

TOWN OF HERMON, MAINE

Annual Financial Report

For the Year Ended June 30, 2014

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Independent Auditor's Report

Town Council
Town of Hermon, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hermon, Maine, as of and for the year ended June 30, 2014, 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hermon, Maine, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hermon's basic financial statements. The combining and individual fund financial statements and schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the combining and individual fund financial statements and schedule are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2014 on our consideration of the Town of Hermon, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Hermon, Maine's internal control over financial reporting and compliance.



December 11, 2014
South Portland, Maine



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

December 11, 2014

The Management Discussion and Analysis ("MD&A") is a report of the Town of Hermon's fiscal activity for the year ending June 30, 2014. The report is presented in a manner that fairly represents the Town's present financial position in respect to all funds and accounts. Included is all the information to accurately understand the Town's financial position, and the data is correct to the best of our knowledge and belief.

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

The financial information of the Town includes all Town departments. All Town departments include municipal departments (Public Works, Public Safety, Administration, and others) and the School Department. The School Department and all other municipal departments combined are what comprise the Town.

BIOGRAPHICAL INFORMATION

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

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

The goal of the community is to continue the success and growth of our business parks while maintaining separation for our residential community. Hermon's residential area continues its dedication to serve Bangor as a bedroom community that allows for country, family living. Some business is encouraged in the village area to serve the residents. We have seen growth over the last 5 years of the shopping plaza, which compliments the community very well. The plaza includes a hometown grocery store, salon, dentist, insurance agents, chiropractor and acupuncturist, hardware store, Family Dollar, and Subway. These businesses are very important to the community, but the bulk of services continue to be available by traveling to Bangor.

FINANCIAL INFORMATION

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

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

- As shown on Statement 1, the total net position for governmental activities, excluding business-type activities, of the Town of Hermon was \$19,971,764, an increase of \$1,214,100 when compared to the beginning net position figure for year ending June 30, 2013 of \$18,757,664. The most significant reason for the increase in net position was the decrease in non-current liabilities by \$1,073,310. The School Department retired the High School debt during the fiscal year.
- The Town's unamortized bond debt decreased by \$1,094,905 for a total outstanding debt of \$3,237,543. No new bond debt was issued in this fiscal year. The Billings Road bond debt will be paid in full in July 2014, leaving the Sewer extension bond as the sole debt of the Town. The Sewer bond will be paid in full in November 2018. As of June 30, 2014, the outstanding balance of the Sewer bond was \$449,500. The remaining \$2,788,043 of outstanding bond debt as of June 30, 2014 is comprised of the Billings Road improvement in the amount of \$57,098 and the School Department debt for the Hermon Middle School in the amount of \$2,730,945.
- In the fiscal year ending June 30, 2011, the Town adopted Government Accounting Standards Board Statement No. 54 (GASB 54). This has reclassified how fund balance is reported. In years past, Government units reported fund balance as designated or undesignated. With the implementation of GASB 54, fund balance is now classified as nonspendable, restricted, committed, assigned, and unassigned. As of June 30, 2014, as shown in the Town's balance sheet for the General Fund (Exhibit A-1), the Town reported \$10,051 in nonspendable inventory and prepaid expenditures, has assigned for future use \$1,033,716 and restricted TIF funds of \$565,545, which leaves an unassigned fund balance of \$2,943,841 for a total fund balance of \$4,553,153 (excluding amounts restricted for education). This is an increase of \$374,601 from the previous year. You may also find the list of assigned, restricted, and nonspendable fund balances in the notes to the financial statements on page 39.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

General Fund

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

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

Major Capital Projects Funds

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

Other Governmental Funds

Other governmental funds are comprised of non-major special revenue, capital projects, and permanent funds. These funds were each individually determined to be non-major and are required to be categorized and grouped into other governmental funds. A separate schedule (Exhibit B) is provided in the combining and individual fund financial statements following the notes to the financial statements.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-40 of this report.

Other Information

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

The combining and individual fund financial statements referred to earlier in connection with non-major governmental funds are presented following the notes. Combining and individual fund financial statements can be found beginning on page 43 of this report.

GOVERNMENT-WIDE ANALYSIS

Net position may serve over time as a useful indicator of a government's financial health. In the case of the Town, assets exceeded liabilities by \$19,971,764 as of June 30, 2014. This figure is comprised of the net investment in capital assets, restricted net position for education, TIF revenues, special revenues, and permanent funds, and unrestricted net position.

Net Position for the Period Ending June 30, 2014

The current year's financial statements show a change in total assets compared to liabilities that net a 6.5% increase to total net position. The overall reasons for the percentage increase in net position are having more investments on hand, payment of significant bond debt, and an increase in total fund balance due to higher than anticipated revenues while keeping most expenses at or below budgeted figures.

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

	<u>Governmental Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>% Change</u>
ASSETS				
Cash and cash equivalents	\$ 1,095,586	1,479,735	(384,149)	-25.96%
Investments	8,805,958	7,908,569	897,389	11.35%
Other assets	1,054,105	949,641	104,464	11.00%
Capital assets, net	13,534,198	13,970,423	(436,225)	-3.12%
Total Assets	24,489,847	24,308,368	181,479	0.74%
LIABILITIES				
Long-term debt due within one year	590,323	1,147,325	(557,002)	-48.55%
Long-term debt due in more than one year	2,724,008	3,239,316	(515,308)	-15.91%
Other liabilities	1,203,752	1,164,063	39,689	3.41%
Total Liabilities	4,518,083	5,550,704	(1,032,621)	-18.60%
NET POSITION				
Net investment in capital assets	10,219,867	9,583,782	636,085	6.64%
Restricted for:				
Expendable permanent funds	7,785	7,785	-	-
Nonexpendable trust principal	222	142	80	56.34%
General fund	3,466,231	3,186,868	279,363	8.77%
Special revenue fund	119,426	73,270	46,156	62.99%
Unrestricted	6,158,233	5,905,817	252,416	4.27%
Total Net Position	\$ 19,971,764	18,757,664	1,214,100	6.47%

The following table presents a summary of the Statement of Activities for the fiscal year ended June 30, 2014.

	<u>Governmental Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Percent Change</u>
Revenues				
Program revenues				
Charges for services	\$ 2,057,802	2,065,483	(7,681)	-0.37%
Operating grants and contributions	7,473,984	7,457,273	16,711	0.22%
Capital grants and contributions	19,472	61,379	(41,907)	-68.28%
General revenues				
Property taxes	5,217,090	5,139,021	78,069	1.52%
Tax Increment Financing revenue	279,095	162,911	116,184	71.32%
Excise taxes	2,657,199	2,370,745	286,454	12.08%
Interest and costs on taxes	37,763	30,875	6,888	22.31%
Grants and contributions not restricted				
State Revenue Sharing	171,199	253,502	(82,303)	-32.47%
Homestead exemption	98,012	100,717	(2,705)	-2.69%
Other intergovernmental revenues	236,688	188,706	47,982	25.43%
Unrestricted Investment earnings	23,496	28,340	(4,844)	-17.09%
Loss on disposal of assets	(7,526)	(4,143)	(3,383)	81.66%
Miscellaneous	73,799	72,064	1,735	2.41%
Total revenues:	18,338,073	17,926,873	411,200	2.29%
Expenses				
General government	685,346	681,580	3,766	0.55%
Public safety	744,178	712,958	31,220	4.38%
Public works	836,525	815,841	20,684	2.54%
Solid waste	514,757	484,742	30,015	6.19%
Recreational and social services	146,002	135,653	10,349	7.63%
Education	11,943,098	11,844,385	98,713	0.83%
Unclassified	1,045,399	896,761	148,638	16.57%
Grants and other special uses	796,015	841,015	(45,000)	-5.35%
Interest on debt	24,224	33,076	(8,852)	-26.76%
Capital maintenance expenses	388,429	30,568	357,861	1170.70%
Total expenses:	17,123,973	16,476,579	647,394	3.93%
Change in net position:	\$ 1,214,100	\$ 1,450,294	\$ (236,194)	-16.29%

Comparatives of revenues identify a couple key changes. First, overall revenues have increased by \$411,200 from the previous year. Second, excise taxes had a considerable increase in revenue, while we have continued to see a decrease in investment earnings due to market conditions and interest rates. There was a \$286,454 increase alone for excise taxes from 2013 to 2014. We have seen an upward trend over the last few years of excise tax revenue as the economy starts to stabilize. Not only are we seeing the residential side of excise taxes increase, but the commercial piece has had significant growth as well. Property tax revenue is variable due to mil rates, the economy, values of homes, new construction, the commercial district growth, as well as other miscellaneous factors.

Details of revenues can be found in Exhibit A-2.

Expenses have increased by \$647,394 from 2013 to 2014. All functions, with the exceptions of grants and other special uses and interest on debt, showed increases from 2013 to 2014. Education expenses were \$98,713 more in 2014 than 2013. Capital maintenance expenses carried more than half of the increase of total expenses from the previous year, an increase of \$357,861. This increase was due to using reserve account monies to pay for capital expenditures and projects, such as purchasing a police vehicle and the Jackson Beach improvement project.

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

Financial Analysis of the Town's Funds

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

Governmental Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. As the Town completed the year, total governmental funds reported a combined (Town and School) fund balance of \$9,567,318 (Statement 3), \$623,478 higher than the previous year. A general analysis of transactions affecting the change in the combined fund balance of the Town's governmental funds is as follows:

Revenues exceeded expenditures for the general fund alone by \$922,540 (Statement 6) in the current fiscal year. Two of the largest components of the increase in fund balance are that excise tax and property tax collected \$768,593 more than anticipated. The School Department also collected an additional \$366,530 more than anticipated in revenues. Overall, actual expenditures for the School Department were \$626,955 less than budgeted and the Town's expenditures were \$182,231 less than budgeted for a total of \$809,186. Overall, the Town saw an increase in fund balance of \$623,957 (Statement 6) on a GAAP basis.

General Fund

The following is a summary of General Fund expenditures and revenues by function, with comparison to 2013. The information is gathered from Exhibit A-2.

	<u>Actual Activity</u>			Percent Change
	<u>2014</u>	<u>2013</u>	<u>Change</u>	
Revenues				
Property taxes	\$ 5,281,477	\$ 5,148,721	\$ 132,756	2.58%
Tax Increment Financing revenue	279,095	162,911	116,184	71.32%
Excise taxes	2,657,199	2,370,745	286,454	12.08%
Interest on taxes	37,763	30,875	6,888	22.31%
State revenue sharing	171,199	253,502	(82,303)	-32.47%
Homestead exemption	98,012	100,717	(2,705)	-2.69%
State education subsidy	5,450,212	5,384,925	65,287	1.21%
Other intergovernmental revenues	337,254	319,983	17,271	5.40%
Licenses and permits	55,244	46,475	8,769	18.87%
Charges for services	1,789,789	1,787,211	2,578	0.14%
Interest earned	11,858	11,645	213	1.83%
Miscellaneous	572,969	586,637	(13,668)	-2.33%
Total revenues:	16,742,071	16,204,347	537,724	3.32%
Expenditures				
Current:				
General government	674,805	651,234	23,571	3.62%
Public safety	690,510	629,708	60,802	9.66%
Public works	874,482	807,783	66,699	8.26%
Solid waste	514,757	484,742	30,015	6.19%
Recreational and social services	146,002	135,653	10,349	7.63%
Unclassified	1,035,386	887,873	147,513	16.61%
Education	11,460,769	11,204,404	256,365	2.29%
Capital expenditures	78,514	8,832	69,682	788.97%
Debt service	344,306	348,286	(3,980)	-1.14%
Total expenditures:	15,819,531	15,158,515	661,016	4.36%
Excess (deficiency) of revenues over (under) expenditures	\$ 922,540	\$ 1,045,832	\$ (123,292)	-11.79%

Overall, in 2014, revenues exceeded expenditures by \$922,540 in the General Fund. We have seen that excise tax revenue has had significant increases two years in a row. This is excellent since the Town of Hermon relies heavily on excise tax revenue to help keep the mil rate low while providing many services to the community. Property taxes and excise taxes make up the largest portion of the increase in revenues from 2013 to 2014. Education expenses had the largest increases from 2013 to 2014 in the amount of \$256,365. Debt service was the only department to see a decrease in expenses from the previous year, due to retiring debt and not incurring new debt.

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

Capital Asset and Debt Administration

	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 128,572	-	-	128,572
Construction in progress	13,444	48,155	-	61,599
Total capital assets, not being depreciated	142,016	48,155	-	190,171
Capital assets, being depreciated				
Buildings and improvements				
	19,360,025	168,190	-	19,528,215
Equipment, furniture, and fixtures				
	2,202,087	34,145	-	2,236,232
Vehicles				
	1,961,265	66,549	184,598	1,843,216
Total capital assets, being depreciated	23,523,377	268,884	184,598	23,607,663
Total accumulated depreciation	(9,694,970)	(745,738)	177,072	(10,263,636)
Total capital assets, net	\$ 13,970,423	\$ (428,699)	\$ (7,526)	\$ 13,534,198

Additional information on the Town's capital assets can be found in the notes to the financial statements on page 34.

Debt Administration

The Town's debt consists of four bonds and several capital leases. A summary of the Town's debt activity and other long-term liabilities for the year ended June 30, 2014 is as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Bonds payable	\$ 4,332,448	-	1,094,905	3,237,543	567,313
Capital leases payable	54,193	98,399	75,804	76,788	23,010
Accrued compensated absences	61,324	47,892	61,324	47,892	-
Governmental activities long-term liabilities	\$ 4,447,965	146,291	1,232,033	3,362,223	590,323

Additional information on the Town's long-term debt can be found in the notes to the financial statements on page 36-38.

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

COMMITMENT:

Commitment is the most important number to analyze because no matter what the change is in any other category, this is the one that determines if property taxes are going up. It is the amount of money Hermon needs to raise to balance the budget and it comes from two sources - real estate and personal property taxes. For fiscal year ending June 30, 2014, total commitment was \$5,489,691 as compared to June 30, 2013, which was \$5,291,527. The mil rate for 2014 was 11.91.

BUDGET HIGHLIGHTS

The budget highlights identify changes in the 2014-15 budget from 2013-14. These points are only the highlights and serve to summarize changes to the overall budget rather than to provide an explanation to every adjustment to the budget.

- General Government is increasing by \$19,965, or 2.70%. There are miscellaneous changes throughout General Government, both increases and decreases within different sub-departments that balance out to a 2.70% overall increase. General Government is comprised of the Town Manager, Town Clerk, Deputy Clerks, Finance department, Assessor, Code Officer, Municipal building, supplies, Town Council, Town Boards, miscellaneous expenses, and administration expenses such as all insurances including health, tax bills, Hermon Connection, repairs, and audit and legal services.
- The Economic Development budget has increased by 2.39%, or \$4,716. Two line items make up the total increase to the department. This is the economic promo line and the economic development contract. The economic promo line item is used for miscellaneous items/needs for the business parks.
- Public Safety, which encompasses Police, Fire, Animal Control, the public safety building, and traffic lights, is increasing by 3.10%, or \$21,934. Similar to General Government there are many miscellaneous increases and decreases among line items, but the major portion to the increase is the cost for hiring an additional full time police officer.
- The Public Works Department is increasing by 0.24%, or \$2,128. Some of the increases within the Department are for winter sand, mowing, vehicle and equipment repair, and gas. This year the total decrease to the Public Works budget is due to a cut in cold patch, labor costs, and purchase of equipment. The two public works employees will be plowing more Town roads than in prior years.
- The Solid Waste budget is increasing by 3.90%, or \$19,691. The increase is primarily due to roadside pickup expenses and in PERC tipping fees.
- Recreation and Social Services is increasing by 1.69%, or \$2,477. There are many miscellaneous increases and decreases in line items that make up this small difference from the prior fiscal year.
- Debt Service is decreasing 51.58%, or \$177,939. This is a result of a lower payment on the Water & Sewer Extension bond as the Town is paying less interest on the bond. The Billings Road bond will be retired in July of 2014 resulting in one payment of \$57,731 for the fiscal year rather than four.

- Reserves are being increased by \$229,800, or 15.57% from the prior year. Some of the increase in the current year will be spent for capital projects. Over the past few years reserves have been vulnerable to budget cuts, but we cannot sustain cuts to reserves year-after-year. We expect to see small increases over the next few years to get funding levels up for future capital improvements, so the Town does not have to rely on financing capital projects.
- Special Assessments includes County Taxes and TIFs. There is a 4.22% increase for Special Assessments. This is mostly due to the County tax increase of \$32,175 and TIF payments to taxpayers in the TIF districts have increased by \$2,000.
- General Assistance is remaining flat funded at \$15,000.
- The local contribution from property taxes to the School Department is going from \$4,160,449 to \$4,163,344.

REQUEST FOR INFORMATION

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

TOWN OF HERMON, MAINE
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,095,586	-	1,095,586
Investments	8,805,958	-	8,805,958
Receivables:			
Taxes receivable - current year	264,604	-	264,604
Taxes receivable - prior year	72,246	-	72,246
Tax liens - prior years	66,698	-	66,698
Tax acquired property	3,202	-	3,202
Accounts receivable	720,750	-	720,750
Internal balances	(91,863)	91,863	-
Inventory	13,681	-	13,681
Prepaid expenses	4,787	-	4,787
Nondepreciable capital assets	190,171	-	190,171
Depreciable capital assets, net	13,344,027	-	13,344,027
Total assets	24,489,847	91,863	24,581,710
LIABILITIES			
Accounts payable	161,369	-	161,369
Accrued payroll and benefits	908,566	-	908,566
Accrued compensated absences	47,892	-	47,892
Prepaid taxes	4,333	-	4,333
Accrued interest	22,842	-	22,842
Other liabilities	58,750	-	58,750
Noncurrent liabilities:			
Due within one year	590,323	-	590,323
Due in more than one year	2,724,008	-	2,724,008
Total liabilities	4,518,083	-	4,518,083
NET POSITION			
Net investment in capital assets	10,219,867	-	10,219,867
Restricted for:			
General fund	3,466,231	-	3,466,231
Special revenue fund	119,426	-	119,426
Permanent funds:			
Expendable	7,785	-	7,785
Nonexpendable	222	-	222
Unrestricted	6,158,233	91,863	6,250,096
Total net position	\$ 19,971,764	91,863	20,063,627

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Activities
For the year ended June 30, 2014

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net position		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government		Total
					Governmental activities	Business-type activities	
Primary government:							
Governmental activities:							
General government	\$ 685,346	55,244	-	-	(630,102)	-	(630,102)
Public safety	744,178	10,796	-	-	(733,382)	-	(733,382)
Public works	836,525	2,783	-	-	(833,742)	-	(833,742)
Solid waste	514,757	228,102	-	-	(286,655)	-	(286,655)
Recreational and social services	146,002	61	-	-	(145,941)	-	(145,941)
Education	11,943,098	1,517,883	6,923,353	-	(3,501,862)	-	(3,501,862)
Unclassified	1,045,399	10,516	-	-	(1,034,883)	-	(1,034,883)
Grants and other special uses	796,015	232,417	550,631	19,472	6,505	-	6,505
Interest on debt	24,224	-	-	-	(24,224)	-	(24,224)
Capital maintenance expenses	388,429	-	-	-	(388,429)	-	(388,429)
Total governmental activities	17,123,973	2,057,802	7,473,984	19,472	(7,572,715)	-	(7,572,715)
Business-type activities:							
Recreation department	199,433	205,972	-	-	-	6,539	6,539
Total business-type activities	199,433	205,972	-	-	-	6,539	6,539
Total primary government	\$ 17,323,406	2,263,774	7,473,984	19,472	(7,572,715)	6,539	(7,566,176)
General revenues:							
Property taxes					5,217,090	-	5,217,090
Tax Increment Financing revenue					279,095	-	279,095
Excise taxes					2,657,199	-	2,657,199
Interest and costs on taxes					37,763	-	37,763
Grants and contributions not restricted to specific programs:							
State Revenue Sharing					171,199	-	171,199
Homestead exemption					98,012	-	98,012
Other intergovernmental revenues					236,688	-	236,688
Unrestricted investment earnings					23,496	-	23,496
Loss on disposal of assets					(7,526)	-	(7,526)
Miscellaneous revenues					73,799	-	73,799
Total general revenues					8,786,815	-	8,786,815
Change in net position					1,214,100	6,539	1,220,639
Net position - beginning					18,757,664	85,324	18,842,988
Net position - ending					19,971,764	91,863	20,063,627

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Balance Sheet
Governmental Funds
June 30, 2014

	General	Highway Capital Reserve	School Capital Improvements	All Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,041,205	-	-	54,381	1,095,586
Investments	6,465,461	224,147	858,212	1,258,138	8,805,958
Receivables:					
Taxes receivable - current year	264,604	-	-	-	264,604
Taxes receivable - prior year	72,246	-	-	-	72,246
Tax liens - prior years	66,698	-	-	-	66,698
Tax acquired property	3,202	-	-	-	3,202
Accounts receivable	524,707	-	-	196,043	720,750
Inventory	5,264	-	-	8,417	13,681
Prepaid expenditures	4,787	-	-	-	4,787
Interfund loans receivable	389,730	-	-	41,453	431,183
Total assets	\$ 8,837,904	224,147	858,212	1,558,432	11,478,695
LIABILITIES					
Accounts payable	160,449	-	-	920	161,369
Accrued payroll and benefits	905,220	-	-	3,346	908,566
Prepaid taxes	4,333	-	-	-	4,333
Interfund loans payable	-	205,763	-	317,283	523,046
Other liabilities	58,750	-	-	-	58,750
Total liabilities	1,128,752	205,763	-	321,549	1,656,064
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	255,313	-	-	-	255,313
Total deferred inflows of resources	255,313	-	-	-	255,313
FUND BALANCES					
Nonspendable:					
Inventory	5,264	-	-	8,417	13,681
Nonexpendable principal	-	-	-	7,785	7,785
Prepaid expenditures	4,787	-	-	-	4,787
Restricted:					
General fund	3,466,231	-	-	-	3,466,231
Special revenue funds	-	-	-	119,426	119,426
Permanent funds	-	-	-	222	222
Assigned:					
General fund	1,033,716	-	-	-	1,033,716
Capital projects funds	-	18,384	858,212	1,108,625	1,985,221
Unassigned:					
General fund	2,943,841	-	-	-	2,943,841
Special revenue funds	-	-	-	(7,592)	(7,592)
Total fund balances	7,453,839	18,384	858,212	1,236,883	9,567,318
Total liabilities, deferred inflows of resources, and fund balances	\$ 8,837,904	224,147	858,212	1,558,432	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,534,198
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	255,313
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	
Bonds payable	(3,237,543)
Capital leases	(76,788)
Accrued interest	(22,842)
Accrued compensated absences	(47,892)

Net position of governmental activities **\$ 19,971,764**

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2014

	General	Highway Capital Reserve	School Capital Improvements	All Nonmajor Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 8,255,534	-	-	-	8,255,534
Intergovernmental	6,056,677	-	-	532,505	6,589,182
Maine PERS on-behalf payments	848,757	-	-	-	848,757
Licenses and permits	55,244	-	-	-	55,244
Charges for services	1,789,789	-	-	-	1,789,789
Investment income	11,858	858	4,651	6,129	23,496
Other	572,969	-	-	275,015	847,984
Total revenues	17,590,828	858	4,651	813,649	18,409,986
Expenditures:					
Current:					
General government	674,805	-	-	-	674,805
Public safety	690,510	-	-	-	690,510
Public works	874,482	-	-	-	874,482
Solid waste	514,757	-	-	-	514,757
Recreational and social services	146,002	-	-	-	146,002
Education	11,476,573	-	-	-	11,476,573
Unclassified	1,035,386	88	457	579	1,036,510
Grants and other special uses	-	-	-	796,015	796,015
Maine PERS on-behalf payments	848,757	-	-	-	848,757
Debt service	344,306	-	-	-	344,306
Capital outlay	176,913	203,459	-	101,818	482,190
Total expenditures	16,782,491	203,547	457	898,412	17,884,907
Excess (deficiency) of revenues over (under) expenditures	808,337	(202,689)	4,194	(84,763)	525,079
Other financing sources (uses):					
Proceeds from capital lease	98,399	-	-	-	98,399
Transfers from other funds	-	75,000	8,000	199,779	282,779
Transfers to other funds	(282,779)	-	-	-	(282,779)
Total other financing sources (uses)	(184,380)	75,000	8,000	199,779	98,399
Net change in fund balances	623,957	(127,689)	12,194	115,016	623,478
Fund balances, beginning of year	6,829,882	146,073	846,018	1,121,867	8,943,840
Fund balances, end of year	\$ 7,453,839	18,384	858,212	1,236,883	9,567,318

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2014

Net change in fund balances - total governmental funds (from Statement 4)	\$	623,478
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Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$745,738) and loss on disposal (\$7,526) exceeded capital outlay (\$317,039) in the current period. (436,225)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (64,387)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. This is the change in accrued compensated absences (\$13,432) and accrued interest (\$5,492). 18,924

Bond and capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

This is the amount of bond repayments.		1,094,905
This is the amount by which proceeds of new leases (\$98,399) exceeded repayments (\$75,804).		(22,595)

Change in net position of governmental activities (see Statement 2)	\$	1,214,100
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See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Budgetary Basis
General Fund
For the year ended June 30, 2014

	Budgeted amounts		Actual	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Taxes	\$ 7,667,678	7,667,678	8,255,534	587,856
Intergovernmental	5,903,998	5,903,998	6,056,677	152,679
Licenses and permits	51,800	51,800	55,244	3,444
Charges for services	1,766,500	1,766,500	1,789,789	23,289
Interest earned	14,000	14,000	11,858	(2,142)
Other revenues	343,473	343,473	572,969	229,496
Total revenues	15,747,449	15,747,449	16,742,071	994,622
Expenditures:				
Current:				
General government	721,419	721,419	674,805	46,614
Public safety	736,188	736,188	690,510	45,678
Public works	844,285	891,728	874,482	17,246
Solid waste	519,379	579,379	514,757	64,622
Recreation and social services	145,336	145,336	146,002	(666)
Unclassified	1,002,457	1,002,457	1,035,386	(32,929)
Education	12,087,724	12,087,724	11,460,769	626,955
Debt service:				
Principal	314,840	314,840	314,840	-
Interest	30,146	30,146	29,466	680
Capital expenditures	94,500	119,500	78,514	40,986
Total expenditures	16,496,274	16,628,717	15,819,531	809,186
Excess (deficiency) of revenues over (under) expenditures	(748,825)	(881,268)	922,540	1,803,808
Other financing sources (uses):				
Utilization of prior year surplus - School	736,325	736,325	-	(736,325)
Utilization of prior year surplus - Town	300,000	432,443	-	(432,443)
Transfers out	(287,500)	(287,500)	(282,779)	4,721
Total other financing sources (uses)	748,825	881,268	(282,779)	(1,164,047)
Net change in fund balance, budgetary basis	-	-	639,761	639,761
Reconciliation to GAAP:				
Change in accrued summer salaries			(15,804)	
Net change in fund balance, GAAP basis			623,957	
Fund balance, beginning of year			6,829,882	
Fund balance, end of year	\$		7,453,839	

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Net Position
Proprietary Fund
June 30, 2014

		Recreation Department
ASSETS		
Current assets:		
Interfund loans receivable	\$	91,863
Total assets		91,863
LIABILITIES		
Current liabilities:		
Accounts payable		-
Total liabilities		-
NET POSITION		
Unrestricted		91,863
Total net position	\$	91,863

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the year ended June 30, 2014

	Recreation Department
Operating revenues:	
Charges for services	\$ 205,972
Total operating revenues	205,972
Operating expenses:	
Current:	
Payroll	133,799
Recreation programs	65,634
Total operating expenses	199,433
Operating gain	6,539
Total net position, beginning of year	85,324
Total net position, end of year	\$ 91,863

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Cash Flows - Proprietary Fund
For the year ended June 30, 2014

		Recreation Department
Cash flows from operating activities:		
Receipts from customers and users	\$	205,972
Payments to suppliers		(65,634)
Payments to employees		(133,799)
Interfund activity		(6,539)
Net cash provided by operating activities		-
Increase (decrease) in cash		-
Cash, beginning of year		-
Cash, end of year		\$ -
 Reconciliation of operating gain to net cash provided by operating activities:		
Operating gain	\$	6,539
Adjustments to reconcile operating gain to net cash used in operating activities:		
Increase in interfund receivables		(6,539)
Net cash provided by operating activities		-

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Agency Funds	Private-purpose Trusts
	Student Activity Funds	School Department Scholarships
ASSETS		
Cash and cash equivalents	\$ 151,119	189,225
Total assets	151,119	189,225
LIABILITIES		
Due to student groups	151,119	-
Total liabilities	151,119	-
NET POSITION		
Held in trust	\$ -	189,225

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the year ended June 30, 2014

	Private-purpose Trusts
	School Department Scholarships
Additions	\$ 455
Deductions	-
Change in net position	455
Net position, beginning of year	188,770
Net position, end of year	\$ 189,225

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Notes to Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements.

B. Reporting Entity

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

C. Basis of Presentation – Government-wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

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

The government reports the following major governmental funds:

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

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

The *School Capital Improvements Fund* is used to account for major purchases by the school (school bus, telephone system), and building of schools.

The government reports the following major enterprise fund:

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

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Additionally, the Town reports the following fund type:

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

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

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

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

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

E. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

F. Cash and Investments

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

G. Interfund Loans Receivable/Payable

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

H. Inventory

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

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

I. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government are depreciated using the straight-line method over the assets' estimated useful lives ranging from 3 to 50 years.

J. Deferred Outflows/Inflows of Resources

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

K. Compensated Absences

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

L. Long-term Obligations

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

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

M. Encumbrances

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

N. Use of Estimates

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

O. Fund Equity

GASB 54 paragraph 27 requires governments that have formally adopted a fund balance policy to disclose the policy that sets forth the minimum fund balance amount. It is the intent of the Town to maintain a minimum fund balance of one month, 8.33%, of operating expenditures with a targeted balance of two months or 16.66%. The maximum fund balance is not to exceed 25% of the operating expenditures. Any amount in excess of 25% is to be appropriated to reserve accounts for use on future, specific projects. The Town Council may recommend transfers to the Town that would reduce the balance below 25%, but no transfers shall be made that would reduce the balance to less than 8.33%. Governmental Fund balance is reported in five classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which those funds can be spent. The five classifications of fund balance for the Governmental Funds are as follows:

- *Nonspendable* – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.
- *Restricted* – resources with constraints placed on the use of resources which are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or; b) imposed by law through constitutional provisions or enabling legislation.
- *Committed* – resources which are subject to limitations the government imposes on itself at its highest level of decision making authority, and that remain binding unless removed in the same manner.
- *Assigned* – resources that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.
- *Unassigned* – resources which have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The voters have the responsibility for committing fund balance amounts and likewise would be required to modify or rescind those commitments. For assigned fund balance, management determines amounts carried forward for uncompleted projects authorized by the voters at Town Meetings for specific purposes in the General Fund at year-end based on Department requests.

When both restricted and unrestricted resources are available for use, it is the government's practice to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned and unassigned resources are available for use, it is the government's practice to use committed or assigned resources first, and then unassigned resources, as they are needed.

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

A budget is adopted for the General Fund only, and is adopted on a basis consistent with generally accepted accounting principles (GAAP), except for encumbrances and Maine Public Employees Retirement on-behalf payments. Maine Public Employees Retirement contributions are made by the State of Maine on behalf of the School Department. These amounts have not been budgeted in the General Fund and result in a difference in reporting on a budgetary basis of accounting vs. reporting under accounting principles generally accepted in the United States of America of \$848,757. These amounts have been included as revenue and expenditures in the General Fund on Statement 4 (GAAP basis) and on the Statement of Activities. There is no effect on the fund balance or net position at the end of the year.

Through June 30, 2014, the Town did not budget for expenditures related to summer salaries and benefits for teachers on an accrual basis.

B. Deficit Fund Balance

For the year ended June 30, 2014, the following funds had a deficit fund balances:

Pre-K Local Entitlement	\$ 1,192
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These deficits are expected to be funded by future revenues or transfers from the General Fund.

C. Excess of Expenditures over Appropriations

For the year ended June 30, 2014, expenditures exceeded appropriations for the following:

Recreation and social services	\$ 666
Economic development	22,414
Tax increment financing	942
Municipal unemployment	5,479
Legal liability	26
Planning and maintenance	10,365
Credit reserve	38
Jackson Beach	43,405

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

CASH AND INVESTMENTS

A. Deposits

Custodial Credit Risk-Town Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2014, the Town reported deposits of \$1,435,930 with a bank balance of \$1,931,029. Of the Town's bank balances of \$1,931,029, none was exposed to custodial credit risk. The entire bank balance was covered by the F.D.I.C. or by additional insurance purchased on behalf of the Town by the respective banking institutions.

Deposits have been reported as follows:

Reported in governmental funds	\$ 1,095,586
Reported in fiduciary funds	340,344
Total deposits	\$ 1,435,930

B. Investments

At June 30, 2014, the Town had the following investments and maturities:

		<u>Fair value</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>
U. S. Government securities	\$	1,376,205	772,803	603,402	-
Repurchase agreements		4,861,475	4,861,475	-	-
Money Market		2,568,278	N/A	-	-
Total investments	\$	8,805,958	5,634,278	603,402	-

Investments have been reported as follows:

Reported in Governmental Funds	\$ 8,805,958
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Credit Risk: Maine statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and certain corporate stocks and bonds. As of June 30, 2014, all of the Town's investments were rated, at a minimum, AA+ by Standard & Poor's. The Town's policy is to invest in legally authorized investments under 30A MRSA section 5706.

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

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

PROPERTY TAX

Property taxes for the current period were committed on August 29, 2013, on the assessed value listed as of April 1, 2013, for all real and personal property located in the Town. Payment of taxes was due on April 1, 2014. Interest at the rate of 7% per annum was charged on any amounts remaining unpaid after this date.

The Town is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$57,434 for the period ended June 30, 2014.

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

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

The following summarizes the period ended June 30, 2014 levy:

	<u>2014</u>
Assessed value	\$ 460,931,200
<u>Tax rate (per \$1,000)</u>	<u>11.91</u>
Commitment	5,489,691
<u>Supplemental taxes assessed</u>	<u>6,260</u>
	5,495,951
Less:	
<u>Collections and abatements</u>	<u>5,231,347</u>
<u>Receivable at June 30, 2014</u>	<u>\$ 264,604</u>
Due date	April 1, 2014
Interest rate on delinquent taxes	7.0%
Collection rate	95.19%

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance June 30, <u>2013</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2014</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 128,572	-	-	128,572
Construction in progress	13,444	48,155	-	61,599
Total capital assets, not being depreciated	142,016	48,155	-	190,171
Capital assets, being depreciated:				
Buildings and building improvements	19,360,025	168,190	-	19,528,215
Equipment, furniture and fixtures	2,202,087	34,145	-	2,236,232
Vehicles	1,961,265	66,549	184,598	1,843,216
Total capital assets being depreciated	23,523,377	268,884	184,598	23,607,663
Less accumulated depreciation for:				
Buildings and building improvements	7,152,009	515,332	-	7,667,341
Equipment, furniture and fixtures	1,315,106	128,893	-	1,443,999
Vehicles	1,227,855	101,513	177,072	1,152,296
Total accumulated depreciation	9,694,970	745,738	177,072	10,263,636
Total capital assets being depreciated, net	13,828,407	(476,854)	(7,526)	13,344,027
Governmental activities capital assets, net	\$ 13,970,423	(428,699)	(7,526)	13,534,198

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

Governmental activities:	
General government	\$ 27,761
Public safety	82,631
Public works	26,269
Education	600,188
Unclassified	8,889
Total depreciation expense – governmental activities	\$ 745,738

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

INTERFUND BALANCES

Individual interfund receivables and payables at June 30, 2014 were as follows:

	<u>Interfund receivables</u>	<u>Interfund payables</u>
<u>General Fund</u>	<u>\$ 389,730</u>	<u>-</u>
<u>Highway Capital Reserve</u>	<u>-</u>	<u>205,763</u>
Nonmajor special revenue funds:		
Adult Education	15,837	-
Best Buy Media Center	7,000	-
Title 1A	-	45,327
Local Entitlement	-	138,304
ARRA Marti	250	-
Pre-K Local Entitlement	-	2,816
Ticket to Ride	798	-
School Lunch Fund	-	22,093
Comp Grant	7,550	-
Library Grant	4,607	-
Bangor Wellness Grant	3,000	-
Maine Forest Service Grants	2,411	-
Cemetery Reserve	-	38,285
Veterans Memorial Park	-	251
Jackson Beach	-	2,250
Medical Reimbursement	-	1,430
<u>Total nonmajor special revenue funds</u>	<u>41,453</u>	<u>250,756</u>
Nonmajor capital project funds:		
Public Works Facilities	-	46,570
Recreation Facilities	-	7,890
Municipal Building	-	5,615
Sewer Maintenance	-	4,500
Fire Station Reserve	-	1,952
<u>Total nonmajor capital project fund</u>	<u>-</u>	<u>66,527</u>
<u>Recreation Department</u>	<u>91,863</u>	<u>-</u>
<u>Totals</u>	<u>\$ 523,046</u>	<u>523,046</u>

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

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

INTERFUND TRANSFERS

Individual fund transfers for the year ended June 30, 2014 were as follows:

	<u>Transfers in</u>	<u>Transfers out</u>
<u>General Fund</u>	\$ -	282,779
<u>Highway Capital Reserve</u>	75,000	-
<u>School Capital Improvements</u>	8,000	-
Nonmajor special revenue funds:		
School Lunch Fund	27,000	-
Indian Fire Pumps	3,279	-
<u>Cemetery Reserve</u>	58,500	-
<u>Total nonmajor special revenue funds</u>	88,779	-
Nonmajor capital project funds:		
Public Works Facilities	45,000	-
Recreation Facilities	22,500	-
Municipal Building	5,000	-
Sewer Maintenance	28,500	-
<u>Fire Station Reserve</u>	10,000	-
<u>Total nonmajor capital project funds</u>	111,000	-
<u>Totals</u>	\$ 282,779	282,779

These transfers were budgeted transfers to fund certain activities.

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2014 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
Bonds payable	\$ 4,332,448	-	1,094,905	3,237,543	567,313
Capital leases payable	54,193	98,399	75,804	76,788	23,010
<u>Accrued compensated absences</u>	61,324	47,892	61,324	47,892	-
Governmental activities					
<u>long-term liabilities</u>	<u>\$ 4,447,965</u>	<u>146,291</u>	<u>1,232,033</u>	<u>3,362,223</u>	<u>590,323</u>

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

LONG-TERM DEBT

Bonds and Notes Payable

Long-term debt payable at June 30, 2014 is comprised of the following:

	<u>Amount of Original issue</u>	<u>Interest rate</u>	<u>Final maturity date</u>	<u>Balance end of year</u>
<u>General obligation bonds</u>				
1998 Sewer construction	\$ 1,798,000	4.13-4.83%	November 1, 2018	449,500
2005 School construction	3,879,000	3.88%-4.00%	November 1, 2019	2,640,000
2007 School construction	953,604(a)	0%	December 1, 2016	90,945
2009 Billings Road Improvement	900,000	2.97%	July 10, 2014	57,098
Total				\$ 3,237,543

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

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

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total debt service</u>
2015	\$ 567,313	117,645	684,958
2016	530,215	96,988	627,203
2017	550,215	75,849	626,064
2018	539,900	53,909	593,809
2019	559,900	31,170	591,070
2020-2024	490,000	9,800	499,800
Totals	\$ 3,237,543	385,361	3,622,904

CAPITAL LEASES

The Town has entered into lease agreements as a lessee for the financing of photocopiers and a truck. These obligations have been recorded in the entity-wide financial statements at the present value of future minimum lease payments. The following is a summary of equipment leased under capital lease agreements by the Town as of June 30, 2014:

Photocopiers (Town)	\$ 5,609
Photocopiers (School)	76,040
Truck (School)	22,359

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

CAPITAL LEASES, CONTINUED

The following is a schedule of the future minimum lease payments under the capital leases, and the present value of the net minimum lease payments at June 30, 2014:

Year ended	
<u>June 30,</u>	
2015	\$ 24,907
2016	24,485
2017	16,120
<u>2018</u>	<u>16,119</u>
Total minimum lease payments	81,631
<u>Less amounts representing interest</u>	<u>(4,843)</u>
Present value of future minimum	
<u>lease payments</u>	<u>\$ 76,788</u>

STATUTORY DEBT LIMIT

In accordance with 30 MRSA, Section 5061, as amended, no municipality shall incur debt for specified purposes in excess of certain percentages of state valuation of such municipality. Additionally, no municipality shall incur debt in the aggregate in excess of 15% of its state assessed valuation. At June 30, 2014, the Town's outstanding debt did not exceed these limits.

RISK MANAGEMENT

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

Based on the coverage provided by these pools, as well as coverage provided by commercial insurance purchased, the Town is not aware of any material actual or potential claim liabilities which should be recorded at June 30, 2014.

FUND BALANCES

The General Fund unassigned fund balance total of \$2,943,841 represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund. Unassigned fund balances totaling (\$7,592) are also reported for several special revenue funds that have negative fund balances as of June 30, 2014, as shown on Statement 3.

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

FUND BALANCES, CONTINUED

As of June 30, 2014, fund balance components consisted of the following:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Assigned</u>
General fund:			
Nonspendable - inventory	\$ 5,264	-	-
Nonspendable – prepaid expenditures	4,787		
Restricted for education	-	2,900,686	-
Restricted for Tax Increment Financing	-	565,545	-
Assigned for:			
Reappropriated to the 2015 budget	-	-	300,000
Police equipment	-	-	22,092
Municipal unemployment	-	-	13,608
Legal liability	-	-	48,775
Fire equipment	-	-	324,315
Public land acquisition	-	-	19,410
Planning and ordinance	-	-	67,032
Credit reserve	-	-	70,992
Economic development	-	-	114,508
Fire station repair/maintenance	-	-	2,196
Technology	-	-	19,491
Bicentennial	-	-	21,080
Transfer station	-	-	10,217
Total general fund	10,051	3,466,231	1,033,716
Highway Capital Reserve	-	-	18,384
School Capital Improvements	-	-	858,212
Other governmental funds:			
Inventory	8,417	-	-
Grants and other purposes	-	119,426	-
Capital outlay	-	-	1,108,625
Permanent funds - principal	7,785	-	-
Permanent funds – unexpended income	-	222	-
Total other governmental funds	16,202	119,648	1,108,625
Grand totals	\$ 26,253	3,585,879	3,018,937

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

EMPLOYEE RETIREMENT SYSTEMS

Maine Public Employees Retirement - Teachers Group

Description of Plan - All school teachers, plus other qualified educators, participate in the Maine Public Employees Retirement System (MainePERS) teacher's group. The teacher's group is a cost-sharing plan with a special funding situation, established by the Maine State legislature. The MainePERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Maine Legislature establishes and amends benefit provisions. The MainePERS issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Group. That report may be obtained by writing to MainePERS, 46 State House Station, Augusta, Maine 04333-0046 or by calling 1-800-451-9800.

Funding Policy - Plan members are required to contribute 7.65% of their compensation to the retirement system. The State of Maine Department of Education is required to contribute the unfunded actuarial liability portion of the employer contribution rate (13.03%) and the health and benefits component (2.33%) for a total of 15.36%. This amounted to \$848,757 for the fiscal year 2014. This amount has been reported as an intergovernmental revenue and education expense/expenditure in the GAAP basis financial statements (Statement 2 and 4). The School Unit is required to contribute the normal cost of the employer contribution which amounts to 2.65% of their compensation. The School Unit is required to contribute the entire amount of the employer contribution for federally funded teachers, for which the School Unit contributed 18.48%. This cost is charged to the applicable grant.

DEFERRED COMPENSATION PLAN

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

Assets of the plan are placed in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets are not included in the Town's financial statements.

JOINT VENTURE

The Town is a member of a non-profit corporation, the Municipal Review Committee, Inc. (MRC), whose mission is to ensure the continuing availability of long-term, reliable, safe, and environmentally-sound methods of solid waste disposal. The Town's proportionate interest in the net position of the MRC on December 31, 2013, the date of MRC's most recent audited financial statements, was \$591,518 (1.71%). Complete financial statements may be obtained from the MRC at 40 Harlow Street, Bangor, ME 04401.

As of December 31, 2013, the MRC in turn owned 25.52% of the limited partnership interests in Penobscot Energy Recovery Company (PERC). Allocation of PERC ownership interests among the members of the MRC is based upon their respective shares of cumulative performance credits and other cash flows and reserves. At June 30, 2014, the Town's proportionate interest in PERC was 0.44%.

GENERAL FUND

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

TOWN OF HERMON, MAINE
Balance Sheet - General Fund
June 30, 2014

	2014
ASSETS	
Cash and cash equivalents	\$ 1,041,205
Investments	6,465,461
Receivables:	
Taxes receivable - current year	264,604
Taxes receivable - prior years	72,246
Tax liens - prior years	66,698
Tax acquired property	3,202
Accounts receivable	524,707
Inventory	5,264
Interfund loans receivables	389,730
Prepaid expenditures	4,787
Total assets	\$ 8,837,904
LIABILITIES	
Accounts payable	160,449
Accrued payroll and benefits	905,220
Prepaid taxes	4,333
Other liabilities	58,750
Total liabilities	1,128,752
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	255,313
Total deferred inflows of resources	255,313
FUND BALANCE	
Nonspendable - inventory	5,264
Nonspendable - prepaid expenditures	4,787
Restricted for education	2,900,686
Restricted for TIF	565,545
Assigned - Town	1,033,716
Unassigned - Town	2,943,841
Total fund balance	7,453,839
Total liabilities, deferred inflows of resources, and fund balances	\$ 8,837,904

TOWN OF HERMON, MAINE
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - Budgetary Basis
For the year ended June 30, 2014

	2014		Variance positive (negative)
	Budget	Actual	
Revenues:			
Taxes:			
Property taxes	\$ 5,064,333	5,281,477	217,144
Tax Increment Financing revenue	467,595	279,095	(188,500)
Excise taxes	2,105,750	2,657,199	551,449
Interest on taxes	30,000	37,763	7,763
Total taxes	7,667,678	8,255,534	587,856
Intergovernmental:			
State education subsidy	5,365,076	5,450,212	85,136
State agency client	30,000	83,814	53,814
Homestead reimbursement	94,744	98,012	3,268
BETE reimbursement	163,982	164,170	188
Medicaid reimbursements	5,000	16,752	11,752
State revenue sharing	170,000	171,199	1,199
General assistance	7,500	1,528	(5,972)
Snowmobile reimbursement	2,500	2,522	22
URIP funds	65,196	68,468	3,272
Total intergovernmental	5,903,998	6,056,677	152,679
Licenses and permits:			
Vehicle registration fees	28,000	30,562	2,562
Animal control fees	1,800	1,883	83
Planning/zoning fees	2,000	535	(1,465)
Plumbing fees	11,000	12,786	1,786
Building permits	9,000	9,478	478
Total licenses and permits	51,800	55,244	3,444

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

	2014		Variance positive (negative)
	Budget	Actual	
Revenues, continued:			
Charges for services:			
School tuition and fees	\$ 1,500,000	1,517,883	17,883
Solid waste and recycling	228,000	228,102	102
Public safety	7,000	10,796	3,796
Public works revenues	-	483	483
Recreation and social services	-	61	61
Wireless fees	9,000	10,516	1,516
Cable franchise	21,000	19,648	(1,352)
Cemetery maintenance	1,000	2,300	1,300
Sewer fees	500	-	(500)
Total charges for services	1,766,500	1,789,789	23,289
Interest earned	14,000	11,858	(2,142)
Total interest earned	14,000	11,858	(2,142)
Other revenues:			
School Department	325,873	523,818	197,945
Miscellaneous	17,600	49,151	31,551
Total other revenues	343,473	572,969	229,496
Total revenues	15,747,449	16,742,071	994,622

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

	2014		Variance positive (negative)
	Budget	Actual	
Expenditures:			
Current:			
General government:			
Administration	\$ 221,478	191,996	29,482
Town manager	99,265	98,250	1,015
Town clerk	41,083	40,860	223
Finance	76,287	76,108	179
Assessor	59,498	52,728	6,770
Code enforcement	52,277	51,969	308
Assistant clerks	94,650	92,861	1,789
Municipal building	19,742	18,392	1,350
Town office	9,610	7,310	2,300
Town council	15,480	13,194	2,286
Town boards	9,830	7,354	2,476
Other expenses	22,219	23,783	(1,564)
Total general government	721,419	674,805	46,614
Public safety:			
Police department	363,701	335,481	28,220
Fire department	289,810	270,547	19,263
Utilities	82,677	84,482	(1,805)
Total public safety	736,188	690,510	45,678
Public works:			
General	176,581	179,956	(3,375)
Roads	636,015	605,393	30,622
Town garage	2,660	3,581	(921)
Trucks/tractor	41,375	55,704	(14,329)
Salt shed/storage	2,465	1,732	733
Cemetery	32,632	28,116	4,516
Total public works	891,728	874,482	17,246

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

	2014		Variance positive (negative)
	Budget	Actual	
Expenditures, continued			
Current, continued:			
Solid waste:			
Landfill	\$ 93,730	53,173	40,557
House waste	447,950	430,095	17,855
Sewer	37,699	31,489	6,210
Total solid waste	579,379	514,757	64,622
Recreation and social services:			
Recreation	115,141	122,926	(7,785)
Social services	17,450	17,450	-
Library	8,500	5,056	3,444
Jackson Beach	4,245	570	3,675
Total recreation and social services	145,336	146,002	(666)
Unclassified:			
Economic development	72,095	94,509	(22,414)
County tax	530,862	530,862	-
General assistance	15,000	3,011	11,989
Tax increment financing	266,500	267,442	(942)
Wireless	100,000	100,000	-
Municipal unemployment	2,500	7,979	(5,479)
Legal liability	-	26	(26)
Planning and maintenance	500	10,865	(10,365)
Credit reserve	-	38	(38)
2014 Bicentennial Celebration	15,000	14,654	346
Overlay/abatements	-	6,000	(6,000)
Total unclassified	1,002,457	1,035,386	(32,929)

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

	2014		Variance positive (negative)
	Budget	Actual	
Expenditures, continued:			
Education:			
Regular instruction	\$ 5,046,352	4,892,691	153,661
Special education instruction	1,524,499	1,394,434	130,065
Career and technical education	154,721	154,720	1
Other instruction	357,700	335,539	22,161
Student and staff support	1,176,875	1,073,804	103,071
System administration	359,174	311,378	47,796
School administration	645,169	617,834	27,335
Transportation	567,660	507,047	60,613
Facilities maintenance	1,355,626	1,273,374	82,252
Debt service	899,948	899,948	-
Total education	12,087,724	11,460,769	626,955
Capital expenditures:			
Police equipment	45,500	28,964	16,536
Fire equipment	57,000	3,337	53,663
Land acquisition	1,500	10	1,490
Technology	2,500	9	2,491
Jackson Beach	2,500	45,905	(43,405)
Transfer station	10,500	289	10,211
Total capital expenditures	119,500	78,514	40,986
Debt service - Town only:			
Principal	314,840	314,840	-
Interest	30,146	29,466	680
Total debt service - Town	344,986	344,306	680
Total expenditures	16,628,717	15,819,531	809,186
Excess (deficiency) of revenues over (under) expenditures	(881,268)	922,540	1,803,808

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

	2014		Variance positive (negative)
	Budget	Actual	
Other financing sources (uses):			
Utilization of prior year surplus - School	\$ 736,325	-	(736,325)
Utilization of prior year surplus - Town	432,443	-	(432,443)
Transfers out:			
Transfer to capital project funds	(194,000)	(194,000)	-
Transfer to special revenue funds	(93,500)	(88,779)	4,721
Total other financing sources (uses)	881,268	(282,779)	(1,164,047)
Net change in fund balances, budgetary basis	-	639,761	639,761
Fund balance, beginning of year (budgetary basis)		7,625,465	
Fund balance, end of year (budgetary basis)		8,265,226	
Reconciliation to GAAP:			
Less accrued summer salaries		(811,387)	
Fund balance, end of year (GAAP basis)		\$ 7,453,839	

ALL OTHER GOVERNMENTAL FUNDS

TOWN OF HERMON, MAINE
Combining Balance Sheet
All Other Governmental Funds
June 30, 2014

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Other Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 46,374	-	8,007	54,381
Investments	82,986	1,175,152	-	1,258,138
Accounts receivable	196,043	-	-	196,043
Inventory	8,417	-	-	8,417
Interfund loans receivable	41,453	-	-	41,453
Total assets	\$ 375,273	1,175,152	8,007	1,558,432
LIABILITIES				
Accounts payable	920	-	-	920
Accrued payroll and benefits	3,346	-	-	3,346
Interfund loans payable	250,756	66,527	-	317,283
Total liabilities	255,022	66,527	-	321,549
FUND BALANCES				
Nonspendable:				
Inventory	8,417	-	-	8,417
Nonexpendable principal	-	-	7,785	7,785
Restricted	119,426	-	222	119,648
Assigned	-	1,108,625	-	1,108,625
Unassigned	(7,592)	-	-	(7,592)
Total fund balances	120,251	1,108,625	8,007	1,236,883
Total liabilities and fund balances	\$ 375,273	1,175,152	8,007	1,558,432

TOWN OF HERMON, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
All Other Governmental Funds
For the year ended June 30, 2014

	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total Other Governmental Funds
Revenues:				
Intergovernmental	\$ 532,505	-	-	532,505
Investment income	201	5,848	80	6,129
Other	270,015	5,000	-	275,015
Total revenues	802,721	10,848	80	813,649
Expenditures:				
Current:				
Grants and other special uses	796,015	-	-	796,015
Capital outlay	41,541	60,277	-	101,818
Bank charges	-	579	-	579
Total expenditures	837,556	60,856	-	898,412
Excess (deficiency) of revenues over (under) expenditures	(34,835)	(50,008)	80	(84,763)
Other financing sources:				
Transfer from other funds	88,779	111,000	-	199,779
Total other financing sources	88,779	111,000	-	199,779
Net change in fund balances	53,944	60,992	80	115,016
Fund balances, beginning of year	66,307	1,047,633	7,927	1,121,867
Fund balances, end of year	\$ 120,251	1,108,625	8,007	1,236,883

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

TOWN OF HERMON, MAINE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2014

	Adult Education	Best Buy Media Center	Title IIA	Title 1A	Local Entitlement	Pre-K Local Entitlement	ARRA MARTI
ASSETS							
Cash and cash equivalents	\$ -	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Accounts receivable	-	-	-	45,327	138,304	1,624	-
Inventory	-	-	-	-	-	-	-
Interfund loans receivable	15,837	7,000	-	-	-	-	250
Total assets	\$ 15,837	7,000	-	45,327	138,304	1,624	250
LIABILITIES							
Accounts payable	-	-	-	-	-	-	-
Accrued payroll and benefits	-	-	-	-	-	-	-
Interfund loans payable	-	-	-	45,327	138,304	2,816	-
Total liabilities	-	-	-	45,327	138,304	2,816	-
FUND BALANCES (DEFICITS)							
Nonspendable:							
Inventory	-	-	-	-	-	-	-
Restricted	15,837	7,000	-	-	-	-	250
Unassigned	-	-	-	-	-	(1,192)	-
Total fund balances (deficits)	15,837	7,000	-	-	-	(1,192)	250
Total liabilities and fund balances	\$ 15,837	7,000	-	45,327	138,304	1,624	250

TOWN OF HERMON, MAINE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2014

	Ticket to Ride Grant	School Lunch Fund	Comp. Grant	Library Grant	Indian Fire Pumps	Bangor Wellness Grant	Transition Grant
ASSETS							
Cash and cash equivalents	\$ -	11,368	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Accounts receivable	-	7,671	-	-	-	-	-
Inventory	-	8,417	-	-	-	-	-
Interfund loans receivable	798	-	7,550	4,607	-	3,000	-
Total assets	\$ 798	27,456	7,550	4,607	-	3,000	-
LIABILITIES							
Accounts payable	-	-	-	920	-	-	-
Accrued payroll and benefits	-	3,346	-	-	-	-	-
Interfund loans payable	-	22,093	-	-	-	-	-
Total liabilities	-	25,439	-	920	-	-	-
FUND BALANCES (DEFICITS)							
Nonspendable:							
Inventory	-	8,417	-	-	-	-	-
Restricted	798	-	7,550	3,687	-	3,000	-
Unassigned	-	(6,400)	-	-	-	-	-
Total fund balances (deficits)	798	2,017	7,550	3,687	-	3,000	-
Total liabilities and fund balances	\$ 798	27,456	7,550	4,607	-	3,000	-

TOWN OF HERMON, MAINE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2014

		Maine Forest							
	\$	Service Grants	MMA Grants	Cemetery Reserve	Veterans Memorial Park	Medical Reimbursement	Athletic Complex	Jackson Beach Grant	Totals
ASSETS									
Cash and cash equivalents	\$	-	-	-	4,222	4,170	26,614	-	46,374
Investments		-	-	82,986	-	-	-	-	82,986
Accounts receivable		867	-	-	-	-	-	2,250	196,043
Inventory		-	-	-	-	-	-	-	8,417
Interfund loans receivable		2,411	-	-	-	-	-	-	41,453
Total assets	\$	3,278	-	82,986	4,222	4,170	26,614	2,250	375,273
LIABILITIES									
Accounts payable		-	-	-	-	-	-	-	920
Accrued payroll and benefits		-	-	-	-	-	-	-	3,346
Interfund loans payable		-	-	38,285	251	1,430	-	2,250	250,756
Total liabilities		-	-	38,285	251	1,430	-	2,250	255,022
FUND BALANCES (DEFICITS)									
Nonspendable:									
Inventory		-	-	-	-	-	-	-	8,417
Restricted		3,278	-	44,701	3,971	2,740	26,614	-	119,426
Unassigned		-	-	-	-	-	-	-	(7,592)
Total fund balances (deficits)		3,278	-	44,701	3,971	2,740	26,614	-	120,251
Total liabilities and fund balances	\$	3,278	-	82,986	4,222	4,170	26,614	2,250	375,273

TOWN OF HERMON, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the year ended June 30, 2014

	Adult Education	Best Buy Media Center	Title IIA	Title 1A	Local Entitlement	Pre-K Local Entitlement	ARRA MARTI
Revenues:							
Intergovernmental	\$ 2,865	-	36,064	124,602	232,216	1,624	-
Other	-	7,000	-	-	-	-	-
Investment income	-	-	-	-	-	-	-
Total revenues	2,865	7,000	36,064	124,602	232,216	1,624	-
Expenditures:							
Current:							
Grants and other special uses	2,657	-	36,064	124,602	232,216	2,816	-
Capital outlay	-	-	-	-	-	-	-
Total expenditures	2,657	-	36,064	124,602	232,216	2,816	-
Excess (deficiency) of revenues over (under) expenditures	208	7,000	-	-	-	(1,192)	-
Other financing sources:							
Transfer from other funds	-	-	-	-	-	-	-
Total other financing sources	-	-	-	-	-	-	-
Net change in fund balances	208	7,000	-	-	-	(1,192)	-
Fund balances (deficits), beginning of year	15,629	-	-	-	-	-	250
Fund balances (deficits), end of year	\$ 15,837	7,000	-	-	-	(1,192)	250

TOWN OF HERMON, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the year ended June 30, 2014

	Ticket to Ride Grant	School Lunch Fund	Comp. Grant	Library Grant	Indian Fire Pumps	Bangor Wellness Grant	Transition Grant
Revenues:							
Intergovernmental	\$ 230	118,859	-	-	-	3,000	8,961
Other	-	232,417	-	-	-	-	-
Investment income	-	-	-	-	-	-	-
Total revenues	230	351,276	-	-	-	3,000	8,961
Expenditures:							
Current:							
Grants and other special uses	-	372,575	-	2,369	-	-	8,961
Capital outlay	-	-	-	-	-	-	-
Total expenditures	-	372,575	-	2,369	-	-	8,961
Excess (deficiency) of revenues over (under) expenditures	230	(21,299)	-	(2,369)	-	3,000	-
Other financing sources:							
Transfer from other funds	-	27,000	-	-	3,279	-	-
Total other financing sources	-	27,000	-	-	3,279	-	-
Net change in fund balances	230	5,701	-	(2,369)	3,279	3,000	-
Fund balances (deficits), beginning of year	568	(3,684)	7,550	6,056	(3,279)	-	-
Fund balances (deficits), end of year	\$ 798	2,017	7,550	3,687	-	3,000	-

TOWN OF HERMON, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the year ended June 30, 2014

	Maine Forest								
	Service Grants	MMA Grants	Cemetery Reserve	Veterans Park	Medical Reimbursement	Athletic Complex	Jackson Beach Grant	Totals	
Revenues:									
Intergovernmental	\$ 1,834	-	-	-	-	-	2,250	532,505	
Other	-	1,808	600	-	8,718	19,472	-	270,015	
Investment income	-	-	165	4	10	22	-	201	
Total revenues	1,834	1,808	765	4	8,728	19,494	2,250	802,721	
Expenditures:									
Current:									
Grants and other special uses	1,834	1,852	-	-	7,819	-	2,250	796,015	
Capital outlay	-	-	38,454	251	-	2,836	-	41,541	
Total expenditures	1,834	1,852	38,454	251	7,819	2,836	2,250	837,556	
Excess (deficiency) of revenues over (under) expenditures	-	(44)	(37,689)	(247)	909	16,658	-	(34,835)	
Other financing sources:									
Transfer from other funds	-	-	58,500	-	-	-	-	88,779	
Total other financing sources	-	-	58,500	-	-	-	-	88,779	
Net change in fund balances	-	(44)	20,811	(247)	909	16,658	-	53,944	
Fund balances (deficits), beginning of year	3,278	44	23,890	4,218	1,831	9,956	-	66,307	
Fund balances (deficits), end of year	\$ 3,278	-	44,701	3,971	2,740	26,614	-	120,251	

NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECT FUNDS

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

TOWN OF HERMON, MAINE
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2014

	Public Works Facilities	Recreation Facilities	Municipal Building	Sewer Maintenance	Fire Station Reserve	Totals
ASSETS						
Investments	\$ 194,847	348,181	27,055	548,813	56,256	1,175,152
Total assets	\$ 194,847	348,181	27,055	548,813	56,256	1,175,152
LIABILITIES						
Interfund loans payable	46,570	7,890	5,615	4,500	1,952	66,527
Total liabilities	46,570	7,890	5,615	4,500	1,952	66,527
FUND BALANCES						
Assigned	148,277	340,291	21,440	544,313	54,304	1,108,625
Total fund balances	148,277	340,291	21,440	544,313	54,304	1,108,625
Total liabilities and fund balances	\$ 194,847	348,181	27,055	548,813	56,256	1,175,152

TOWN OF HERMON, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Project Funds
For the year ended June 30, 2014

	Public Works Facilities	Recreation Facilities	Municipal Building	Sewer Maintenance	Fire Station Reserve	Totals
Revenues:						
Other	\$ -	-	-	5,000	-	5,000
Investment income	844	1,792	123	2,831	258	5,848
Total revenues	844	1,792	123	7,831	258	10,848
Expenditures:						
Capital outlay	46,571	6,139	5,615	-	1,952	60,277
Bank charges	85	177	12	279	26	579
Total expenditures	46,656	6,316	5,627	279	1,978	60,856
Excess (deficiency) of revenues over (under) expenditures	(45,812)	(4,524)	(5,504)	7,552	(1,720)	(50,008)
Other financing sources:						
Transfer from other funds	45,000	22,500	5,000	28,500	10,000	111,000
Total other financing sources	45,000	22,500	5,000	28,500	10,000	111,000
Net change in fund balances	(812)	17,976	(504)	36,052	8,280	60,992
Fund balances, beginning of year	149,089	322,315	21,944	508,261	46,024	1,047,633
Fund balances, end of year	\$ 148,277	340,291	21,440	544,313	54,304	1,108,625

NONMAJOR GOVERNMENTAL FUNDS

PERMANENT FUNDS

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

TOWN OF HERMON, MAINE
Combining Balance Sheet
Nonmajor Permanent Funds
June 30, 2014

	Pike	Nowell	Totals
ASSETS			
Cash and cash equivalents	\$ 6,929	1,078	8,007
Total assets	\$ 6,929	1,078	8,007
LIABILITIES			
Interfund loans payable	-	-	-
Total liabilities	-	-	-
FUND BALANCES			
Nonspendable			
Nonexpendable principal	6,785	1,000	7,785
Restricted	144	78	222
Total fund balances	6,929	1,078	8,007
Total liabilities and fund balances	\$ 6,929	1,078	8,007

TOWN OF HERMON, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Permanent Funds
For the year ended June 30, 2014

	Pike	Nowell	Totals
Revenues:			
Investment income	\$ 79	1	80
Total revenues	79	1	80
Expenditures:			
Current:			
Other	-	-	-
Total expenditures	-	-	-
Net change in fund balances	79	1	80
Fund balances, beginning of year	6,850	1,077	7,927
Fund balances, end of year	\$ 6,929	1,078	8,007

SCHEDULE

TOWN OF HERMON, MAINE
School Department - General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - Budgetary Basis
For the year ended June 30, 2014

	2014		Variance positive (negative)
	Budget	Actual	
Revenues:			
State education subsidy	\$ 5,365,076	5,450,212	85,136
State agency client	30,000	83,814	53,814
Tuition and fees	1,500,000	1,517,883	17,883
Medicaid reimbursements	5,000	16,752	11,752
Other revenues	325,873	523,818	197,945
Total revenues	7,225,949	7,592,479	366,530
Expenditures:			
Regular instruction	5,046,352	4,892,691	153,661
Special education instruction	1,524,499	1,394,434	130,065
Career and technical education	154,721	154,720	1
Other instruction	357,700	335,539	22,161
Student and staff support	1,176,875	1,073,804	103,071
System administration	359,174	311,378	47,796
School administration	645,169	617,834	27,335
Transportation	567,660	507,047	60,613
Facilities maintenance	1,355,626	1,273,374	82,252
Debt service	899,948	899,948	-
Total expenditures	12,087,724	11,460,769	626,955
Other financing sources (uses):			
Town appropriation	4,160,450	4,160,450	-
Utilization of prior year surplus	736,325	-	(736,325)
Transfer to school lunch program	(35,000)	(27,000)	8,000
Total other financing sources	4,861,775	4,133,450	(728,325)
Net change in fund balance	-	265,160	265,160
Fund balance, beginning of year (budgetary basis)		3,446,913	
Fund balance, end of year (budgetary basis)		3,712,073	
Reconciliation to GAAP:			
Less accrued summer salaries		(811,387)	
Fund balance, end of year (GAAP basis)	\$	2,900,686	

