assets	\$ 5,372,417	67,315	124,250	241,868	5,805,850
LIABILITIES					
Accounts payable and other liabilities	87,411	-	-	-	87,411
Unearned revenue - taxes paid in advance	284,898	-	-	-	284,898
Unearned revenue - other	13,225	-	-	-	13,225
Interfund payables	433,433	-	-	-	433,433
Total liabilities	818,967	-	-	-	818,967
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	200,000	-	-	-	200,000
Total deferred inflows of resources	200,000	-	-	-	200,000
FUND BALANCES					
Nonspendable:					
Prepaid Insurance	17,830	-	-	-	17,830
Restricted:					
Capital projects and grants	-	67,315	124,250	195,399	386,964
Assigned:					
General fund	946,934	-	-	-	946,934
Recreation	-	-	-	46,469	46,469
Unassigned	3,388,686	-	-	-	3,388,686
Total fund balances	4,353,450	67,315	124,250	241,868	4,786,883
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,372,417	67,315	124,250	241,868	

Amounts reported for governmental activities in the Statement of Net Position (Statement 1) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,554,951
Deferred outflows of resources related to pensions are not financial resources and, therefore, are not reported in the funds.	67,499
Amount receivable from sale of Harpswell Coastal Academy	80,000
Unavailable revenue - property taxes is not available to pay for current period expenditures and, therefore, is unavailable in the funds.	200,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	
Bonds payable and capital lease obligation	(2,187,000)
Compensated absences payable	(20,212)
Accrued interest	(8,688)
Net pension liability	(112,010)
Deferred inflows of resources related to pensions are not financial resources and, therefore, are not reported in the funds.	(27,797)

Net position of governmental activities **\$ 14,333,626**

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended December 31, 2017

	General	Road Projects	Mitchell Field Pier Demolition	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 13,111,301	-	-	-	13,111,301
Intergovernmental	218,609	-	-	50,726	269,335
Miscellaneous	613,894	-	-	52,375	666,269
Total revenues	13,943,804	-	-	103,101	14,046,905
Expenditures:					
Current:					
General government	1,408,724	-	-	-	1,408,724
Public works	864,508	-	-	-	864,508
Protection and safety	1,175,971	-	-	-	1,175,971
Health and welfare	30,856	-	-	-	30,856
Cultural and recreation	292,767	-	-	61,675	354,442
Education	7,744,079	-	-	-	7,744,079
County taxes	1,294,498	-	-	-	1,294,498
Overlay/abatements	1,468	-	-	-	1,468
Debt service	469,517	-	-	-	469,517
Capital and special projects	207,174	68,221	350,750	471,789	1,097,934
Total expenditures	13,489,562	68,221	350,750	533,464	14,441,997
Excess (deficiency) of revenues over (under) expenditures	454,242	(68,221)	(350,750)	(430,363)	(395,092)
Other financing sources (uses):					
Proceeds from BAN	475,000	-	-	-	475,000
Transfers (to) from other funds	(588,850)	-	475,000	113,850	-
Total other financing sources (uses)	(113,850)	-	475,000	113,850	475,000
Net change in fund balances	340,392	(68,221)	124,250	(316,513)	79,908
Fund balances, beginning of year	4,013,058	135,536	-	558,381	4,706,975
Fund balances, end of year	\$ 4,353,450	67,315	124,250	241,868	4,786,883

See accompanying notes to financial statements

TOWN OF HARPSWELL, 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 December 31, 2017

Net change in fund balances - total governmental funds (from Statement 4)	\$	79,908
<p>Amounts reported for governmental activities in the Statement of Activities (Statement 2) are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:</p>		
Capital outlays		848,552
Disposals of capital assets, net		(11,738)
Depreciation expense		(409,805)
<p>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.</p>		
		26,471
<p>Governmental funds report as revenues payments received from installment sales. In the Statement of Activities a receivable is reported when the installment contract is entered into and is reduced by payments.</p>		
		(10,000)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This represents the increase in unavailable revenue - property taxes in the funds.</p>		
		30,000
<p>Proceeds from long-term borrowing or capital leases provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This represents the proceeds (\$475,000) net of repayments (\$421,000).</p>		
		(54,000)
<p>Deferred inflows 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.</p>		
		12,856
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. More specifically, this represents the increase in the Town's net pension liability less the decrease in accrued absences.</p>		
		(43,530)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the fund financial statements since future repayment does not require the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>		
		521
Change in net position of governmental activities (see Statement 2)		\$ 469,235

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the year ended December 31, 2017

	Budgeted amounts		Actual	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Taxes	\$ 13,031,672	13,031,672	13,111,301	79,629
Intergovernmental	206,063	206,063	218,609	12,546
Miscellaneous	534,900	534,900	613,894	78,994
Total revenues	13,772,635	13,772,635	13,943,804	171,169
Expenditures:				
Current:				
General government	1,492,538	1,492,538	1,408,724	83,814
Public works	872,733	872,733	864,508	8,225
Protection and safety	1,279,318	1,279,318	1,175,971	103,347
Health and welfare	34,430	34,433	30,856	3,577
Cultural and recreation	294,304	294,304	292,767	1,537
Education	7,744,079	7,744,079	7,744,079	-
County taxes	1,294,498	1,294,498	1,294,498	-
Overlay/abatements	137,871	137,871	1,468	136,403
Debt service	470,000	470,000	469,517	483
Capital and special projects	549,014	1,105,382	207,174	898,208
Total expenditures	14,168,785	14,725,156	13,489,562	1,235,594
Excess (deficiency) of revenues over (under) expenditures	(396,150)	(952,521)	454,242	1,406,763
Other financing sources (uses):				
Proceeds from BAN	475,000	475,000	475,000	-
Transfer to / from other funds	(588,850)	(588,850)	(588,850)	-
Budgeted use of unassigned fund balance	520,000	520,000	-	(520,000)
Budgeted use of carryforward balances	-	562,599	-	(562,599)
Budgeted use of contingency	(10,000)	(16,228)	-	16,228
Total other financing sources (uses)	396,150	952,521	(113,850)	(1,066,371)
Net change in fund balance	-	-	340,392	340,392
Fund balance, beginning of year			4,013,058	
Fund balance, end of year			\$ 4,353,450	

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Required Supplementary Information
MainePERS - Consolidated Plan - Defined Benefit Pension Plan
Schedule of Proportionate Share
of the Net Pension Liability

LAST 10 FISCAL YEARS*

	2017	2016	2015
<u>PLD Plan:</u>			
Proportion of the net pension liability (asset)	0.02%	0.02%	0.02%
Proportionate share of the net pension liability (asset)	\$ 112,010	\$ 66,579	\$ 30,730
Covered-employee payroll	\$ 115,099	\$ 111,225	\$ 109,359
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	97.32%	59.86%	28.10%
Plan fiduciary net position as a percentage of the total pension liability	88.27%	88.27%	94.10%

* The amounts presented for each fiscal year were determined as of June 30, and are for those years for which information is available.

See accompanying notes to financial statements.

Schedule of Contributions

LAST 10 FISCAL YEARS*

	2017	2016	2015
<u>PLD Plan:</u>			
Contractually required contribution	\$ 10,993	\$ 10,443	\$ 9,279
Contributions in relation to the contractually required contribution	<u>(10,993)</u>	<u>(10,443)</u>	<u>(9,279)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 115,099	\$ 113,434	\$ 111,126
Contributions as a percentage of covered-employee payroll	9.55%	9.21%	8.35%

* The amounts presented for each fiscal year were determined as of December 31.

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Notes to Required Supplementary Information
For the Year Ended December 31, 2017

MainePERS – Consolidated Plan – Defined Benefit Pension Plan

Changes of benefit terms

There were no changes in benefit terms in the Maine Public Employees Retirement System Plans.

Changes of assumptions

The actuarial assumptions used for the year ended June 30, 2016 valuation were based on the results of an actuarial experience study for the period of June 30, 2012 through June 30, 2015.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2016 are as follows:

	June 30, 2016 Actuarial Assumptions	June 30, 2015 Actuarial Assumptions
Investment Rate of Return	6.875% per annum, compounded annually	7.125% per annum, compounded annually
Inflation Rate	2.75%	3.50%
Annual salary increases, including inflation - PLD Consolidation Plan	2.75% - 9.00%	3.50% - 9.50%
Cost of living benefit increases	2.20%	2.55%
Long-term expected real reate of return on assets:		
US equities	5.7%	5.2%
Real estate	5.2%	3.7%
Infrastructure	5.3%	4.0%
Hard assets	5.0%	4.8%
Fixed income	2.9%	0.7 %
Mortality Rates	For active members and non-disabled retirees of the PLD Consolidated Plan, the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females, is used. For all recipients of disability benefits, the RP2014 Total Dataset Disabled Annuitant Mortality Table, for males and females, is used.	For active members and non-disabled retirees of the PLD Consolidated Plan, the RP2000 Tables projected forward to 2015 using Scale AA are used; the ages are set back two years for employees of the teacher plan. Mortality assumptions were also reviewed and updated in 2011 for the PLD Consolidated Plan, and in 2012 for the other Plans, based on actual demographic data of the Plans. For all recipients of disability benefits, the Revenue Ruling 96-7 Disabled Mortality Table for Males and Females is used.

TOWN OF HARPSWELL, MAINE
Required Supplementary Information
I.A.M. a multiemployer, cost-sharing defined benefit pension plan
Schedule of Employer's Required Contributions

For the years ended December 31:

2017	\$	12,103
2016		11,427
2015		11,529
2014		11,198
2013		11,696
2012		13,909
2011		15,437
2010		15,475
2009		15,662
2008	\$	15,618

The reduction in required contributions between 2011 and 2013 resulted from the elimination in mid 2012 of one position which would have been eligible to participate in the Plan.

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements

THE REPORTING ENTITY

The Town of Harpswell, Maine, incorporated on January 25, 1758, currently operates under a Town Meeting-Selectmen form of government with a Town Administrator as the chief administrator of the Town. The Board consists of three members elected by the registered voters for three year terms.

In evaluating the Town as a reporting entity, management has addressed all potential component units for which the Town may or may not be financially accountable and, as such, be includable within the Town's basic financial statements. The Town (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Town. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete. Based on the application of these criteria, there are no other entities within the Town that should be included as part of these basic financial statements.

The Governmental Accounting Standards Board (GASB) is responsible for establishing generally accepted accounting principles (GAAP) for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town are discussed below.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes and intergovernmental revenues.

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

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

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

The Town reports the following major governmental funds:

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

The road projects fund accounts for financial resources used in major road rehabilitation projects.

The Mitchell Field pier demolition fund accounts for financial resources used to demolish the pier.

Additionally, the Town reports several nonmajor funds in the following fund categories:

Special revenue funds account for the proceeds of specific sources (other than major capital projects or expendable trusts) that are legally restricted to expenditures for specified purposes.

Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary or trust funds).

C. Budgetary Accounting

Each year a budget is adopted for the General Fund only, and is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). The level of control (level at which expenditures may not exceed budget) is the Town meeting warrant article level.

The Town Meeting adopts the annual budget in March of that budget year and, accordingly, the previous year's Town Meeting authorizes the Board of Selectmen to spend 25% of the previous year's budget in the first three months of the current year.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Generally, all unexpended budgetary accounts lapse at the close of the fiscal year. However, portions of the General Fund fund equity can be assigned for future periods by the Selectmen. A comparison of budget to actual is presented in the financial statements on Statement 6. The difference between original budget and final budget amounts represent approved carryovers from prior years or appropriations from fund balance.

D. Cash and Cash Equivalents

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. Town policy is that deposits can only be made in financial institutions insured by the F.D.I.C. or collateralized by the depository institution in the Town's name. The Town invests its funds in an effort to ensure preservation of capital, remain sufficiently liquid and attain a reasonable market rate of return, while remaining within the guidelines approved by the Board of Selectmen.

E. Inventories of Supplies

Inventories of supplies are considered to be expenditures at the time of purchase rather than when consumed, and are not included in the general fund balance sheet.

F. Short-term Interfund Receivables/Payables

During the course of normal operations, transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "interfund receivables or payables" on the balance sheet.

During the course of normal operations, the Town has transactions between funds including expenditures and transfers of resources to provide resources, construct assets and service debt. These transactions, if any, are reported as transfers.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Straight-line depreciation is used based on the following estimated useful lives:

Buildings and building improvements	25 to 50 years
Infrastructure	20 to 50 years
Equipment, vehicles and furniture	5 to 30 years

Capital assets, not being depreciated, includes land, construction in progress, easements and artwork associated with the former West Harpswell School property, which are not being depreciated as they are not exhaustible assets.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

H. Deferred Outflows/Inflows of Resources

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

I. Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. The face amount of debt is reported as other financing sources.

J. Fund Equity

In the fund financial statements, governmental fund balance is presented in five possible categories:

Nonspendable – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.

Restricted – resources with constraints placed on the use of resources which are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed – resources which are subject to limitations the government imposes on itself at its highest level of decision making authority, and that remain binding unless removed in the same manner.

Assigned – resources that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – resources which have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

Committed fund balance amounts are determined by the legislative body which also would be required to modify or rescind those commitments. For assigned fund balance, management determines amounts to be carried forward for uncompleted projects previously authorized by the legislative body for specific purposes in the General Fund at year end. The Board of Selectmen votes to authorize assigned amounts.

Although not a formal policy, when both restricted and unrestricted resources are available for use, it is the Town’s intent to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned and unassigned resources are available for use, it is the Town’s intent to use committed or assigned resources first, and then unassigned resources as they are needed.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

K. Fund Balance Policy

It is the Town's policy to maintain a minimum unassigned General Fund balance of one month, 8.33%, of operating expenditures, defined as total prior year's general fund expenditures less any expenditure made from reserve funds. The targeted balance for fiscal year-end is 2 months or 16.66%, and the maximum balance is not to exceed 25% of the operating expenditures, so long as cash flow needs are met. Any amount in excess of the targeted balance may be used to reduce the tax commitment or be appropriated as assigned or committed fund balance, or it may remain as unassigned Fund Balance. The Town's Board of Selectmen may recommend transfers to the Town that would reduce the balance below 25%, but no transfers shall be made that would reduce the balance to less than 8.33%. In the event that the unassigned fund balance drops below the minimum level, the Town will develop a plan, implemented through the annual budgetary process, to bring the balance to the targeted level over a period of no more than three (3) years.

L. Comparative Data / Restatements

Comparative total data for the prior period have been presented in the accompanying financial statements in order to provide an understanding of changes in the Town's financial position and operations. However, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

M. Compensated Absences

Under terms of personnel policies of the Town, vacation leave is granted in varying amounts according to length of service. No sick leave is granted at the time of employee termination. Unused vacation leave is reported in the government-wide financial statements. No expenditure is reported for this amount on the fund financial statements unless due and payable.

N. 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 Participating Local District (PLD) Consolidated Plan and additions to/deductions from the PLD Consolidated Plan's fiduciary net position have been determined on the same basis as they are reported by the PLD Consolidated 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.

O. Deferred Outflows and Inflows of Resources – Statement 1

In addition to assets, the statement of financial position 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 type of item, deferred outflows related to pensions. This item is reported in the statement of net position.

In addition to liabilities, the statement of financial position 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 applied to a future period(s) and so will not be recognized as

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

an inflow of resources (revenue) until that time. Deferred inflows related to pensions qualify for reporting in this category. 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.

P. Use of Estimates

Preparation of the Town's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Deposits

Custodial Credit Risk-Town Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal policy with respect to custodial credit risk. As of December 31, 2017, the Town reported deposits of \$4,826,967 with a bank balance of \$4,636,363. All of the Town's bank balances were collateralized by FDIC insurance and therefore, none were exposed to custodial credit risk.

PROPERTY TAX

The Town's property taxes for the current year were committed on August 3, 2017, on the assessed value listed as of April 1, 2017 for all real and personal property located in the Town. Taxes were due on September 15, 2017 and December 15, 2017; interest was charged at 6% on all unpaid taxes after those dates. Assessed values are periodically established by the Assessor at 100% of assumed market value. The Town has a certified ratio of 100%.

The following summarizes the 2017 and 2016 levy:

	<u>2017</u>	<u>2016</u>
Assessed value:		
Real property	\$1,822,927,100	1,811,106,100
Personal property	5,427,700	5,304,000
Total valuation	1,828,354,800	1,816,410,100
Tax rate (per \$1,000)	6.46	6.40
Tax commitment	11,811,172	11,625,025
Less: collections and abatements (net of supplements)	(11,429,254)	(11,360,772)
Taxes receivable at December 31	\$381,918	264,523
Due dates	½ September 15, 2017	½ September 15, 2016
	½ December 15, 2017	½ December 15, 2016
Interest rate on delinquent taxes	6.00%	6.00%
Collection rate	96.77%	97.73%

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

PROPERTY TAX, CONTINUED

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 \$137,871 for the year ended December 31, 2017. Property taxes levied during the year are recorded as receivables at the time the levy is made. The receivables collected during the year and in the first sixty days following the end of the fiscal year are recorded as revenues. The remaining receivables are recorded as unavailable revenues. Tax payments received in advance of a levy are reported as unearned revenue.

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.

Property acquired by foreclosure for nonpayment of taxes is recorded at the amount of expired tax liens plus the costs involved in foreclosure. Liens and any current taxes on the same period are not included as part of the tax acquired property account until expiration of statutory time limits or time limit extensions granted by the Town's Board of Selectmen.

RECEIVABLE FROM HARPSWELL COASTAL ACADEMY

In 2015, the Town completed the sale of land and building to Harpswell Coastal Academy (HCA). The total consideration was \$150,000 with \$10,000 paid at closing. An additional \$40,000 was credited from lease payments. Harpswell Coastal Academy will pay the remainder to the Town in ten equal installments of \$10,000. The town received \$10,000 during 2017 which reduced its receivable from HCA.

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	<u>2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>2017</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,164,271	-	-	2,164,271
Construction in progress	4,489	357,918	11,657	350,750
Other non-depreciable assets	281,900	-	-	281,900
Total capital assets not being depreciated	2,450,660	357,918	11,657	2,796,921
Capital assets, being depreciated:				
Buildings and improvements	4,237,097	-	-	4,237,097
Equipment, vehicles and furniture	2,419,988	437,351	19,650	2,837,689
Infrastructure	7,939,176	64,940	39,128	7,964,988
Total capital assets being depreciated	14,596,261	502,291	58,778	15,039,774
Less accumulated depreciation for:				
Buildings and improvements	2,368,711	83,498	-	2,452,209
Equipment, vehicles and furniture	1,002,319	165,441	19,650	1,148,110
Infrastructure	2,547,949	160,866	27,390	2,681,425
Total accumulated depreciation	5,918,979	409,805	47,040	6,281,744
Total capital assets being depreciated, net	8,677,282	92,486	11,738	8,758,030
Governmental activities capital assets, net	\$11,127,942	450,404	23,395	11,554,951

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

CAPITAL ASSETS, CONTINUED

The 2017 Town Meeting authorized the demolition of an industrial pier located at Mitchell Field, the former site of a U.S. Navy fuel depot. The authorization approved funding for this project in an amount not to exceed \$5 million.

On November 30, 2017, the Town entered into a contract in the amount of \$3,032,515 for the pier's demolition. Two additional contracts for engineering and project management totaling \$165,000 have also been signed. The cost of the project is expected to approximate \$3.5 million of which \$350,750 was incurred as of December 31, 2017. These incurred costs are included in construction in progress in the Statement of Net Position. The demolition of the pier, when completed, will be classified as a land improvement to the Mitchell Field property, a 119 acre deep-water site, and will not be depreciated.

Fire and rescue vehicles with a cost of \$2,008,608 and accumulated depreciation of \$608,661 have been leased under 10 or 20 year agreements to one of the three independent fire and rescue departments serving the Town. The cost of insuring and maintaining the vehicles is borne by the departments.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 63,718
Public works	215,286
Protection and safety	118,433
Cultural and recreation	12,368

Total depreciation expense – governmental activities	\$ 409,805
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INTERFUND RECEIVABLES AND PAYABLES

Individual interfund receivables and payables balances at December 31, 2017 were as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Interfund payables</u>
General Fund	\$ -	433,433
Special Revenue Funds:		
Restricted grants	381	-
Recreation	46,469	-
Capital Projects Fund:		
Emergency vehicles	195,018	-
Road projects	67,315	-
Mitchell Field Pier	124,250	-
Totals	\$433,433	433,433

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SHORT-TERM DEBT

Tax Anticipation Note

Under the authority of Title 30-A, Section 5771 of the Maine Revised Statutes, as amended, a resolution was adopted by the Board of Selectmen at their April 27, 2017 meeting authorizing the Treasurer to borrow up to \$3,200,000 to be due on or before December 31, 2017. From May 8, 2017 to July 7, 2017, the Town made periodic draws on this note such that the maximum amount outstanding was \$2.55 million. The outstanding principal and interest was paid before December 31, 2017. The total interest paid on this note was \$11,367. Since there is no beginning or ending balance at December 31, 2016 and 2017, it has not been included in the debt note which follows.

Bond Anticipation Note

As further discussed in Capital Assets, the 2017 Town Meeting authorized the issuance of up to \$5 million in general obligation bonds or notes for demolition of the Mitchell Field pier constructed by the U.S. Navy and transferred to the Town in 2001. During 2017, the Town entered into contracts relating to the pier's demolition and on December 12, 2017 issued a General Obligation Bond Anticipation Note ("BAN") to be drawn on an as needed basis with the total principal amount not to exceed \$3.5 million to fund the project. The principal amount drawn on the BAN shall be payable on May 30, 2018 with interest accrued at a rate of 1.25%. The Town anticipates replacing the BAN with the proceeds of a General Obligation Bonds issued by the Town during the first half of 2018. As of December 31, 2017, the amount outstanding under the BAN is \$475,000.

LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2017, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
Bonds payable	\$ 2,115,000	-	415,000	1,700,000	415,000
Capital lease obligation	18,000	-	6,000	12,000	6,000
Compensated absences payable	22,113	44,070	45,971	20,212	-
Proportionate share of the net pension liability	66,579	45,431	-	112,010	-
Governmental activity long-term liabilities	\$ 2,221,692	89,501	466,971	1,844,222	421,000

Bonds payable at December 31, 2017 are comprised of the following:

	<u>Issue date</u>	<u>Maturity date</u>	<u>Amount issued</u>	<u>Interest rate</u>	<u>Balance December 31, 2017</u>
Governmental activities:					
2008 Emergency vehicles	10/30/08	11/01/18	500,000	2.075-5.575%	50,000
2009 Ash Point road rehab	05/28/09	11/01/19	650,000	2.08-5.58%	130,000
2010 Emergency vehicles	10/28/10	11/01/20	600,000	2.00-5.50%	180,000
2011 Capital road project	05/26/11	11/01/21	800,000	2.12-5.62%	320,000
2013 Capital road project	05/23/13	11/01/23	1,000,000	.60-2.38%	600,000
2014 Capital road project	8/20/14	8/20/24	600,000	2.30%	420,000
Total bonds payable					\$1,700,000

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

LONG-TERM LIABILITIES, CONTINUED

During 2013, the Town entered into a capital lease to fund, in part, the purchase of certain media equipment. As of December 31, 2017, the balance of \$12,000 represents the principal obligation under the capital lease and will be repaid in two equal installments of \$6,000. Interest accrues at a rate per annum of 3.02% and is payable annually. The principal payments will be funded by annual grants to the Town by the holder of its cable franchise.

The annual requirements to amortize outstanding debt, including capital lease obligations, as of December 31, 2017 are as follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	415,000	35,689	450,689
2019	365,000	28,104	393,104
2020	300,000	20,257	320,257
2021	240,000	13,903	253,903
2022	160,000	8,780	168,780
2023-2024	220,000	6,540	226,540
Total	\$1,700,000	113,273	1,813,273

All governmental activities long-term debt requirements are paid by the general fund.

Debt authorized but unissued – The Town is authorized to borrow up to \$50,000 for failed septic system remediation.

STATUTORY DEBT LIMIT

The laws of the State of Maine limit types of municipal borrowing to specific percentages of the State valuation of the municipality. At December 31, 2017, the Town was in compliance with these restrictions.

OVERLAPPING DEBT

The Town's proportionate share of debt of all local government units which provide services within the Town's boundaries, and which must be borne by properties in the Town is summarized as follows:

<u>Units</u>	<u>Net debt outstanding at December 31, 2017</u>	<u>Percentage applicable to the Town</u>	<u>Town's proportionate share of debt</u>
Cumberland County	\$36,040,000	4.42%	1,593,198
MSAD 75 / RSU 75	9,612,367	37.56%	3,610,404

The Town's proportionate share of the County and District debt is paid through annual assessments.

BUDGETED USE OF SURPLUS

During the year ended December 31, 2017, the Town budgeted to utilize prior year unassigned fund balance as a budgeted use of surplus. The amount consists of the following:

2017 carry forward balance	\$ 562,599
Use of surplus – current year:	
Flood map revisions	50,000
Reduction of tax commitment	470,000
Total	\$1,082,599

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

INTERFUND TRANSFERS

Individual fund transfers for the year ended December 31, 2017 were as follows:

	<u>Transfers in</u>	<u>Transfers out</u>
General fund	\$ -	588,850
Special revenue funds:		
Recreation	13,850	-
Capital project funds:		
Mitchell Field pier demolition	475,000	
Road projects	-	-
Emergency vehicles	100,000	-
Total capital projects fund	575,000	-
Total transfers	\$588,850	588,850

These transfers were budgeted transfers to fund certain activities.

RESTRICTED GRANTS

The Town classifies grant awards as restricted grants in the Town's special revenue fund. The December 31, 2017 fund balance of restricted grants consisted of the following awards:

<u>Grant Award</u>	<u>Balance beginning of year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance end of year</u>
Orr's/Bailey's Fire Dept - CDBG	-	14,655	14,655	-
Harpswell Aging at Home - CDBG	-	13,883	13,883	-
Davis Conservation Fund	8,050	-	8,050	-
Pott's Point – MDOT	-	6,150	6,150	-
Mitchell Field Community Garden	-	5,381	5,000	381
Mitchell Field Waterfront Planning	-	4,125	4,125	-
MMA Safety	-	3,178	3,178	-
Sea Level Rise - Coastal Communities	-	2,859	2,859	-
Pump out float	-	495	495	-
Total restricted grants	\$8,050	50,726	58,395	381

ASSIGNED FUND BALANCES

At December 31, 2017, assigned fund balance consisted of the following:

<u>Fund</u>	<u>Assigned balance</u>
Appropriation carryovers:	
Special Purpose Funds:	
Town Landings – Mackerel Cove	\$ 10,000
Planning services – Comprehensive Plan	6,000
Fire administration – firefighter equipment	48,000
Mitchell Field Master Plan planning	5,000
Energy Conservation	1,431
Flood plain map revisions	74,566

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

ASSIGNED FUND BALANCES, CONTINUED

Land purchase, map 42, lot 6	3,318
Mitchell Field water tower	7,983
Orr's/Bailey's Islands Fire Department renovations	30,914
Capital Reserves:	
Town facilities	20,914
Office equipment	2,500
Boat/motor replacement	38,243
Recycling	99,140
Vehicles & equipment replacement	41,690
Emergency communication equipment	24,021
Dry hydrant development	12,780
Land acquisition and property improvement	80,112
Emergency services building planning	95,498
Mitchell Field capital	213,658
Failed septic system	22,649
Other Reserves:	
Property tax assistance program	4,709
Conservation fund	5,000
Self-insurance	1,538
Heating assistance	36,630
Assessing records update	20,235
Plus contingency	<u>16,228</u>
Assigned fund balances subtotal	922,757
Assigned revenues:	
Heating assistance	17,934
Cable related technology	4,443
Mitchell Field boat ramp or bandstand	1,800
Total assigned fund balance – General Fund	<u>\$946,934</u>

NET POSITION

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bond and capital leases obligations, as well as bond anticipation note balance net of any unspent proceeds. The Town's net investment in capital assets was calculated as follows at December 31, 2017:

Capital assets	\$ 17,836,694
Accumulated depreciation	(6,281,743)
Bonds payable and capital lease obligation	(1,712,000)
<u>Bond anticipation note, net of unspent bond proceeds</u>	<u>(350,750)</u>
Total net investment in capital assets	<u>\$ 9,492,201</u>

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

RISK MANAGEMENT

The Town is exposed to various risks of loss from torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which the Town either carries commercial insurance or participates in a public entity risk pool. Currently, the Town participates in a public entity risk pool sponsored by the Maine Municipal Association for Workers' Compensation coverage. Based on these coverages, no known liabilities exist at December 31, 2017.

CONTINGENT LIABILITIES

Litigation -The Town is subject to certain legal proceedings which arise in the normal course of business. In the opinion of management, the Town has defensible positions in any/all pending cases. Further, any future liabilities are covered by insurance or will not materially affect the financial position of the Town.

State and Federal Grants – The Town participates in numerous state and federal programs which are governed by various rules and regulations imposed by the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the Town has not complied with the rules and regulations governing the grants, refunds of any moneys received may be required. There are no material contingent liabilities relating to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the International City Management Association Retirement Corporation.

The deferred compensation plan is available to all full and regular part time employees of the Town who work 20 hours or more per week on a regularly scheduled basis and who are not already participating in another plan. Under the plan, employees may elect to defer a portion of their salary and avoid paying income taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. The Town's computed contribution to this plan for the years ended December 31, 2017, 2016 and 2015 was \$25,624, 26,135, and \$23,248, respectively. Assets of the plan are placed in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets, are not included in the Town's financial statements.

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN

Plan Description

Certain Town employees contribute to the Maine Public Employees Retirement System (MainePERS), a cost-sharing multiple-employer defined benefit pension plan established by the Maine State Legislature. Title 5 of the Maine Revised Statutes Annotated assigns the authority to establish and amend benefit provisions to the Participating Local District (PLD) Consolidated Plan's advisory group, which reviews the terms of the plan and periodically makes recommendations to the Legislature to amend the terms. The Maine Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Consolidated Plan. That report may be obtained online at www.maineopers.org or by contacting the System at (800) 451-9800.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN (CONTINUED)

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 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 employees of PLDs). In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. For PLD members, normal retirement age is 60 or 65. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and death benefits which are established by contract with PLD employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the 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 plan members are part of the PLD's plan "AC" and are required to contribute 8.0% of their annual covered salary and the Town is required to contribute at an actuarially determined rate. The current rate is 9.5% of covered payroll. The contribution rates of plan members and the Town are established and may be amended by the Maine Public Employee Retirement Systems advisory group. The Town's contribution to the MainePERS PLD Consolidated Plan for the year ended December 31, 2017 was \$10,993.

Effective March 14, 1998, this pension plan is no longer offered to new Town employees. Those employees already in the plan may continue under the same terms or may terminate and join the Town's deferred compensation plan.

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

At December 31, 2017, the Town reported a liability of \$112,010 for its proportionate share of the net pension liabilities for the plan. The net pension liabilities were measured as of June 30, 2016 (the most recent period available), and the total pension liabilities used to calculate the net pension liabilities was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liabilities were based on a projection of the Town's long-term share of contributions to each pension plan relative to the projected contributions of all PLDs, actuarially determined. At June 30, 2016, the Town's proportion was 0.021081%, which was an increase of 0.000212% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2017, the Town recognized net pension expense of \$6,104. At December 31, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN (CONTINUED)

	PLD Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,358	\$ 7,205
Changes of assumptions	12,008	-
Net difference between projected and actual earnings on pension plan investments	41,391	17,227
Changes in proportion and differences between contributions and proportionate share of contributions	1,886	3,365
Contributions subsequent to the measurement date	10,856	-
Total	\$ 67,499	\$ 27,797

\$10,856 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 December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PLD Plan
Year ended June 30:	
2017	\$ 3,248
2018	5,151
2019	13,993
2020	6,456
2021	-
Thereafter	-

Actuarial Methods and Assumptions

The collective total pension liability for the Plan was determined by an actuarial valuation as of June 30, 2016. Effective with the Plan's 2016 actuarial valuation, various assumptions underlying the valuation were revised. The demographic assumptions are based on an experience study covering the period from June 30, 2012 through June 30, 2015. The investment return and inflation assumptions were revised at the advice of the Plan's investment consultants. The COLA, salary increase, termination, retirement, disability, mortality and disability mortality assumptions were revised based on the experience study. The following methods and assumptions applied to all periods included in the measurement:

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN
(CONTINUED)

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.

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 PLD Consolidated Plan is amortized on a level percentage of payroll using a method where a separate twenty-year closed period is established annually for the gain or loss for that year.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2016 are as follows:

Investment Rate of Return - For the PLD Plan, 6.875% per annum, compounded annually.

Salary Increases, Merit and Inflation - Members of the consolidated plan for PLDs, 2.75% to 9.00% per year.

Mortality Rates – For participating local districts, the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females, is used. For all recipients of disability benefits, the RP2014 Total Dataset Disabled Annuitant Mortality Table, for males and females, is used.

Cost of Living Benefit Increases - 2.20% for participating local districts.

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. Assets for the defined benefit plan are comingled for investment purposes.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN
(CONTINUED)

Asset Class	PLD Plan	
	Target Allocation	Long-term Expected Real Rate of Return
US equities	20%	5.7%
Non-US equities	20%	5.5%
Private equity	10%	7.6%
Real assets:		
Real Estate	10%	5.2%
Infrastructure	10%	5.3%
Hard assets	5%	5.0%
Fixed income	25%	2.9%

Discount Rate

The discount rate used to measure the collective total pension liability was 6.875% for 2016. 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, 2016 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 6.875% for the PLD Consolidated Plan.

	1% Decrease	Discount rate	1% Increase
<u>PLD Plan:</u>			
Discount rate	5.875%	6.875%	7.875%
 Town's proportionate share of			
the net pension liability	\$ 185,916	\$ 112,010	\$ 42,430

Changes in Net Pension Liability

Each employer's share of the collective net pension liability is equal to the collective net pension liability multiplied by the employer's proportionate share as of June 30, 2016 as shown in the schedules of employer and non-employer contributing entity allocations. Changes in net pension liability are recognized in pension expense for the year ended June 30, 2016 with the following exceptions:

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN (CONTINUED)

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 2016, this was 4 years for the PLD Consolidated 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. The first year is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources.

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. The actuarial assumptions used for the year ended June 30, 2016 valuation were based on the results of an actuarial experience study for the period of June 30, 2012 through June 30, 2015. Please refer to the Actuarial Methods and Assumptions section for information relating to changes of assumptions. The first year is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources.

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.

Pension Plan Fiduciary Net Position

Additional financial and actuarial information with respect to the Plan can be found in the MainePERS 2016 Comprehensive Annual Financial Report available online at www.maineopers.org or by contacting the System at (800) 451-9800.

RETIREMENT PLAN – RECYCLING CENTER EMPLOYEES

The IAM National Pension Fund (the Plan) is a multiemployer, cost-sharing defined benefit pension plan governed by a joint Board of Trustees consisting of an equal number of members representing Labor and Management. Non-salaried employees of the Town's recycling center (three employees) are members of a collective bargaining unit whose contract with the Town provides for those employees' participation in the Plan.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

RETIREMENT PLAN – RECYCLING CENTER EMPLOYEES (CONTINUED)

The Town contributes a fixed rate, currently \$2.05, for each hour reported by the employee once the probationary period has been completed, but not later than sixty days after the date of hire. No voluntary contributions by the employees are allowed under the Plan. The contribution rate is established through the collective-bargaining agreement as approved by the Board of Selectmen. The Town's contributions, and therefore its expense, for the years ended December 31, 2017, 2016 and 2015 totaled \$12,103, \$11,427, and \$11,529, respectively.

An employee's monthly pension benefit is determined by the Plan, based on years of credited service, the contribution rate paid by the employer, age at retirement and the form of payment selected by the employee. The Town has no ability to establish or amend benefits under the Plan.

The funds contributed by the Town to the Plan are held in trust by the I.A.M. National Pension Fund for the exclusive use of benefit participants and their beneficiaries. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets, are not included in the Town's financial statements.

The I.A.M. National Pension Fund prepares an Annual Funding Notice which is available at www.iamnpf.org. The Fund's Annual Report is filed with the Department of Labor and may be obtained at www.efast.dol.gov.

COMMITMENTS

At December 31, 2017, the Town was obligated under contracts for law enforcement, marine patrol, emergency dispatch, dedicated paramedic, planning services, and snow removal services in amounts totaling approximately \$862,000 for various periods through December 31, 2018. Additionally, the Town's contracts relating to the Mitchell Field pier demolition project, which may extend into May 2019, but is likely to be completed in 2018, total approximately \$3,198,000.

GENERAL FUND

The General Fund is the general operating fund of the Town. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs that are not paid through other funds.

TOWN OF HARPSWELL, MAINE
Comparative Balance Sheets
General Fund
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 4,826,967	4,556,580
Receivables:		
Taxes	381,918	264,253
Tax liens and acquired properties	42,579	52,347
Other	103,123	79,628
Prepaid items	17,830	17,482
Total assets	\$ 5,372,417	4,970,290
LIABILITIES		
Accounts payable and other liabilities	87,411	57,716
Unearned revenue - taxes paid in advance	284,898	16,724
Unearned revenue - other	13,225	18,875
Interfund payables:		
Special Revenue	46,850	51,119
Capital Projects	386,583	642,798
Total liabilities	818,967	787,232
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property taxes	200,000	170,000
Total deferred inflows of resources	200,000	170,000
FUND BALANCE		
Nonspendable:		
Prepaid Insurance	17,830	17,482
Committed:		
	-	-
Assigned	946,934	562,599
Unassigned	3,388,686	3,432,977
Total fund balance	4,353,450	4,013,058
Total liabilities, deferred inflows of resources, and fund balance	\$ 5,372,417	4,970,290

TOWN OF HARPSWELL, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis of Accounting)
For the year ended December 31, 2017

	Budgeted amounts		Actual	Variance positive (negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 11,811,172	11,811,172	11,827,558	16,386
Change in unavailable revenue	-	-	(30,000)	(30,000)
Interest and fees on property taxes	17,800	17,800	16,813	(987)
Excise taxes and registration fees	1,202,700	1,202,700	1,296,930	94,230
Total taxes	13,031,672	13,031,672	13,111,301	79,629
Intergovernmental:				
State revenue sharing	60,000	60,000	65,751	5,751
Local road assistance URIP	34,000	34,000	35,580	1,580
Homestead exemption and BETE	87,063	87,063	88,437	1,374
Tree growth	10,000	10,000	11,570	1,570
General assistance	7,000	7,000	7,772	772
Veterans exemption	3,000	3,000	3,268	268
Other	5,000	5,000	6,231	1,231
Total intergovernmental	206,063	206,063	218,609	12,546
Miscellaneous:				
Interest earned	9,000	9,000	11,174	2,174
Copies and records	3,000	3,000	3,616	616
Cable TV franchise fee	88,000	88,000	102,865	14,865
Cable technology & capital equipment	11,400	11,400	11,400	-
Licenses, fees and permits	201,700	201,700	222,896	21,196
Fines	800	800	932	132
Recycling center and disposal fees	165,000	165,000	181,035	16,035
Donations and gifts	10,000	10,000	29,114	19,114
Receipts from Harpswell Coastal Academy	10,000	10,000	10,000	-
Tower lease	22,000	22,000	22,470	470
Unclassified	14,000	14,000	18,392	4,392
Total miscellaneous	534,900	534,900	613,894	78,994
Total revenues	\$ 13,772,635	13,772,635	13,943,804	171,169

TOWN OF HARPSWELL, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis of Accounting), Continued
For the year ended December 31, 2017

Article #	Account	Balances carried forward	Budgeted amounts		Actual	Variance positive (negative)	Balances carried forward
			Original	Final			
Expenditures:							
<i>General government:</i>							
15	Elected officials	\$ -	142,437	142,437	141,044	1,393	-
General administration:							
16	Administration	-	267,580	267,580	262,675	4,905	-
16	Public information	-	9,000	9,000	7,741	1,259	-
16	Risk management	-	57,789	57,789	55,408	2,381	-
16	Legal services	-	50,000	50,000	50,918	(918)	-
17	Memberships	-	15,925	15,925	15,925	-	-
18	Assessing	-	80,279	80,279	76,867	3,412	-
19	Tax collector's office	-	36,017	36,017	33,850	2,167	-
20	Town clerk's office	-	53,852	53,852	51,171	2,681	-
21	Treasurer	-	30,388	30,388	29,102	1,286	-
22	Code enforcement	-	134,887	134,887	134,713	174	-
23	Planning	-	72,563	72,563	58,719	13,844	6,000
30	Employee benefits	-	381,791	381,791	344,071	37,720	-
31	Boards and committees	-	7,270	7,270	5,692	1,578	-
Operations and maintenance:							
33	Municipal buildings and property	-	105,400	105,400	104,730	670	-
33	Old town house and commons	-	9,000	9,000	7,048	1,952	-
33	Town dock	-	4,500	4,500	7,646	(3,146)	-
33	Town lands and landings	-	22,500	22,500	11,805	10,695	10,000
33	Cedar/Robinhood Beach easement	-	2,500	2,500	3,409	(909)	-
32	Cemeteries	-	8,860	8,860	6,190	2,670	-
Total general government		-	1,492,538	1,492,538	1,408,724	83,814	16,000
<i>Public works:</i>							
38	Snow removal	-	455,710	455,710	445,590	10,120	-
38	Maintenance & signs	-	68,000	68,000	76,224	(8,224)	-
24	Recycling and transfer station	-	349,023	349,023	342,694	6,329	-
Total public works		-	872,733	872,733	864,508	8,225	-
<i>Protection and safety:</i>							
42,46	Emergency services	-	190,350	190,350	185,275	5,075	-
41	Emergency services - fire assistance	-	124,860	124,860	37,729	87,131	48,000
33	Emergency services building	-	4,100	4,100	2,767	1,333	-
39	Contracted paramedic services	-	283,111	283,111	281,261	1,850	-
47	Street lighting	-	28,000	28,000	26,250	1,750	-
27	Harbor management	-	46,463	46,463	46,395	68	-
26	Animal control	-	24,787	24,787	24,130	657	-
48,49	Law enforcement and communication	-	374,035	374,035	374,035	-	-
52	Marine consultant & conservation mng	-	10,000	10,000	4,602	5,398	-
50,51	Shellfish conservation contract & boat	-	193,612	193,612	193,527	85	-
Total protection and safety		-	1,279,318	1,279,318	1,175,971	103,347	48,000
<i>Health and welfare:</i>							
CF	Health and welfare restricted gift	3	-	3	3	-	-
	Gift Cards	-	-	-	320	(320)	-
53	Health and welfare	-	34,430	34,430	30,533	3,897	-
Total health and welfare		3	34,430	34,433	30,856	3,577	-
<i>Cultural and recreation:</i>							
54	Cultural and education programs	-	47,871	47,871	47,868	3	-
3	Curtis Memorial Library	-	137,104	137,104	137,104	-	-
55	Harpswell Community Broadcasting	-	63,750	63,750	63,750	-	-
28	Recreation - general and festival	-	45,579	45,579	44,045	1,534	-
Total cultural and recreation		-	294,304	294,304	292,767	1,537	-

TOWN OF HARPSWELL, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis of Accounting), Continued
For the year ended December 31, 2017

Article #	Account	Balances carried forward	Budgeted amounts		Actual	Variance positive (negative)	Balances carried forward	
			Original	Final				
Expenditures, continued:								
61	A. Dennis Moore Recycling / Transfer St.	\$ 64,093	40,000	104,093	4,953	99,140	99,140	
<i>Other capital / carryovers / reserves:</i>								
CF	Dry hydrant development	12,780	-	12,780	-	12,780	12,780	
CF	Land acquisition & Town property improvement	80,762	-	80,762	650	80,112	80,112	
CF,61	Vehicle replacement & vehicle equipment	59,690	45,000	104,690	63,000	41,690	41,690	
CF	Update of assessing records	20,235	-	20,235	-	20,235	20,235	
61	Emergency communication equipment	21,521	2,500	24,021	-	24,021	24,021	
CF	Land acquisition map 42, lot 6	3,318	-	3,318	-	3,318	3,318	
CF	Boat and motor replacement	38,243	-	38,243	-	38,243	38,243	
61	T/O & Facilities Improvements	13,073	10,000	23,073	2,159	20,914	20,914	
61	Office equipment	2,500	2,500	5,000	2,500	2,500	2,500	
CF	Conservation fund	5,000	-	5,000	-	5,000	5,000	
58	Cable related technology account	4,403	5,400	9,803	8,846	957	4,443	1
56	Public, educational & governmental equipment	-	6,000	6,000	6,000	-	-	2
CF	Self insurance reserve	1,594	-	1,594	56	1,538	1,538	
CF	Heating assistance	44,473	-	44,473	7,843	36,630	54,564	1
CF	Failed septic systems	22,649	-	22,649	-	22,649	22,649	
CF	Cedar Beach/Cedar Island	41,417	-	41,417	-	41,417	-	
57	PEG Equipment warranty	-	6,400	6,400	6,400	-	-	
STM,CF,34	FEMA Consultant	2,961	105,000	107,961	33,395	74,566	74,566	
CF	Energy Conservation	1,431	-	1,431	-	1,431	1,431	
59	Property tax assistance program	6,701	5,000	11,701	6,992	4,709	4,709	
CF	Pott's Point Town dock system	5,500	-	5,500	5,500	-	-	
43	Orr's/Bailey's Island Fire Dept renovations	-	30,914	30,914	-	30,914	30,914	
44	Emergency services building	-	100,000	100,000	4,502	95,498	95,498	
CF,37	Mitchell Field capital reserve	56,876	150,000	206,876	3,218	203,658	203,658	
35	Mitchell Field - operations	-	19,800	19,800	16,835	2,965	-	
CF	Mitchell Field - ramp or bandstand donation	1,800	-	1,800	-	1,800	1,800	
CF	Mitchell Field - water tower	17,437	-	17,437	9,454	7,983	7,983	
CF,35a	Mitchell Field - water tower cell feasibility	10,000	-	10,000	-	10,000	10,000	3
35	Mitchell Field - contract planning	-	13,000	13,000	2,650	10,350	5,000	
CF	Mitchell Field - waterfront planning	17,911	-	17,911	13,786	4,125	-	
35	Mitchell Field - demo sediment building	-	7,500	7,500	8,435	(935)	-	
Total capital and special projects		556,368	549,014	1,105,382	207,174	898,208	866,706	
62	Debt service	-	470,000	470,000	469,517	483	-	
CF,60	Contingency	6,228	10,000	16,228	-	16,228	16,228	
Total budgeted expenditures		562,599	5,002,337	5,564,936	4,449,517	1,115,419	946,934	
Other expenditures:								
Educational appropriation		-	7,744,079	7,744,079	7,744,079	-	-	
County tax		-	1,294,498	1,294,498	1,294,498	-	-	
Overlay / abatements		-	137,871	137,871	1,468	136,403	-	
Total other expenditures		-	9,176,448	9,176,448	9,040,045	136,403	-	
Excess (deficiency) of revenues over								
(under) expenditures		(562,599)	(406,150)	(968,749)	454,242	1,422,991	(946,934)	
Other financing sources (uses):								
36	Proceeds from bond anticipation note	-	475,000	475,000	475,000	-	-	
Transfer to Capital Projects - Mitchell Field Pier		-	(475,000)	(475,000)	(475,000)	-	-	
45	Transfer to Emergency Vehicles	-	(100,000)	(100,000)	(100,000)	-	-	
29	Transfer to Recreation fund - programs	-	(13,850)	(13,850)	(13,850)	-	-	
STM	Use of unassigned fund balance - flood map assistance	-	50,000	50,000	-	(50,000)	-	
71	Use of unassigned fund balance - budget	-	470,000	470,000	-	(470,000)	-	
63	Use of carryforward balances	562,599	-	562,599	-	(562,599)	-	
Total other financing sources (uses)		562,599	406,150	968,749	(113,850)	(1,082,599)	-	
Net change in fund balance		-	-	-	340,392	340,392	(946,934)	
Fund balance, beginning of year					4,013,058			
Fund balance, end of year					\$ 4,353,450			

1 Balances carried forward include 2017 revenues received for these purposes

2 Revenue received directly applied to capital lease payment

3 Article 35a authorized use of \$10,000 for a cell tower feasibility study from the Mitchell Field capital reserve. There were no expenditures, therefore, the funds revert back to the Mitchell Field capital reserve.

OTHER NONMAJOR GOVERNMENTAL FUNDS

NONMAJOR SPECIAL REVENUE FUNDS

Special revenue funds account for specific resources, the expenditure of which are restricted by law or administrative action for particular purposes.

Special revenue funds are established for the following purposes:

Restricted Grants

The purpose of this fund is to segregate state, federal and private awards whose purpose is restricted by the agency providing the funds.

Recreation

To account for various recreation fees and related expenditures.

NONMAJOR CAPITAL PROJECT FUNDS

Capital projects funds are established to account for resources obtained and expended for the acquisition of major capital facilities and projects.

The Town's individual capital project funds were established for the following purposes:

Emergency Vehicles

To accumulate funds in a dedicated interest bearing account to ultimately purchase emergency vehicles.

TOWN OF HARPSWELL, MAINE
Other Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2017

	Special Revenues		Capital Projects	Totals
	Restricted Grants	Recreation	Emergency Vehicles	
ASSETS				
Interfund receivables	\$ 381	46,469	195,018	241,868
Total assets	\$ 381	46,469	195,018	241,868
Fund balances:				
Restricted:				
Capital projects and grants	381	-	195,018	195,399
Assigned:				
Recreation	-	46,469	-	46,469
Total fund balances	\$ 381	46,469	195,018	241,868

TOWN OF HARPSWELL, MAINE
Other Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended December 31, 2017

	Special Revenues		Capital Projects	Totals
	Restricted Grants	Recreation	Emergency Vehicles	
Revenues:				
Grants	\$ 50,726	-	-	50,726
Interest earned	-	-	1,150	1,150
Bandstand donations	-	13,066	-	13,066
Charges for services	-	38,159	-	38,159
Total revenues	50,726	51,225	1,150	103,101
Expenditures:				
For specified purpose	58,395	45,910	413,394	517,699
Bandstand incl performances	-	8,597	-	8,597
Capital outlay	-	7,168	-	7,168
Total expenditures	58,395	61,675	413,394	533,464
Excess (deficiency) of revenues over (under) expenditures	-	(10,450)	(412,244)	(430,363)
Other financing sources:				
Transfers from general fund	-	13,850	100,000	113,850
Total other financing sources	-	13,850	100,000	113,850
Net change in fund balances	(7,669)	3,400	(312,244)	(316,513)
Fund balances, beginning of year	8,050	43,069	507,262	558,381
Fund balances, end of year	\$ 381	46,469	195,018	241,868

SCHEDULE

TOWN OF HARPSWELL, MAINE
Schedule of Taxes and Liens Receivable
For the year ended December 31, 2017

Year	Balance at 12/31/16	2017 Commitment	Supplemental Taxes	Collections	Abatements	Balance at 12/31/17
pre 2002	\$ -	-	-	-	-	-
2005	91	-	-	-	-	91
2006	152	-	-	-	-	152
2007	77	-	-	-	-	77
2008	82	-	-	-	-	82
2009	165	-	-	-	-	165
2010	177	-	-	-	-	177
2011	198	-	-	-	-	198
2012	396	-	-	-	-	396
2013	788	-	-	(61)	-	727
2014	1,004	-	-	-	-	1,004
2015	49,217	-	-	(46,069)	-	3,148
2016	264,253	-	-	(227,891)	-	36,362
2017	-	11,811,172	16,386	(11,444,172)	(1,468)	381,918
	316,600	11,811,172	16,386	(11,718,193)	(1,468)	424,497
				Taxes receivable		381,918
				Tax liens and acquired properties		42,579
				Total		\$ 424,497



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 Harpswell
Harpswell, 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 Harpswell, Maine as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town of Harpswell, Maine's basic financial statements, and have issued our report thereon dated January 31, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harpswell, 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 Harpswell, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Harpswell, 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.

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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 Harpswell, 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
January 31, 2018