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Audited Financial Statements
and Other Financial Information

Town of Southwest Harbor, Maine

June 30, 2015



Proven Expertise and Integrity

TOWN OF SOUTHWEST HARBOR, MAINE

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JUNE 30, 2015

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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, 2015, and the related notes to the financial statements, which collectively comprise the Town'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 did not audit the financial statements of the Town of Southwest Harbor Water Department, which represents 66.60%, 82.20% and 55.78%, respectively, of the assets, net position and revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Southwest Harbor Water Department, is based solely on the report of the other auditors. The financial statements of the Town of Southwest Harbor Water Department are presented as of December 31, 2014 and for the year then ended. This represents the year end for the Town of Southwest Harbor Water Department. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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

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preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Southwest Harbor, Maine, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information on pages 4 through 12 and 57 through 59 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 and individual nonmajor fund financial statements

and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 20-A MRSA §6051, 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 and individual nonmajor fund financial statements 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 and individual nonmajor fund financial statements 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.

RHR Smith & Company

Buxton, Maine
March 11, 2016

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

(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, 2015. 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 fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Town of Southwest Harbor presents four columns in the governmental funds balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances. The Town's major governmental funds are the general fund, special revenue funds, capital projects fund, and cemetery trust fund. The town does not have any nonmajor funds.

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

Other supplementary information follows the required supplementary information. These combining and other schedules provide information in regards to 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 \$1,401,845 from \$14,854,978 to \$16,256,823. The Town's total business-type net position increased by \$680,115 from \$3,020,401 to \$3,700,516.

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 \$2,977,294 at the end of this year. Unrestricted net position for business-type activities increased to a balance of \$392,359.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2015</u>	<u>2014 (Restated)</u>	<u>2015</u>	<u>2014 (Restated)</u>
Assets				
Current Assets	\$ 5,388,530	\$ 5,579,180	\$ 265,695	\$ 775,287
Capital Assets	16,604,510	14,686,586	7,978,957	7,628,415
Total Assets	<u>21,993,040</u>	<u>20,265,766</u>	<u>8,244,652</u>	<u>8,403,702</u>
Deferred Outflows of Resources				
Unamortized Bond Issue Cost	-	-	9,597	10,281
Deferred Engineering Studies	-	-	3,387	6,777
Acquisition Adjustment - Net	-	-	185,487	-
Deferred Outflows Related to Pensions	67,727	-	-	-
Total Deferred Outflows of Resources	<u>67,727</u>	<u>-</u>	<u>198,471</u>	<u>17,058</u>
Liabilities				
Current Liabilities	1,979,611	1,068,731	1,121,126	1,509,561
Long-term Debt Outstanding	3,776,321	4,313,413	3,621,481	3,890,798
Total Liabilities	<u>5,755,932</u>	<u>5,382,144</u>	<u>4,742,607</u>	<u>5,400,359</u>
Deferred Inflows of Resources				
Prepaid Taxes	22,364	28,644	-	-
Deferred Inflows Related to Pensions	25,648	-	-	-
Total Deferred Inflows of Resources	<u>48,012</u>	<u>28,644</u>	<u>-</u>	<u>-</u>
Net Position				
Net Investment in Capital Assets	12,419,820	10,046,403	3,308,157	3,283,701
Restricted	859,709	1,624,003	-	-
Unrestricted (Deficit)	2,977,294	3,184,572	392,359	(263,300)
Total Net Position	<u>\$ 16,256,823</u>	<u>\$ 14,854,978</u>	<u>\$ 3,700,516</u>	<u>\$ 3,020,401</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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues				
<i>Program Revenues:</i>				
Charges for Services	\$ 239,950	\$ 488,315	\$ 1,149,679	\$ 1,176,979
Operating Grants and Contributions	609,252	420,366	-	-
Capital Grants and Contributions	333,334	-	627,502	85,382
<i>General Revenues:</i>				
Taxes	7,389,832	7,358,317	-	-
Grants and Contributions Not Restricted to Specific Programs	113,364	54,861	-	-
Miscellaneous	95,702	62,843	11,653	22,623
Total Revenues	<u>8,781,434</u>	<u>8,384,702</u>	<u>1,788,834</u>	<u>1,284,984</u>
Expenses				
General Government	300,714	439,647	-	-
Protection	1,127,472	1,194,172	-	-
Health & Sanitation	426,246	363,620	-	-
Public Works	197,701	833,936	-	-
Education	4,506,313	4,258,944	-	-
County Tax	237,208	261,507	-	-
Social Services	203,564	204,097	-	-
Unclassified	202	6,539	-	-
State of Maine On-behalf Payments	194,113	165,599	-	-
Interest on Long-term Debt	111,908	92,078	-	-
Debt Service Assessments	74,148	13,476	-	-
Water Fund	-	-	593,660	585,349
Sewer Fund	-	-	596,457	578,425
Total expenses	<u>7,379,589</u>	<u>7,833,615</u>	<u>1,190,117</u>	<u>1,163,774</u>
Transfers	-	(927)	81,398	163,564
Change in Net Position	1,401,845	550,160	680,115	284,774
Net Position - July 1, Restated	14,854,978	14,304,818	3,020,401	2,735,627
Net Position - June 30	<u>\$ 16,256,823</u>	<u>\$ 14,854,978</u>	<u>\$ 3,700,516</u>	<u>\$ 3,020,401</u>

Revenues and Expenses

Revenues for the Town's governmental activities increased by 4.73%, while total expenses decreased by 5.80%. The main increase in revenues was in capital grants and contributions and the largest decrease in expenses was in public works.

Proprietary fund revenues increased by 39.21%, while expenses increased by 2.26%. The largest increase in revenues was in capital grants and contributions and the largest increase in expenses was in the sewer fund, nearly offset by decreases in water fund costs.

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,

	2015	2014
Major funds:		
General fund:		
Nonspendable	\$ 606,562	\$ 6,109
Restricted	82,299	649,258
Unassigned	1,890,372	1,662,992
Subtotal general fund	2,579,233	2,318,359
Special revenue funds:		
Restricted	\$ 541,463	\$ 199,951
Committed	1,512,707	1,413,394
Assigned	-	40,164
Unassigned	(6,054)	(37,957)
Capital projects fund:		
Restricted	129,429	810,708
Permanent funds:		
Restricted	106,518	104,781
Total major funds	\$ 4,863,296	\$ 4,849,400

The general fund total fund balance increased by \$260,874 from the prior fiscal year. The other major fund balances decreased by \$246,978 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.

The water fund had an operating income for the current year of \$83,417. The sewer fund had an operating loss for the current year of \$51,814.

Budgetary Highlights

There were not any significant differences between the original and final budget for the general fund.

The general fund actual revenues exceeded the budget by \$143,469. This was mainly the result of excise taxes, education, and school department revenue categories being received in excess of the budgeted amounts.

The general fund actual expenditures were under the budget by \$141,405. All expenditure categories were under budget with the exception of public works and education - other unbudgeted funds.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2015, the net book value of capital assets recorded by the Town increased by \$2,460,316. This increase was the result of current year additions of \$3,470,438, less current year depreciation of \$1,010,122. Refer to Note 5 of Notes to Financial Statements for more detailed information.

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

	2015	2014
Land and improvements	\$ 647,720	\$ 638,719
Buildings and building improvements	5,492,484	5,682,677
Machinery and equipment	595,337	676,424
Vehicles	825,538	915,181
Construction in progress	2,569,448	-
Infrastructure	14,452,940	14,210,150
Total	\$ 24,583,467	\$ 22,123,151

Long-Term Debt Activity

At June 30, 2015, the Town had \$8,034,122 in bonds outstanding versus \$10,171,604 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, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 4,349,224	\$ 114,075	\$ 4,463,299
Investments	207,476	-	207,476
Accounts receivable (net of allowance for uncollectibles):			
Taxes	11,378	-	11,378
Liens	136,813	-	136,813
Other	77,077	720,159	797,236
Inventory	8,641	-	8,641
Tax acquired property	25,353	-	25,353
Prepaid expenses	4,029	-	4,029
Internal balances	568,539	(568,539)	-
Total current assets	5,388,530	265,695	5,654,225
Noncurrent assets:			
Capital assets:			
Land and other assets not being depreciated	3,030,612	59,539	3,090,151
Depreciable assets, net of accumulated depreciation	13,573,898	7,919,418	21,493,316
Total noncurrent assets	16,604,510	7,978,957	24,583,467
TOTAL ASSETS	21,993,040	8,244,652	30,237,692
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized bond issue costs	-	9,597	9,597
Deferred engineering studies	-	3,387	3,387
Acquisition adjustment - net of amortization	-	185,487	185,487
Deferred outflows related to pensions	67,727	-	67,727
TOTAL DEFERRED OUTFLOWS OF RESOURCES	67,727	198,471	266,198
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 22,060,767	\$ 8,443,123	\$ 30,503,890
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 175,905	\$ 43,733	\$ 219,638
Accrued payroll and benefits	181,545	10,372	191,917
Accrued interest	-	4,205	4,205
Other liabilities	12,915	13,497	26,412
Short-term note payable	1,095,091	-	1,095,091
Current portion of long-term obligations	514,155	1,049,319	1,563,474
Total current liabilities	1,979,611	1,121,126	3,100,737
Noncurrent liabilities:			
Noncurrent portion of long-term obligations:			
Bonds payable	3,727,998	3,621,481	7,349,479
Net pension liability	48,323	-	48,323
Total noncurrent liabilities	3,776,321	3,621,481	7,397,802
TOTAL LIABILITIES	5,755,932	4,742,607	10,498,539
DEFERRED INFLOWS OF RESOURCES			
Prepaid taxes	22,364	-	22,364
Deferred inflows related to pensions	25,648	-	25,648
TOTAL DEFERRED INFLOWS OF RESOURCES	48,012	-	48,012
NET POSITION			
Net investment in capital assets	12,419,820	3,308,157	15,727,977
Restricted	859,709	-	859,709
Unrestricted (deficit)	2,977,294	392,359	3,369,653
TOTAL NET POSITION	16,256,823	3,700,516	19,957,339
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 22,060,767	\$ 8,443,123	\$ 30,503,890

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

STATEMENT B

TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Totals
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- type Activities	
Governmental activities:							
General government	\$ 300,714	\$ 70,249	\$ -	\$ -	\$ (230,465)	\$ -	\$ (230,465)
Protection	1,127,472	-	-	-	(1,127,472)	-	(1,127,472)
Health & sanitation	426,246	45,609	-	-	(380,637)	-	(380,637)
Public works	197,701	75,738	17,480	-	(104,483)	-	(104,483)
Education	4,506,313	37,905	397,659	-	(4,070,749)	-	(4,070,749)
County tax	237,208	-	-	-	(237,208)	-	(237,208)
Social services	203,564	-	-	-	(203,564)	-	(203,564)
Unclassified	202	10,449	-	333,334	343,581	-	343,581
State of Maine on-behalf payments	194,113	-	194,113	-	-	-	-
Interest on long-term debt	111,908	-	-	-	(111,908)	-	(111,908)
Debt service assessments	74,148	-	-	-	(74,148)	-	(74,148)
Total governmental activities	7,379,589	239,950	609,252	333,334	(6,197,053)	-	(6,197,053)
Business-type activities:							
Water fund	593,660	644,059	-	627,502	-	677,901	677,901
Sewer fund	596,457	505,620	-	-	-	(90,837)	(90,837)
Total business-type activities	1,190,117	1,149,679	-	627,502	-	587,064	587,064
Total government	\$ 8,569,706	\$ 1,389,629	\$ 609,252	\$ 960,836	(6,197,053)	587,064	(5,609,989)

STATEMENT B (CONTINUED)
TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	Governmental Activities	Business-type Activities	Totals
Changes in net position:			
Net (expense) revenue	(6,197,053)	587,064	(5,609,989)
General revenues:			
Taxes:			
Property taxes, levied for general purposes	7,003,301	-	7,003,301
Excise taxes	386,531	-	386,531
Grants and contributions			
not restricted to specific programs	113,364	-	113,364
Miscellaneous	95,702	11,653	107,355
Transfers	-	81,398	81,398
Total general revenues and transfers	7,598,898	93,051	7,691,949
Change in net position	1,401,845	680,115	2,081,960
NET POSITION - JULY 1, RESTATED	14,854,978	3,020,401	17,875,379
NET POSITION - JUNE 30	\$ 16,256,823	\$ 3,700,516	19,957,339

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

STATEMENT C

TOWN OF SOUTHWEST HARBOR, MAINE

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015

	General Fund	Special Revenue Funds	Capital Projects Fund	Permanent Fund - Cemetery Trust	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 3,919,826	\$ 328,903	\$ 98,424	\$ 2,071	\$ 4,349,224
Investments	-	103,029	-	104,447	207,476
Accounts receivables (net of allowance for uncollectibles):					
Taxes	11,378	-	-	-	11,378
Liens	136,813	-	-	-	136,813
Other	77,077	-	-	-	77,077
Inventory	8,641	-	-	-	8,641
Tax acquired property	25,353	-	-	-	25,353
Prepaid expenses	4,029	-	-	-	4,029
Due from other funds	568,539	1,616,184	31,005	-	2,215,728
TOTAL ASSETS	\$ 4,751,656	\$ 2,048,116	\$ 129,429	\$ 106,518	\$ 7,035,719
LIABILITIES					
Accounts payable	\$ 175,904	\$ -	\$ -	\$ -	\$ 175,904
Accrued payroll	181,545	-	-	-	181,545
Other liabilities	12,915	-	-	-	12,915
Due to other funds	1,647,189	-	-	-	1,647,189
TOTAL LIABILITIES	2,017,553	-	-	-	2,017,553
DEFERRED INFLOWS OF RESOURCES					
Prepaid taxes	22,364	-	-	-	22,364
Deferred tax revenue	132,506	-	-	-	132,506
TOTAL DEFERRED INFLOWS OF RESOURCES	154,870	-	-	-	154,870
FUND BALANCES					
Nonspendable	606,562	-	-	-	606,562
Restricted	82,299	541,463	129,429	106,518	859,709
Committed	-	1,512,707	-	-	1,512,707
Assigned	-	-	-	-	-
Unassigned	1,890,372	(6,054)	-	-	1,884,318
TOTAL FUND BALANCES	2,579,233	2,048,116	129,429	106,518	4,863,296
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 4,751,656	\$ 2,048,116	\$ 129,429	\$ 106,518	\$ 7,035,719

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

STATEMENT D

TOWN OF SOUTHWEST HARBOR, MAINE

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

	Total Governmental Funds
	<u> </u>
Total Fund Balances	\$ 4,863,296
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	16,604,510
Deferred outflows of resources related to pensions are not financial resources and therefore are not reported in the funds	67,727
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	132,506
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	(5,526)
Short-term debt payable	(1,095,091)
Bonds payable	(4,179,164)
Accrued compensated absences	(57,464)
Net pension liability	(48,323)
Deferred inflows of resources related to pensions are not financial resources and therefore are not reported in the funds	<u>(25,648)</u>
Net position of governmental activities	<u><u>\$ 16,256,823</u></u>

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

STATEMENT E

TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Special Revenue Funds	Capital Projects Fund	Permanent Fund - Cemetery Trust	Total Governmental Funds
REVENUES					
Taxes:					
Property Taxes	\$ 6,965,741	\$ -	\$ -	\$ -	\$ 6,965,741
Excise Taxes	386,531	-	-	-	386,531
Intergovernmental Revenues	722,616	333,334	-	-	1,055,950
Interest Revenues	11,734	7,743	-	2,706	22,183
Charges for Services	269,501	-	-	-	269,501
Miscellaneous Revenues	33,870	10,098	-	-	43,968
TOTAL REVENUES	8,389,993	351,175	-	2,706	8,743,874
EXPENDITURES					
Current:					
General Government	304,703	57,055	-	-	361,758
Protection	985,506	14,375	-	-	999,881
Health & Sanitation	370,033	56,213	-	-	426,246
Public Works	439,962	159,092	-	-	599,054
Education	4,648,834	-	-	-	4,648,834
County Tax	237,208	-	-	-	237,208
Social Services	203,564	-	-	-	203,564
Unclassified	1,924	-	1,776,370	969	1,779,263
State of Maine On-behalf Payments	194,113	-	-	-	194,113
Debt Service:					
Principal	263,240	-	-	-	263,240
Interest	111,908	-	-	-	111,908
TOTAL EXPENDITURES	7,760,995	286,735	1,776,370	969	9,825,069
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	628,998	64,440	(1,776,370)	1,737	(1,081,195)
OTHER FINANCING SOURCES (USES)					
Bond Proceeds	-	-	1,095,091	-	1,095,091
Transfers In	-	368,124	-	-	368,124
Transfers (Out)	(368,124)	-	-	-	(368,124)
TOTAL OTHER FINANCING SOURCES (USES)	(368,124)	368,124	1,095,091	-	1,095,091
NET CHANGE IN FUND BALANCES	260,874	432,564	(681,279)	1,737	13,896
FUND BALANCES - JULY 1	2,318,359	1,615,552	810,708	104,781	4,849,400
FUND BALANCES - JUNE 30	\$ 2,579,233	\$ 2,048,116	\$ 129,429	\$ 106,518	\$ 4,863,296

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, 2015

Net change in fund balances - total governmental funds (Statement E)	<u>\$ 13,896</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 purchases	2,594,414
Capital asset disposals	-
Depreciation expense	<u>(676,490)</u>
	<u>1,917,924</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>61,042</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>455,493</u>
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases short-term liabilities in the Statement of Net Position.	
	<u>(1,095,091)</u>
Deferred inflows of resources are a consumption of net position by the government that are applicable to a future reporting period and therefore are not reported in the funds.	
	<u>(25,648)</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	6,787
Net pension liability	<u>29,882</u>
	<u>36,669</u>
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Taxes and liens receivable	<u>37,560</u>
Change in net position of governmental activities (Statement B)	<u>\$ 1,401,845</u>

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

STATEMENT G

TOWN OF SOUTHWEST HARBOR, MAINE

BALANCE SHEET - PROPRIETARY FUNDS
JUNE 30, 2015

	Enterprise Funds		Total Enterprise Funds
	Water Fund	Sewer Fund	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 65,909	\$ 48,166	\$ 114,075
Accounts receivable (net of allowance for uncollectibles)	40,706	535,154	575,860
Accrued revenue	144,299	-	144,299
Due from other funds	-	-	-
Total current assets	250,914	583,320	834,234
Noncurrent assets:			
Capital assets:			
Land	32,014	27,525	59,539
Utility plant	7,311,839	5,531,588	12,843,427
Less: accumulated depreciation	(1,791,174)	(3,132,835)	(4,924,009)
Total noncurrent assets	5,552,679	2,426,278	7,978,957
TOTAL ASSETS	5,803,593	3,009,598	8,813,191
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized bond issue costs	9,597	-	9,597
Deferred engineering studies	3,387	-	3,387
Acquisition adjustments - net of amortization	185,487	-	185,487
TOTAL DEFERRED OUTFLOWS OF RESOURCES	198,471	-	198,471
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 6,002,064	\$ 3,009,598	\$ 9,011,662
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 22,748	\$ 20,985	\$ 43,733
Accrued interest	4,205	-	4,205
Accrued salaries and benefits	10,372	-	10,372
Other liabilities	13,497	-	13,497
Due to other funds	-	568,539	568,539
Short-term debt	780,000	-	780,000
Current portion of long-term obligations	152,446	116,873	269,319
Total current liabilities	983,268	706,397	1,689,665
Noncurrent liabilities:			
Noncurrent portion of long-term obligations:			
Bonds payable	1,976,839	1,644,642	3,621,481
Total noncurrent liabilities	1,976,839	1,644,642	3,621,481
TOTAL LIABILITIES	2,960,107	2,351,039	5,311,146
NET POSITION			
Net investment in capital assets	2,643,394	664,763	3,308,157
Restricted	-	-	-
Unrestricted (deficit)	398,563	(6,204)	392,359
TOTAL NET POSITION	3,041,957	658,559	3,700,516
TOTAL LIABILITIES AND NET POSITION	\$ 6,002,064	\$ 3,009,598	\$ 9,011,662

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

STATEMENT H

TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015

	Enterprise Funds		Total Enterprise Funds
	Water Fund	Sewer Fund	
OPERATING REVENUES			
Charges for services	\$ 644,059	\$ 505,620	\$ 1,149,679
Other	3,700	7,822	11,522
TOTAL OPERATING REVENUES	<u>647,759</u>	<u>513,442</u>	<u>1,161,201</u>
OPERATING EXPENSES			
Consulting	46,564	-	46,564
Salaries and benefits	204,707	209,750	414,457
Utilities	72,800	42,594	115,394
Purification and sludge disposal	-	93,867	93,867
Repairs and maintenance	24,390	27,794	52,184
Office supplies	-	11,483	11,483
Transportation	11,091	-	11,091
Insurance	7,212	6,399	13,611
Professional services	5,900	9,403	15,303
Depreciation and amortization	178,062	161,934	339,996
Other	13,616	2,032	15,648
TOTAL OPERATING EXPENSES	<u>564,342</u>	<u>565,256</u>	<u>1,129,598</u>
OPERATING INCOME (LOSS)	<u>83,417</u>	<u>(51,814)</u>	<u>31,603</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	17	114	131
Interest expense	(29,318)	(31,201)	(60,519)
Transfers in	45,298	36,100	81,398
Contributions in aid of construction	627,502	-	627,502
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>643,499</u>	<u>5,013</u>	<u>648,512</u>
CHANGE IN NET POSITION	726,916	(46,801)	680,115
NET POSITION - JULY 1, RESTATED	<u>2,315,041</u>	<u>705,360</u>	<u>3,020,401</u>
NET POSITION - JUNE 30	<u>\$ 3,041,957</u>	<u>\$ 658,559</u>	<u>\$ 3,700,516</u>

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

STATEMENT I

TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Enterprise Funds		Total Enterprise Funds
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 635,536	\$ 513,075	\$ 1,148,611
Payments to suppliers	(236,189)	(176,424)	(412,613)
Payments to employees	(208,832)	(209,750)	(418,582)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	190,515	126,901	317,416
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	17	114	131
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	17	114	131
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfer in from general fund	-	36,100	36,100
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	-	36,100	36,100
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital asset additions	(23,258)	-	(23,258)
Principal payments on long-term debt	(115,207)	(116,905)	(232,112)
Interest paid on long-term debt	(20,718)	(31,201)	(51,919)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(159,183)	(148,106)	(307,289)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	31,349	15,009	46,358
CASH AND CASH EQUIVALENTS - JULY 1	34,560	33,157	67,717
CASH AND CASH EQUIVALENTS - JUNE 30	\$ 65,909	\$ 48,166	\$ 114,075
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 83,417	\$ (51,814)	\$ 31,603
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	178,062	161,934	339,996
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(12,608)	(367)	(12,975)
(Increase) decrease in accrued revenue	385	-	385
(Increase) decrease in deferred engineering studies	3,390	-	3,390
Increase (decrease) in accounts payable	(15,989)	3,493	(12,496)
Increase (decrease) in accrued payroll and benefits	(4,125)	-	(4,125)
Increase (decrease) in other liabilities	13,487	-	13,487
Increase (decrease) in due to other funds	(55,504)	13,655	(41,849)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 190,515	\$ 126,901	\$ 317,416

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

STATEMENT J

TOWN OF SOUTHWEST HARBOR, MAINE
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2015

	Private-Purpose Trust Funds				Total Private-Purpose Trust Funds	Agency Funds General Trust
	Dickey Fund	Johnson Fund	Student Activities	PTO		
ASSETS						
Cash and cash equivalents	\$ -	\$ 84,118	\$ 2,803	\$ 8,252	\$ 95,173	\$ 1,837
Investments, at fair value	40,460	-	-	-	40,460	52,082
TOTAL ASSETS	<u>\$ 40,460</u>	<u>\$ 84,118</u>	<u>\$ 2,803</u>	<u>\$ 8,252</u>	<u>\$ 135,633</u>	<u>\$ 53,919</u>
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deposits held for others	-	-	-	-	-	53,919
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 53,919</u>
NET POSITION						
Restricted-held in trust for special purposes	40,460	84,118	2,803	8,252	135,633	
TOTAL NET POSITION	<u>40,460</u>	<u>84,118</u>	<u>2,803</u>	<u>8,252</u>	<u>135,633</u>	
TOTAL LIABILITIES AND NET POSITION	<u>\$ 40,460</u>	<u>\$ 84,118</u>	<u>\$ 2,803</u>	<u>\$ 8,252</u>	<u>\$ 135,633</u>	

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

STATEMENT K

TOWN OF SOUTHWEST HARBOR, MAINE

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Private-Purpose Trust Funds				Total Private-Purpose Trust Funds
	Dickey Fund	Johnson Fund	Student Activities	PTO	
ADDITIONS					
Trust fund income	\$ -	\$ 33,931	\$ -	\$ -	\$ 33,931
Student activities	-	-	23,680	8,669	32,349
Investment earnings	844	124	-	-	968
Total additions	<u>844</u>	<u>34,055</u>	<u>23,680</u>	<u>8,669</u>	<u>67,248</u>
DEDUCTIONS					
Miscellaneous	4,000	25,338	-	-	29,338
School activities	-	-	33,276	7,270	40,546
Total deductions	<u>4,000</u>	<u>25,338</u>	<u>33,276</u>	<u>7,270</u>	<u>69,884</u>
Change in net position	(3,156)	8,717	(9,596)	1,399	(2,636)
NET POSITION - JULY 1	<u>43,616</u>	<u>75,401</u>	<u>12,399</u>	<u>6,853</u>	<u>138,269</u>
NET POSITION - JUNE 30	<u>\$ 40,460</u>	<u>\$ 84,118</u>	<u>\$ 2,803</u>	<u>\$ 8,252</u>	<u>\$ 135,633</u>

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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, public safety, 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 61.

All funds of the Town, with the exception of the Town of Southwest Harbor Water Department, are reported as of and for the fiscal year ended June 30, 2015. December 31st is the year-end of the Water Department and the last separate financial statements were as of and for the year ended December 31, 2014. The amounts included in the Town's 2015 financial statements for the Water Department are as of and for the year ended December 31, 2014.

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.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Measurement Focus - Basic Financial Statements & Fund Financial Statements

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

The following fund types are used by the Town:

1. Governmental Funds:

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

- 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.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- b. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
- c. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities or equipment.
- d. Permanent Funds are 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.

2. Proprietary Funds

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

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

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.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Non-major funds by category are summarized into a single column, GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenses of either the fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

Basis of Accounting

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

1. Accrual

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

2. Modified Accrual

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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Deposits and Investments

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

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

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

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

Inventories and Prepaid Items

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 \$7,006. The school lunch fund portion of general fund inventory of \$1,635, consists of

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

Interfund Receivables and Payables

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

Transactions Between Funds

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

Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is estimated to be \$0 as of June 30, 2015.

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, 2015

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 fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The Town's policies regarding vacation and sick time do permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred. As of June 30, 2015, the Town's liability for compensated absences is \$57,463.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015

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 four items in this category; unamortized bond issue costs, deferred engineering studies, acquisition adjustment, net of amortization and 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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Revenue Recognition - Property Taxes - Modified Accrual Basis

The Town's property tax for the current year was levied July 1, 2014 on the assessed value listed as of April 1, 2014, for all real and personal property located in the Town. Taxes were due on in two installments on September 2, 2014 and February 2, 2015. Interest on unpaid taxes commenced on September 3, 2014 and February 3, 2015, 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 \$118,679 for the year ended June 30, 2015.

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 (grant income/expenses).

Operating/Non-operating Proprietary Fund Revenues

Operating revenues consist mainly of direct revenue sources and/or charges for services applicable to that fund.

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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015, the Town reported deposits of \$4,560,309 with a bank balance of \$4,709,100. Of the Town's bank balances, \$2,994,724 were covered by F.D.I.C. insurance and therefore not exposed to custodial credit risk. The remaining balances of \$1,714,376 were covered by a stand-by irrevocable letter of credit drawn on a federally-backed institution purchased on behalf of the Town by the respective banking institution.

<u>Account Type</u>	<u>Bank Balance</u>
Checking accounts	\$ 1,992,080
Savings accounts	169,212
Cerificates of deposit	2,257,287
Money market accounts	290,521
	<u>\$ 4,709,100</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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 totaling \$300,018, none were exposed to custodial credit risk. Balances were covered by the Securities Investor Protection Corporation.

At June 30, 2015, the Town had the following investments and maturities:

Investment Type	Fair Value	N/A	> 1 Year	1 - 5 Years
Equities	\$ 58,946	\$ 58,946	\$ -	\$ -
Bond Funds	104,447	-	4,957	99,490
Maine Community Foundation	103,028	103,028	-	-
Mutul Funds	33,597	33,597	-	-
	<u>\$ 300,018</u>	<u>\$ 195,571</u>	<u>\$ 4,957</u>	<u>\$ 99,490</u>

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. The Town does not have an investment policy on credit risk. Generally, the Town invests excess funds in savings accounts and various insured or fully collateralized certificates of deposit.

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

NOTE 3 - 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

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 - BUDGETARY VS. GAAP BASIS OF ACCOUNTING (CONTINUED)

budgetary basis of accounting vs. reporting under generally accepted accounting principles of \$194,113. 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 4 – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2015 consisted of the following individual fund receivables and payables:

	<u>Receivables (Due from)</u>	<u>Payables (Due to)</u>
General fund	\$ 568,539	\$ 1,647,189
Special revenue funds - reserves	1,616,184	-
Capital projects fund	31,005	-
Enterprise fund - sewer fund	-	568,539
Totals	<u>\$ 2,215,728</u>	<u>\$ 2,215,728</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5 - CAPITAL ASSETS

The following is a summary of changes in capital assets at June 30, 2015:

	Balance, 7/1/14	Additions	Deletions	Balance, 6/30/15
<u>Governmental activities:</u>				
Non-depreciated assets:				
Land	\$ 461,164	\$ -	\$ -	\$ 461,164
Construction in progress	-	2,569,448	-	2,569,448
	<u>461,164</u>	<u>2,569,448</u>	<u>-</u>	<u>3,030,612</u>
Depreciated assets:				
Land improvements	252,831	24,966	-	277,797
Buildings & improvements	7,900,057	-	-	7,900,057
Machinery & equipment	1,293,004	-	-	1,293,004
Vehicles	1,834,914	-	-	1,834,914
Infrastructure	12,927,048	-	-	12,927,048
	<u>24,207,854</u>	<u>24,966</u>	<u>-</u>	<u>24,232,820</u>
Less: accumulated depreciation	<u>(9,982,432)</u>	<u>(676,490)</u>	<u>-</u>	<u>(10,658,922)</u>
	<u>14,225,422</u>	<u>(651,524)</u>	<u>-</u>	<u>13,573,898</u>
Net capital assets	<u>\$ 14,686,586</u>	<u>\$ 1,917,924</u>	<u>\$ -</u>	<u>\$ 16,604,510</u>
	Balance, 7/1/14	Additions	Deletions	Balance, 6/30/15
<u>Business-type activities:</u>				
Non-depreciated assets:				
Land - Water	\$ 32,014	\$ -	\$ -	\$ 32,014
Land - Sewer	27,525	-	-	27,525
	<u>59,539</u>	<u>-</u>	<u>-</u>	<u>59,539</u>
Depreciated assets:				
Water System	6,575,288	876,024	(139,473)	7,311,839
Sewer System	5,531,588	-	-	5,531,588
	<u>12,106,876</u>	<u>876,024</u>	<u>(139,473)</u>	<u>12,843,427</u>
Less: accumulated depreciation				
Water System	(1,758,949)	(171,698)	139,473	(1,791,174)
Sewer System	(2,970,901)	(161,934)	-	(3,132,835)
	<u>(4,729,850)</u>	<u>(333,632)</u>	<u>139,473</u>	<u>(4,924,009)</u>
Net capital assets	<u>\$ 7,436,565</u>	<u>\$ 542,392</u>	<u>\$ -</u>	<u>\$ 7,978,957</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Current year depreciation:

Governmental activities:

General government	\$ 4,232
Protection	127,591
Education	155,633
Public works	29,613
Town-wide	359,421
Total governmental activities depreciation expense	<u>\$ 676,490</u>

Business-type activities:

Water	\$ 171,698
Sewer	161,934
Total business-type activities depreciation expense	<u>\$ 333,632</u>

NOTE 6 – SHORT TERM DEBT

On November 1, 2013, the Town entered into a short-term loan agreement under the Drinking Water Revolving Loan Fund for improvements in the Town's water system. The maximum amount that can be drawn down on this loan is \$1,418,182. Interest is due and payable at maturity. Maturity is the sooner of twelve months from the date of issuance or upon receipt of the proceeds from a bond issue. Due to the nature of the project, a maturity date extension on the note was executed on October 31, 2014, moving the maturity date to November 1, 2015 or upon receipt of the proceeds from a bond issue. The balance outstanding as of June 30, 2015 was \$1,095,091.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 7 – LONG TERM DEBT

The following is a summary of changes in the long-term debt for the year ended June 30, 2015:

	Balance, 7/1/14 (Restated)	Additions	Deletions	Balance, 6/30/15	Current Portion
Governmental activities:					
Bonds payable	\$ 4,629,306	\$ -	\$ (450,142)	\$ 4,179,164	\$ 451,166
Capital leases payable	10,877	-	(5,351)	5,526	5,526
Accrued compensated absences	64,250	-	(6,787)	57,463	57,463
Net pension liability	78,205	61,042	(90,924)	48,323	-
	<u>\$ 4,782,638</u>	<u>\$ 61,042</u>	<u>\$ (553,204)</u>	<u>\$ 4,290,476</u>	<u>\$ 514,155</u>
Business-type activities:					
Bonds payable	\$ 5,542,298	\$ -	\$ (1,687,340)	\$ 3,854,958	\$ 269,136
	<u>\$ 5,542,298</u>	<u>\$ -</u>	<u>\$ (1,687,340)</u>	<u>\$ 3,854,958</u>	<u>\$ 269,136</u>

The following is a summary of outstanding bonds payable:

Governmental activities:

\$5,339,115, 2000B School Construction bond due in annual principal installments of \$261,050 through November 2020. The interest rate varies from 5.028% to 5.903% per annum.	\$ 1,566,300
\$1,100,000, 2005C New Fire Station bond due in annual principal installments of \$44,000 through November 2031. The interest rate is 4.75% per annum.	704,000
\$868,730, 2010F Wesley Ave/Mansell Lane General Fund bond due in annual principal installments of \$38,141 through November 2030. The interest rate varies from 0.831% to 5.094% per annum.	717,864
\$780,000, 2013B Main Street Project bond due in annual principal installments of \$39,000 through May 2034. The interest rate varies from 0.45% to 4.57% per annum.	741,000
\$750,000, 2011 Fire Truck bond due in annual principal installments of \$75,000 through September 2021. The interest rate is 3.08% per annum.	<u>450,000</u>
Total governmental activities	<u>4,179,164</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 7 – LONG TERM DEBT (CONTINUED)

Business-type activities:

\$1,207,720, 2010D Sewer bond due in annual principal installments of \$53,805 through November 2033. The interest rate varies from 2.00% to 3.50% per annum.	992,600
\$135,000, 2011 Sewer Department Clarifiers bond due in annual principal installments of \$27,000 through March 2016. The interest rate varies from 2.89% to 3.89% per annum.	27,000
\$420,855, 2010F Wesley Ave/Mansell Lane Water bond due in annual principal installments of \$18,477 through November 2030. The interest rate varies from 0.8310% to 5.094% per annum.	347,767
\$440,000, 2013FS-CWSRF Sewer Department Clean Water State Revolving Loan bond payment varies through November 2030. The interest rate varies from 0.00% to 1.49% per annum.	420,953
\$1,066,041, 2010D Water Department bond payment varies through November 2027. The interest rate varies from 2.00% to 5.50% per annum.	743,398
\$248,080, 2009ARRA Drinking Water bond due in annual principal installments of \$12,404 through October 2029. The interest rate is 0.00% per annum.	179,858
\$442,820, 2009FR Drinking Water bond due in annual principal installments of \$22,141 through October 2029. The interest rate is 0.00% per annum.	321,045
\$388,415, 2010F Wesley Ave/Mansell Lane Sewer bond due in annual principal installments of \$17,053 through November 2030. The interest rate varies from 0.8310% to 5.094% per annum.	320,962
\$696,354, 2012F-DWSRF Water Department Water Tank bond due in annual principal installments of \$18,569 through April 2042. The interest rate is 0.00% per annum.	<u>501,375</u>
Total business-type activities	<u>3,854,958</u>
Total bonds payable	<u><u>\$ 8,034,122</u></u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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>
2016	\$ 457,587	\$ 178,317	\$ 635,904
2017	458,062	156,940	615,002
2018	458,662	136,792	595,454
2019	459,358	116,336	575,694
2020	460,130	95,606	555,736
2021-2025	969,804	296,994	1,266,798
2026-2030	661,895	159,150	821,045
2031-2035	253,666	17,353	271,019
	<u>\$ 4,179,164</u>	<u>\$ 1,157,488</u>	<u>\$ 5,336,652</u>

Business-type activities:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2016	\$ 269,814	\$ 77,530	\$ 347,344
2017	243,544	76,031	319,575
2018	244,396	71,987	316,383
2019	245,341	67,791	313,132
2020	246,362	62,597	308,959
2021-2025	1,132,579	246,692	1,379,271
2026-2030	915,911	134,662	1,050,573
2031-2035	557,011	18,094	575,105
	<u>\$ 3,854,958</u>	<u>\$ 755,384</u>	<u>\$ 4,610,342</u>

The following is a summary of outstanding capital leases payable:

2011 School department copier lease due in various installments. The interest rate is 3.29% per annum.

\$ 5,526

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 7 – LONG TERM DEBT (CONTINUED)

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

Year Ending <u>June 30:</u>	
2016	\$ 5,708
Total minimum lease payments	5,708
Less amount representing interest	(182)
Present value of future minimum lease payments	<u>\$ 5,526</u>

The amounts reported on the proprietary funds statement of net position for the Water Department are as of its year ended December 31, 2014. The amounts presented above for the Water Department are as of June 30, 2015.

NOTE 8 – EXPENDITURES OVER APPROPRIATIONS

The following expenditures were overspent at June 30, 2015:

Public Works	\$ 35,397
Education - Other Unbudgeted Funds	217,681
	<u>\$ 253,078</u>

NOTE 9 – NONSPENDABLE FUND BALANCES

At June 30, 2015, the Town had the following nonspendable fund balances:

General fund:	
Due from sewer fund	\$ 568,539
Inventory	8,641
Tax acquired property	25,353
Prepaid expenses	4,029
	<u>\$ 606,562</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 10 – RESTRICTED FUND BALANCES

At June 30, 2015, the Town had the following restricted fund balances:

General fund:	
School department	\$ 82,299
Main Street project	129,429
Special revenue funds	541,463
Permanent Fund - Cemetery trust	106,518
	<u>\$ 859,709</u>

NOTE 11 – COMMITTED FUND BALANCES

At June 30, 2015, the Town has the following committed fund balances:

Special revenue funds	<u>\$ 1,512,707</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 either carries commercial insurance, participates in a public entity risk pool, or is effectively self-insured. Currently the Town participates in several public-entity and self-insured risk pools sponsored by the Maine Municipal Association.

Based on the coverage provided by the pools described above, as well as coverage provided by commercial insurance purchased, the Town is not aware of any material actual or potential claim liabilities which should be recorded at June 30, 2015. 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, 2015, the Town's share was approximately:

	<u>Outstanding Debt</u>	<u>Town's Percentage</u>	<u>Total Share</u>
County of Hancock	\$ 1,200,000	4.51%	<u>\$ 54,080</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 or by contacting the System at (207) 512-3100.

Benefits Provided

The Maine Public Employees Retirement System provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the State Legislature. The System's retirement programs provide defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit (effective October 1, 1999, the prior ten year requirement was reduced by legislative action to five years for State employees and teachers). In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for State employees and teachers is age 60, 62 or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on 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.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 \$1,338,544 for the year ended June 30, 2015. Title 5 of the Maine Revised Statutes Annotated requires the State to contribute 13.03% 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 \$166,511 for the year ended June 30, 2015. Title 5 of the Maine Revised Statutes Annotated also requires the Town to contribute at an actuarially determined normal cost rate of 2.65%, which totaled \$33,864 for 2015. 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 13.50% of compensation and totaled \$8,187 the year ended June 30, 2015.

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

At June 30, 2015, 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:

School department's proportionate share of the net pension liability	\$ 48,323
State's proportionate share of the net pension liability associated with the Town	<u>1,225,807</u>
Total	<u>\$ 1,274,130</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The net pension liability was measured as of June 30, 2014, 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, 2014, the Town's proportion was 0.004473%, which was a decrease of 0.000446% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Town recognized total pension expense of \$261 and revenue of \$65,015 for support provided by the State of Maine. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SET Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 242
Changes of assumptions	3,328	-
Net difference between projected and actual earnings on pension plan investments	-	20,679
Changes in proportion and differences between employer contributions and proportionate share of contributions	22,348	4,727
Contributions subsequent to the measurement date	42,051	-
Total	<u>\$ 67,727</u>	<u>\$ 25,648</u>

\$42,051 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

	SET Plan
Year ended June 30:	
2016	\$ (5,184)
2017	(5,184)
2018	5,170
2019	5,170
2020	-
Thereafter	-

Actuarial Methods and Assumptions

The collective total pension liability for the Plan was determined by an actuarial valuation as of June 30, 2014 and 2013, using the following methods and assumptions applied to all periods included in the measurement:

Actuarial Cost Method

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

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

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

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.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Amortization

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

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2014 and June 30, 2013 are as follows:

Investment Rate of Return - For the State Employee and Teacher Plan, 7.125% per annum for the year ended June 30, 2014 and 7.25% for the year ended June 30, 2013, compounded annually.

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

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

Cost of Living Benefit Increases - 2.55% per annum for State employees and Teachers.

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, 2014 are summarized in the following table:

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Asset Class	SET Plan	
	Target Allocation	Long-term Expected Real Rate of Return
US equities	20%	5.2%
Non-US equities	20%	5.5%
Private equity	10%	7.6%
Real assets:		
Real estate	10%	3.7%
Infrastructure	10%	4.0%
Hard assets	5%	4.8%
Fixed income	25%	0.0%

Discount Rate

The discount rate used to measure the collective total pension liability was 7.125% for 2014 and 7.25% for 2013 for the State Employee and Teacher Plan. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table shows how the collective net pension liability/(asset) as of June 30, 2014 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rate is 7.125% for the State Employee and Teacher Plan.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

	1% Decrease	Discount Rate	1% Increase
<u>SET Plan:</u>			
Discount rate	6.125%	7.125%	8.125%
Employer's proportionate share of the net pension liability	\$ 92,559	\$ 48,323	\$ 11,308

Changes in Net Pension Liability

Changes in net pension liability are recognized in pension expense for the year ended June 30, 2014 with the following exceptions:

Differences between Expected and Actual Experience

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

Differences between Projected and Actual Investment Earnings

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

Changes in Assumptions

Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. For the State Employee and Teacher Plan, the change in the discount rate from 7.25% to 7.125% was the only change in assumption in the 2014 valuation.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Changes in Net Pension Liability (Continued)

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

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

Pension Plan Fiduciary Net Position

Additional financial and actuarial information with respect to the Plan can be found in the MainePERS' 2014 Comprehensive Annual Financial Report available online at 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 unless the employee is actively participating in the Town's Maine Public Employee Retirement System defined benefit pension plan, permits them to defer a portion of their salary until retirement. The deferred amount and the vested portion of the employer match is not available to the employee until retirement or death, or in case of other life events as allowed by law.

Funding Policy

Plan provisions and contribution requirements are established and may be amended by the Town. Under the 401 plan, the Town is required to contribute 6% of a participant's earnings for the plan year. For the year ended June 30, 2015, employee contributions totaled \$71,015, and the Town recognized pension expense of \$71,006.

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.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 15 - DEFINED CONTRIBUTION PLAN (CONTINUED)

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, 2015, forfeitures reduced the Town's pension expense by \$9.

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.

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, 2015 were \$5,239.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 17 – DEFICIT FUND BALANCES

The following funds have a deficit fund balances at June 30, 2015:

General fund:		
Food service	\$	30,055
Special revenue funds:		
School safety		516
Dispatch security cameras		819
Jaws of life		1,378
Infrastructure feasibility		1
Highway		1,283
Police		2,057
	\$	<u>36,109</u>

NOTE 18 – CONTINGENCIES

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

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

NOTE 19 – 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.

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 20 - RESTATEMENTS

The net position of business-type activities has been restated as of July 1, 2014. The net position was reduced by \$23,230 to correct the balance of compensated absences.

The net position of the governmental activities has been restated at July 1, 2014 to account for the implementation of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 (Issued 06/12)*. As a result, the beginning balance has been reduced by \$71,520.

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

TOWN OF SOUTHWEST HARBOR, MAINE

BUDGETARY COMPARISON SCHEDULE – BUDGETARY BASIS – BUDGET AND
ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes:				
Property Taxes	\$ 7,002,036	\$ 7,002,036	\$ 6,965,741	\$ (36,295)
Excise Taxes	343,000	343,000	386,531	43,531
Intergovernmental Revenues:				
State Revenue Sharing	54,000	54,000	59,578	5,578
Homestead Reimbursement	27,315	27,315	24,854	(2,461)
Local Road Assistance	19,000	19,000	17,480	(1,520)
Education	110,000	110,000	239,050	129,050
BETE	403	403	-	(403)
Other	26,450	26,450	28,932	2,482
Interest Income	13,000	13,000	11,734	(1,266)
Interest on Taxes/Lien Costs	22,000	22,000	20,925	(1,075)
Solid Waste Revenues	48,000	48,000	45,609	(2,391)
Permits, Fees and Other Revenue	59,350	59,350	70,249	10,899
Docks and Floats Revenue	74,700	74,700	75,738	1,038
Charges for Service	40,500	40,500	40,000	(500)
Miscellaneous Revenues	1,000	1,000	12,945	11,945
School Department Revenues	1,500	1,500	37,905	36,405
Transfers from Other Funds	-	-	-	-
Use of Fund Balance - School	51,548	51,548	-	(51,548)
Revenues and Other Sources	7,893,802	7,893,802	8,037,271	143,469
Charges to Appropriations (Outflows):				
General Government	339,511	339,511	304,703	34,808
Protection	1,047,488	1,047,488	985,506	61,982
Health & Sanitation	371,275	371,275	370,033	1,242
Public Works	404,565	404,565	439,962	(35,397)
Education - General Fund	4,416,748	4,416,748	4,294,294	122,454
Education - Other Unbudgeted Funds	-	-	217,681	(217,681)
County Tax	237,208	237,208	237,208	-
Social Services	206,019	206,019	203,564	2,455
Debt Service:				
Principal	263,240	263,240	263,240	-
Interest	161,194	161,194	111,908	49,286
Unclassified	124,179	124,179	1,923	122,256
Transfers to Other Funds	346,375	346,375	346,375	-
Expenditures and Other Uses	7,917,802	7,917,802	7,776,397	141,405
Excess of Revenues over Expenditures	\$ (24,000)	\$ (24,000)	260,874	\$ 284,874
Fund Balance, July 1			2,318,359	
Fund Balance, June 30			\$ 2,579,233	

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>2015</u>
<u>SET Plan:</u>	
Town's proportion of the net pension liability	0.0045%
Town's proportionate share of the net pension liability	\$ 48,323
State's proportionate share of the net pension liability associated with the Town	<u>1,225,807</u>
Total	<u>\$ 1,274,130</u>
Town's covered-employee payroll	\$ 1,338,544
Town's proportionate share of the net pension liability as a percentage of its covered- employee payroll	3.61%
Plan fiduciary net position as a percentage of the total pension liability	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>2015</u>	<u>2014</u>
<u>SET Plan:</u>		
Contractually required contribution	\$ 42,051	\$ 41,965
Contributions in relation to the contractually required contribution	<u>(42,051)</u>	<u>(41,965)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 1,338,544	\$ 1,373,513
Contributions as a percentage of covered- employee payroll	3.14%	3.06%

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

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.

- Schedule of Funding Progress – Special Revenue Funds
- Schedule of Departmental Operations – General Fund
- Schedule of General Capital Assets by Function
- Schedule of Changes in General Capital Assets by Function

SCHEDULE A

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF FUNDING PROGRESS – SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

<u>Town Funds</u>	Beginning Balance	Revenues	Transfers from Funds	Investment Earnings	Expenditures	Transfers to Funds	Ending Balance
State Revenue Sharing	\$ 16,129	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,129
Wage & Benefit	12,878	-	5,000	20	15,915	-	1,983
Abatements	16,557	-	3,500	57	2,358	-	17,756
Legal and Accounting	21,378	1,514	12,000	73	20,523	-	14,442
Professional Development	6,704	-	10,000	36	7,476	-	9,264
D.A.R.E. Program	190	200	-	1	-	-	391
Comprehensive Planning	594	-	-	2	-	-	596
Unemployment	17,714	-	7,500	77	49	-	25,242
Shellfish	4,317	-	-	16	64	-	4,269
Junior Fire Department	128	-	-	-	-	-	128
School Safety	(514)	-	-	(2)	-	-	(516)
Map Update	1,438	-	-	5	105	-	1,338
Swap Shop	3,707	314	-	11	1,222	-	2,810
Lower Town Dock	6	-	-	-	-	-	6
Antenna Relocation, etc.	8,235	-	-	27	-	-	8,262
Safe Routes to School Grant	9,883	-	-	-	-	-	9,883
Trail Grant	4,276	-	-	-	-	-	4,276
Septic Tank Grant	131	-	-	-	-	-	131
Wellness Grant	125	-	-	-	-	-	125
Conservation Commission	128,711	5,891	-	2,252	-	-	136,854
Police	1,574	-	-	384	598	-	1,360
School Playground	3,205	-	-	-	2	-	3,203
Total Town Funds	257,366	7,919	38,000	2,959	48,312	-	257,932

SCHEDULE A (CONTINUED)

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF FUNDING PROGRESS – SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

CIP Funds	Beginning Balance	Revenues	Transfers from Funds	Investment Earnings	Expenditures	Transfers to Funds	Ending Balance
Municipal Software	31,082	-	-	96	2,951	-	28,227
Computer	11,765	-	3,000	46	2,721	-	12,090
Record Preservation	12,853	-	2,000	47	-	-	14,900
Municipal Building Engineering	8,521	-	-	24	1,629	-	6,916
Building Renovations	66,813	-	-	221	-	-	67,034
Police Cruiser	3,168	-	5,000	23	-	-	8,191
Police Station Engineering	841	-	(839)	1	-	-	3
Police Station Construct	-	816	(814)	1	-	-	3
Dispatch Console	5,024	-	1,000	19	-	-	6,043
Dispatch Security Cameras	(1,526)	-	710	(3)	-	-	(819)
Thermal Imaging Camera	20	-	-	-	-	-	20
Harbor Master Boat Motor	10,133	-	500	35	-	-	10,668
4 X 16 Spruce - Manset	9,093	-	2,500	36	-	-	11,629
Lower Town Dock Pier	4,559	-	-	15	-	-	4,574
Highway 1 Ton Pickup	57,518	-	3,000	198	-	-	60,716
Highway #1 Plow Truck	24,980	-	6,000	97	-	-	31,077
Highway #2 Plow Truck	65,566	-	12,000	247	-	-	77,813
Highway Loader	24,552	-	10,000	106	-	-	34,658
Highway Garage	113,778	-	-	376	23,900	-	90,254
Road Projects	(35,916)	333,334	75,000	(166)	79,644	-	292,608
Sidewalks Projects	40,211	-	10,000	158	48,392	-	1,977
Harbor Hoists Upgrade	11,210	-	-	37	712	-	10,535
Pilings/Wall Replacement	18,767	-	2,200	68	-	-	21,035
Manset Dock Float Bridge	1,051	-	-	3	-	-	1,054
Cross Bracing Replacement	9,339	-	2,000	36	-	-	11,375
Lower Town Dock Parking Lot	3	-	-	-	-	-	3
Ladder Replacement	5,317	-	-	18	-	-	5,335
Town Office Copier	4,201	-	1,000	16	-	-	5,217
Vote Counter	6,146	-	250	21	-	-	6,417
Revaluation	44,308	-	-	147	-	-	44,455
Cable Access Equipment	613	-	500	3	-	-	1,116
Police 2007 Ford Expedition	18,096	-	5,000	72	-	-	23,168

SCHEDULE A (CONTINUED)

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF FUNDING PROGRESS – SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

CIP Funds (Continued)	Beginning Balance	Revenues	Transfers from Funds	Investment Earnings	Expenditures	Transfers to Funds	Ending Balance
Police In-Car Camera	5,047	-	-	2	5,048	-	1
Town Wide Communication	861	-	-	3	-	-	864
Explosive & Hazard Gas Monitor	1,125	-	1,000	6	-	-	2,131
Jaws of Life	5,125	-	750	17	7,270	-	(1,378)
SCBA	12,423	-	3,000	49	-	-	15,472
Quint Pumper	23	-	-	-	-	-	23
Manset Harbormaster Office	48,196	-	-	159	-	-	48,355
John Deere 4X4 Tractor	55,667	-	10,000	209	-	-	65,876
Parking Lot Improvement	30,178	-	-	100	-	-	30,278
Storm Water Management	16,472	-	-	47	3,155	-	13,364
Boat Trailer	343	-	-	1	-	-	344
Trap Slides	1,016	-	1,014	6	-	-	2,036
Electrical Conduit - Manset Dock	1,381	-	500	6	-	-	1,887
Light Post - Upper Town Dock	1,258	-	250	4	-	-	1,512
Mooring Plan Update	9,599	-	-	32	-	-	9,631
Sidewalk Plow/Blower	1,375	-	6,000	19	-	-	7,394
Infrastructure Feasibility	(1)	-	-	-	-	-	(1)
John Deere Lawn Mower	1,418	-	500	6	-	-	1,924
16 x 24 Floats Lower Town Dock	1,734	-	500	7	-	-	2,241
Sup Pile	13,333	-	6,500	60	-	-	19,893
Stl Pile	841	-	250	4	-	-	1,095
Street Sweeper	33,259	-	4,489	121	-	-	37,869
6 x 20 Finger Floats Lower Dock	301	-	250	1	-	-	552
Water/Sewer Infrastructure	104,005	1,363	100,000	544	56,213	-	149,699
Harbor	7,707	-	2,500	32	-	-	10,239
Ford Pick Up - Chief's Truck	17,670	-	1,500	62	-	-	19,232
Deck Planning	23,781	-	8,000	99	-	-	31,880
Ramp Resurfacing	14,867	-	3,600	58	-	-	18,525

SCHEDULE A (CONTINUED)

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF FUNDING PROGRESS – SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

CIP Funds (Continued)	Beginning Balance	Revenues	Transfers from Funds	Investment Earnings	Expenditures	Transfers to Funds	Ending Balance
Catwalk/Step Replacement	13,579	-	2,700	52	-	-	16,331
Pressurized Line Striper	3,316	-	1,100	14	-	-	4,430
Ford Rescue/Mini Pumper	81,674	-	5,000	283	-	-	86,957
Speed Trailer	2,050	-	-	7	-	-	2,057
Harbor	3,233	-	1,735	15	-	-	4,983
Municipal	2,007	-	-	6	1,442	-	571
Harbor	3,533	-	1,760	16	-	-	5,309
Harbor	1,929	-	-	6	-	-	1,935
Administration	2,165	-	-	7	-	-	2,172
Highway	2,005	-	-	1	3,289	-	(1,283)
Police	-	-	-	-	2,057	-	(2,057)
Harbor	12,405	-	4,115	51	-	-	16,571
Harbor	2,676	-	1,354	13	-	-	4,043
Municipal	15,168	-	-	50	-	-	15,218
Dispatch	4,848	-	-	14	-	-	4,862
Total CIP Funds	1,131,678	335,513	308,374	4,187	238,423	-	1,541,329
School Funds							
Bus Purchase	29,466	-	18,000	42	-	-	47,508
Special Education	152,969	-	-	458	-	-	153,427
Maintenance	44,073	-	3,750	97	-	-	47,920
Total School Funds	226,508	-	21,750	597	-	-	248,855
Total Special Revenue Funds	\$ 1,615,552	\$ 343,432	\$ 368,124	\$ 7,743	\$ 286,735	\$ -	\$ 2,048,116

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

SCHEDULE B

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF DEPARTMENTAL OPERATIONS – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Original Budget	Budget Adjustments	Final Budget	Actual	Variance Positive (Negative)
General Government -					
Administration	\$ 242,437	\$ -	\$ 242,437	\$ 208,987	\$ 33,450
Assessing & Planning	73,294	-	73,294	75,161	(1,867)
Municipal Offices	23,780	-	23,780	20,555	3,225
	<u>339,511</u>	<u>-</u>	<u>339,511</u>	<u>304,703</u>	<u>34,808</u>
Protection -					
Fire Department	82,605	-	82,605	79,823	2,782
Dispatch Service	258,442	-	258,442	239,850	18,592
Hydrant Rental	201,025	-	201,025	201,025	-
Police Protection	448,466	-	448,466	408,813	39,653
Street Lights	23,000	-	23,000	24,595	(1,595)
Insurance	33,950	-	33,950	31,400	2,550
	<u>1,047,488</u>	<u>-</u>	<u>1,047,488</u>	<u>985,506</u>	<u>61,982</u>
Health & Sanitation -					
Solid Waste/Recycling	371,275	-	371,275	370,033	1,242
	<u>371,275</u>	<u>-</u>	<u>371,275</u>	<u>370,033</u>	<u>1,242</u>
Public Works -					
Highway Department	300,734	-	300,734	339,145	(38,411)
Harbor	103,831	-	103,831	100,817	3,014
	<u>404,565</u>	<u>-</u>	<u>404,565</u>	<u>439,962</u>	<u>(35,397)</u>

SCHEDULE B (CONTINUED)

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF DEPARTMENTAL OPERATIONS – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Original Budget	Budget Adjustments	Final Budget	Actual	Variance Positive (Negative)
Education -					
Primary - General Fund	3,287,653	-	3,287,653	3,165,199	122,454
Primary - Other Unbudgeted Funds	-	-	-	217,681	(217,681)
Secondary	1,129,095	-	1,129,095	1,129,095	-
	<u>4,416,748</u>	<u>-</u>	<u>4,416,748</u>	<u>4,511,975</u>	<u>(95,227)</u>
County Tax	237,208	-	237,208	237,208	-
Social Services -					
General Assistance	5,000	-	5,000	2,545	2,455
Bar Harbor Food Pantry	2,500	-	2,500	2,500	-
Downeast Health Services	1,435	-	1,435	1,435	-
Downeast Horizons	1,800	-	1,800	1,800	-
Eastern Area on Aging	1,500	-	1,500	1,500	-
Hancock County Homecare	1,870	-	1,870	1,870	-
Harbor House	56,340	-	56,340	56,340	-
Hospice of Hancock County	1,000	-	1,000	1,000	-
Island Connections	2,000	-	2,000	2,000	-
Island Explorer	10,000	-	10,000	10,000	-
Mt. Heights Cemetery	3,500	-	3,500	3,500	-
Library	55,000	-	55,000	55,000	-
Nursing Service	58,000	-	58,000	58,000	-
WHCA	3,574	-	3,574	3,574	-
MDI Comm. Campfire Coalition	2,500	-	2,500	2,500	-
	<u>206,019</u>	<u>-</u>	<u>206,019</u>	<u>203,564</u>	<u>2,455</u>
Debt Service -					
Principal	263,240	-	263,240	263,240	-
Interest	161,194	-	161,194	111,908	49,286
	<u>424,434</u>	<u>-</u>	<u>424,434</u>	<u>375,148</u>	<u>49,286</u>

SCHEDULE B (CONTINUED)

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF DEPARTMENTAL OPERATIONS – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Original Budget	Budget Adjustments	Final Budget	Actual	Variance Positive (Negative)
Unclassified -					
Board of Appeals	500	-	500	131	369
Comprehensive Plan Committee	250	-	250	-	250
Conservation Committee	1,000	-	1,000	905	95
Harbor Committee	250	-	250	-	250
Planning Board	1,000	-	1,000	397	603
Tree Fund	2,000	-	2,000	490	1,510
Warrant Committee	250	-	250	-	250
Waste Prevention Committee	250	-	250	-	250
Overlay	118,679	-	118,679	-	118,679
	<u>124,179</u>	<u>-</u>	<u>124,179</u>	<u>1,923</u>	<u>122,256</u>
Transfers to Other Funds -					
Special Revenue Funds	346,375	-	346,375	346,375	-
	<u>346,375</u>	<u>-</u>	<u>346,375</u>	<u>346,375</u>	<u>-</u>
Totals	<u>\$ 7,917,802</u>	<u>\$ -</u>	<u>\$ 7,917,802</u>	<u>\$ 7,776,397</u>	<u>\$ 141,405</u>

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

General Capital Assets

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

SCHEDULE C

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF GENERAL CAPITAL ASSETS BY FUNCTION
JUNE 30, 2015

	Land and Non-depreciable Assets	Buildings, Building Improvements & Land Improvements	Furniture, Fixtures, Equipment & Vehicles	Infrastructure	Totals
General Government	\$ -	\$ 48,136	\$ 92,187	\$ -	\$ 140,323
Protection	213,556	1,828,820	1,531,275	-	3,573,651
Education	-	5,405,247	505,783	-	5,911,030
Public Works	2,615,411	434,707	554,516	12,927,047	16,531,681
Water	32,014	-	-	7,311,839	7,343,853
Sewer	27,525	-	-	5,531,588	5,559,113
Town Wide	201,646	460,944	444,157	-	1,106,747
Total General Capital Assets	3,090,152	8,177,854	3,127,918	25,770,474	40,166,398
Less: Accumulated Depreciation	-	(2,558,354)	(1,707,043)	(11,317,534)	(15,582,931)
Net General Capital Assets	<u>\$ 3,090,152</u>	<u>\$ 5,619,500</u>	<u>\$ 1,420,875</u>	<u>\$ 14,452,940</u>	<u>\$ 24,583,467</u>

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

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE D

SCHEDULE OF CHANGES IN GENERAL CAPITAL ASSETS BY FUNCTION
FOR THE YEAR ENDED JUNE 30, 2015

	General Capital Assets 7/1/14	Additions	Deletions	General Capital Assets 6/30/15
General Government	\$ 140,323	\$ -	\$ -	\$ 140,323
Protection	3,573,651	-	-	3,573,651
Education	5,886,064	24,966	-	5,911,030
Public Works	13,962,233	2,569,448	-	16,531,681
Water	6,607,302	876,024	(139,473)	7,343,853
Sewer	5,559,113	-	-	5,559,113
Town Wide	1,106,747	-	-	1,106,747
Total General Capital Assets	36,835,433	3,470,438	(139,473)	40,166,398
Less: Accumulated Depreciation	(14,712,282)	(1,010,122)	139,473	(15,582,931)
Net General Capital Assets	\$ 22,123,151	\$ 2,460,316	\$ -	\$ 24,583,467

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

TOWN OF SOUTHWEST HARBOR, MAINE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Pass Thru Grantor Number	Federal Expenditures
U.S. Department of Agriculture			
Passed through State of Maine - Department of Education and Cultural Services:			
Donated Commodities	10.550	013-6134-05	\$ 3,734
Breakfast Program	10.553	013-7127-05	1,463
National School Lunch Program	10.555	013-7128-05	15,427
Total Department of Agriculture			<u>20,624</u>
U.S. Department of Education			
Passed through State of Maine - Department of Education and Cultural Services:			
Title IA	84.010	3057	20,748
Special Education Grants to States	84.027	3046	46,188
Preschool Grant	84.173	6241	1,974
Rural School Achievement Program	84.358	N/A	17,039
Total Department of Education			<u>85,949</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 106,573</u>

TOWN OF SOUTHWEST HARBOR, MAINE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the Town. All federal financial assistance received is included on the schedule.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.



Proven Expertise and Integrity

INDEPENDENT AUDITORS' REPORT ON STATE REQUIREMENTS

Board of Selectmen
Southwest Harbor, Maine

We have audited the financial statements of the Town of Southwest Harbor for the year ended June 30, 2015 and have issued our report thereon dated March 11, 2016. 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 Town for accuracy. In addition we have reviewed the Town'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 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 Town.

This report is intended solely for the information of the School Board of Directors, management and the 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
March 11, 2016

3 Old Orchard Road, Buxton, Maine 04093
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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, 2015

	General Fund (1000)	Special Revenue Funds (2000)	General Reserves (4000)	Totals
June 30 balance per MEDMS financial System	\$ 107,330	\$ (28,234)	\$ 248,855	\$ 327,951
Revenue Adjustments:	-	-	-	-
Expenditure Adjustments:	-	-	-	-
Other Adjustments:				
Fund Balances Not Reported on MEDMS:				
Playground Fund	-	3,203	-	3,203
Beginning Balance Variance	-	-	-	-
Rounding	-	-	-	-
Audit Adjustments	-	-	-	-
Unallocated variance	-	-	-	-
Audited GAAP Basis Fund balance June 30	<u>\$ 107,330</u>	<u>\$ (25,031)</u>	<u>\$ 248,855</u>	<u>\$ 331,154</u>