

2016

Town of Hermon Maine Annual Financial Report For the Year Ended June 30, 2016

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TOWN OF HERMON, MAINE
Annual Financial Report
For the Year Ended June 30, 2016

TOWN OF HERMON, MAINE
Annual Financial Report
For the year ended June 30, 2016

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Independent Auditor's Report

Town Council
Town of Hermon, Maine

Report on the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hermon, Maine, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof and the 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, schedule of Town's proportionate share of the net pension liability, and schedule of Town contributions, as listed in the table of contents, 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 Hermon, Maine's basic financial statements. The combining and individual fund financial statements and schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Maine Department of Education, and is also not a part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and 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 February 17, 2017 on our consideration of the Town of Hermon, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Hermon, Maine's internal control over financial reporting and compliance.

A handwritten signature in cursive script, reading "Raymond Weston Ouellette".

February 17, 2017
South Portland, Maine



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The Management Discussion and Analysis ("MD&A") is a report of the Town of Hermon's fiscal activity for the year ending June 30, 2016. The report is presented in a manner that fairly represents the Town's present financial position in respect to all funds and accounts. Included is all the information to accurately understand the Town's financial position, and the data is correct to the best of our knowledge and belief.

The report includes funds and accounts that the Town of Hermon is required, either by legal or fiduciary duty, to maintain in the operation of all services. The use of the additional financial statements is encouraged to more fully understand the report.

The financial information of the Town includes all Town departments. All Town departments include municipal departments (Public Works, Public Safety, Solid Waste, Recreation and Social Services, General Administration, and others) and the School Department.

BIOGRAPHICAL INFORMATION

The Town of Hermon is primarily a residential community, however, a portion of the Town along the Bangor border on Route 2 and Coldbrook Road has multiple business parks. The growth of Hermon's business district has led to the utilization of resources available from the City of Bangor. Specifically, Hermon's water and sewer service is Town owned and maintained, but the service for these utilities is provided through the City of Bangor.

The residential portions of Hermon are a suburb to the Bangor Region and strive to maintain a rural character. Hermon is one of the more quickly growing communities in the State, and this growth created a population increase of approximately 25% from 1990 to 2000, and this trend has not changed since 2000. The growth, both commercial and residential, in Hermon, has created a continual increase to the Town value and allowed the Town to maintain a mil rate below surrounding communities. Hermon is also one of the largest truck towns in the State of Maine. The Town relies heavily on excise tax from commercial vehicles to also keep the mil rate lower than other neighboring communities. However, the Town Council and administration are well aware that the continued growth puts larger demands on services, and efforts from the Town are to make sure the community is prepared for long-term success.

The goal of the community is to continue the success and growth of our business parks while maintaining separation for our residential community. Hermon's residential area continues its dedication to serve Bangor as a bedroom community that allows for country, family living. Some business is encouraged in the village area to serve the residents. We have seen growth over the last 8 years of the shopping plaza, which compliments the community very well. The plaza includes a hometown grocery store, pharmacy, salon, dentist, insurance agents, chiropractor and acupuncturist, hardware store, Family Dollar, and Subway. These businesses are very important to the community, but the bulk of services continue to be available by traveling to Bangor.

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

FINANCIAL INFORMATION

The Town administration is responsible for the accounting structure of the community. This structure includes the establishment of financial internal controls that protect the Town from loss and misuse. All accounting information is maintained and reported using generally accepted accounting principles (GAAP). Further, the administration performs constant review of all services to promote and assure optimum utilization of resources to provide the services requested by the community. All services are reviewed using a cost benefit analysis that considers the need and demand for the service provided balanced against the cost to the community as a whole.

The following is a summary of the financial highlights of the Town for the fiscal year:

- As shown on Statement 1, the total net position as of June 30, 2016 for governmental activities of the Town of Hermon was \$22,955,945, an increase of \$923,607 when compared to the beginning net position figure for year ending June 30, 2015 of \$22,032,338. The most significant reasons for the increase in net position were the increases in cash and equivalents (\$145,941), investments (\$744,214), taxes and liens receivable (\$94,912) and capital assets (\$223,566).
- The Town's outstanding bonds payable decreased by \$530,215 for a total outstanding debt of \$2,140,015. During 2016, the Town issued \$1,840,000 in bonds through the Maine Municipal Bond Bank to refund a 2005 General Obligation Bond with a higher interest rate. All of the proceeds of the issuance were used to refund the outstanding debt and, therefore, no additional debt was amassed by the Town. This refunding resulted in a net savings of \$124,379 over the remaining 4 years of the bond until its maturity at June 30, 2020. The Town also had the opportunity to take advantage of including our 1998 Sewer Construction Bond with the Maine Municipal Bond Bank refinancing. The Maine Municipal Bond Bank refinances its own bonds and passes the savings on to the borrower who holds those loans. This saved the Town of Hermon \$24,960 in interest over the remaining two years of the bond, resulting in only principal payments for the remaining term. The Sewer Construction Bond will be paid in full in November 2018 and is currently the sole debt of the Town, not including School Department debt. As of June 30, 2016, the outstanding balance of the Sewer Construction Bond was \$269,700. The remaining \$1,870,315 of outstanding bond debt as of June 30, 2016 is comprised of School Department debt for the Hermon Middle School.
- In fiscal year 2011, the Town adopted Government Accounting Standards Board Statement No. 54 (GASB 54), which reclassified how fund balance is reported. Fund balance is reported in five classifications based on the constraints placed on those funds, whether externally or internally. As such, fund balance is reported as nonspendable, restricted, committed, assigned or unassigned. As of June 30, 2016, as shown on the Town's balance sheet for the General Fund (Exhibit A-1), the Town reported \$10,834 in nonspendable inventory and prepaid expenditures, has assigned for future use \$1,292,668, and restricted TIF funds of \$359,966 and education \$1,859,805, which leaves an unassigned fund balance of \$4,445,657 for a total fund balance of \$7,968,930. This is a decrease of \$1,293,109 from the previous year. You may also find the list of assigned, restricted, and nonspendable fund balances in the notes to the basic financial statements on page 42.

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

OVERVIEW OF FINANCIAL STATEMENTS

The management discussion and analysis is an introduction to the Town's basic financial statements. The financial statements are prepared using generally accepted accounting principles. The MD&A serves as a subjective explanation by the Town of the data contained in the financial statements. The three areas that the financial statements are broken into include: 1. government-wide financial statements, 2. fund financial statements, and 3. notes to the basic financial statements. Subjective analyses of the statements are also made and supplementary information is supplied to better explain the statements.

Government-wide Financial Statements

The government-wide financial statements are a total overview of the Town's financial status. They include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources and activities in a manner similar to private sector accounting. The purpose is to show Town finances in a format that is familiar to the common person.

The statement of net position is used to express the financial data required for the government-wide financial statements. This shows the total assets which include land, buildings, and other capital assets, net of accumulated depreciation. Assets and deferred outflows of resources are then reduced by the liabilities, which include total bonds and leases due over their entire lives as well as accrued compensated absences, and deferred inflows of resources. The result is the net position of the Town.

Government-wide financial statements distinguish business-type activities from governmental activities. Business-type activities are those that are funded through user fees or user-based revenue with no tax dollars being the key separation from governmental activities. It then follows that governmental activities are those that are primarily funded through taxes and governmental fees. At this time, the only business-type activity in Hermon is the Recreation Department.

Fund Financial Statements

The Town segregates accounts into three basic fund categories. Each category is determined to separate information in order to accurately report specific account activities. The determination of various funds is based upon accounting standards and legal requirements. The three fund categories for the Town are the general fund (primary fund), major capital projects funds (Highway Capital Reserve and School Capital Improvements), and other governmental funds (non-major special revenue, capital projects and permanent funds).

General Fund

The general fund covers essentially the same data as included in the government-wide financial statements. The difference is that fund financials focus on yearly inflows and outflows to determine a specific year's accessible resources. Capital assets, accumulated depreciation, and long-term liabilities are not included because they do not exemplify a specific year's transactions.

A budgetary comparison statement (Statement 6) is provided to show budgeted amounts as compared to the actual activity. This information is useful to determine future budgets and community planning.

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

Major Capital Projects Funds

Major capital project funds represent investment of reserve funds that are designated for different purposes. They represent long-term planning and projects that are not feasible to budget within a single year. The purpose is to spread the cost out over a specified time to reduce the overall financial burden on the Town. The Town reports two major capital project funds; Highway Capital Reserve and School Capital Improvements.

Other Governmental Funds

Other governmental funds are comprised of non-major special revenue, capital projects, and permanent funds. These funds were each individually determined to be non-major and are required to be categorized and grouped into other governmental funds. Separate schedules (Exhibits B-1 and B-2) are provided in the combining and individual fund financial statements following the notes to the basic financial statements.

Notes to Basic 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 basic financial statements can be found on pages 27-47 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information other than required supplementary information.

The combining and individual fund financial statements and schedules referred to earlier in connection with non-major governmental funds are presented following the notes. The combining and individual fund financial statements and schedules can be found beginning on page 53 of this report.

GOVERNMENT-WIDE ANALYSIS

Net position may serve over time as a useful indicator of a government's financial health. In the case of the Town, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$22,955,945 as of June 30, 2016. This figure is comprised of the net investment in capital assets (\$11,126,794), restricted net position for education (\$1,859,805), TIF revenues (\$359,966), special revenues (\$109,511), and permanent funds (\$8,212), and unrestricted net position (\$9,491,657).

Net Position for the Period Ending June 30, 2016

The current year's financial statements show a change in total assets and deferred outflows of resources compared to liabilities and deferred inflows of resources that net a 4.2% increase to total net position. The overall reasons for the percentage increase in net position are having more investments on hand, payment of significant bond debt, and an increase in total fund balance due to higher than anticipated revenues while keeping most expenses at or below budgeted figures.

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

The following is a summary of the Statement of Net Position.

	<u>Governmental Activities</u>			
	<u>2016</u>	<u>2015</u> <u>(Restated)</u>	<u>Change</u>	<u>% Change</u>
ASSETS				
Cash and cash equivalents	\$ 800,115	654,174	145,941	22.31%
Investments	11,570,736	10,826,522	744,214	6.87%
Other assets	1,226,113	1,548,747	(322,634)	-20.83%
Capital assets, net	13,406,436	13,182,870	223,566	1.70%
Total Assets	27,003,400	26,212,313	791,087	2.93%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources -				
related to pensions	259,324	244,433	14,891	6.09%
Total Deferred Outflows of Resources	259,324	244,433	14,891	6.09%
LIABILITIES				
Long-term debt due within one year	649,130	553,148	95,982	17.35%
Long-term debt due in more than one year	2,120,601	2,465,450	(344,849)	-13.99%
Other liabilities	1,491,588	1,253,064	238,524	19.04%
Total Liabilities	4,261,319	4,271,662	(10,343)	-0.24%
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources -				
related to pensions	45,460	152,746	(107,286)	-70.24%
Total Deferred Inflows of Resources	45,460	152,746	(107,286)	-70.24%
NET POSITION				
Net investment in capital assets	11,126,794	10,164,272	962,522	9.47%
Restricted for:				
Nonexpendable trust principal	7,785	7,785	-	-
Expendable permanent funds	427	276	151	54.71%
Education	1,859,805	2,964,820	(1,105,015)	-37.27%
Tax increment financing	359,966	365,073	(5,107)	
Special revenue fund	109,511	111,045	(1,534)	-1.38%
Unrestricted	9,491,657	8,419,067	1,072,590	12.74%
Total Net Position	\$ 22,955,945	22,032,338	923,607	4.19%

Overall, net position for the Town's governmental activities increased by \$923,607 from 2015. This increase is attributed mainly to the increases in cash and cash equivalents, investments and capital assets. Total liabilities remained consistent with the prior year.

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

The following table presents a summary of the Statement of Activities for the fiscal year ended June 30, 2016.

Governmental Activities

	<u>2016</u>	<u>2015 (Restated)</u>	<u>Change</u>	<u>Percent Change</u>
Revenues				
Program revenues				
Charges for services	\$ 2,228,489	2,211,109	17,380	0.79%
Operating grants and contributions	7,089,843	7,118,209	(28,366)	-0.40%
Capital grants and contributions	540,526	49,982	490,544	981.44%
General revenues				
Property taxes	5,585,696	5,347,608	238,088	4.45%
Tax increment financing revenue	289,585	296,811	(7,226)	-2.43%
Excise taxes	3,063,058	2,859,156	203,902	7.13%
Interest and costs on taxes	27,757	31,936	(4,179)	-13.09%
Grants and contributions not restricted:				
State revenue sharing	157,905	155,511	2,394	1.54%
Homestead exemption	97,784	97,413	371	0.38%
Other intergovernmental revenues	297,244	225,290	71,954	31.94%
Unrestricted investment earnings	82,522	25,604	56,918	222.30%
MePERS reimbursement	-	905,853	(905,853)	-100.00%
Sale of land held for resale	-	150,000	(150,000)	-100.00%
Miscellaneous revenues	4,102	54,423	(50,321)	-92.46%
Gain (loss) on sale of capital assets	(1,457)	4,241	(5,698)	-134.36%
Total revenues	19,463,054	19,533,146	(70,092)	-0.36%
Expenses				
General government	1,032,004	589,531	442,473	75.06%
Public safety	841,914	799,069	42,845	5.36%
Public works	1,042,319	912,845	129,474	14.18%
Solid waste	545,676	521,218	24,458	4.69%
Recreational and social services	152,588	127,969	24,619	19.24%
Education	12,474,504	12,206,909	267,595	2.19%
County tax	590,255	563,037	27,218	4.83%
Unclassified	217,839	355,741	(137,902)	-38.76%
Grants and other special uses	806,647	750,512	56,135	7.48%
Interest on debt	6,926	19,372	(12,446)	-64.25%
Capital maintenance expenses	828,775	297,709	531,066	178.38%
Total expenses	18,539,447	17,143,912	1,395,535	8.14%
Change in net position	923,607	2,389,234	(1,465,627)	-61.34%
Net position - beginning, as restated	22,032,338	19,643,104	2,389,234	12.16%
Net position - ending	\$ 22,955,945	22,032,338	923,607	4.19%

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

Comparatives of revenues identify a couple key changes. Overall revenues decreased by \$70,092 from the previous year. The major decrease in revenues from the previous year is due to the MePERS reimbursement and sale of Town owned land, which totaled \$1,055,853. These were one-time revenues recognized in the 2014-2015 fiscal year. Excluding these one-time revenues, the Town would have seen an increase in revenues for the 2015-2016 fiscal year. This large decrease was mostly offset by increases in excise taxes, property taxes, and capital grants and contributions. Excise taxes had a considerable increase in revenue from the prior year. There was a \$203,902 increase alone for excise taxes from 2015 to 2016. This is the second year in a row we have seen an increase of just over \$200,000 for excise taxes. We have seen an upward trend over the last few years of excise tax revenue as the economy starts to stabilize. Not only are we seeing the personal side of excise taxes increase, but the commercial piece has had significant growth as well. Property tax revenue is variable due to mil rates, the economy, values of homes, new construction, the commercial district growth, as well as other miscellaneous factors, but did show an increase of \$238,088 from the previous year. Finally, capital grants and contributions increased by \$490,544 due to joint road projects with the State of Maine to reconstruct parts of the Klatte and Fuller Roads. Half of the expenses related to each project, subject to a maximum outlined in each agreement, was reimbursed by the State of Maine.

Overall, expenses have increased by \$1,395,535 from 2015. This figure is a little deceiving. Reserve accounts that are not considered capital project reserve accounts are included in general government for financial reporting purposes. In the 2015-2016 fiscal year, the Town Manager funded some projects out of the reserves that are not considered capital projects and, therefore, have not been capitalized.

Internally, the goal is to recognize efficiencies that mitigate the loss without increasing property taxes.

Financial Analysis of the Town's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with financial related legal requirements.

Governmental Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. As the Town completed the year, total governmental funds reported a combined (Town and School) fund balance of \$11,803,925 (Statement 3), \$192,799 higher than the previous year. The following is a general analysis of transactions affecting the change in the combined fund balance of the Town's governmental funds.

As shown on Statement 6, revenues exceeded expenditures for the general fund by \$1,839,210. However, the use of prior year surplus by the Town and School more than exceeded this amount. The Town and School use fund balance to keep the mil rate low and to ensure the School Department is compliant with maximum unassigned fund balance amounts at year-end. Revenues for the general fund exceeded budget by \$1,206,719 and expenditures were under budget by \$632,491. The Highway Capital Reserve saw a decrease in fund balance of \$54,189 due to expenditures exceeding revenues and transfers from other funds. The School Capital Improvements fund reported an increase in fund balance of \$1,758,460 due almost entirely to transfers from the Town and School Department to fund the capital reserve, as well as to ensure the School Department maintains the required level of unassigned fund balance at year-end. Finally, all other governmental funds reported a decrease in fund balance of \$218,363, which is mainly due to capital expenditures for the public works and recreation facilities, as well as municipal buildings.

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

General Fund

The following is a summary of General Fund expenditures and revenues by function, with comparison to 2015. The information is gathered from Exhibit A-2.

	<u>Actual Activity</u>			Percent Change
	2016	2015	Change	
Revenues				
Property taxes	\$ 5,531,442	5,353,077	178,365	3.33%
Tax increment financing revenue	289,585	296,811	(7,226)	-2.43%
Excise taxes	3,063,058	2,859,156	203,902	7.13%
Interest on taxes	27,757	31,936	(4,179)	-13.09%
State revenue sharing	157,905	155,511	2,394	1.54%
Homestead exemption	97,784	97,413	371	0.38%
State education subsidy	5,200,635	5,035,590	165,045	3.28%
Other intergovernmental revenues	348,558	343,201	5,357	1.56%
MePERS Reimbursement	-	905,853	(905,853)	-100.00%
Licenses and permits	69,339	52,873	16,466	31.14%
Charges for services	1,970,979	1,992,871	(21,892)	-1.10%
Interest earned	72,456	17,852	54,604	305.87%
Miscellaneous	602,775	720,040	(117,265)	-16.29%
Total revenues	17,432,273	17,862,184	(429,911)	-2.41%
Expenditures				
Current:				
General government	754,924	692,695	62,229	8.98%
Public safety	740,793	712,372	28,421	3.99%
Public works	1,006,653	883,421	123,232	13.95%
Solid waste	535,557	511,099	24,458	4.79%
Recreational and social services	143,799	130,077	13,722	10.55%
Unclassified	215,819	207,644	8,175	3.94%
Tax increment financing	244,957	147,270	97,687	66.33%
County Tax	590,255	563,037	27,218	4.83%
Education	11,761,906	11,266,328	495,578	4.40%
Capital expenditures	402,700	197,641	205,059	103.75%
Debt service	99,656	166,808	(67,152)	-40.26%
Total expenditures	16,497,019	15,478,392	1,018,627	6.58%
Excess of revenues over expenditures	\$ 935,254	2,383,792	(1,448,538)	-60.77%

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

Overall, in 2016, revenues exceeded expenditures by \$935,254 in the General Fund. We have seen that excise tax revenue has had significant increases three years in a row. This is excellent since the Town of Hermon relies heavily on excise tax revenue to help keep the mil rate low while providing many services to the community. Total revenues decreased by \$429,911 from 2015, but the Town saw increases in excise taxes, property taxes, State education subsidy, and interest earnings. There was a total increase of \$1,018,627 in expenses from 2015 to 2016. Education and capital expenditures were the largest drivers in the increase in total expenditures from 2015.

Please refer to Exhibit A-2 in the financial statements for more detailed revenue and expenditure breakdown.

Capital Assets

	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016
	<u>(restated)</u>			
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 128,572	-	-	128,572
Construction in progress	45,659	112,695	45,659	112,695
Total capital assets, not being depreciated	174,231	112,695	45,659	241,267
Capital assets, being depreciated:				
Buildings and improvements	19,744,938	203,441	-	19,948,379
Equipment, furniture and fixtures	2,402,753	102,784	84,825	2,420,712
Vehicles	1,808,334	586,776	159,431	2,235,679
Total capital assets, being depreciated	23,956,025	893,001	244,256	24,604,770
Total accumulated depreciation	(10,947,386)	(669,463)	177,248	(11,439,601)
Total capital assets, net	\$ 13,182,870	336,233	(112,667)	13,406,436

Major capital asset additions incurred by the Town during FY 2016 included the following:

- 2015 Freightliner fire truck (\$277,014), 2015 Caterpillar backhoe (\$108,000), public works garage improvements (\$88,406), boat landing improvements at Jackson's Beach (\$66,276), two 2016 Blue Bird school buses (165,127), and \$75,021 in costs related to the new Hermon Middle School roof that will be finished in FY 2017. In total, capital asset additions for the year ending June 30, 2016 was \$960,037.
- Current year depreciation of \$669,463 increased total accumulated depreciation to \$11,439,601. The Town disposed of multiple pieces of equipment and vehicles with a total net book value (cost less accumulated depreciation) at June 30, 2016 of \$67,008. These assets were sold or traded-in for a total value of \$65,551. In total, these disposals resulted in a loss on sale of capital assets of \$1,457, as shown on Statement 2.

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

Additional information on the Town's capital assets can be found in the notes to the basic financial statements on page 37.

Debt Administration

The Town's debt consists of three bonds and several capital leases. A summary of the Town's debt activity and other long-term liabilities for the year ended June 30, 2016 is as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Bonds payable	\$ 2,670,230	1,840,000	2,370,215	2,140,015	580,215
Capital leases payable	53,778	165,127	79,278	139,627	68,915
Net pension liability	294,590	127,809	-	422,399	-
Accrued compensated absences	65,689	2,001	-	67,690	-
Governmental activities					
long-term liabilities	\$ 3,084,287	2,134,937	2,449,493	2,769,731	649,130

As noted previously, the Town refunded \$1,840,000 of outstanding debt to obtain an economic savings over the remaining life of the refunding bond. Bonds payable decreased by \$530,215 from 2015. During 2016, the School Department executed two new lease agreements for the purchase of two school buses. As such, capital leases payable increased by \$85,849 from 2015.

Additional information on the Town's long-term debt can be found in the notes to the basic financial statements on page 39-41.

ECONOMIC FACTORS, TAX RATES, AND NEXT YEAR'S BUDGET

COMMITMENT:

Commitment is the most important number to analyze because no matter what the change is in any other category, this is the one that determines if property taxes are going up. It is the amount of money Hermon needs to raise to balance the budget and it comes from two sources - real estate and personal property taxes. For fiscal year ending June 30, 2016, total commitment was \$5,887,259 as compared to June 30, 2015, which was \$5,675,130. The mil rate for 2015-2016 was 12.00, which is unchanged from the prior year.

BUDGET HIGHLIGHTS

The budget highlights identify changes in the 2016-17 budget from 2015-16. These points are only the highlights and serve to summarize changes to the overall budget rather than to provide an explanation to every adjustment to the budget.

- General Government is increasing by \$78,411, or 10.23%. There are miscellaneous changes throughout General Government, both increases and decreases within different sub-departments that balance out to a 10.23% overall increase. General Government is comprised of the Town Manager, Town Clerk, Deputy Clerks, Finance department, Assessor, Code Officer, Municipal building, supplies, Town Council, Town Boards, miscellaneous expenses, and administration expenses such as all insurances including health, worker's compensation, tax bills, Hermon Connection, repairs, and audit and legal services. A few of the largest increases were to health insurance, Town Clerk in the amount of \$7,358 due to law change in minimum salaries, Finance for

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

adding an additional 8 hours per week for the Finance Director, and Assessing in the amount of \$32,719 due to adding an additional staff member.

- The Economic Development budget has increased by 3.35% or \$4,396. The two most significant increases were to the economic development salary and the contract with the School Department for IT services.
- Public Safety, which encompasses Police, Fire, Animal Control, the public safety building, and traffic lights, is increasing by 3.80%, or \$29,344. Similar to General Government, there are many miscellaneous increases and decreases among line items, but the major portion to the increase is the cost for part-time wages for the Fire Department, full-time for Police, an increase in the contract with the Bangor Water District for water hydrant rentals, and traffic signal repair due to issues we have had in the past.
- The Public Works Department is increasing by 2.05%, or \$17,616. Some of the increases within the Department are for health insurance and the snowplow contract.
- The Solid Waste budget is increasing by 1.40%, or \$7,806. The increase is primarily due to roadside pickup expenses.
- Recreation and Social Services is increasing by 4.32%, or \$6,647. The largest increase is the Recreation Director salary in the amount of \$5,686.
- Debt Service is decreasing 14.45%, or \$15,189. This is a result of only principal payments being due on the Water & Sewer Extension bond for the remaining term.
- Reserves are being decreased by \$20,500, or 3.60% from the prior year. There are some various increases and decreases within the different reserves. The major decrease is the amount the Town is funding the School Tax Stabilization reserve in the amount of \$25,000.
- Special Assessments includes County Taxes and TIFs. There is a 14.83% increase for Special Assessments. This is mostly due to the County tax increase of \$16,876 and TIF payments to taxpayers in the TIF districts have increased by \$85,000 due to some new TIF agreements and extension of some other TIF agreements.
- General Assistance is decreasing by 7.41%, or \$1,000. The Town has been fortunate that general assistance has been well maintained and not reaching the budgeted figures.
- The local contribution from property taxes to the School Department is going from \$4,465,777 to \$4,547,222.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Town's finances. If you have questions about this report or need any additional information, contact the Town Manager, at P.O. Box 6300 Hermon, Maine 04402-6300 or call (207) 848-1010 or www.hermon.net.

(207) 848-1010 (207) 848-3316 (fax)
<http://www.hermon.net>

BASIC FINANCIAL STATEMENTS

TOWN OF HERMON, MAINE
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 800,115	-	800,115
Investments	11,570,736	-	11,570,736
Receivables:			
Taxes receivable - current year	364,882	-	364,882
Taxes receivable - prior year	40,495	-	40,495
Tax liens - prior years	92,962	-	92,962
Tax acquired property	4,376	-	4,376
Accounts receivable	849,856	-	849,856
Internal balances	(149,322)	149,322	-
Inventory	20,971	-	20,971
Prepaid expenses	1,893	-	1,893
Nondepreciable capital assets	241,267	-	241,267
Depreciable capital assets, net	13,165,169	-	13,165,169
Total assets	27,003,400	149,322	27,152,722
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - related to pensions	259,324	-	259,324
Total deferred outflows of resources	259,324	-	259,324
LIABILITIES			
Accounts payable	422,076	-	422,076
Accrued payroll and benefits	1,007,617	-	1,007,617
Prepaid taxes	20,572	-	20,572
Accrued interest	2,647	-	2,647
Other liabilities	38,676	-	38,676
Noncurrent liabilities:			
Due within one year	649,130	-	649,130
Due in more than one year	2,120,601	-	2,120,601
Total liabilities	4,261,319	-	4,261,319
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - related to pensions	45,460	-	45,460
Total deferred inflows of resources	45,460	-	45,460
NET POSITION			
Net investment in capital assets	11,126,794	-	11,126,794
Restricted for:			
Education	1,859,805	-	1,859,805
Tax increment financing	359,966	-	359,966
Special revenue fund	109,511	-	109,511
Permanent funds:			
Nonexpendable	7,785	-	7,785
Expendable	427	-	427
Unrestricted	9,491,657	149,322	9,640,979
Total net position	\$ 22,955,945	149,322	23,105,267

See accompanying notes to basic financial statements.

TOWN OF HERMON, MAINE
Statement of Activities
For the year ended June 30, 2016

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net position		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government		Total
					Governmental activities	Business-type activities	
Primary government:							
Governmental activities:							
General government	\$ 1,032,004	87,232	-	-	(944,772)	-	(944,772)
Public safety	841,914	13,698	-	-	(828,216)	-	(828,216)
Public works	1,042,319	7,051	-	455,837	(579,431)	-	(579,431)
Solid waste	545,676	213,600	-	-	(332,076)	-	(332,076)
Recreational and social services	152,588	8	-	-	(152,580)	-	(152,580)
Education	12,474,504	1,707,593	6,511,613	-	(4,255,298)	-	(4,255,298)
County tax	590,255	-	-	-	(590,255)	-	(590,255)
Unclassified	217,839	11,136	-	-	(206,703)	-	(206,703)
Grants and other special uses	806,647	188,171	578,230	84,689	44,443	-	44,443
Interest on debt	6,926	-	-	-	(6,926)	-	(6,926)
Capital maintenance expenses	828,775	-	-	-	(828,775)	-	(828,775)
Total governmental activities	18,539,447	2,228,489	7,089,843	540,526	(8,680,589)	-	(8,680,589)
Business-type activities:							
Recreation department	209,230	255,714	-	-	-	46,484	46,484
Total business-type activities	209,230	255,714	-	-	-	46,484	46,484
Total primary government	\$ 18,748,677	2,484,203	7,089,843	540,526	(8,680,589)	46,484	(8,634,105)
General revenues:							
Property taxes					\$ 5,585,696	-	5,585,696
Tax Increment Financing revenue					289,585	-	289,585
Excise taxes					3,063,058	-	3,063,058
Interest and costs on taxes					27,757	-	27,757
Grants and contributions not restricted to specific programs:							
State revenue sharing					157,905	-	157,905
Homestead exemption					97,784	-	97,784
Other intergovernmental revenues					297,244	-	297,244
Unrestricted investment earnings					82,522	-	82,522
Miscellaneous revenues					4,102	-	4,102
Loss on sale of capital assets					(1,457)	-	(1,457)
Total general revenues and loss on sale of capital assets					9,604,196	-	9,604,196
Change in net position					923,607	46,484	970,091
Net position - beginning - restated					22,032,338	102,838	22,135,176
Net position - ending					\$ 22,955,945	149,322	23,105,267

See accompanying notes to basic financial statements.

TOWN OF HERMON, MAINE
Balance Sheet
Governmental Funds
June 30, 2016

	General	Highway Capital Reserve	School Capital Improvements	All Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 763,928	-	-	36,187	800,115
Investments	8,554,903	495,261	1,013,061	1,507,511	11,570,736
Receivables:					
Taxes receivable - current year	364,882	-	-	-	364,882
Taxes receivable - prior year	40,495	-	-	-	40,495
Tax liens - prior years	92,962	-	-	-	92,962
Tax acquired property	4,376	-	-	-	4,376
Accounts receivable	160,239	455,837	-	233,780	849,856
Inventory	8,941	-	-	12,030	20,971
Prepaid expenditures	1,893	-	-	-	1,893
Interfund loans receivable	-	-	1,756,033	36,235	1,792,268
Total assets	\$ 9,992,619	951,098	2,769,094	1,825,743	15,538,554
LIABILITIES					
Accounts payable	342,566	73,475	-	6,035	422,076
Accrued payroll and benefits	1,004,613	-	-	3,004	1,007,617
Prepaid taxes	20,572	-	-	-	20,572
Other liabilities	38,676	-	-	-	38,676
Interfund loans payable	313,164	889,575	-	738,851	1,941,590
Total liabilities	1,719,591	963,050	-	747,890	3,430,531
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	304,098	-	-	-	304,098
Total deferred inflows of resources	304,098	-	-	-	304,098
FUND BALANCES					
Nonspendable:					
Inventory	8,941	-	-	12,030	20,971
Prepaid expenditures	1,893	-	-	-	1,893
Nonexpendable principal	-	-	-	7,785	7,785
Restricted:					
General fund	2,219,771	-	-	-	2,219,771
Special revenue funds	-	-	-	109,511	109,511
Permanent funds	-	-	-	427	427
Assigned:					
General fund	1,292,668	-	-	-	1,292,668
Capital projects funds	-	-	2,769,094	948,982	3,718,076
Unassigned:					
General fund	4,445,657	-	-	-	4,445,657
Capital projects funds	-	(11,952)	-	-	(11,952)
Special revenue funds	-	-	-	(882)	(882)
Total fund balances (deficits)	7,968,930	(11,952)	2,769,094	1,077,853	11,803,925
Total liabilities, deferred inflows of resources, and fund balances (deficits)	\$ 9,992,619	951,098	2,769,094	1,825,743	
Amounts reported for governmental activities in the statement of net position are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.					13,406,436
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.					304,098
Long-term liabilities, including bonds and capital leases payable, are not due and payable in the current period and therefore, are not reported in the funds.					
Bonds payable					(2,140,015)
Capital leases payable					(139,627)
Net pension liability, including related deferred inflows and outflows of resources					(208,535)
Accrued interest					(2,647)
Accrued compensated absences					(67,690)
Net position of governmental activities					\$ 22,955,945

See accompanying notes to basic financial statements.

TOWN OF HERMON, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2016

	General	Highway Capital Reserve	School Capital Improvements	All Nonmajor Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 8,911,842	-	-	-	8,911,842
Intergovernmental	5,804,882	455,837	-	627,209	6,887,928
Maine PERS on-behalf payments	726,542	-	-	-	726,542
Licenses and permits	69,339	-	-	-	69,339
Charges for services	1,970,979	-	-	-	1,970,979
Investment income	72,456	1,531	3,197	5,338	82,522
Other	602,775	-	-	223,881	826,656
Total revenues	18,158,815	457,368	3,197	856,428	19,475,808
Expenditures:					
Current:					
General government	754,924	-	-	-	754,924
Public safety	740,793	-	-	-	740,793
Public works	1,006,653	-	-	-	1,006,653
Solid waste	535,557	-	-	-	535,557
Recreational and social services	143,799	-	-	-	143,799
Education	11,791,702	-	-	-	11,791,702
County tax	590,255	-	-	-	590,255
Tax increment financing	244,957	-	-	-	244,957
Unclassified	215,819	203	770	1,047	217,839
Grants and other special uses	-	-	-	806,647	806,647
Maine PERS on-behalf payments	726,542	-	-	-	726,542
Debt service	1,939,656	-	-	-	1,939,656
Capital outlay	567,827	761,354	-	459,631	1,788,812
Total expenditures	19,258,484	761,557	770	1,267,325	21,288,136
Excess (deficiency) of revenues over (under) expenditures	(1,099,669)	(304,189)	2,427	(410,897)	(1,812,328)
Other financing sources (uses):					
Capital lease proceeds	165,127	-	-	-	165,127
Proceeds from current refunding	1,840,000	-	-	-	1,840,000
Transfers from other funds	-	250,000	1,756,033	192,534	2,198,567
Transfers to other funds	(2,198,567)	-	-	-	(2,198,567)
Total other financing sources (uses)	(193,440)	250,000	1,756,033	192,534	2,005,127
Net change in fund balances	(1,293,109)	(54,189)	1,758,460	(218,363)	192,799
Fund balances, beginning of year	9,262,039	42,237	1,010,634	1,296,216	11,611,126
Fund balances (deficits), end of year	\$ 7,968,930	(11,952)	2,769,094	1,077,853	11,803,925

See accompanying notes to basic financial statements.

TOWN OF HERMON, MAINE
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2016

Net change in fund balances - total governmental funds (from Statement 4)	\$	192,799
<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. This is amount by which capital outlay (\$960,037) exceeded depreciation expense (\$669,463) and the net book value of disposed assets (\$67,008).</p>		
		223,566
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the increase in unavailable revenue - property taxes.</p>		
		54,254
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. This is the increase in accrued compensated absences (\$2,001) and net pension liability with related deferred inflows and outflows of resources (\$5,632) and the decrease in accrued interest (\$16,255).</p>		
		8,622
<p>Bond and capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which bond repayments (\$2,370,215) and capital lease repayments (\$79,278) exceeded bond proceeds (\$1,840,000) and capital lease proceeds (\$165,127).</p>		
		444,366
Change in net position of governmental activities (see Statement 2)		\$ 923,607

See accompanying notes to basic financial statements.

TOWN OF HERMON, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Budgetary Basis
General Fund
For the year ended June 30, 2016

	Budgeted amounts		Actual	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Taxes	\$ 8,239,348	8,239,348	8,911,842	672,494
Intergovernmental	5,671,730	5,671,730	5,804,882	133,152
Licenses and permits	51,800	51,800	69,339	17,539
Charges for services	1,797,236	1,797,236	1,970,979	173,743
Interest earned	14,000	14,000	72,456	58,456
Other revenues	451,440	451,440	602,775	151,335
Total revenues	16,225,554	16,225,554	17,432,273	1,206,719
Expenditures:				
Current:				
General government	789,541	789,541	754,924	34,617
Public safety	773,137	773,137	740,793	32,344
Public works	1,011,103	1,011,103	1,006,653	4,450
Solid waste	555,640	555,640	535,557	20,083
Recreation and social services	153,975	153,975	143,799	10,176
County tax	590,255	590,255	590,255	-
Tax increment financing	363,813	363,813	244,957	118,856
Unclassified	323,645	323,645	215,819	107,826
Education	12,367,312	12,367,312	11,761,906	605,406
Debt service:				
Principal	95,333	95,333	89,900	5,433
Interest	9,756	9,756	9,756	-
Capital expenditures	96,000	96,000	402,700	(306,700)
Total expenditures	17,129,510	17,129,510	16,497,019	632,491
Excess (deficiency) of revenues over (under) expenditures	(903,956)	(903,956)	935,254	1,839,210
Other financing sources (uses):				
Utilization of prior year surplus - School	2,081,245	2,081,245	-	(2,081,245)
Utilization of prior year surplus - Town	1,021,278	1,021,278	-	(1,021,278)
Transfers out	(2,198,567)	(2,198,567)	(2,198,567)	-
Total other financing sources (uses)	903,956	903,956	(2,198,567)	(3,102,523)
Net change in fund balance, budgetary basis	-	-	(1,263,313)	(1,263,313)
Reconciliation to GAAP:				
Change in accrued summer salaries and benefits			(29,796)	
Net change in fund balance, GAAP basis			(1,293,109)	
Fund balance, beginning of year			9,262,039	
Fund balance, end of year	\$		7,968,930	

See accompanying notes to basic financial statements.

TOWN OF HERMON, MAINE
Statement of Net Position
Proprietary Fund
June 30, 2016

Business-type Activities - Enterprise Fund		Recreation Department
ASSETS		
Current assets:		
Interfund loans receivable	\$	149,322
Total assets		149,322
LIABILITIES		
Current liabilities:		
Accounts payable		-
Total liabilities		-
NET POSITION		
Unrestricted		149,322
Total net position	\$	149,322

See accompanying notes to basic financial statements.

TOWN OF HERMON, MAINE
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the year ended June 30, 2016

Business-type Activities - Enterprise Fund		Recreation Department
Operating revenues:		
Charges for services	\$	255,714
Total operating revenues		255,714
Operating expenses:		
Payroll and related expenses		141,375
Recreation programs		67,855
Total operating expenses		209,230
Operating income		46,484
Net position, beginning of year		102,838
Net position, end of year	\$	149,322

See accompanying notes to basic financial statements.

TOWN OF HERMON, MAINE
Statement of Cash Flows - Proprietary Fund
For the year ended June 30, 2016

Business-type Activities - Enterprise Fund		Recreation Department
Cash flows from operating activities:		
Receipts from customers and users	\$	255,714
Payments to suppliers		(67,855)
Payments to employees		(141,375)
Net cash provided by operating activities		46,484
Cash flows from noncapital financing and related activities:		
Net interfund activity		(46,484)
Net cash used in noncapital financing and related activities		(46,484)
Increase (decrease) in cash		-
Cash and cash equivalents, beginning of year		-
Cash and cash equivalents, end of year	\$	-
Reconciliation of operating income to net cash provided by operating activities:		
Operating income		46,484
Net cash provided by operating activities	\$	46,484

See accompanying notes to basic financial statements.

TOWN OF HERMON, MAINE
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Agency Funds	Private-purpose Trusts
	Student Activity Funds	School Department Scholarships
ASSETS		
Cash and cash equivalents	\$ 172,611	190,500
Total assets	172,611	190,500
LIABILITIES		
Due to student groups	172,611	-
Total liabilities	172,611	-
NET POSITION		
Held in trust	\$ -	190,500

See accompanying notes to basic financial statements.

TOWN OF HERMON, MAINE
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the year ended June 30, 2016

	Private-purpose Trusts
	School Department Scholarships
Additions	\$ 734
Deductions	-
Change in net position	734
Net position, beginning of year	189,766
Net position, end of year	\$ 190,500

See accompanying notes to basic financial statements.

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide 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 primary government. All fiduciary activities are reported only in the fund financial statements.

B. Reporting Entity

The Town of Hermon operates under an elected Town Council and Town Manager form of government. The Town's School Department operates under an elected School Committee. The Town's major operations include public works, public safety, public services, education, and general administrative services.

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Town of Hermon, Maine. The decision to include a potential component unit was made by applying the criteria set forth in accounting principles generally accepted in the United States of America, which defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Application of this criterion and determination of type of presentation involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. Additionally, certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or component unit. Based on the application of these criteria, there were no potential component units required to be included in this report.

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Town.

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government’s funds, including its fiduciary funds. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

The *General Fund* is the government’s primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The *Highway Capital Reserve Fund* is used to account for road construction and repairs.

The *School Capital Improvements Fund* is used to account for major capital purchases by the school (school buses, equipment, etc.), and construction of schools.

The government reports the following major enterprise fund:

The *Recreation Department Fund* is used to account for revenues generated from the variety of services provided by Hermon Recreation on a user basis. The expenses related to these programs are to be covered with revenues generated. Costs covered are program related expenses, food costs, payroll, facilities improvements, clothing/uniforms, and equipment purchases.

Additionally, the Town reports the following fund type:

Fiduciary funds account for assets held by the Town in a trustee capacity or as an agent on behalf of others. The Town’s fiduciary funds include the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. The funds are used to account for assets that the Town holds for others in an agency capacity.

Private-purpose trust funds are used to account for resources legally held in trust for the benefit of others.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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.

The 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 expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary and private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's proprietary fund are charges to customers for sales and services; operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

F. Cash and Investments

Cash includes amounts in demand deposits as well as time deposits and certificates of deposit owned by the Town. Investments are stated at fair value. All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

G. Interfund Loans Receivable/Payable

Transactions between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund loans or as interfund advances (i.e., the noncurrent portion of interfund loans).

H. Prepaid Expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The Town utilizes the consumption method for prepaid items in which items purchased are recorded as an asset and the recognition of the expenditure is deferred until the period the prepaid item is actually consumed or used.

I. Inventory

Inventory in the School Lunch Program consists of food and supplies and is valued at the lower of cost or market (first-in, first-out basis) and is offset with a nonspendable fund balance for inventories. Inventories of the School Lunch Fund include the value of the U.S. Department of Agriculture commodities donated to the Fund. Inventory in the General Fund consists of parts and supplies for the use of public works and is carried at cost (first-in, first-out basis).

J. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities column 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 market value at the date of donation.

The costs of normal maintenance and repairs 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.

For the primary government, straight-line depreciation is computed using the following estimated useful lives:

Buildings and improvements	15-50 years
Equipment and furniture	7-20 years
Vehicles	5-15 years
Infrastructure	20-100 years

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

K. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of net position and balance sheet will sometimes report separate sections for deferred outflows of resources and deferred inflows of resources. These separate financial statement elements, deferred outflows of resources and deferred inflows of resources, represent a consumption or acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) or inflow of resources (revenue) until that time. The governmental funds only report a deferred inflow of resources, unavailable revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The governmental activities have deferred outflows and inflows that relate to the net pension liability, which include the Town's contributions subsequent to the measurement date, which is recognized as a reduction of the net pension liability in the subsequent year. They also include changes in assumptions, differences between expected and actual experience, and changes in proportion and differences between Town contributions and proportionate share of contributions, which are deferred and amortized over the average expected remaining service lives of active and inactive members in the plan. They also include the net difference between projected and actual earnings on pension plan investments, which is deferred and amortized over a five-year period.

L. Compensated Absences

Under the terms of personnel policies and union contracts, vacation and sick leave are granted in varying amounts according to length of service. All vacation and sick time is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

M. Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources in the year of issuance. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures if material to the financial statements.

N. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is used in governmental funds. All encumbrances, if any, are assigned at year-end.

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

O. 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.

P. 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 Maine Public Employees Retirement System Consolidated Plan for Participating Local Districts (PLD Plan) and the Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the 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.

Q. Fund Equity

GASB 54 paragraph 27 requires governments that have formally adopted a fund balance policy to disclose the policy that sets forth the minimum fund balance amount. It is the intent of the Town to maintain a minimum fund balance of one month, 8.33%, of operating expenditures with a targeted balance of two months, or 16.66%. The maximum fund balance is not to exceed 25% of the operating expenditures. Any amount in excess of 25% is to be appropriated to reserve accounts for use on future, specific projects. The Town Council 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%.

Governmental Fund balance is reported in five classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which those funds can be spent. The five classifications of fund balance for the Governmental Funds are as follows:

- *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.

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The Town Council has the responsibility for committing fund balance amounts and likewise would be required to modify or rescind those commitments. Likewise, the Town Council or a body or official delegated by the Town Council may assign fund balance, including unspent budgeted amounts, for specific purposes in the General Fund at year-end based on Department requests.

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 practice to use committed or assigned resources first, and then unassigned resources, as they are needed.

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

A budget is adopted for the General Fund only, and is adopted on a basis consistent with generally accepted accounting principles (GAAP), except for encumbrances and Maine Public Employees Retirement on-behalf payments. Maine Public Employees Retirement contributions are made by the State of Maine on behalf of the School Department. These amounts have not been budgeted in the General Fund and result in a difference in reporting on a budgetary basis of accounting vs. reporting under accounting principles generally accepted in the United States of America of \$726,542. These amounts have been included as revenue and expenditures/expenses in the General Fund on Statement 4 (GAAP basis) and on the Statement of Activities. There is no effect on the fund balance or net position at the end of the year.

Through June 30, 2016, the Town did not budget for expenditures related to summer salaries and benefits for teachers on an accrual basis.

B. Deficit Fund Balance

For the year ended June 30, 2016, the following funds had deficit fund balances:

Highway Capital Reserve	\$ 11,952
Transition Grant	882

These deficits are expected to be funded by future revenues or transfers from the General Fund.

C. Excess of Expenditures over Appropriations

For the year ended June 30, 2016, expenditures exceeded appropriations for the following:

Town manager	\$ 8,984	Credit reserve	37,828
Code enforcement	155	Bicentennial celebration	23
Assistant clerks	848	MePERS reimbursement	31,449
Other general government	4,694	Fire equipment	257,292
Public works – general	6,701	Technology	25,151
Library	1,204	Economic development	53,883
Wireless	2,836	Elementary school	858
Legal liability	13,484		

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

CASH AND INVESTMENTS

A. 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 deposit policy for custodial credit risk. As of June 30, 2016, the Town reported deposits of \$1,163,226 with a bank balance of \$1,717,274. Of the Town's bank balances of \$1,717,274, none was exposed to custodial credit risk. The entire bank balance was covered by the F.D.I.C. or by additional insurance purchased on behalf of the Town by the respective banking institutions.

Deposits have been reported as follows:

Reported in governmental funds	\$ 800,115
Reported in fiduciary funds	<u>363,111</u>
Total deposits	\$ 1,163,226

B. Investments

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

	Fair <u>value</u>	Less than <u>1 year</u>	1-5 years	More than <u>5 years</u>
U. S. Government securities	\$ 1,812,055	1,812,055	-	-
Repurchase agreements	6,599,319	6,599,319	-	-
<u>Money Market</u>	<u>3,159,362</u>	<u>N/A</u>		
Total investments	\$ 11,570,736	8,411,374	-	-

Investments have been reported as follows:

Reported in governmental funds	\$ 11,570,736
--------------------------------	---------------

Credit Risk: Maine statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and certain corporate stocks and bonds. As of June 30, 2016, all of the Town's investments in U.S. Government Securities were rated, at a minimum, AA+ by Standard & Poor's.

Interest rate risk: The Town's investment policy states that interest rate risk should be mitigated by a) structuring the Town's portfolio so that securities mature to meet the Town's cash needs for ongoing operations, thereby precluding the need to sell securities on the open market prior to their maturity and b) investing in primarily in shorter-term securities.

The Town categorizes its fair value measurements within the fair value hierarchy established by general accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the Town's investments at June 30, 2016 are level 1 inputs.

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

PROPERTY TAX

Property taxes for the current period were committed on November 2, 2015, on the assessed value listed as of April 1, 2015, for all real and personal property located in the Town. Payment of taxes was due on April 1, 2016. Interest at the rate of 7% per annum was charged on any amounts remaining unpaid after this date.

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 \$58,264 for the period ended June 30, 2016.

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

Property taxes levied during the year were recorded as receivables at the time the levy was made. The receivables collected during the year and in the first sixty days following the end of the fiscal year have been recorded as revenues. The remaining receivables have been recorded as unavailable revenues.

The following summarizes the period ended June 30, 2016 levy:

	<u>2016</u>
Assessed value	\$ 490,604,900
Tax rate (per \$1,000)	<u>12.00</u>
Commitment	5,887,259
Supplemental taxes assessed	<u>1,967</u>
	5,889,226
Less:	
Collections and abatements	<u>5,524,344</u>
Receivable at June 30, 2016	<u>\$ 364,882</u>
Due date	April 1, 2016
Interest rate on delinquent taxes	7.0%
Collection rate	93.80%

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance June 30, <u>2015</u> (restated)	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2016</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 128,572	-	-	128,572
Construction in progress	45,659	112,695	45,659	112,695
<u>Total capital assets, not being depreciated</u>	<u>174,231</u>	<u>112,695</u>	<u>45,659</u>	<u>241,267</u>
Capital assets, being depreciated:				
Buildings and building improvements	19,744,938	203,441	-	19,948,379
Equipment, furniture and fixtures	2,402,753	102,784	84,825	2,420,712
Vehicles	1,808,334	586,776	159,431	2,235,679
<u>Total capital assets being depreciated</u>	<u>23,956,025</u>	<u>893,001</u>	<u>244,256</u>	<u>24,604,770</u>
Less accumulated depreciation for:				
Buildings and building improvements	8,190,519	435,851	-	8,626,370
Equipment, furniture and fixtures	1,550,664	102,209	39,291	1,613,582
Vehicles	1,206,203	131,403	137,957	1,199,649
<u>Total accumulated depreciation</u>	<u>10,947,386</u>	<u>669,463</u>	<u>177,248</u>	<u>11,439,601</u>
<u>Total capital assets being depreciated, net</u>	<u>13,008,639</u>	<u>223,538</u>	<u>67,008</u>	<u>13,165,169</u>
<u>Governmental activities capital assets, net</u>	<u>\$ 13,182,870</u>	<u>336,233</u>	<u>112,667</u>	<u>13,406,436</u>

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

Governmental activities:	
General government	\$ 24,490
Public safety	101,121
Public works	35,666
Education	489,278
Solid waste	10,119
Recreation and social services	8,789
<u>Total depreciation expense – governmental activities</u>	<u>\$ 669,463</u>

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

INTERFUND BALANCES

Individual interfund receivables and payables at June 30, 2016 were as follows:

	Interfund receivables	Interfund payables
General Fund	\$ -	313,464
Highway Capital Reserve	-	889,575
School Capital Improvements	1,756,033	-
Nonmajor special revenue funds:		
Adult Education	15,837	-
Title IIA	-	16,041
Title 1A	-	13,699
Local Entitlement	-	187,747
Pre-K Local Entitlement	-	3,036
Drug Free Communities	211	-
ARRA MARTI	250	-
Ticket to Ride	1,098	-
School Lunch Fund	-	1,050
PEPG Grant	705	-
Transition Grant	-	882
Comp. Grant	7,550	-
Library Grant	3,277	-
Bangor Wellness Grant	2,452	-
Fire Department Grant	743	-
Route 2 Project	-	3,417
Maine Forest Service Grants	3,278	-
MEMA Grant	-	2,397
Cemetery Reserve	-	49,694
Veterans Memorial Project	-	566
Medical Reimbursement	-	2,264
Athletic Complex	834	-
Total nonmajor special revenue funds	36,235	280,793
Nonmajor capital project funds:		
Public Works Facilities	-	278,203
Recreation Facilities	-	97,261
Municipal Building	-	20,460
Sewer Maintenance	-	55,294
Fire Station Reserve	-	6,840
Total nonmajor capital project fund	-	458,058
Recreation Department	149,322	-
Totals	\$ 1,941,590	1,941,890

The purpose of interfund loans is to charge revenues and expenditures/expenses to the appropriate fund when that activity is accounted for through the centralized checking account. The balances represent each fund's portion of the centralized checking account.

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

INTERFUND TRANSFERS

Individual fund transfers for the year ended June 30, 2016 were as follows:

	<u>Transfers in</u>	<u>Transfers out</u>
General Fund	\$ -	2,198,567
Highway Capital Reserve	250,000	-
School Capital Improvements	1,756,033	-
Nonmajor special revenue funds:		
Adult Education	3,034	-
School Lunch Fund	35,000	-
Cemetery Reserve	8,500	-
Total nonmajor special revenue funds	46,534	-
Nonmajor capital project funds:		
Public Works Facilities	77,000	-
Recreation Facilities	22,500	-
Municipal Building	8,000	-
Sewer Maintenance	28,500	-
Fire Station Reserve	10,000	-
Total nonmajor capital project funds	146,000	-
Totals	\$ 2,198,567	2,198,567

These transfers were budgeted transfers to fund certain activities.

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2016 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	\$ 2,670,230	1,840,000	2,370,215	2,140,015	580,215
Capital leases payable	53,778	165,127	79,278	139,627	68,915
Net pension liability	294,590	127,809	-	422,399	-
Accrued compensated absences	65,689	2,001	-	67,690	-
Governmental activities					
<u>long-term liabilities</u>	<u>\$ 3,084,287</u>	<u>2,134,937</u>	<u>2,449,493</u>	<u>2,769,731</u>	<u>649,130</u>

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

LONG-TERM DEBT

Bonds Payable

Bonds payable at June 30, 2016 is comprised of the following:

	<u>Amount of Original issue</u>	<u>Interest rate</u>	<u>Final maturity date</u>	<u>Balance end of year</u>
<u>General obligation bonds</u>				
1998 Sewer construction	\$ 1,798,000	4.13-4.83%	11/1/2018	\$ 269,700
2007 School construction	953,604(a)	0.00%	12/1/2016	30,315
2015 Refunding	1,840,000	1.37%	6/30/2020	1,840,000
Total				\$ 2,140,015

(a) The original amount of the bond was for \$953,604, of which \$650,453 has been forgiven by the State.

The annual debt service requirements to amortize bonds payable are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total debt service</u>
2017	\$ 580,215	20,723	600,938
2018	549,900	16,629	566,529
2019	549,900	10,810	560,710
2020	460,000	3,795	463,795
Totals	\$ 2,140,015	51,957	2,191,972

CURRENT REFUNDING

On October 22, 2015, the Town issued \$1,840,000 in bonds at an interest rate of 1.369% through the Maine Municipal Bond Bank. The proceeds were used to refund a 2005 General Obligation Bond issued through the Bank of New York Mellon with an interest rate of 3.875-4.00%. The net proceeds of \$1,840,000 were paid directly to the Bank of New York Mellon to retire, in full, the stated bond. The Town refunded the General Obligation Bond to reduce its debt service, which will result in the Town saving \$124,379 over the next four fiscal years until the bond's maturity at June 30, 2020. This reduction in debt service equates to a net present value savings from cash flow of \$107,365.

CAPITAL LEASES

The Town has entered into lease agreements as a lessee for the financing of equipment and vehicles. These obligations have been recorded in the entity-wide financial statements at the present value of future minimum lease payments. The following is a summary of equipment and vehicles leased under capital lease agreements by the Town as of June 30, 2016:

Equipment (Photocopiers)	\$ 81,649
Vehicles (School Buses, Ford F-150)	187,486

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

CAPITAL LEASES, CONTINUED

The following is a schedule of the future minimum lease payments under the capital leases, and the present value of the net minimum lease payments at June 30, 2016:

Year ended	
<u>June 30,</u>	
2017	\$ 72,555
<u>2018</u>	<u>72,555</u>
Total minimum lease payments	145,110
<u>Less amounts representing interest</u>	<u>(5,483)</u>
Present value of future minimum	
<u>lease payments</u>	<u>\$ 139,627</u>

STATUTORY DEBT LIMIT

In accordance with 30-A MRSA, Section 5702, as amended, no municipality shall incur debt for specified purposes in excess of certain percentages of state valuation of such municipality. Additionally, no municipality shall incur debt in the aggregate in excess of 15% of its state assessed valuation. At June 30, 2016, the Town's outstanding debt did not exceed these limits.

RISK MANAGEMENT

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

Based on the coverage provided by these pools, as well as coverage provided by commercial insurance purchased, the Town is not aware of any material actual or potential claim liabilities which should be recorded at June 30, 2016.

FUND BALANCES

The General Fund unassigned fund balance total of \$4,445,657 represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund. Unassigned fund balances totaling (\$11,952) and (\$882) are also reported for the Highway Capital Reserve Fund and one special revenue fund, respectively, that have negative fund balances as of June 30, 2016, as shown on Statement 3.

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

FUND BALANCES, CONTINUED

As of June 30, 2016, fund balance components consisted of the following:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Assigned</u>
General fund:			
Nonspendable – inventory	\$ 8,941	-	-
Nonspendable – prepaid expenditures	1,893	-	-
Restricted for education	-	1,859,805*	-
Restricted for Tax Increment Financing	-	359,966	-
Assigned for:			
Appropriated to the 2017 budget	-	-	594,234
Police equipment	-	-	55,862
Municipal unemployment	-	-	24,419
Legal liability	-	-	35,593
Fire equipment	-	-	81,872
Public land acquisition	-	-	24,528
Planning and ordinance	-	-	66,243
Credit reserve	-	-	13,603
Economic development	-	-	56,815
Fire station repair/maintenance	-	-	2,208
Technology	-	-	15,450
Bicentennial	-	-	4,167
Jackson Beach reserve	-	-	5,087
Elementary school	-	-	295,433
Rural fire protection	-	-	10,464
Veteran’s Memorial Park reserve	-	-	2,823
Sick leave reserve	-	-	3,867
Total general fund	10,834	2,219,771	1,292,668
School Capital Improvements	-	-	2,769,094
Other governmental funds:			
Inventory	12,030	-	-
Grants and other purposes	-	109,511	-
Capital outlay	-	-	948,982
Permanent funds – principal	7,785	-	-
Permanent funds – unexpended income	-	427	-
Total other governmental funds	19,815	109,938	948,982
Grand totals	\$ 30,649	2,329,709	5,010,744

*Of the total restricted for education of \$1,859,805, the School Department has allocated \$991,263 to various reserves (unemployment, fuel, tax rate stabilization, school bus) and have budgeted \$600,000 for the FY 2017 budget to reduce taxes.

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

General Information about the Pension Plan

Plan Description - Employees of the Town are provided with pensions through the Maine Public Employees Retirement System Consolidated Plan for Local Participating Districts (PLD Plan) and teaching-certified employees of the Town are provided with pensions through the Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan), cost-sharing multiple-employer defined benefit pension plans, administered by the Maine Public Employees Retirement System (MPERS). Benefit terms are established in Maine statute. MPERS issues a publicly available financial report that can be obtained at www.maineopers.org.

Benefits Provided - The PLD and SET Plans 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. 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 (65 for new members to the PLD Plan on or after July 1, 2014). For SET Plan members, normal retirement age is 60, 62, or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. 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. MPERS also provides disability and death benefits, which are established by contract under applicable statutory provisions (PLD Plan) or by statute (SET Plan).

Contributions - Employee contribution rates are defined by law or Board rule and depend on the terms of the plan under which an employee is covered. Employer contributions are determined by actuarial valuations. The contractually required contribution rates are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

PLD Plan - Employees are required to contribute 7.5% of their annual pay. The Town's contractually required contribution rate for the year ended June 30, 2016, was 5.6% of annual payroll. Contributions to the pension plan from the Town were \$4,945 for the year ended June 30, 2016.

SET Plan - Maine statute requires the State to contribute a portion of the Town's contractually required contributions. Employees are required to contribute 7.65% of their annual pay. The Town's contractually required contribution rate for the year ended June 30, 2016, was 13.38% of annual payroll of which 3.36% of payroll was required from the Town and 10.02% was required from the State. Contributions to the pension plan from the Town were \$200,512 for the year ended June 30, 2016.

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

The net pension liabilities were measured as of June 30, 2015, and the total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of that date. The Town's proportion of the net pension liabilities were based on projections of the Town's long-term share of contributions to the pension plans relative to the projected contributions of all participating local districts (PLD Plan) and of all participating School Administrative Units and the State (SET Plan), actuarially determined.

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM, CONTINUED

PLD Plan - At June 30, 2016, the Town reported a liability of \$210,201 for its proportionate share of the net pension liability. At June 30, 2015, the Town's proportion of the PLD Plan was 0.0659%.

SET Plan - At June 30, 2016, the Town reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Town. The amount recognized by the Town as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Town were as follows:

Town's proportionate share of the net pension liability	\$ 212,198
State's proportionate share of the net pension liability	
associated with the Town	6,641,782
Total	\$ 6,853,980

At June 30, 2015, the Town's proportion of the SET Plan was 0.0157%

For the year ended June 30, 2016, the Town recognized pension expense of \$53,532 for the PLD Plan and pension expense of \$755,510 and revenue of \$597,954 for support provided by the State for the SET Plan. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	19,984
Changes of assumptions	24,423	-
Net difference between projected and actual earnings on pension plan investments	-	25,476
Changes in proportion and differences between Town contributions and proportionate share of contributions	29,445	-
Town contributions subsequent to the measurement date	205,456	-
Total	\$ 259,324	45,460

\$205,456 is reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liabilities in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2017	26,400
2018	(24,549)
2019	(20,887)
2020	27,444

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM, CONTINUED

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>PLD Plan</u>	<u>SET Plan</u>
Inflation	3.5%	3.5%
Salary Increases, per year	3.5% to 9.50%	3.5% to 13.5%
Investment return, per annum, compounded annually	7.125%	7.125%
Cost of living benefit increases, per annum	2.55%	2.55%

Mortality rates were based on the RP2000 Combined Mortality Table projected forward to 2015 using Scale AA.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 to June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
US equities	20%	5.2%
Non-US equities	20%	5.5%
Private equity	10%	7.6%
Real estate	10%	3.7%
Infrastructure	10%	4.0%
Hard assets	5%	4.8%
Fixed income	25%	0.7%
<u>Total</u>	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.125% for the PLD Plan and 7.125% for the SET Plan. The projection of cash flows used to determine the discount rates assumed that employee contributions will be made at the current contribution rate and that contributions from participating local districts will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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 liabilities.

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM, CONTINUED

Sensitivity of the Town's Proportionate Share of the Net Pension Liabilities to Changes in the Discount Rate -

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.125% for the PLD Plan and 7.125% for the SET Plan, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.125% for PLD Plan and 6.125% for SET Plan) or 1 percentage-point higher (8.125% for PLD Plan and 8.125% for SET Plan) than the current rate:

<u>PLD Plan</u>	1% Decrease <u>(6.125%)</u>	Current Discount Rate <u>(7.125%)</u>	1% Increase <u>(8.125%)</u>
Town's proportionate share of the net pension liability	\$ 418,782	\$ 210,201	\$ 12,453
<u>SET Plan</u>	1% Decrease <u>(6.125%)</u>	Current Discount Rate <u>(7.125%)</u>	1% Increase <u>(8.125%)</u>
Town's proportionate share of the net pension liability	\$ 371,509	\$ 212,198	\$ 79,511

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS financial report.

Payables to the Pension Plan - None as of June 30, 2016.

DEFERRED COMPENSATION PLAN

The Town of Hermon offers all its employees not participating in Maine Public Employees Retirement System a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457 (The School Department offers its employees a 403(b) plan). The plan permits participating employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

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.

The School Department does not contribute to the 403(b) plan and thus there are no employer contribution requirements. The Town is required to contribute 5.0% of an employee's compensation for the year for employees participating in the 457 plan. Employees under either plan are permitted to contribute to the plan up to applicable Internal Revenue Code limits. For the year ended June 30, 2016, the Town recognized pension expense of \$39,040.

Employees are immediately vested in their own as well as Town contributions and earnings on those contributions. Therefore, there is no forfeiture provision.

TOWN OF HERMON, MAINE
Notes to Basic Financial Statements, Continued

JOINT VENTURE

The Town is a member of a non-profit corporation, the Municipal Review Committee, Inc. (MRC), whose mission is to ensure the continuing availability of long-term, reliable, safe, and environmentally-sound methods of solid waste disposal. The Town's proportionate interest in the net position of the MRC on December 31, 2015, the date of MRC's most recent audited financial statements, was \$662,987 (1.80%). Complete financial statements may be obtained from the MRC at 40 Harlow Street, Bangor, ME 04401.

As of December 31, 2015, the MRC in turn owned 25.52% of the limited partnership interests in Penobscot Energy Recovery Company (PERC). Allocation of PERC ownership interests among the members of the MRC is based upon their respective shares of cumulative performance credits and other cash flows and reserves. At June 30, 2016, the Town's proportionate interest in PERC was 0.46%.

PRIOR PERIOD ADJUSTMENT

During 2015, the Town capitalized \$50,000 for a school bus that was purchased through a capital lease that did not commence until FY 2016. The vehicle was not received until July 2015. The amount capitalized, \$50,000, as well as the depreciation expense taken in FY 2015 of \$1,233 has been removed from the beginning capital asset and accumulated depreciation balances. The net amount of \$48,767 has been removed from beginning net position. In FY 2016, the total value of the capital lease and related capital asset have been properly recorded.

Governmental activities net position as of July 1, 2015 has been restated as follows:

	Governmental <u>Activities</u>
Net position as previously reported	\$ 22,081,105
Net capital asset incorrectly capitalized	<u>(48,767)</u>
Net position, as restated	<u>\$ 22,032,338</u>

TOWN OF HERMON, MAINE
Required Supplementary Information

Schedule of Town's Proportionate Share of the Net Pension Liability
Maine Public Employees Retirement System Consolidated Plan (PLD) and State Employee and Teacher Plan
(SET)
Last 10 Fiscal Years*

	<u>2016**</u>	<u>2015**</u>
<u>PLD Plan</u>		
Town's proportion of the net pension liability	0.0659%	0.0665%
Town's proportionate share of the net pension liability	\$ 210,201	\$ 102,291
Town's covered-employee payroll	88,298	121,396
Town's proportion share of the net pension liability as a percentage of its covered-employee payroll	238.06%	84.26%
Plan fiduciary net position as a percentage of the total pension liability	88.27%	94.10%
<u>SET Plan</u>		
Town's proportion of the net pension liability	0.0157%	0.0178%
Town's proportionate share of the net pension liability	212,198	192,299
State's proportionate share of the net pension liability associated with the Town	6,641,782	5,330,683
<u>Total</u>	<u>\$ 6,853,980</u>	<u>\$ 5,522,982</u>
Town's covered-employee payroll	\$ 5,967,610	\$ 5,804,673
Town's proportion share of the net pension liability as a percentage of its covered-employee payroll	3.56%	3.31%
Plan fiduciary net position as a percentage of the total pension liability	81.18%	83.91%

* Only two years of information available.

** The amounts presented for each fiscal year were determined as of the prior fiscal year.

TOWN OF HERMON, MAINE
Required Supplementary Information, Continued

Schedule of Town Contributions
Maine Public Employees Retirement System Consolidated Plan (PLD) and State Employee and Teacher Plan (SET)
 Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>PLD Plan</u>			
Contractually required contribution	\$ 4,945	4,977	4,047
Contributions in relation to the contractually required contribution	(4,945)	(4,977)	(4,047)
<u>Contribution deficiency (excess)</u>			
	-	-	-
Town's covered-employee payroll	88,298	121,396	119,016
Contributions as a percentage of covered-employee payroll	5.60%	4.10%	3.40%
<u>SET Plan</u>			
Contractually required contribution	\$ 200,512	153,824	151,813
Contributions in relation to the contractually required contribution	(200,512)	(153,824)	(151,813)
<u>Contribution deficiency (excess)</u>			
	-	-	-
Town's covered-employee payroll	\$ 5,967,610	5,804,673	5,728,803
Contributions as a percentage of covered-employee payroll	3.36%	2.65%	2.65%

* Only three years of information available.

TOWN OF HERMON, MAINE
Notes to Required Supplementary Information

Changes of Benefit Terms - None

Changes of Assumptions - The PLD Plan changed the discount rate from 7.25% in the 2014 valuation to 7.125% in the 2015 valuation, and the cost of living benefit increase assumption for the PLD Plan was changed from 3.12% in the 2014 valuation to 2.55% in the 2015 valuation.

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. The fund pays general operating expenditures, fixed charges, and capital improvement costs which are not paid through other funds.

TOWN OF HERMON, MAINE
Balance Sheet - General Fund
June 30, 2016

	2016
ASSETS	
Cash and cash equivalents	\$ 763,928
Investments	8,554,903
Receivables:	
Taxes receivable - current year	364,882
Taxes receivable - prior years	40,495
Tax liens - prior years	92,962
Tax acquired property	4,376
Accounts receivable	160,239
Inventory	8,941
Prepaid expenditures	1,893
Total assets	\$ 9,992,619
LIABILITIES	
Accounts payable	342,566
Accrued payroll and benefits	1,004,613
Prepaid taxes	20,572
Other liabilities	38,676
Interfund loans payable	313,164
Total liabilities	1,719,591
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	304,098
Total deferred inflows of resources	304,098
FUND BALANCE	
Nonspendable - inventory	8,941
Nonspendable - prepaid expenditures	1,893
Restricted for education	1,859,805
Restricted for TIF	359,966
Assigned - Town	1,292,668
Unassigned - Town	4,445,657
Total fund balance	7,968,930
Total liabilities, deferred inflows of resources, and fund balances	\$ 9,992,619

TOWN OF HERMON, MAINE
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - Budgetary Basis
For the year ended June 30, 2016

	2016		Variance positive (negative)
	Budget	Actual	
Revenues:			
Taxes:			
Property taxes	\$ 5,424,965	5,531,442	106,477
Tax Increment Financing revenue	608,383	289,585	(318,798)
Excise taxes	2,176,000	3,063,058	887,058
Interest on taxes	30,000	27,757	(2,243)
Total taxes	8,239,348	8,911,842	672,494
Intergovernmental:			
State education subsidy	5,090,239	5,200,635	110,396
State agency client	20,000	26,061	6,061
Homestead reimbursement	94,133	97,784	3,651
BETE reimbursement	219,120	219,282	162
Medicaid reimbursements	6,000	25,253	19,253
State revenue sharing	150,000	157,905	7,905
General assistance	6,250	218	(6,032)
Snowmobile reimbursement	2,500	2,688	188
Payment in lieu of taxes	11,000	11,000	-
URIP funds	60,000	64,056	4,056
MePERS reimbursement	12,488	-	(12,488)
Total intergovernmental	5,671,730	5,804,882	133,152
Licenses and permits:			
Vehicle registration fees	28,000	30,490	2,490
Animal control fees	1,800	2,110	310
Planning/zoning fees	1,000	3,621	2,621
Plumbing fees	11,000	16,556	5,556
Building permits	10,000	16,562	6,562
Total licenses and permits	51,800	69,339	17,539

TOWN OF HERMON, MAINE
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - Budgetary Basis, Continued

	2016		Variance positive (negative)
	Budget	Actual	
Revenues, continued:			
Charges for services:			
School tuition and fees	\$ 1,550,000	1,707,593	157,593
Solid waste and recycling	210,736	213,355	2,619
Public safety	5,000	13,698	8,698
Public works revenues	-	3,181	3,181
Recreation and social services	-	8	8
Wireless fees	9,000	11,136	2,136
Cable franchise	21,000	17,893	(3,107)
Cemetery maintenance	1,000	3,870	2,870
Sewer fees	500	245	(255)
Total charges for services	1,797,236	1,970,979	173,743
Interest earned	14,000	72,456	58,456
Total interest earned	14,000	72,456	58,456
Other revenues:			
School Department	433,840	533,122	99,282
Miscellaneous	17,600	69,653	52,053
Total other revenues	451,440	602,775	151,335
Total revenues	16,225,554	17,432,273	1,206,719

TOWN OF HERMON, MAINE
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - Budgetary Basis, Continued

	2016		Variance positive (negative)
	Budget	Actual	
Expenditures:			
Current:			
General government:			
Administration	\$ 229,789	213,048	16,741
Town manager	102,603	111,587	(8,984)
Town clerk	45,481	45,152	329
Finance	83,821	83,676	145
Assessor	91,753	68,365	23,388
Code enforcement	54,974	55,129	(155)
Assistant clerks	103,782	104,630	(848)
Municipal building	19,910	15,353	4,557
Town office	9,610	8,190	1,420
Town council	15,885	14,743	1,142
Town boards	10,009	8,433	1,576
Other expenses	21,924	26,618	(4,694)
Total general government	789,541	754,924	34,617
Public safety:			
Police department	375,851	350,535	25,316
Fire department	304,835	303,896	939
Utilities	92,451	86,362	6,089
Total public safety	773,137	740,793	32,344
Public works:			
General	197,807	204,508	(6,701)
Roads	741,149	739,737	1,412
Town garage	3,875	2,778	1,097
Trucks/tractor	32,480	31,703	777
Salt shed/storage	2,450	2,447	3
Cemetery	33,342	25,480	7,862
Total public works	1,011,103	1,006,653	4,450

TOWN OF HERMON, MAINE
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - Budgetary Basis, Continued

	2016		Variance positive (negative)
	Budget	Actual	
Expenditures, continued			
Current, continued:			
Solid waste:			
Landfill	\$ 26,076	18,460	7,616
Household waste	479,614	472,032	7,582
Sewer	49,950	45,065	4,885
Total solid waste	555,640	535,557	20,083
Recreation and social services:			
Recreation	121,736	114,604	7,132
Social services	17,450	17,450	-
Library	6,500	7,704	(1,204)
Jackson Beach	8,289	4,041	4,248
Total recreation and social services	153,975	143,799	10,176
County tax	590,255	590,255	-
Tax increment financing	363,813	244,957	118,856
Unclassified:			
Economic development	103,510	46,714	56,796
General assistance	13,500	712	12,788
Wireless	79,571	82,407	(2,836)
Municipal unemployment	5,000	506	4,494
Legal liability	-	13,484	(13,484)
Planning and maintenance	3,000	358	2,642
Credit reserve	-	37,828	(37,828)
Bicentennial Celebration	-	23	(23)
Rural Fire Protection	1,800	1	1,799
Veterans Memorial Park Reserve	3,000	186	2,814
Sick Leave Reserve	6,000	2,151	3,849
MePERS reimbursement	-	31,449	(31,449)
School Tax Stabilization Reserve	50,000	-	50,000
Overlay	58,264	-	58,264
Total unclassified	323,645	215,819	107,826

TOWN OF HERMON, MAINE
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - Budgetary Basis, Continued

	2016		Variance positive (negative)
	Budget	Actual	
Expenditures, continued			
Current, continued:			
Education:			
Regular instruction	\$ 5,348,497	5,071,126	277,371
Special education instruction	1,750,312	1,582,058	168,254
Career and technical education	199,626	199,626	-
Other instruction	393,314	340,053	53,261
Student and staff support	1,192,101	1,147,394	44,707
System administration	364,453	341,115	23,338
School administration	677,465	672,360	5,105
Transportation	478,700	471,634	7,066
Facilities maintenance	1,440,728	1,439,560	1,168
Debt service	522,116	496,980	25,136
Total education	12,367,312	11,761,906	605,406
Capital expenditures:			
Police equipment	20,500	3,917	16,583
Fire equipment	53,000	310,292	(257,292)
Land acquisition	2,500	18	2,482
Technology	2,500	27,651	(25,151)
Jackson Beach	2,500	31	2,469
Economic development	-	53,883	(53,883)
Elementary school	-	858	(858)
Transfer station	15,000	6,050	8,950
Total capital expenditures	96,000	402,700	(306,700)
Debt service - Town only:			
Principal	95,333	89,900	5,433
Interest	9,756	9,756	-
Total debt service - Town	105,089	99,656	5,433
Total expenditures	17,129,510	16,497,019	632,491
Excess (deficiency) of revenues over (under) expenditures	(903,956)	935,254	1,839,210

TOWN OF HERMON, MAINE
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - Budgetary Basis, Continued

	2016		Variance positive (negative)
	Budget	Actual	
Other financing sources (uses):			
Utilization of prior year surplus - School	\$ 2,081,245	-	(2,081,245)
Utilization of prior year surplus - Town	1,021,278	-	(1,021,278)
Transfers out:			
Transfer to capital project funds	(2,152,033)	(2,152,033)	-
Transfer to special revenue funds	(46,534)	(46,534)	-
Total other financing sources (uses)	903,956	(2,198,567)	(3,102,523)
Net change in fund balances, budgetary basis	-	(1,263,313)	(1,263,313)
Fund balance, beginning of year - budgetary basis		10,096,624	
Fund balance, end of year - budgetary basis		8,833,311	
Reconciliation to GAAP:			
Accrued summer salaries and benefits		(864,381)	
Fund balance, end of year (GAAP basis)		\$ 7,968,930	

ALL OTHER GOVERNMENTAL FUNDS

TOWN OF HERMON, MAINE
Combining Balance Sheet
All Other Governmental Funds
June 30, 2016

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Other Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 27,975	-	8,212	36,187
Investments	100,471	1,407,040	-	1,507,511
Accounts receivable	233,780	-	-	233,780
Inventory	12,030	-	-	12,030
Interfund loans receivable	36,235	-	-	36,235
Total assets	\$ 410,491	1,407,040	8,212	1,825,743
LIABILITIES				
Accounts payable	6,035	-	-	6,035
Accrued payroll and benefits	3,004	-	-	3,004
Interfund loans payable	280,793	458,058	-	738,851
Total liabilities	289,832	458,058	-	747,890
FUND BALANCES				
Nonspendable:				
Inventory	12,030	-	-	12,030
Nonexpendable principal	-	-	7,785	7,785
Restricted	109,511	-	427	109,938
Assigned	-	948,982	-	948,982
Unassigned	(882)	-	-	(882)
Total fund balances	120,659	948,982	8,212	1,077,853
Total liabilities and fund balances	\$ 410,491	1,407,040	8,212	1,825,743

TOWN OF HERMON, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
All Other Governmental Funds
For the year ended June 30, 2016

	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total Other Governmental Funds
Revenues:				
Intergovernmental	\$ 627,209	-	-	627,209
Investment income	590	4,597	151	5,338
Other	223,881	-	-	223,881
Total revenues	851,680	4,597	151	856,428
Expenditures:				
Current:				
Grants and other special uses	806,647	-	-	806,647
Bank charges	-	1,047	-	1,047
Capital outlay	87,922	371,709	-	459,631
Total expenditures	894,569	372,756	-	1,267,325
Excess (deficiency) of revenues over (under) expenditures	(42,889)	(368,159)	151	(410,897)
Other financing sources:				
Transfer from other funds	46,534	146,000	-	192,534
Total other financing sources	46,534	146,000	-	192,534
Net change in fund balances	3,645	(222,159)	151	(218,363)
Fund balances, beginning of year	117,014	1,171,141	8,061	1,296,216
Fund balances, end of year	\$ 120,659	948,982	8,212	1,077,853

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to be expended for particular purposes.

TOWN OF HERMON, MAINE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016

	Adult Education	Title IIA	Title 1A	Local Entitlement	Pre-K Local Entitlement	Rural Low Income	Drug Free Communities	ARRA MARTI
ASSETS								
Cash and cash equivalents	\$ -	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-
Accounts receivable	-	16,041	13,699	187,747	3,036	-	-	-
Inventory	-	-	-	-	-	-	-	-
Interfund loans receivable	15,837	-	-	-	-	-	211	250
Total assets	\$ 15,837	16,041	13,699	187,747	3,036	-	211	250
LIABILITIES								
Accounts payable	-	-	-	-	-	-	211	-
Accrued payroll and benefits	-	-	-	-	-	-	-	-
Interfund loans payable	-	16,041	13,699	187,747	3,036	-	-	-
Total liabilities	-	16,041	13,699	187,747	3,036	-	211	-
FUND BALANCES (DEFICITS)								
Nonspendable:								
Inventory	-	-	-	-	-	-	-	-
Restricted	15,837	-	-	-	-	-	-	250
Unassigned	-	-	-	-	-	-	-	-
Total fund balances (deficits)	15,837	-	-	-	-	-	-	250
Total liabilities and fund balances (deficits)	\$ 15,837	16,041	13,699	187,747	3,036	-	211	250

TOWN OF HERMON, MAINE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016

	Ticket to Ride Grant	School Lunch Fund	PEPG Grant	Transition Grant	Comp. Grant	Library Grant	Bangor Wellness Grant	Boat Landing Grant	Fire Department Gear Grant	MMA Grants
ASSETS										
Cash and cash equivalents	\$ -	4,856	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-
Accounts receivable	-	7,443	-	-	-	-	-	-	-	-
Inventory	-	12,030	-	-	-	-	-	-	-	-
Interfund loans receivable	1,098	-	705	-	7,550	3,277	2,452	-	743	-
Total assets	\$ 1,098	24,329	705	-	7,550	3,277	2,452	-	743	-
LIABILITIES										
Accounts payable	-	5,824	-	-	-	-	-	-	-	-
Accrued payroll and benefits	-	3,004	-	-	-	-	-	-	-	-
Interfund loans payable	-	1,050	-	882	-	-	-	-	-	-
Total liabilities	-	9,878	-	882	-	-	-	-	-	-
FUND BALANCES (DEFICITS)										
Nonspendable:										
Inventory	-	12,030	-	-	-	-	-	-	-	-
Restricted	1,098	2,421	705	-	7,550	3,277	2,452	-	743	-
Unassigned	-	-	-	(882)	-	-	-	-	-	-
Total fund balances (deficits)	1,098	14,451	705	(882)	7,550	3,277	2,452	-	743	-
Total liabilities and fund balances (deficits)	\$ 1,098	24,329	705	-	7,550	3,277	2,452	-	743	-

TOWN OF HERMON, MAINE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016

	Route 2 Project	Maine Forest Service Grants	MEMA Grant	Cemetery Reserve	Veterans Memorial Park	Medical Reimbursement	Athletic Complex	Totals
ASSETS								
Cash and cash equivalents	\$ -	-	-	-	4,272	6,288	12,559	27,975
Investments	-	-	-	100,471	-	-	-	100,471
Accounts receivable	3,417	-	2,397	-	-	-	-	233,780
Inventory	-	-	-	-	-	-	-	12,030
Interfund loans receivable	-	3,278	-	-	-	-	834	36,235
Total assets	\$ 3,417	3,278	2,397	100,471	4,272	6,288	13,393	410,491
LIABILITIES								
Accounts payable	-	-	-	-	-	-	-	6,035
Accrued payroll and benefits	-	-	-	-	-	-	-	3,004
Interfund loans payable	3,417	-	2,397	49,694	566	2,264	-	280,793
Total liabilities	3,417	-	2,397	49,694	566	2,264	-	289,832
FUND BALANCES (DEFICITS)								
Nonspendable:								
Inventory	-	-	-	-	-	-	-	12,030
Restricted	-	3,278	-	50,777	3,706	4,024	13,393	109,511
Unassigned	-	-	-	-	-	-	-	(882)
Total fund balances (deficits)	-	3,278	-	50,777	3,706	4,024	13,393	120,659
Total liabilities and fund balances (deficits)	\$ 3,417	3,278	2,397	100,471	4,272	6,288	13,393	410,491

TOWN OF HERMON, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the year ended June 30, 2016

	Adult Education	Title IIA	Title 1A	Local Entitlement	Pre-K Local Entitlement	Rural Low Income	Drug Free Communities	ARRA MARTI
Revenues:								
Intergovernmental	\$ -	37,393	121,659	187,747	3,036	22,006	-	-
Other	-	-	-	-	-	-	-	-
Investment income	-	-	-	-	-	-	-	-
Total revenues	-	37,393	121,659	187,747	3,036	22,006	-	-
Expenditures:								
Current:								
Grants and other special uses	3,034	37,393	121,659	187,747	3,036	22,006	-	-
Capital outlay	-	-	-	-	-	-	-	-
Total expenditures	3,034	37,393	121,659	187,747	3,036	22,006	-	-
Excess (deficiency) of revenues over (under) expenditures	(3,034)	-	-	-	-	-	-	-
Other financing sources:								
Transfer from other funds	3,034	-	-	-	-	-	-	-
Total other financing sources	3,034	-	-	-	-	-	-	-
Net change in fund balances	-	-	-	-	-	-	-	-
Fund balances (deficits), beginning of year	15,837	-	-	-	-	-	-	250
Fund balances (deficits), end of year	\$ 15,837	-	-	-	-	-	-	250

TOWN OF HERMON, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the year ended June 30, 2016

	Ticket to Ride Grant	School Lunch Fund	PEPG Grant	Transition Grant	Comp. Grant	Library Grant	Bangor Wellness Grant	Boat Landing Grant	Fire Department Gear Grant	MMA Grants
Revenues:										
Intergovernmental	\$ -	171,501	4,600	9,718	-	-	-	42,276	15,228	4,400
Other	-	188,171	-	-	-	-	-	-	-	-
Investment income	-	-	-	-	-	-	-	-	-	-
Total revenues	-	359,672	4,600	9,718	-	-	-	42,276	15,228	4,400
Expenditures:										
Current:										
Grants and other special uses	-	397,182	3,895	9,718	-	-	250	-	-	4,400
Capital outlay	-	-	-	-	-	-	-	42,276	14,485	-
Total expenditures	-	397,182	3,895	9,718	-	-	250	42,276	14,485	4,400
Excess (deficiency) of revenues over (under) expenditures	-	(37,510)	705	-	-	-	(250)	-	743	-
Other financing sources:										
Transfer from other funds	-	35,000	-	-	-	-	-	-	-	-
Total other financing sources	-	35,000	-	-	-	-	-	-	-	-
Net change in fund balances	-	(2,510)	705	-	-	-	(250)	-	743	-
Fund balances (deficits), beginning of year	1,098	16,961	-	(882)	7,550	3,277	2,702	-	-	-
Fund balances (deficits), end of year	\$ 1,098	14,451	705	(882)	7,550	3,277	2,452	-	743	-

TOWN OF HERMON, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the year ended June 30, 2016

		Maine Forest							
	Route 2 Project	Service Grants	MEMA Grant	Cemetery Reserve	Veterans Memorial Park	Medical Reimbursement	Athletic Complex	Totals	
Revenues:									
Intergovernmental	\$ -	2,850	4,795	-	-	-	-	627,209	
Other	-	-	-	4,450	-	8,525	22,735	223,881	
Investment income	-	-	-	329	44	61	156	590	
Total revenues	-	2,850	4,795	4,779	44	8,586	22,891	851,680	
Expenditures:									
Current:									
Grants and other special uses	-	2,850	4,795	-	-	8,682	-	806,647	
Capital outlay	-	-	-	11,108	142	-	19,911	87,922	
Total expenditures	-	2,850	4,795	11,108	142	8,682	19,911	894,569	
Excess (deficiency) of revenues over (under) expenditures	-	-	-	(6,329)	(98)	(96)	2,980	(42,889)	
Other financing sources:									
Transfer from other funds	-	-	-	8,500	-	-	-	46,534	
Total other financing sources	-	-	-	8,500	-	-	-	46,534	
Net change in fund balances	-	-	-	2,171	(98)	(96)	2,980	3,645	
Fund balances (deficits), beginning of year	-	3,278	-	48,606	3,804	4,120	10,413	117,014	
Fund balances (deficits), end of year	\$ -	3,278	-	50,777	3,706	4,024	13,393	120,659	

NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECT FUNDS

Capital projects funds are used to account for the purchase or construction of capital assets other than those accounted for in other funds.

TOWN OF HERMON, MAINE
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2016

	Public Works Facilities	Recreation Facilities	Municipal Building	Sewer Maintenance	Fire Station Reserve	Totals
ASSETS						
Investments	\$ 301,602	387,260	34,603	608,918	74,657	1,407,040
Total assets	\$ 301,602	387,260	34,603	608,918	74,657	1,407,040
LIABILITIES						
Interfund loans payable	278,203	97,261	20,460	55,294	6,840	458,058
Total liabilities	278,203	97,261	20,460	55,294	6,840	458,058
FUND BALANCES						
Assigned	23,399	289,999	14,143	553,624	67,817	948,982
Total fund balances	23,399	289,999	14,143	553,624	67,817	948,982
Total liabilities and fund balances	\$ 301,602	387,260	34,603	608,918	74,657	1,407,040

TOWN OF HERMON, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Project Funds
For the year ended June 30, 2016

	Public Works Facilities	Recreation Facilities	Municipal Building	Sewer Maintenance	Fire Station Reserve	Totals
Revenues:						
Investment income	\$ 965	1,273	111	2,005	243	4,597
Total revenues	965	1,273	111	2,005	243	4,597
Expenditures:						
Current:						
Bank charges	186	303	22	482	54	1,047
Capital outlay	215,000	99,393	19,610	30,866	6,840	371,709
Total expenditures	215,186	99,696	19,632	31,348	6,894	372,756
Deficiency of revenues under expenditures	(214,221)	(98,423)	(19,521)	(29,343)	(6,651)	(368,159)
Other financing sources:						
Transfer from other funds	77,000	22,500	8,000	28,500	10,000	146,000
Total other financing sources	77,000	22,500	8,000	28,500	10,000	146,000
Net change in fund balances	(137,221)	(75,923)	(11,521)	(843)	3,349	(222,159)
Fund balances, beginning of year	160,620	365,922	25,664	554,467	64,468	1,171,141
Fund balances, end of year	\$ 23,399	289,999	14,143	553,624	67,817	948,982

NONMAJOR GOVERNMENTAL FUNDS

PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

TOWN OF HERMON, MAINE
Combining Balance Sheet
Nonmajor Permanent Funds
June 30, 2016

	Pike	Nowell	Totals
ASSETS			
Cash and cash equivalents	\$ 7,121	1,091	8,212
Total assets	\$ 7,121	1,091	8,212
LIABILITIES			
Interfund loans payable	-	-	-
Total liabilities	-	-	-
FUND BALANCES			
Nonspendable:			
Nonexpendable principal	6,785	1,000	7,785
Restricted	336	91	427
Total fund balances	7,121	1,091	8,212
Total liabilities and fund balances	\$ 7,121	1,091	8,212

TOWN OF HERMON, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Permanent Funds
For the year ended June 30, 2016

	Pike	Nowell	Totals
Revenues:			
Investment income	\$ 140	11	151
Total revenues	140	11	151
Expenditures:			
Current:			
Other	-	-	-
Total expenditures	-	-	-
Net change in fund balances	140	11	151
Fund balances, beginning of year	6,981	1,080	8,061
Fund balances, end of year	\$ 7,121	1,091	8,212

SCHEDULES

TOWN OF HERMON, MAINE
School Department - General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - Budgetary Basis
For the year ended June 30, 2016

	2016		Variance positive (negative)
	Budget	Actual	
Revenues:			
State education subsidy	\$ 5,090,239	5,200,635	110,396
State agency client	20,000	26,061	6,061
Tuition and fees	1,550,000	1,707,593	157,593
Medicaid reimbursements	6,000	25,253	19,253
Investment earnings	-	8,035	8,035
Other revenues	433,840	533,122	99,282
Total revenues	7,100,079	7,500,699	400,620
Expenditures:			
Regular instruction	5,348,497	5,071,126	277,371
Special education instruction	1,750,312	1,582,058	168,254
Career and technical education	199,626	199,626	-
Other instruction	393,314	340,053	53,261
Student and staff support	1,192,101	1,147,394	44,707
System administration	364,453	341,115	23,338
School administration	677,465	672,360	5,105
Transportation	478,700	471,634	7,066
Facilities maintenance	1,440,728	1,439,560	1,168
Debt service	522,116	496,980	25,136
Total expenditures	12,367,312	11,761,906	605,406
Other financing sources (uses):			
Town appropriation	4,412,777	4,412,777	-
Utilization of prior year surplus	2,081,245	-	(2,081,245)
Transfer to school capital improvements	(1,188,755)	(1,188,755)	-
Transfer to school lunch program	(35,000)	(35,000)	-
Transfer to adult education	(3,034)	(3,034)	-
Total other financing sources (uses)	5,267,233	3,185,988	(2,081,245)
Net change in fund balance	-	(1,075,219)	(1,075,219)
Fund balance, beginning of year (budgetary basis)		3,799,405	
Fund balance, end of year (budgetary basis)		2,724,186	
Reconciliation to GAAP:			
Less accrued summer salaries		(864,381)	
Fund balance, end of year (GAAP basis)	\$	1,859,805	

TOWN OF HERMON, MAINE
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA number	Pass- through/ grantor number	Total Federal Expenditures	CFDA/ Cluster Totals	Passed Through to Subrecipients
U. S. Department of Education,					
Passed through Maine Department of Education:					
Title IA Disadvantaged	84.010	3107	\$ 121,659		-
Special Education Cluster:					
Local Entitlement	84.027	3046	187,747		-
Local Entitlement - Preschool	84.173	6247	3,036		-
Total Special Education Cluster				190,783	
Title IV - Rural Low Income	84.358	3005	22,006		-
Title IIA - Improving Teacher Quality	84.367	3042	37,393		-
Total U. S. Department of Education			371,841		-
2015 ME BHS Equipment Grant	20.600	N/A	-		-
Total U. S. Department of Transportation			-		-
U. S. Department of Agriculture,					
Passed through Maine Department of Education:					
Child Nutrition Cluster:					
National School Lunch Program	10.555	3024	125,795		-
National School Lunch Program - Breakfast Program	10.553	3014	18,771		-
National School Lunch Program - Donated Commodities	10.555	3024	19,519		-
Total Child Nutrition Cluster				164,085	
Total U. S. Department of Agriculture			164,085		-
Totals			\$ 535,926		-