

Audited Financial Statements  
and Other Financial Information

Town of Southwest Harbor, Maine

June 30, 2017



*Proven Expertise and Integrity*

TOWN OF SOUTHWEST HARBOR, MAINE

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JUNE 30, 2017

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## INDEPENDENT AUDITORS' REPORT

Board of Selectmen  
Town of Southwest Harbor  
Southwest Harbor, Maine

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Southwest Harbor, Maine, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Southwest Harbor, Maine's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

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

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made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Southwest Harbor, Maine, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information on pages 4 through 11 and 60 through 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Southwest Harbor, Maine's basic financial statements. The Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds, the Schedule of Departmental Operations - General Fund and capital asset schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 20-A MRSA §6051, Sub-chapter

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

The Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds, the Schedule of Departmental Operations - General Fund, capital asset schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds, the Schedule of Departmental Operations - General Fund, capital asset schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2018, on our consideration of the Town of Southwest Harbor, Maine's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Southwest Harbor, Maine's internal control over financial reporting and compliance.

*RHR Smith & Company*

Buxton, Maine  
February 23, 2018

**REQUIRED SUPPLEMENTARY INFORMATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

**(UNAUDITED)**

The following management's discussion and analysis of Town of Southwest Harbor, Maine's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the Town's financial statements.

**Financial Statement Overview**

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

**Basic Financial Statements**

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

**Government-Wide Financial Statements**

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

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

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

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

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

### **Fund Financial Statements**

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

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

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

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

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

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

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

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

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and the Fund Financial Statements. The Notes to Financial Statements can be found following the Statement of Changes in Fiduciary Net Position - Fiduciary Funds.

### **Required Supplementary Information**

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

## Other Supplementary Information

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

### Government-Wide Financial Analysis

Our analysis below focuses on the net position, and changes in net position of the Town's governmental activities and business-type activities. The Town's total governmental net position increased by \$179,898 from \$16,797,857 to \$16,977,755.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - decreased for governmental activities to a balance of \$3,928,929 at the end of this year.

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

	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>2017</b>	<b>2016 (Restated)</b>	<b>2017</b>	<b>2016</b>
<b>Assets</b>				
Current Assets	\$ 4,905,415	\$ 5,046,235	\$ -	\$ -
Noncurrent Assets	-	-	4,086,175	4,365,144
Capital Assets	15,866,691	15,957,997	-	-
Total Assets	<u>20,772,106</u>	<u>21,004,232</u>	<u>4,086,175</u>	<u>4,365,144</u>
<b>Deferred Outflows of Resources</b>				
Deferred Outflows Related to Pensions	62,942	67,362	-	-
Total Deferred Outflows of Resources	<u>62,942</u>	<u>67,362</u>	<u>-</u>	<u>-</u>
<b>Liabilities</b>				
Current Liabilities	929,663	912,239	280,174	278,968
Long-term Debt Outstanding	2,886,587	3,323,231	3,806,001	4,086,176
Total Liabilities	<u>3,816,250</u>	<u>4,235,470</u>	<u>4,086,175</u>	<u>4,365,144</u>
<b>Deferred Inflows of Resources</b>				
Prepaid Taxes	19,366	18,081	-	-
Deferred Inflows Related to Pensions	21,677	20,186	-	-
Total Deferred Inflows of Resources	<u>41,043</u>	<u>38,267</u>	<u>-</u>	<u>-</u>
<b>Net Position</b>				
Net Investment in Capital Assets	12,563,055	12,223,302	-	-
Restricted	485,771	537,938	-	-
Unrestricted	3,928,929	4,036,617	-	-
Total Net Position	<u>\$ 16,977,755</u>	<u>\$ 16,797,857</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Revenues</b>				
<i>Program Revenues:</i>				
Charges for Services	\$ 256,857	\$ 246,333	\$ -	\$ 696,218
Operating Grants and Contributions	483,922	455,797	-	-
Capital Grants and Contributions	107,382	-	-	10,680
<i>General Revenues:</i>				
Taxes	7,523,642	7,486,737	-	-
Grants and Contributions Not Restricted to Specific Programs	96,506	87,207	-	-
Miscellaneous	172,026	347,498	-	27,421
Total Revenues	<u>8,640,335</u>	<u>8,623,572</u>	<u>-</u>	<u>734,319</u>
<b>Expenses</b>				
General Government	549,080	682,371	-	-
Protection	896,957	1,117,538	-	-
Health and Sanitation	-	503,210	-	-
Public Works	785,171	1,214,398	-	-
Education	4,573,516	4,432,329	-	-
County Tax	246,452	244,901	-	-
Social Services	225,674	201,164	-	-
Unclassified	684,332	348,456	-	-
State of Maine On-behalf Payments	283,313	179,027	-	-
Interest on Long-term Debt	214,509	83,842	-	-
Capital Outlay	1,433	-	-	-
Water Fund	-	-	-	479,116
Sewer Fund	-	-	-	405,638
Total Expenses	<u>8,460,437</u>	<u>9,007,236</u>	<u>-</u>	<u>884,754</u>
Transfers	<u>-</u>	<u>(61,807)</u>	<u>-</u>	<u>61,807</u>
Transfer of Assets to Southwest Harbor Public Utilities District	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,823,571)</u>
Change in Net Position	179,898	(445,471)	-	(3,912,199)
Net Position - July 1, Restated	<u>16,797,857</u>	<u>17,243,328</u>	<u>-</u>	<u>3,912,199</u>
Net Position - June 30	<u>\$ 16,977,755</u>	<u>\$ 16,797,857</u>	<u>\$ -</u>	<u>\$ -</u>

## Revenues and Expenses

Revenues for the Town's governmental activities increased by .19%, while total expenses decreased by 6.07%. The main increase in revenues was in capital grants and contributions and the largest decrease in expenses was in health and sanitation. Several categories have been changed in the prior year so comparative numbers are not consistent with several departments.

There are no proprietary fund revenues and expenses due to the formation of the Southwest Harbor Public Utilities District effective January 1, 2016.

### Financial Analysis of the Town's Fund Statements

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

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

	<b>2017</b>	<b>2016 (Restated)</b>
Major funds:		
General fund:		
Nonspendable	\$ 694,457	\$ 619,862
Restricted	182,122	82,299
Assigned	-	6,000
Unassigned	1,880,413	1,933,633
Subtotal general fund	2,756,992	2,641,794
Permanent fund - cemetery trust:		
Restricted	107,082	108,149
Total major funds	\$ 2,864,074	\$ 2,725,165
Nonmajor funds:		
Special revenue funds:		
Nonspendable	\$ 910	\$ -
Restricted	196,567	347,490
Committed	1,360,168	1,444,605
Unassigned	(139,966)	(67,133)
Total nonmajor funds	\$ 1,417,679	\$ 1,724,962

The general fund total fund balance increased by \$115,198 from the prior fiscal year. The other major fund balances decreased by \$1,067 from the prior fiscal year. The nonmajor fund balances decreased by \$307,283 from the prior fiscal year.

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

### **Budgetary Highlights**

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

The general fund actual revenues exceeded the budget by \$117,387. This was mainly the result of excise taxes, education, and miscellaneous revenue categories being received in excess of the budgeted amounts.

The general fund actual expenditures were under the budget by \$233,673. All expenditure categories were under budget with the exception of general government and debt service.

### **Capital Asset and Debt Administration**

#### **Capital Assets**

As of June 30, 2017, the net book value of capital assets recorded by the Town decreased by \$91,306. This decrease was the result of current year depreciation of \$703,793 net of capital additions of \$612,487. Refer to Note 6 of Notes to Financial Statements for more detailed information.

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

	<b>2017</b>	<b>2016 (Restated)</b>
Land and improvements	\$ 553,750	\$ 570,965
Buildings and building improvements	5,092,091	5,279,800
Machinery and equipment	621,690	551,945
Vehicles	838,551	934,453
Infrastructure	8,760,609	8,620,834
Total	\$ 15,866,691	\$ 15,957,997

### **Long-Term Debt Activity**

At June 30, 2017, the Town had \$7,349,690 in bonds outstanding versus \$8,086,721 last year. Other obligations include capital leases payable, accrued vacation and sick time, and net pension liability. Refer to Note 7 of Notes to Financial Statements for more detailed information.

### **Economic Factors and Next Year's Budgets and Rates**

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

### **Contacting the Town's Financial Management**

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

## TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF NET POSITION  
JUNE 30, 2017

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 3,821,576	\$ -	\$ 3,821,576
Investments	115,964	-	115,964
Accounts receivable (net of allowance for uncollectibles):			
Taxes	2,284	-	2,284
Liens	202,367	-	202,367
Other	61,305	-	61,305
Inventory	22,835	-	22,835
Tax acquired property	28,786	-	28,786
Prepaid items	33,445	-	33,445
Due from other governments	616,853	-	616,853
Total current assets	<u>4,905,415</u>	<u>-</u>	<u>4,905,415</u>
Noncurrent assets:			
Receivable for long-term debt obligation from Southwest Harbor Public Utilities District	-	4,086,175	4,086,175
Capital assets:			
Land and other assets not being depreciated	461,164	-	461,164
Depreciable assets, net of accumulated depreciation	15,405,527	-	15,405,527
Total noncurrent assets	<u>15,866,691</u>	<u>4,086,175</u>	<u>19,952,866</u>
<b>TOTAL ASSETS</b>	<u>20,772,106</u>	<u>4,086,175</u>	<u>24,858,281</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	62,942	-	62,942
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>62,942</u>	<u>-</u>	<u>62,942</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 20,835,048</u>	<u>\$ 4,086,175</u>	<u>\$ 24,921,223</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 185,765	\$ -	\$ 185,765
Accrued payroll and benefits	198,074	-	198,074
Other liabilities	2,406	-	2,406
Current portion of long-term obligations	543,418	280,174	823,592
Total current liabilities	<u>929,663</u>	<u>280,174</u>	<u>1,209,837</u>
Noncurrent liabilities:			
Noncurrent portion of long-term obligations:			
Bonds payable	2,804,853	3,806,001	6,610,854
Capital leases payable	30,942	-	30,942
Net pension liability	50,792	-	50,792
Total noncurrent liabilities	<u>2,886,587</u>	<u>3,806,001</u>	<u>6,692,588</u>
<b>TOTAL LIABILITIES</b>	<u>3,816,250</u>	<u>4,086,175</u>	<u>7,902,425</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid taxes	19,366	-	19,366
Deferred inflows related to pensions	21,677	-	21,677
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>41,043</u>	<u>-</u>	<u>41,043</u>
<b>NET POSITION</b>			
Net investment in capital assets	12,563,055	-	12,563,055
Restricted	485,771	-	485,771
Unrestricted	3,928,929	-	3,928,929
<b>TOTAL NET POSITION</b>	<u>16,977,755</u>	<u>-</u>	<u>16,977,755</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 20,835,048</u>	<u>\$ 4,086,175</u>	<u>\$ 24,921,223</u>

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

## TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- type Activities	Total
Governmental activities:							
General government	\$ 549,080	\$ 136,338	\$ -	\$ -	\$ (412,742)	\$ -	\$ (412,742)
Protection	896,957	-	-	-	(896,957)	-	(896,957)
Public works	785,171	118,623	17,580	-	(648,968)	-	(648,968)
Education	4,573,516	1,896	183,029	-	(4,388,591)	-	(4,388,591)
County tax	246,452	-	-	-	(246,452)	-	(246,452)
Social services	225,674	-	-	-	(225,674)	-	(225,674)
Unclassified	684,332	-	-	107,382	(576,950)	-	(576,950)
State of Maine on-behalf payments	283,313	-	283,313	-	-	-	-
Interest on long-term debt	214,509	-	-	-	(214,509)	-	(214,509)
Capital outlay	1,433	-	-	-	(1,433)	-	(1,433)
Total governmental activities	<u>8,460,437</u>	<u>256,857</u>	<u>483,922</u>	<u>107,382</u>	<u>(7,612,276)</u>	<u>-</u>	<u>(7,612,276)</u>
Business-type activities:							
Water fund	-	-	-	-	-	-	-
Sewer fund	-	-	-	-	-	-	-
Total business-type activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total government	<u>\$ 8,460,437</u>	<u>\$ 256,857</u>	<u>\$ 483,922</u>	<u>\$ 107,382</u>	<u>(7,612,276)</u>	<u>-</u>	<u>(7,612,276)</u>

STATEMENT B (CONTINUED)  
TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net position:			
Net (expense) revenue	<u>(7,612,276)</u>	<u>-</u>	<u>(7,612,276)</u>
General revenues:			
Taxes:			
Property taxes, levied for general purposes	7,070,183	-	7,070,183
Excise taxes	453,459	-	453,459
Grants and contributions not restricted to specific programs	96,506	-	96,506
Miscellaneous	<u>172,026</u>	<u>-</u>	<u>172,026</u>
Total general revenues	<u>7,792,174</u>	<u>-</u>	<u>7,792,174</u>
Change in net position	179,898	-	179,898
NET POSITION - JULY 1, RESTATED	<u>16,797,857</u>	<u>-</u>	<u>16,797,857</u>
NET POSITION - JUNE 30	<u>\$ 16,977,755</u>	<u>\$ -</u>	<u>16,977,755</u>

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

## STATEMENT C

## TOWN OF SOUTHWEST HARBOR, MAINE

BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2017

	General Fund	Special Revenue Funds	Permanent Fund - Cemetery Trust	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,365,054	\$ 455,069	\$ 1,453	\$ 3,821,576
Investments	-	10,335	105,629	115,964
Accounts receivable (net of allowance for uncollectibles):				
Taxes	2,284	-	-	2,284
Liens	202,367	-	-	202,367
Other	61,305	-	-	61,305
Inventory	21,925	910	-	22,835
Tax acquired property	28,786	-	-	28,786
Prepaid items	33,445	-	-	33,445
Due from other governments	616,853	-	-	616,853
Due from other funds	-	952,274	-	952,274
<b>TOTAL ASSETS</b>	<b>\$ 4,332,019</b>	<b>\$ 1,418,588</b>	<b>\$ 107,082</b>	<b>\$ 5,857,689</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 184,856	\$ 909	\$ -	\$ 185,765
Accrued payroll	198,074	-	-	198,074
Other liabilities	2,406	-	-	2,406
Due to other funds	952,274	-	-	952,274
<b>TOTAL LIABILITIES</b>	<b>1,337,610</b>	<b>909</b>	<b>-</b>	<b>1,338,519</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Prepaid taxes	19,366	-	-	19,366
Deferred tax revenue	218,051	-	-	218,051
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>237,417</b>	<b>-</b>	<b>-</b>	<b>237,417</b>
<b>FUND BALANCES</b>				
Nonspendable	694,457	910	-	695,367
Restricted	182,122	196,567	107,082	485,771
Committed	-	1,360,168	-	1,360,168
Assigned	-	-	-	-
Unassigned	1,880,413	(139,966)	-	1,740,447
<b>TOTAL FUND BALANCES</b>	<b>2,756,992</b>	<b>1,417,679</b>	<b>107,082</b>	<b>4,281,753</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 4,332,019</b>	<b>\$ 1,418,588</b>	<b>\$ 107,082</b>	<b>\$ 5,857,689</b>

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

## TOWN OF SOUTHWEST HARBOR, MAINE

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2017

	Total Governmental Funds
Total Fund Balances	\$ 4,281,753
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation	15,866,691
Deferred outflows of resources related to pensions are not financial resources and therefore are not reported in the funds	62,942
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds shown above:	
Taxes and liens receivable	218,051
Long-term liabilities shown below, are not due and payable in the current period and therefore are not reported in the funds shown above:	
Capital leases payable	(40,121)
Bonds payable	(3,263,515)
Accrued compensated absences	(75,577)
Net pension liability	(50,792)
Deferred inflows of resources related to pensions are not financial resources and therefore are not reported in the funds	(21,677)
	\$ 16,977,755
Net position of governmental activities	

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

## TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Special Revenue Funds	Permanent Fund - Cemetery Trust	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Property Taxes	\$ 7,021,824	\$ -	\$ -	\$ 7,021,824
Excise Taxes	453,459	-	-	453,459
Intergovernmental Revenues	414,606	107,382	-	521,988
Interest Revenues	17,513	20,435	101	38,049
Charges for Services	256,857	-	-	256,857
Miscellaneous Revenues	64,256	69,351	370	133,977
<b>TOTAL REVENUES</b>	<b>8,228,515</b>	<b>197,168</b>	<b>471</b>	<b>8,426,154</b>
<b>EXPENDITURES</b>				
Current:				
General Government	373,173	157,167	-	530,340
Protection	793,795	2,320	-	796,115
Public Works	395,794	5,934	-	401,728
Education	4,501,444	228,662	-	4,730,106
County Tax	246,452	-	-	246,452
Social Services	203,964	21,710	-	225,674
Unclassified	646,117	-	1,538	647,655
State of Maine On-behalf Payments	117,491	-	-	117,491
Debt Service:				
Principal	196,562	-	-	196,562
Interest	214,509	-	-	214,509
Capital Outlay	-	533,511	-	533,511
<b>TOTAL EXPENDITURES</b>	<b>7,689,301</b>	<b>949,304</b>	<b>1,538</b>	<b>8,640,143</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>539,214</b>	<b>(752,136)</b>	<b>(1,067)</b>	<b>(213,989)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Lease Proceeds	20,837	-	-	20,837
Transfers In	60,955	545,372	-	606,327
Transfers (Out)	(505,808)	(100,519)	-	(606,327)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(424,016)</b>	<b>444,853</b>	<b>-</b>	<b>20,837</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>115,198</b>	<b>(307,283)</b>	<b>(1,067)</b>	<b>(193,152)</b>
<b>FUND BALANCES - JULY 1, RESTATED</b>	<b>2,641,794</b>	<b>1,724,962</b>	<b>108,149</b>	<b>4,474,905</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 2,756,992</b>	<b>\$ 1,417,679</b>	<b>\$ 107,082</b>	<b>\$ 4,281,753</b>

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

## TOWN OF SOUTHWEST HARBOR, MAINE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds (Statement E)	<u>\$ (193,152)</u>
Amounts reported for governmental activities in the Statement of Activities (Statement B) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense allocated to those expenditures over the life of the assets:	
Capital asset acquisitions	612,487
Depreciation expense	<u>(703,793)</u>
	<u>(91,306)</u>
Deferred outflows of resources are a consumption of net position by the government that are applicable to a future reporting period and therefore are not reported in the funds	
	<u>(4,420)</u>
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position	
	<u>476,276</u>
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases short-term liabilities in the Statement of Net Position	
	<u>(45,217)</u>
Deferred inflows of resources are an acquisition of net position by the government that are applicable to a future reporting period and therefore are not reported in the funds	
	<u>(1,491)</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Accrued compensated absences	(15,023)
Net pension liability	<u>5,872</u>
	<u>(9,151)</u>
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Taxes and liens receivable	<u>48,359</u>
Change in net position of governmental activities (Statement B)	<u><u>\$ 179,898</u></u>

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

## TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF NET POSITION - PROPRIETARY FUNDS  
JUNE 30, 2017

	Enterprise Funds		Total Enterprise Funds
	Water Fund	Sewer Fund	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ -	\$ -	\$ -
Due from other funds	-	-	-
Total current assets	-	-	-
Noncurrent assets:			
Receivable for long-term debt obligation from Southwest Harbor Public Utilities District	2,532,897	1,553,278	4,086,175
Total noncurrent assets	2,532,897	1,553,278	4,086,175
<b>TOTAL ASSETS</b>	<b>\$ 2,532,897</b>	<b>\$ 1,553,278</b>	<b>\$ 4,086,175</b>
<b>LIABILITIES</b>			
Current liabilities:			
Due to other funds	\$ -	\$ -	\$ -
Current portion of long-term obligations	188,753	91,421	280,174
Total current liabilities	188,753	91,421	280,174
Noncurrent liabilities:			
Noncurrent portion of long-term obligations:			
Bonds payable	2,344,144	1,461,857	3,806,001
Total noncurrent liabilities	2,344,144	1,461,857	3,806,001
<b>TOTAL LIABILITIES</b>	<b>2,532,897</b>	<b>1,553,278</b>	<b>4,086,175</b>
<b>NET POSITION</b>			
Net investment in capital assets	-	-	-
Restricted	-	-	-
Unrestricted	-	-	-
<b>TOTAL NET POSITION</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 2,532,897</b>	<b>\$ 1,553,278</b>	<b>\$ 4,086,175</b>

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

TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017

	Enterprise Funds		Total Enterprise Funds
	Water Fund	Sewer Fund	
OPERATING REVENUES			
Other	\$ -	\$ -	\$ -
TOTAL OPERATING REVENUES	-	-	-
OPERATING EXPENSES			
Miscellaneous expenses	-	-	-
TOTAL OPERATING EXPENSES	-	-	-
OPERATING INCOME (LOSS)	-	-	-
NONOPERATING REVENUES (EXPENSES)			
Interest income	-	-	-
Interest expense	-	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	-	-	-
CHANGE IN NET POSITION	-	-	-
NET POSITION - JULY 1	-	-	-
NET POSITION - JUNE 30	\$ -	\$ -	\$ -

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

## STATEMENT I

## TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	Enterprise Funds		Total Enterprise Funds
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES			
Other receipts	\$ -	\$ -	\$ -
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	-	-	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Long-term debt obligation from Southwest Harbor Public Utilities District	188,101	90,868	278,969
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	188,101	90,868	278,969
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on long-term debt	(188,101)	(90,868)	(278,969)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(188,101)	(90,868)	(278,969)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	-	-
CASH AND CASH EQUIVALENTS - JULY 1	-	-	-
CASH AND CASH EQUIVALENTS - JUNE 30	\$ -	\$ -	\$ -
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ -	\$ -	\$ -
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ -	\$ -	\$ -

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

## TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2017

	Private-Purpose Trust Funds				Total Private-Purpose Trust Funds	Agency Funds
	Dickey Fund	Johnson Fund	Student Activities	PTO		General Trust
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,105	\$ 64,947	\$ 34,595	\$ 8,039	\$ 108,686	\$ 1,105
Investments, at fair value	43,582	-	-	-	43,582	58,447
<b>TOTAL ASSETS</b>	<b>\$ 44,687</b>	<b>\$ 64,947</b>	<b>\$ 34,595</b>	<b>\$ 8,039</b>	<b>\$ 152,268</b>	<b>\$ 59,552</b>
<b>LIABILITIES</b>						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deposits held for others	-	-	-	-	-	59,552
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ 59,552</b>
<b>NET POSITION</b>						
Restricted-held in trust for special purposes	44,687	64,947	34,595	8,039	152,268	
<b>TOTAL NET POSITION</b>	<b>44,687</b>	<b>64,947</b>	<b>34,595</b>	<b>8,039</b>	<b>152,268</b>	
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 44,687</b>	<b>\$ 64,947</b>	<b>\$ 34,595</b>	<b>\$ 8,039</b>	<b>\$ 152,268</b>	

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

## TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	Private-Purpose Trust Funds				Total Private-Purpose Trust Funds
	Dickey Fund	Johnson Fund	Student Activities	PTO	
ADDITIONS					
Trust fund income	\$ -	\$ 24,000	\$ -	\$ -	\$ 24,000
Student activities	-	77	56,316	14,236	70,629
Investment earnings, net of unrealized gains/(losses)	6,245	-	-	-	6,245
Total additions	<u>6,245</u>	<u>24,077</u>	<u>56,316</u>	<u>14,236</u>	<u>100,874</u>
DEDUCTIONS					
School activities	-	29,711	28,560	14,390	72,661
Total deductions	<u>-</u>	<u>29,711</u>	<u>28,560</u>	<u>14,390</u>	<u>72,661</u>
Change in net position	6,245	(5,634)	27,756	(154)	28,213
NET POSITION - JULY 1	<u>38,442</u>	<u>70,581</u>	<u>6,839</u>	<u>8,193</u>	<u>124,055</u>
NET POSITION - JUNE 30	<u>\$ 44,687</u>	<u>\$ 64,947</u>	<u>\$ 34,595</u>	<u>\$ 8,039</u>	<u>\$ 152,268</u>

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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity**

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

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

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

**Implementation of New Accounting Standards**

During the year ended June 30, 2017, the following statements of financial accounting standards issued by the Governmental Accounting Standards Board became effective:

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

Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*". The objective of the Statement is to improve the disclosure of information about benefits other than pensions (other postemployment benefits or OPEB) included in financial statements of state and local governments. This Statement will improve financial reporting through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet specified criteria. Management has determined the impact of this Statement is not material to the financial statements.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement No. 77, "*Tax Abatement Disclosures*". The objective of the Statement is to improve disclosure of information about the nature and magnitude of tax abatements, making these transactions more transparent to financial statement users. As such, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. Management has determined the impact of this Statement is not material to the financial statements.

Statement No. 80, "*Blending Requirements for Certain Component Units*". The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. Management has determined the impact of this Statement is not material to the financial statements.

Statement No. 81, "*Irrevocable Split-Interest Agreements*". The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. As such, this Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Management has determined the impact of this Statement is not material to the financial statements.

Statement No. 82, "*Pension Issues*". The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Management has determined the impact of this Statement is not material to the financial statements.

**Government-Wide and Fund Financial Statements**

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

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

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

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

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

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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

**Measurement Focus - Basic Financial Statements & Fund Financial Statements**

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

1. Governmental Funds:

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

Major Funds

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

Nonmajor Funds

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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Proprietary Funds

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

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

3. Fiduciary Funds:

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

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

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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Basis of Accounting**

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

1. Accrual

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

2. Modified Accrual

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

**Budget**

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

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

1. Early in the second half of the year the Town prepares a budget for the fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the inhabitants of the Town is called for the purpose of adopting the proposed budget after public notice of the meeting is given.
3. The budget is adopted subsequent to passage by the inhabitants of the Town.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. The Town does not adopt budgets for Special Revenue Funds.

**Deposits and Investments**

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

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

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

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

**Receivables**

Receivables include amounts due from governmental agencies and local businesses. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. Allowances are reported when accounts are proven to be uncollectible. Allowances for uncollectible accounts netted with accounts receivable were \$678,158 for the year ended June 30, 2017. The allowance for uncollectible accounts is estimated to be \$0 as of June 30, 2017.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Inventories**

Inventories consist of expendable supplies held for consumption and are valued at cost determined using the last-in, first-out (LIFO) method. Under the consumption method, the costs of inventory items are recognized as expenditures when used. In the general fund, inventory under this method consists of diesel fuel and gasoline and totals \$21,925. The school lunch fund portion of general fund inventory of \$910, consists of school nutrition supplies and food on hand at the end of the year, valued at cost. The cost value is determined using the first-in, first-out (FIFO) method.

**Interfund Receivables and Payables**

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

**Transactions Between Funds**

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

**Capital Assets**

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

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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Estimated useful lives are as follows:

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

**Long-term Obligations**

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

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

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

**Compensated Absences**

The Town's policies regarding vacation and sick time do permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred. As of June 30, 2017, the Town's liability for compensated absences is \$75,577. The School Department share of this liability is \$28,823.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Pensions**

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

**Net Position**

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

**Fund Balances**

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

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

**Restricted** – This includes amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

**Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of financial position and/or balance sheet will at times report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town currently has one item in this category: deferred outflows related to pensions.

In addition to liabilities, the statement of financial position and or balance sheet will at times report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has three types of items, deferred tax revenues, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, this item is reported in the governmental funds balance sheet. Prepaid taxes also qualify for reporting in this category. This item is reported in both the statements of net position and governmental funds balance sheet. Deferred inflows related to pensions qualify for reporting in this category as well.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This item is reported only in the statement of net position. All items in this category are deferred and recognized as inflows of resources in the period that the amounts become available.

**Revenue Recognition - Property Taxes - Modified Accrual Basis**

The Town's property tax for the current year was levied July 1, 2016 on the assessed value listed as of April 1, 2016, for all real and personal property located in the Town. Taxes were due on in two installments on September 1, 2016 and February 1, 2017. Interest on unpaid taxes commenced on September 2, 2016 and February 2, 2017, at 7% per annum.

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

The Town is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$92,691 for the year ended June 30, 2017.

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

**Program Revenues**

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

**Operating/Nonoperating Proprietary Fund Revenues**

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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Encumbrance Accounting**

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

**Use of Estimates**

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

**Deposits:**

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Town will not be able to recover its deposits. The Town does not have a policy specifically covering custodial credit risk for deposits. However, the Town maintains deposits in qualifying financial institutions that are members of the F.D.I.C. as defined in Title 30-A, Section 5706 of the Maine Revised Statutes. As of June 30, 2017, the Town reported cash and cash equivalents of \$3,931,367 with bank and invested balances of \$4,016,608. Of the Town's bank and invested balances, \$2,958,725 were covered by F.D.I.C. insurance and therefore not exposed to custodial credit risk. Balances of \$940,900 were covered by securities held by the financial institution in the Town's name. Cash equivalents of \$3,662 were covered by the Securities Investor Protection Corporation (SIPC) and the remaining cash equivalents of \$113,321 were not collateralized or insured.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

<u>Account Type</u>	<u>Bank Balance</u>
Checking accounts	\$ 1,302,227
Savings accounts	1,256
Money market accounts	313,854
ICS accounts	2,282,287
Cash equivalents	116,983
	<u>\$ 4,016,608</u>

**Investments:**

Custodial credit risk for investments is that, in the event of failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Currently, the Town does not have a specific policy for custodial credit risk for investments. Of the Town's investments of \$217,993, \$10,335 were fully covered by federal depository insurance and therefore were not exposed to custodial credit risk. The remaining investments totaling \$207,658 were covered by the Securities Investor Protection Corporation (SIPC).

At June 30, 2017, the Town had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>N/A</u>	<u>&lt; 1 Year</u>	<u>1 - 5 Years</u>
Debt securities:				
U.S. government agency obligations	\$ 74,632	\$ -	\$ -	\$ 74,632
Brokered certificates of deposit	25,034	-	25,034	-
Equity securities:				
Mutual funds:				
Equity	65,731	65,731	-	-
Fixed income	42,261	42,261	-	-
Certificates of deposit	10,335	-	-	10,335
	<u>\$ 217,993</u>	<u>\$ 107,992</u>	<u>\$ 25,034</u>	<u>\$ 84,967</u>

**Fair Value Hierarchy**

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Town has the following recurring fair value measurements as June 30, 2017:

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

	June 30, 2017 Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
<b>Investments by fair value level</b>				
<b>Debt securities</b>				
U.S. government agency obligations	\$ 74,632	\$ -	\$ 74,632	\$ -
Brokered certificates of deposit	25,034	-	25,034	-
Total debt securities	99,666	-	99,666	-
<b>Equity securities</b>				
Mutual funds and exchange-traded funds	107,992	107,992	-	-
Total equity securities	107,992	107,992	-	-
Total investments by fair value level	207,658	\$ 107,992	\$ 99,666	\$ -
<b>Cash equivalents measured at the net asset value (NAV)</b>				
Money market mutual funds	3,663			
Total cash equivalents measured at the NAV	3,663			
Total investments and cash equivalents measured at fair value	\$ 211,321			

Equity securities classified in Level I of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued from publicly reliable sources or using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The Town has no Level 3 investments. The fair value of money market mutual funds that are measured at NAV per share (or its equivalent) is calculated as of June 30, 2017 in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies. Certificates of deposit held with local financial institutions for \$10,335 are excluded from the hierarchy as these investments are considered held to maturity and are therefore not measured at fair value.

Credit risk – Statutes for the State of Maine authorize the Town to invest in obligations of the U.S. Treasury, agencies and instrumentalities, other states and Canada, provided such securities are rated within the three highest grades by an approved rating service of the State of Maine, corporate stocks and bonds within statutory limits, financial institutions, mutual funds and repurchase agreements. As of June 30, 2017, the Town's investments in U.S. government agency obligations were rated AA+ (\$74,632) by Standard & Poor's Rating Service. The Town's investment in brokered certificates of deposit totaling \$25,034 were not rated.

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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 3 - LONG-TERM RECEIVABLE

As of January 1, 2016, the sewer and water departments formed Southwest Harbor Public Utilities District. The District Plan requires that the District be responsible for payment of all sewer and water-related long-term debt on behalf of the Town. As of June 30, 2017, a long-term receivable has been recorded for \$4,086,175, which represents water and sewer-related general obligation bonds.

NOTE 4 - BUDGETARY VS. GAAP BASIS OF ACCOUNTING

As required by accounting principles generally accepted in the United States of America (GAAP), the Town of Southwest Harbor has recorded a revenue and expenditure for Maine Public Employees Retirement contributions made by the State of Maine on behalf of Southwest Harbor School Department. These amounts have not been budgeted in the General Fund and result in a difference in reporting on a budgetary basis of accounting vs. reporting under generally accepted accounting principles of \$117,491. These amounts have been included as intergovernmental revenue and as education expenditures in the General Fund on Statement E (GAAP basis). There is no effect on the total fund balance at the end of the year.

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2017 consisted of the following individual fund receivables and payables:

	Receivables (Due from)	Payables (Due to)
	<u>                    </u>	<u>                    </u>
General fund	\$ -	\$ 952,274
Nonmajor special revenue funds - reserves	952,274	-
Totals	<u>\$ 952,274</u>	<u>\$ 952,274</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 6 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2017:

	Balance, 7/1/16 (Restated)	Additions	Deletions	Balance, 6/30/17
<u>Governmental activities:</u>				
Non-depreciated assets:				
Land	\$ 461,164	\$ -	\$ -	\$ 461,164
	<u>461,164</u>	<u>-</u>	<u>-</u>	<u>461,164</u>
Depreciated assets:				
Land improvements	277,797	-	-	277,797
Buildings and improvements	7,773,154	-	-	7,773,154
Machinery and equipment	1,238,237	135,792	(79,912)	1,294,117
Vehicles	1,767,661	-	-	1,767,661
Infrastructure	15,299,719	476,695	-	15,776,414
	<u>26,356,568</u>	<u>612,487</u>	<u>(79,912)</u>	<u>26,889,143</u>
Less: accumulated depreciation	<u>(10,859,735)</u>	<u>(703,793)</u>	<u>79,912</u>	<u>(11,483,616)</u>
	<u>15,496,833</u>	<u>(91,306)</u>	<u>-</u>	<u>15,405,527</u>
Net capital assets	<u>\$ 15,957,997</u>	<u>\$ (91,306)</u>	<u>\$ -</u>	<u>\$ 15,866,691</u>
<u>Current year depreciation:</u>				
<i>Governmental activities:</i>				
General government				\$ 3,717
Protection				100,842
Education				179,114
Public works				383,443
Town-wide				36,677
Total governmental activities depreciation expense				<u>\$ 703,793</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 7 - LONG-TERM DEBT

The following is a summary of changes in the long-term debt for the year ended June 30, 2017:

	Balance, 7/1/16	Additions	Deletions	Balance, 6/30/17	Current Portion
<u>Governmental activities:</u>					
Bonds payable	\$ 3,721,577	\$ -	\$ (458,062)	\$ 3,263,515	\$ 458,662
Capital leases payable	13,118	45,217	(18,214)	40,121	9,179
Accrued compensated absences	60,554	28,823	(13,800)	75,577	75,577
Net pension liability	56,664	-	(5,872)	50,792	-
	<u>\$ 3,851,913</u>	<u>\$ 74,040</u>	<u>\$ (495,948)</u>	<u>\$ 3,430,005</u>	<u>\$ 543,418</u>
<u>Business-type activities:</u>					
Bonds payable	\$ 4,365,144	\$ -	\$ (278,969)	\$ 4,086,175	\$ 280,174
	<u>\$ 4,365,144</u>	<u>\$ -</u>	<u>\$ (278,969)</u>	<u>\$ 4,086,175</u>	<u>\$ 280,174</u>

The following is a summary of the outstanding bonds payable:

**Governmental activities:**

\$5,339,115, 2000B School Construction bond due in annual principal installments of \$261,050 through November of 2020. The interest rate varies from 5.028% to 5.903% per annum.	\$ 1,044,200
\$1,100,000, 2005C New Fire Station bond due in annual principal installments of \$44,000 through November of 2031. The interest rate is 4.75% per annum.	616,000
\$868,730, 2010F Wesley Ave/Mansell Lane General Fund bond due in annual principal installments of \$38,141 through November of 2030. The interest rate varies from 0.831% to 5.094% per annum.	640,315
\$780,000, 2013B Main Street Project bond due in annual principal installments of \$39,000 through May of 2034. The interest rate varies from 0.45% to 4.57% per annum.	663,000
\$750,000, 2011 Fire Truck bond due in annual principal installments of \$75,000 through September of 2021. The interest rate is 3.08% per annum.	<u>300,000</u>
Total governmental activities	<u>3,263,515</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 7 - LONG-TERM DEBT (CONTINUED)

**Business-type activities:**

\$1,207,820, 2010 Bond payable to Maine Municipal Bond Bank, due in annual principal payments varying from \$53,805 to \$24,107. Interest is charged at a rate varying from 5.500% to 2.000% per annum. Maturity in November of 2033.	884,990
\$420,855, 2010F Wesley Ave/Mansell Lane Water bond due in annual principal installments of \$18,477 through November of 2030. The interest rate varies from 0.8310% to 5.094% per annum.	310,198
\$440,000, 2013 Bond payable to Maine Municipal Bond Bank, due in annual principal payments varying from \$19,047 to \$25,227. Interest is charged at a rate of 1.490% per annum. Maturity in October of 2033.	382,004
\$1,066,046, 2010 Bond payable to Maine Municipal Bond Bank, due in annual principal payments varying from \$80,662 to \$17,707. Interest is charged at a rate varying from 5.500% to 2.000% per annum. Maturity in November of 2027.	582,074
\$511,180, 2009 Bond payable to Maine Municipal Bond Bank, due in semiannual principal payments of \$6,202 with principal forgiveness of \$263,100. No interest is charged. Maturity in October of 2029.	155,050
\$442,820, 2009 Bond payable to Maine Municipal Bond Bank, due in semiannual principal payments of \$11,071. No interest is charged. Maturity in October of 2029.	276,763
\$388,415, 2010F Wesley Ave/Mansell Lane Sewer bond due in annual principal installments of \$17,053 through November of 2030. The interest rate varies from 0.8310% to 5.094% per annum.	286,284
\$696,354, 2012 Bond payable to Maine Municipal Bond Bank, due in annual principal payments of \$18,569 with principal forgiveness of \$139,271. No interest is charged. Maturity in April of 2042.	464,236
\$1,418,182, 2013 Bond payable to Maine Municipal Bond Bank, due in annual principal payments varying from \$35,424 to \$42,796 with principal forgiveness of \$638,182. Interest is charged at a rate of 1.000% per annum. Maturity in October of 2035.	744,576
Total business-type activities	<u>4,086,175</u>
Total bonds payable	<u><u>\$ 7,349,690</u></u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 7 - LONG-TERM DEBT (CONTINUED)

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

Governmental activities:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2018	\$ 458,662	\$ 132,172	\$ 590,834
2019	459,358	111,716	571,074
2020	460,130	90,986	551,116
2021	460,962	72,364	533,326
2022	125,762	61,250	187,012
2023-2027	643,820	245,911	889,731
2028-2032	576,821	88,086	664,907
2033-2037	78,000	3,564	81,564
	<u>\$ 3,263,515</u>	<u>\$ 806,049</u>	<u>\$ 4,069,564</u>

Business-type activities:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2018	\$ 280,174	\$ 80,490	\$ 360,664
2019	281,477	72,937	354,414
2020	282,859	70,381	353,240
2021	261,037	64,985	326,022
2022	262,506	60,605	323,111
2023-2027	1,257,617	234,168	1,491,785
2028-2032	978,156	100,421	1,078,577
2033-2037	389,498	11,665	401,163
2038-2042	92,851	-	92,851
	<u>\$ 4,086,175</u>	<u>\$ 695,652</u>	<u>\$ 4,781,827</u>

No interest costs were capitalized during the period. The amount of interest costs incurred and charged to expense for the year ended June 30, 2017 was \$84,889.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 7 - LONG-TERM DEBT (CONTINUED)

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

\$24,380, 2017 Capital lease payable to EverBank for copiers, due in monthly installments of \$387 through April of 2022. Interest is charged at a rate of 3.829% per annum.	\$ 23,218
\$20,837, 2017 Capital lease payable for copiers, due in monthly installments of \$378 through April of 2021.	<u>16,903</u>
Total capital leases payable	<u><u>\$ 40,121</u></u>

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

Year Ending June 30:	
<u>2018</u>	\$ 9,179
2019	9,179
2020	9,179
2021	9,179
2022	<u>4,644</u>
Total minimum lease payments	41,360
Less amount representing interest	<u>(1,239)</u>
Present value of future minimum lease payments	<u><u>\$ 40,121</u></u>

NOTE 8 - EXPENDITURES OVER APPROPRIATIONS

The following expenditures were overspent at June 30, 2017:

Administration	\$ 48,379
Dispatch service	6,364
Debt service - interest	2,101
Contracted	<u>9,805</u>
	<u><u>\$ 66,649</u></u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 9 - NONSPENDABLE FUND BALANCES

At June 30, 2017, the Town had the following nonspendable fund balances:

General Fund:	
Due From Southwest Harbor Public Utilities District	\$ 610,301
Inventory	21,925
Tax Acquired Property	28,786
Prepaid Items	33,445
	<u>694,457</u>
Nonmajor Special Revenue Funds:	
Inventory	910
	<u>\$ 695,367</u>

NOTE 10 - RESTRICTED FUND BALANCES

At June 30, 2017, the Town had the following restricted fund balances:

General Fund:	
School Department	\$ 182,122
Nonmajor Special Revenue Funds	196,567
Permanent Fund - Cemetery Trust	107,082
	<u>\$ 485,771</u>

NOTE 11 - COMMITTED FUND BALANCES

At June 30, 2017, the Town has the following committed fund balances:

Nonmajor Special Revenue Funds	<u>\$ 1,360,168</u>
--------------------------------	---------------------

NOTE 12 - 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 participates in a public entity risk pool sponsored by the Maine Municipal Association. The Maine Municipal Association Group Risk Pool is a state chartered pool established exclusively for Maine municipalities. The pool provides certain property, liability, fidelity and vehicle coverage. If the assets of the pool are at any time actuarially determined to be insufficient to enable the pool to discharge its legal obligations, other obligations, and actuarially sound reserves, the pool has the power to make up the deficiency by the levy of a prorated assessment. There have been no deficiencies during the past three years and management believes that no deficiency exists at June 30, 2017.

## TOWN OF SOUTHWEST HARBOR, MAINE

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

#### NOTE 12 - RISK MANAGEMENT (CONTINUED)

The Town is a member of the Maine Municipal Association – Property and Casualty Pool and pays an annual premium for its coverage. Under the property portion of the policy, coverage is provided after a per occurrence deductible is met. The limit of coverage for liability claims brought under the Maine Tort Claims Act is \$400,000 per occurrence. A \$2,000,000 limit of liability is provided for liability claims outside the Maine Tort Claims Act. There is no aggregate liability limit. Coverage for Public Officials Liability, including Employment Practices, is a part of the program. Coverage is on an occurrence basis, rather than a “claims made” form. A \$2,000,000 limit of liability is provided for all claims for Wrongful Acts seeking monetary damages pursuant to federal or state law for which the Maine Tort Claims Act does not provide immunity or limitations. Each member has a \$4,000,000 annual aggregate limit. An annual sublimit of \$100,000 per member applies for all back wages and/or future salary awards for employment related claims, subject to a \$5,000 retention and a 10% contribution by the member.

The Town is also a member of the Maine Municipal Association – Worker Compensation Trust Fund (“Fund”). The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund’s membership, obtain lower costs for worker’s compensation coverage and develop a comprehensive loss control program. The Town pays an annual premium to the fund for its worker’s compensation coverage. The Town’s agreement with the Fund provides that the fund will be self-sustaining through member premiums and will provide, through commercial companies’ reinsurance contracts, coverage for claims in excess of \$1,000,000.

The Town is also a member of the Maine Municipal Association – Unemployment Compensation Group Fund (“MMA UC Fund”). The MMA UC Fund was created to assist in meeting members’ obligations under the Employment Security Act in an efficient and cost-effective manner. The Fund is composed of individual municipalities and other public and related non-profit entities that are individually self-insured but administered as a group. Within the Fund, each member has a separate account. As such, the Town makes quarterly payments into their account, based on rates developed by MMA’s consulting actuary. Claims, if any, are paid out of the Town’s own account. The Maine Department of Labor classifies MMA’s UC Fund members as Direct Reimbursement Employers. In other words, the Fund reimburses the Maine DOL on the Town’s behalf only when the Town has unemployment claims from present or former employees.

Occasionally, the Town may have layoffs or resignations or even a part-time employee losing a primary job, that lead to larger claims payments than anticipated. When claims exceed the balance of the Town’s account, the UC Fund continues to pay the Town’s claims with no regard for the negative balance. Repayment of a negative balance is spread out over a period of years to avoid a financial hardship to the Town.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 12 - RISK MANAGEMENT (CONTINUED)

Based on the coverage provided by the insurance purchased, the Town is not aware of any material actual or potential claim liabilities which should be recorded as of June 30, 2017. There were no significant reductions in insurance coverage from that of the prior year and amounts of settlements have not exceeded insurance coverage in the past three years.

NOTE 13 - OVERLAPPING DEBT

The Town is contingently liable for its proportionate share of any defaulted debt by entities of which it is a member. At June 30, 2017, the Town's share was approximately:

	<u>Outstanding Debt</u>	<u>Town's Percentage</u>	<u>Total Share</u>
County of Hancock	\$ 300,000	4.64%	<u>\$ 13,920</u>

NOTE 14 - DEFINED BENEFIT PENSION PLAN

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

**Plan Description**

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

**Benefits Provided**

The Maine Public Employees Retirement System provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the State Legislature. The System's retirement programs provide defined retirement

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

benefits based on members' average final compensation and service credit earned as of retirement. Vesting (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit (effective October 1, 1999, the prior ten year requirement was reduced by legislative action to five years for State employees and teachers). In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for State employees and teachers is age 60, 62 or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employee and teacher members.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 5.0%.

**Contributions**

Retirement benefits are funded by contributions from members and employers and by earnings on investments. Disability and death benefits are funded by employer normal cost contributions and by investment earnings. The Town's teachers are required to contribute 7.65% of their compensation to the retirement system. The Town's payroll for teachers covered by this program was approximately \$1,218,101 for the year ended June 30, 2017. Title 5 of the Maine Revised Statutes Annotated requires the State to contribute 10.02% of the Town's contractually required contributions, which are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability (UAL). Contributions paid by the State were approximately \$117,491 for the year ended June 30, 2017. Title 5 of the Maine Revised Statutes Annotated also requires the Town to contribute at an actuarially determined normal cost rate of 3.36%, which totaled \$40,928 for 2017. In addition, the Town is required to contribute toward the UAL of the plan and pay a small percentage of payroll towards the administrative costs for federally funded teachers, which amounts to 10.57% of compensation and totaled \$4,813 the year ended June 30, 2017.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

At June 30, 2017, 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	\$ 50,792
State's proportionate share of the net pension liability associated with the Town	<u>1,684,151</u>
Total	<u>\$ 1,734,943</u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating school Units and the State, actuarially determined. At June 30, 2016, the Town's proportion was 0.002875%, which was a decrease of 0.001322% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized total pension expense of \$165,861 and revenue of \$165,822 for support provided by the State of Maine. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

	SET Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 982	\$ 96
Changes of assumptions	-	1,304
Net difference between projected and actual earnings on pension plan investments	16,219	6,646
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	13,631
Contributions subsequent to the measurement date	45,741	-
Total	<u>\$ 62,942</u>	<u>\$ 21,677</u>

\$45,741 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	SET Plan
Plan year ended June 30:	
2017	\$ (6,547)
2018	(5,012)
2019	4,568
2020	2,515
2021	-
Thereafter	-

**Actuarial Methods and Assumptions**

The collective total pension liability for the Plan was determined by an actuarial valuation as of June 30, 2016, using the following methods and assumptions applied to all periods included in the measurement:

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

*Actuarial Cost Method*

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

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

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

*Asset Valuation Method*

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

*Amortization*

The net pension liability of the State Employee and Teacher Retirement Plan is amortized on a level percentage of payroll over the amortization period then in effect under statutory and constitutional requirements. All other gains, losses, and changes are amortized over ten-year periods beginning on the date as of which they occur.

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

*Investment Rate of Return* - For the State Employee and Teacher Plan, 6.875% per annum, compounded annually; 7.125% was used for the period ended June 30, 2015.

*Salary Increases, Merit and Inflation* - State Employees, 2.75% to 8.75% per year; Teachers, 2.75% to 14.50% per year.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

*Mortality Rates* - For active members and non-disabled retirees of the SET Plan, the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females, is used. For all recipients of disability benefits, the RP2014 Total Dataset Disabled Annuitant Mortality Table, for males and females, is used.

*Cost of Living Benefit Increases* - 2.20%; 2.55% was used for the period ended June 30, 2015.

The long-term expected rate of return on pension plan assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as June 30, 2016 are summarized in the following table:

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

*Discount Rate*

The discount rate used to measure the collective total pension liability was 6.875% for 2016 for the State Employee and Teacher Plan. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table shows how the collective net pension liability/(asset) as of June 30, 2016 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rate is 6.875% for the State Employee and Teacher Plan.

	1% Decrease	Discount Rate	1% Increase
<u>SET Plan:</u>			
Discount rate	5.875%	6.875%	7.875%
Town's proportionate share of the net pension liability	\$ 81,330	\$ 50,792	\$ 25,338

**Changes in Net Pension Liability**

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

*Differences between Expected and Actual Experience*

The difference between expected and actual experience with regard to economic or demographic factors were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. The first year is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources. For 2016, this was 3 years for the State Employee and Teacher Plan.

*Differences between Projected and Actual Investment Earnings on Pension Plan Investments*

Differences between projected and actual investment earnings were recognized in pension expense using a straight-line amortization method over a closed five-year period. The first year is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

*Changes in Assumptions*

Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. The actuarial assumptions used for the year ended June 30, 2016 valuation were based on the results of an actuarial experience study for the period of June 30, 2012 through June 30, 2015. Please refer to the Actuarial Methods and Assumptions section for information relating to changes of assumptions. The first year is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources.

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

Differences resulting from a change in proportionate share of contributions and differences between total employer contributions and the employer's proportionate share of contributions were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. The first year is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources. Differences between total employer contributions and the employer's proportionate share of contributions may arise when an employer has a contribution requirement for an employer specific liability.

**Pension Plan Fiduciary Net Position**

Additional financial and actuarial information with respect to the Plan can be found in the MainePERS' 2016 Comprehensive Annual Financial Report available online at [www.maineopers.org](http://www.maineopers.org) or by contacting the System at (207) 512-3100.

NOTE 15 - DEFINED CONTRIBUTION PLAN

**Plan Description**

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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 15 - DEFINED CONTRIBUTION PLAN (CONTINUED)

**Funding Policy**

Plan provisions and contribution requirements are established and may be amended by the Town Selectmen. Under the 401 plan, the Town matches up to 6% of a participant's earnings for the plan year. For the year ended June 30, 2017, employee contributions totaled \$33,872, and the Town recognized pension expense of \$33,485.

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

For the year ended June 30, 2017, there were forfeitures of \$2,964 to reduce the Town's pension expense.

NOTE 16 - DEFERRED COMPENSATION PLAN

INTERNATIONAL CITY MANAGERS ASSOCIATION RETIREMENT CORP.

**Plan Description**

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457(f) and maintained by International City Managers Association Retirement Corporation (ICMA). The plan, available to all full-time Town employees, permits them to defer a portion of their salary until retirement. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency.

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

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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 16 - DEFERRED COMPENSATION PLAN (CONTINUED)

**Funding Policy**

Participating members may contribute up to amounts allowed by law of their annual covered salary. The Town has no matching requirements in this plan. The employee's contribution is tax deferred for federal and state taxes until the withdrawal date. The employee's contribution vests 100% with the employee when contributed. The employees' contributions to the plan for the year ended June 30, 2017 were \$4,420.

NOTE 17 - BENEFICIAL INTERESTS IN ASSETS HELD BY OTHERS

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

The estimated fair market value of the beneficial interest in the assets, which approximate the present values of the expected future cash flows from the assets, are recognized in the statement of financial position as investments. This amounted to \$113,321 for the year ended June 30, 2017.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 18 - DEFICIT FUND BALANCES

The following funds have deficit fund balances at June 30, 2017:

Special revenue funds:		
Legal and Accounting	\$	19,125
Abatements		3,811
Comprehensive Planning		402
School Safety		645
Police Equipment		300
Municipal Building Engineering		8,923
Police Cruiser		3,614
4 X 16 Spruce - Manset		6,874
Highway Loader		33,313
Road Projects		35,158
Harbor Hoists Upgrade		966
Pilings/Wall Replacement		15,406
Jaws of Life		1
Storm Water Management		709
Mooring Plan Update		5
Ford Pick Up - Chief's Truck		4,536
Administration		3,325
Municipal		2,221
Grants and School Lunch		632
		<u>632</u>
	\$	<u>139,966</u>

NOTE 19 - CONTINGENCIES

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

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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 20 - RESTATEMENTS

The beginning fund balance of the general fund and the net position of the governmental activities have been restated as of July 1, 2016. These balances were restated to correct various account balances in the general fund. The general fund and the governmental activities were both restated by \$24,778.

The beginning fund balance of the special revenue funds and the net position of the governmental activities have been restated as of July 1, 2016. These balances were restated to correct various account balances in the special revenue funds. The special revenue funds and the governmental activities were both restated by (\$4,860).

The beginning net position of the governmental activities has been restated as of July 1, 2016. This balance was restated to correct the capital assets balance. The governmental activities were restated by \$982,823.

The net restatement to the general fund, special revenue funds and the governmental activities was \$24,778, (\$4,860) and \$1,002,741, respectively.

NOTE 21 - COMPARATIVE DATA/RECLASSIFICATIONS

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

## Required Supplementary Information

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

- Budgetary Comparison Schedule - Budgetary Basis - Budget and Actual - General Fund
- Schedule of Proportionate Share of the Net Pension Liability
- Schedule of Contributions
- Notes to Required Supplementary Information

## TOWN OF SOUTHWEST HARBOR, MAINE

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
 BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1, Restated	\$ 2,641,794	\$ 2,641,794	\$ 2,641,794	\$ -
Resources (Inflows):				
Taxes:				
Property Taxes	\$ 7,070,183	\$ 7,070,183	\$ 7,021,824	\$ (48,359)
Excise Taxes	353,000	353,000	453,459	100,459
Intergovernmental Revenues:				
State Revenue Sharing	52,000	52,000	55,165	3,165
Homestead Reimbursement	24,000	24,000	36,695	12,695
Local Road Assistance	18,000	18,000	17,580	(420)
Education	155,000	155,000	183,029	28,029
BETE	400	400	470	70
Other	3,550	3,550	4,176	626
Interest Income	11,500	11,500	17,513	6,013
Interest on Taxes/Lien Costs	22,000	22,000	21,697	(303)
Charges for Services:				
Solid Waste Revenues	42,000	42,000	38,718	(3,282)
Permits, Fees and Other Revenue	131,775	131,775	136,250	4,475
Docks and Floats Revenue	83,800	83,800	79,905	(3,895)
Education	500	500	1,896	1,396
Other	300	300	88	(212)
Miscellaneous Revenues	25,629	25,629	41,995	16,366
Misc. School Department Revenues	-	-	564	564
Lease Proceeds	-	20,837	20,837	-
Transfers from Other Funds	-	60,955	60,955	-
Amounts Available for Appropriation	<u>10,635,431</u>	<u>10,717,223</u>	<u>10,834,610</u>	<u>117,387</u>
Charges to Appropriations (Outflows):				
Current:				
General Government	327,546	327,546	373,173	(45,627)
Protection	836,069	836,069	793,795	42,274
Public Works	428,283	428,283	395,794	32,489
Education	4,519,568	4,576,472	4,501,444	75,028
County Tax	246,452	246,452	246,452	-
Social Services	203,964	203,964	203,964	-
Debt Service:				
Principal	196,562	196,562	196,562	-
Interest	212,408	212,408	214,509	(2,101)
Unclassified	730,466	730,466	646,117	84,349
Transfers to Other Funds	347,937	553,069	505,808	47,261
Total Charges to Appropriations	<u>8,049,255</u>	<u>8,311,291</u>	<u>8,077,618</u>	<u>233,673</u>
Budgetary Fund Balance, June 30	<u>\$ 2,586,176</u>	<u>\$ 2,405,932</u>	<u>2,756,992</u>	<u>\$ 351,060</u>
Utilization of Unassigned Fund Balance	\$ 55,618	\$ 182,000	\$ -	\$ (182,000)
Utilization of Restricted Fund Balance	-	53,862	-	(53,862)
	<u>\$ 55,618</u>	<u>\$ 235,862</u>	<u>\$ -</u>	<u>\$ (235,862)</u>

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

TOWN OF SOUTHWEST HARBOR, MAINE

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>SET Plan:</u>			
Town's proportion of the net pension liability	0.0029%	0.0042%	0.0045%
Town's proportionate share of the net pension liability	\$ 50,792	\$ 56,664	\$ 48,323
State's proportionate share of the net pension liability associated with the Town	<u>1,684,151</u>	<u>1,450,412</u>	<u>1,225,807</u>
Total	<u>\$ 1,734,943</u>	<u>\$ 1,507,076</u>	<u>\$ 1,274,130</u>
Town's covered-employee payroll	\$ 1,162,391	\$ 1,277,901	\$ 1,332,209
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	4.37%	4.43%	3.63%
Plan fiduciary net position as a percentage of the total pension liability	76.21%	81.18%	83.91%

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

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

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF CONTRIBUTIONS  
LAST 10 FISCAL YEARS\*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>SET Plan:</u>				
Contractually required contribution	\$ 45,741	\$ 42,636	\$ 42,051	\$ 41,965
Contributions in relation to the contractually required contribution	<u>(45,741)</u>	<u>(42,636)</u>	<u>(42,051)</u>	<u>(41,965)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 1,218,101	\$ 1,162,391	\$ 1,277,901	\$ 1,322,209
Contributions as a percentage of covered-employee payroll	3.76%	3.67%	3.29%	3.17%

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

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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2017

**Changes of Assumptions**

There was a change in the investment rate of return assumption this year from 7.125% to 6.875%. Annual salary increases, including inflation, changed from 3.50% - 13.50% to 2.75% - 14.50%, for the SET Plan. There was also a change in the cost of living benefit increase from 2.55% to 2.20%. Finally, the mortality rates for active members, nondisabled retirees and recipients of disability benefits, were determined using the RP2014 Total Dataset Healthy Annuitant Mortality Table and the RP2014 Total Dataset Disabled Annuitant Mortality Table, for males and females, compared to the RP2000 Tables projected forward and the Revenue Ruling 96-7 Disabled Mortality Table used in the prior year.

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

## Other Supplementary Information

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

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

TOWN OF SOUTHWEST HARBOR, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017

Town Funds	Beginning Balance (Restated)	Revenues	Intergov Revenues	Transfers from Funds	Investment Earnings	Capital Expenditures	Expenditures	Transfers to Funds	Ending Balance
State Revenue Sharing	\$ 16,129	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,129
Wage and Benefit	7,672	-	-	-	-	-	-	-	7,672
Abatements	13,292	-	-	-	-	-	17,103	-	(3,811)
Legal and Accounting	(2,935)	-	-	10,000	-	7,660	18,530	-	(19,125)
Professional Development	55,936	290	-	8,000	-	-	27,947	-	36,279
D.A.R.E. Program	392	-	-	-	-	-	-	-	392
Comprehensive Planning	98	-	-	-	-	-	-	500	(402)
Unemployment	25,288	-	-	-	-	-	-	-	25,288
Rhoaes PK	-	-	-	4,500	-	-	4,319	-	181
Tree Fund	-	-	-	2,000	-	-	2,000	-	-
HRA Ins	-	-	-	48,000	-	-	20,000	-	28,000
Shellfish	4,205	1,840	-	-	-	-	585	-	5,460
Sand and Salt Shed	30,000	-	-	-	-	-	-	-	30,000
General Assistance	3,861	-	1,128	1,500	-	-	1,791	-	4,698
Junior Fire Department	129	-	-	-	-	-	-	-	129
School Safety	(645)	-	-	-	-	-	-	-	(645)
Map Update	1,274	240	-	300	-	-	1,740	-	74
Police Equipment	(300)	-	-	-	-	-	-	-	(300)
Swap Shop	3,162	412	-	-	-	-	1,523	-	2,051
Lower Town Dock	6	-	-	-	-	-	-	-	6
Antenna Relocation, etc.	8,289	-	-	-	-	-	-	-	8,289
Safe Routes to School Grant	9,886	-	-	-	-	-	-	-	9,886
Trail Grant	4,276	-	-	-	-	-	-	-	4,276
Septic Tank Grant	131	-	-	-	-	-	-	-	131
Wellness Grant	125	-	-	-	-	-	-	-	125
Conservation Commission	137,366	-	-	-	19,338	-	6,706	-	149,998
Police	1,543	-	-	-	-	-	-	-	1,543
<b>Total Town Funds</b>	<b>319,180</b>	<b>2,782</b>	<b>1,128</b>	<b>74,300</b>	<b>19,338</b>	<b>7,660</b>	<b>102,244</b>	<b>500</b>	<b>306,324</b>

TOWN OF SOUTHWEST HARBOR, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017

CIP Funds	Beginning Balance (Restated)	Revenues	Intergov Revenues	Transfers from Funds	Investment Earnings	Capital Expenditures	Expenditures	Transfers to Funds	Ending Balance
Municipal Software	18,154	-	-	-	-	-	15,966	-	2,188
Computer	(6,236)	-	-	24,000	-	-	12,111	-	5,653
Record Preservation	11,590	-	-	-	-	-	-	-	11,590
Municipal Building Engineering	(8,923)	3,000	-	-	-	-	3,000	-	(8,923)
Building Renovations	38,772	265	-	12,400	-	-	19,105	-	32,332
Police Cruiser	(8,614)	-	-	5,000	-	-	-	-	(3,614)
Dispatch Console	17	-	-	-	-	-	-	-	17
Thermal Imaging Camera	20	-	-	-	-	-	-	-	20
Harbor Master Boat Motor	11,204	-	-	-	-	-	-	-	11,204
4 X 16 Spruce - Manset	12,950	-	-	9,396	-	27,244	1,976	-	(6,874)
Lower Town Dock Pier	14	-	-	-	-	-	-	-	14
Highway 1 Ton Pickup	3,952	-	-	-	-	-	-	3,000	952
Highway #1 Plow Truck	37,195	-	-	3,000	-	-	-	-	40,195
Highway #2 Plow Truck	96,115	-	-	12,000	-	-	-	-	108,115
Highway Loader	(30,713)	-	-	-	-	-	-	2,600	(33,313)
Highway Garage	90,546	-	-	89,621	-	-	450	-	179,717
Road Projects	76,141	2,175	-	87,825	-	201,299	-	-	(35,158)
Sidewalks Projects	54,795	-	-	5,000	-	49,116	-	-	10,679
Harbor Hoists Upgrade	9,034	-	-	-	-	10,000	-	-	(966)
Pilings/Wall Replacement	23,309	-	-	-	-	33,836	4,879	-	(15,406)
Manset Dock Float Bridge	2,060	-	-	-	-	-	-	-	2,060
Cross Bracing Replacement	13,518	-	-	-	-	11,943	-	-	1,575
Ladder Replacement	5,352	-	-	-	-	-	-	-	5,352
Town Office Copier	5,234	-	-	-	-	-	748	-	4,486
Vote Counter	6,688	-	-	-	-	-	-	-	6,688
Revaluation	44,599	-	-	-	-	-	-	15,000	29,599
Cable Access Equipment	624	8,548	-	2,000	-	-	4,741	-	6,431
Police 2007 Ford Expedition	(1,379)	-	-	5,000	-	-	-	-	3,621

TOWN OF SOUTHWEST HARBOR, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017

CIP Funds (Continued)	Beginning Balance (Restated)	Revenues	Intergov Revenues	Transfers from Funds	Investment Earnings	Capital Expenditures	Expenditures	Transfers to Funds	Ending Balance
Police In-Car Camera	-	-	11,943	-	-	11,943	-	-	-
Town Wide Communication	867	-	-	-	-	-	232	-	635
Explosive and Hazard Gas Monitor	3,041	-	-	-	-	-	871	-	2,170
Jaws of Life	(631)	-	-	630	-	-	-	-	(1)
SCBA	18,530	-	-	3,000	-	-	-	-	21,530
Quint Pumper	23	-	-	-	-	-	-	-	23
Manset Harbormaster Office	50,517	-	-	-	-	-	-	-	50,517
John Deere 4X4 Tractor	2,778	-	-	-	-	-	-	2,740	38
Parking Lot Improvement	26,907	-	-	15,000	-	-	-	-	41,907
Storm Water Management	11,349	-	-	-	-	-	730	11,328	(709)
Boat Trailer	345	-	-	-	-	-	-	344	1
Trap Slides	3,060	-	-	-	-	-	-	-	3,060
Electrical Conduit - Manset Dock	2,379	-	-	-	-	-	-	-	2,379
Light Post - Upper Town Dock	1,768	-	-	-	-	-	-	-	1,768
Mooring Plan Update	4,047	-	-	-	-	-	-	4,052	(5)
Sidewalk Plow/Blower	5,108	-	-	2,000	-	-	4,754	-	2,354
John Deere Lawn Mower	2,432	-	-	500	-	-	-	-	2,932
16 x 24 Floats Lower Town Dock	4,410	-	-	-	-	-	-	-	4,410
Sup Pile	25,573	-	-	-	-	-	-	-	25,573
Stl Pile	1,494	-	-	-	-	-	-	-	1,494
Street Sweeper	42,493	-	-	2,500	-	-	-	-	44,993
6 x 20 Finger Floats Lower Dock	860	-	-	-	-	-	-	-	860
Water/Sewer Infrastructure	187,332	-	-	75,000	-	170,500	-	-	91,832
Harbor	14,745	-	-	-	-	-	-	-	14,745
Ford Pick Up - Chief's Truck	(4,536)	-	-	-	-	-	-	-	(4,536)
Deck Planning	37,726	-	-	-	-	-	-	-	37,726
Ramp Resurfacing	22,248	-	-	-	-	-	-	-	22,248

TOWN OF SOUTHWEST HARBOR, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017

CIP Funds (Continued)	Beginning Balance (Restated)	Revenues	Intergov Revenues	Transfers from Funds	Investment Earnings	Capital Expenditures	Expenditures	Transfers to Funds	Ending Balance
Catwalk/Step Replacement	23,403	-	-	-	-	-	-	-	23,403
Pressurized Line Striper	5,547	-	-	-	-	-	-	-	5,547
Ford Rescue/Mini Pumper	87,238	-	-	5,000	-	-	-	-	92,238
Harbor	6,736	-	-	-	-	-	-	-	6,736
Municipal	572	-	-	-	-	-	-	-	572
Harbor	7,090	-	-	-	-	-	-	-	7,090
Harbor	1,942	-	-	-	-	-	-	-	1,942
Administration	9,679	-	-	-	-	-	13,004	-	(3,325)
Police	2,074	746	-	2,500	-	-	2,320	-	3,000
Anti Icing	-	-	-	28,450	-	-	-	-	28,450
Harbor	19,085	-	-	-	-	-	-	-	19,085
Harbor	5,415	-	-	-	-	-	-	-	5,415
Municipal	(2,221)	-	-	-	-	-	-	-	(2,221)
Dispatch	192	-	-	-	-	-	-	-	192
Emergency Repairs	8,587	1	-	2,500	-	9,970	-	-	1,118
<b>Total CIP Funds</b>	<b>1,146,222</b>	<b>14,735</b>	<b>11,943</b>	<b>392,322</b>	<b>-</b>	<b>525,851</b>	<b>84,887</b>	<b>39,064</b>	<b>915,420</b>
<b>School Funds</b>									
Grants and School Lunch	(14,988)	33,584	94,311	75,000	-	-	188,539	-	(632)
Bus Purchase	65,629	-	-	-	129	-	-	60,955	4,803
Special Education	153,921	-	-	-	487	-	-	-	154,408
School Playground	3,203	-	-	-	316	-	3,519	-	-
Maintenance	51,795	18,250	-	3,750	165	-	36,604	-	37,356
<b>Total School Funds</b>	<b>259,560</b>	<b>51,834</b>	<b>94,311</b>	<b>78,750</b>	<b>1,097</b>	<b>-</b>	<b>228,662</b>	<b>60,955</b>	<b>195,935</b>
<b>Total Special Revenue Funds</b>	<b>\$ 1,724,962</b>	<b>\$ 69,351</b>	<b>\$ 107,382</b>	<b>\$ 545,372</b>	<b>\$ 20,435</b>	<b>\$ 533,511</b>	<b>\$ 415,793</b>	<b>\$ 100,519</b>	<b>\$ 1,417,679</b>

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

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF DEPARTMENTAL OPERATIONS - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Budget Adjustments	Final Budget	Actual	Variance Positive (Negative)
General Government -					
Administration	\$ 252,799	\$ -	\$ 252,799	\$ 301,178	\$ (48,379)
Assessing and Planning	46,167	-	46,167	45,853	314
Municipal Offices	28,580	-	28,580	26,142	2,438
	<u>327,546</u>	<u>-</u>	<u>327,546</u>	<u>373,173</u>	<u>(45,627)</u>
Protection -					
Fire Department	80,931	-	80,931	66,055	14,876
Dispatch Service	255,940	-	255,940	262,304	(6,364)
Police Protection	463,498	-	463,498	434,112	29,386
Insurance	35,700	-	35,700	31,324	4,376
	<u>836,069</u>	<u>-</u>	<u>836,069</u>	<u>793,795</u>	<u>42,274</u>
Public Works -					
Highway Department	323,100	-	323,100	292,019	31,081
Harbor	105,183	-	105,183	103,775	1,408
	<u>428,283</u>	<u>-</u>	<u>428,283</u>	<u>395,794</u>	<u>32,489</u>

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF DEPARTMENTAL OPERATIONS - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Budget Adjustments	Final Budget	Actual	Variance Positive (Negative)
Education -					
Primary - General Fund	3,411,720	56,904	3,468,624	3,393,596	75,028
Secondary	1,107,848	-	1,107,848	1,107,848	-
	<u>4,519,568</u>	<u>56,904</u>	<u>4,576,472</u>	<u>4,501,444</u>	<u>75,028</u>
County Tax	<u>246,452</u>	<u>-</u>	<u>246,452</u>	<u>246,452</u>	<u>-</u>
Social Services -					
Bar Harbor Food Pantry	2,500	-	2,500	2,500	-
Downeast Health Services	1,080	-	1,080	1,080	-
Downeast Horizons	1,800	-	1,800	1,800	-
Eastern Area on Aging	1,500	-	1,500	1,500	-
Hancock County Homecare	1,870	-	1,870	1,870	-
Harbor House	59,640	-	59,640	59,640	-
Hospice of Hancock County	1,000	-	1,000	1,000	-
Island Connections	2,000	-	2,000	2,000	-
Island Explorer	10,000	-	10,000	10,000	-
Mt. Heights Cemetery	3,500	-	3,500	3,500	-
Library	55,000	-	55,000	55,000	-
Nursing Service	57,500	-	57,500	57,500	-
WHCA	3,574	-	3,574	3,574	-
MDI Comm. Campfire Coalition	3,000	-	3,000	3,000	-
	<u>203,964</u>	<u>-</u>	<u>203,964</u>	<u>203,964</u>	<u>-</u>
Debt Service -					
Principal	196,562	-	196,562	196,562	-
Interest	212,408	-	212,408	214,509	(2,101)
	<u>408,970</u>	<u>-</u>	<u>408,970</u>	<u>411,071</u>	<u>(2,101)</u>

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF DEPARTMENTAL OPERATIONS - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Budget Adjustments	Final Budget	Actual	Variance Positive (Negative)
Unclassified -					
Boards and Committees	2,000	-	2,000	537	1,463
Contracted	635,775	-	635,775	645,580	(9,805)
Overlay	92,691	-	92,691	-	92,691
	<u>730,466</u>	<u>-</u>	<u>730,466</u>	<u>646,117</u>	<u>84,349</u>
Transfers to Other Funds -					
Special Revenue Funds	347,937	205,132	553,069	505,808	47,261
	<u>347,937</u>	<u>205,132</u>	<u>553,069</u>	<u>505,808</u>	<u>47,261</u>
Totals	<u>\$ 8,049,255</u>	<u>\$ 262,036</u>	<u>\$ 8,311,291</u>	<u>\$ 8,077,618</u>	<u>\$ 233,673</u>

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

## General Capital Assets

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

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF GENERAL CAPITAL ASSETS BY FUNCTION  
JUNE 30, 2017

	Land and Non-depreciable Assets	Buildings, Building Improvements & Land Improvements	Furniture, Fixtures, Equipment & Vehicles	Infrastructure	Total
General Government	\$ -	\$ 48,136	\$ 81,887	\$ -	\$ 130,023
Protection	213,556	1,828,820	1,439,043	-	3,481,419
Education	-	5,457,168	561,663	-	6,018,831
Public Works	45,963	425,627	522,255	15,776,414	16,770,259
Town-wide	201,645	291,200	456,930	-	949,775
Total General Capital Assets	461,164	8,050,951	3,061,778	15,776,414	27,350,307
Less: Accumulated Depreciation	-	(2,866,274)	(1,601,537)	(7,015,805)	(11,483,616)
Net General Capital Assets	\$ 461,164	\$ 5,184,677	\$ 1,460,241	\$ 8,760,609	\$ 15,866,691

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

## TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF CHANGES IN GENERAL CAPITAL ASSETS BY FUNCTION  
FOR THE YEAR ENDED JUNE 30, 2017

	General Capital Assets 7/1/16 (Restated)	Additions	Deletions	General Capital Assets 6/30/17
General Government	\$ 130,023	\$ -	\$ -	\$ 130,023
Protection	3,481,419	-	-	3,481,419
Education	5,962,951	135,792	(79,912)	6,018,831
Public Works	16,293,564	476,695	-	16,770,259
Town-wide	949,775	-	-	949,775
Total General Capital Assets	26,817,732	612,487	(79,912)	27,350,307
Less: Accumulated Depreciation	(10,859,735)	(703,793)	79,912	(11,483,616)
Net General Capital Assets	<u>\$ 15,957,997</u>	<u>\$ (91,306)</u>	<u>\$ -</u>	<u>\$ 15,866,691</u>

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



*Proven Expertise and Integrity*

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Selectmen  
Town of Southwest Harbor  
Southwest Harbor, Maine

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Southwest Harbor, Maine as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Southwest Harbor, Maine's basic financial statements, and have issued our report thereon dated February 23, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Southwest Harbor, Maine's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Southwest Harbor, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Southwest Harbor, Maine's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Southwest Harbor, Maine's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*RHR Smith & Company*

Buxton, Maine  
February 23, 2018

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures to Subrecipients	Federal Expenditures
U.S. Department of Agriculture				
Passed-through State of Maine - Department of Education and Cultural Services:				
Child Nutrition Cluster:				
National School Lunch Program	10.555	013-05A-7128-05	\$ -	\$ 17,316
Federal Performance Based Lunch	10.555	013-05A-7142-05	-	806
School Breakfast Program	10.556	013-05A-7127-05	-	4,419
Subtotal Child Nutrition Cluster			<u>-</u>	<u>22,541</u>
Food Distribution	10.560	N/A	-	3,608
Total U.S. Department of Agriculture			<u>-</u>	<u>26,149</u>
U.S. Department of Education				
Passed-through the Bar Harbor School Department:				
NCLB Title 1A - Basic Compensatory Education	84.010	013-05A-3057-13	-	16,812
Passed-through State of Maine - Department of Education and Cultural Services:				
Special Education Cluster (IDEA):				
Title VI, Part B - Local Entitlement	84.027	013-05A-3046-12	-	40,818
Title VI, Part B - Local Entitlement Preschool	84.173	013-05A-3009-10	-	1,271
Subtotal Special Education Cluster (IDEA)			<u>-</u>	<u>42,089</u>
Rural School Achievement Program	84.358	N/A	-	6,141
Total U.S. Department of Education			<u>-</u>	<u>65,042</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ -</u>	<u>\$ 91,191</u>

DISCLOSURES:

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

## TOWN OF SOUTHWEST HARBOR, MAINE

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017

#### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Town of Southwest Harbor, Maine under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town of Southwest Harbor, Maine, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Southwest Harbor, Maine.

#### 2. Summary of Significant Accounting Policies

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

#### 3. Food Donation Program

The Town of Southwest Harbor, Maine reports commodities consumed on the Schedule at the fair value [or entitlement value]. The Government allocated donated food commodities to the respective program(s) that benefitted from the use of those donated food commodities.



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## INDEPENDENT AUDITORS' REPORT ON STATE REQUIREMENTS

Board of Selectmen  
Town of Southwest Harbor  
Southwest Harbor, Maine

We have audited the financial statements of the Town of Southwest Harbor, Maine for the year ended June 30, 2017 and have issued our report thereon dated February 23, 2018. Our audit was made in accordance with auditing standards generally accepted in the United States of America and applicable state and federal laws relating to financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, we reviewed the budgetary controls that are in place, and have reviewed the annual financial report that was submitted to the Maine Department of Education for accuracy. In addition, we have reviewed the Town of Southwest Harbor, Maine's compliance with applicable provisions of the Maine Finance Act as noted under MRSA Title 20A, section 6051 as we considered necessary in obtaining our understanding.

The results of our procedures indicate that with respect to the items tested, the Town of Southwest Harbor, Maine complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Town of Southwest Harbor, Maine was in noncompliance with, or in violation of, those provisions.

Management has determined that no adjustments were necessary to the fiscal books of the Town of Southwest Harbor, Maine and have attached the following schedule as it relates to the reconciliation of audit adjustments to the updated annual financial data submitted to the MEDMS financial system maintained at the Maine Department of Education.

This report is intended solely for the information of the Board of Selectmen, the School Board of Directors, management and the Maine Department of Education. This report is not intended to be and should not be used by anyone other than the specified parties.

*RHR Smith & Company*

Buxton, Maine  
February 23, 2018

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TOWN OF SOUTHWEST HARBOR, MAINE

RECONCILIATION OF AUDIT ADJUSTMENTS TO ANNUAL FINANCIAL DATA  
 SUBMITTED TO THE MEDMS FINANCIAL SYSTEM  
 FOR THE YEAR ENDED JUNE 30, 2017

	General Fund (1000)	Special Revenue Funds (2000)	General Reserves (4000)	Total
June 30 Balance per MEDMS Financial System	\$ 182,122	\$ (632)	\$ 196,567	\$ 378,057
<b>Revenue Adjustments:</b>	-	-	-	-
<b>Expenditure Adjustments:</b>	-	-	-	-
Audited GAAP Basis Fund Balance June 30	<u>\$ 182,122</u>	<u>\$ (632)</u>	<u>\$ 196,567</u>	<u>\$ 378,057</u>