

Audited Financial Statements

Town of Newcastle, Maine

June 30, 2017



*Proven Expertise & Integrity*

TOWN OF NEWCASTLE, MAINE

CONTENTS

JUNE 30, 2017

	PAGE
INDEPENDENT AUDITORS' REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 11
<u>BASIC FINANCIAL STATEMENTS</u>	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT A - STATEMENT OF NET POSITION	12
STATEMENT B - STATEMENT OF ACTIVITIES	13 - 14
FUND FINANCIAL STATEMENTS	
STATEMENT C - BALANCE SHEET – GOVERNMENTAL FUNDS	15
STATEMENT D - RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	16
STATEMENT E - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	17
STATEMENT F - RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	18
NOTES TO FINANCIAL STATEMENTS	19 - 38
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
REQUIRED SUPPLEMENTARY INFORMATION DESCRIPTION	39
SCHEDULE 1 - BUDGETARY COMPARISON SCHEDULE – BUDGETARY BASIS – BUDGET AND ACTUAL – GENERAL FUND	40

OTHER SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTARY INFORMATION DESCRIPTION	41
SCHEDULE A - SCHEDULE OF DEPARTMENTAL OPERATIONS – GENERAL FUND	42 - 44
SCHEDULE B - COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS	45
SCHEDULE C - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS	46
SPECIAL REVENUE FUNDS DESCRIPTION	47
SCHEDULE D - COMBINING BALANCE SHEET – NONMAJOR SPECIAL REVENUE FUNDS	48
SCHEDULE E - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – NONMAJOR SPECIAL REVENUE FUNDS	49
CAPITAL PROJECTS FUNDS DESCRIPTION	50
SCHEDULE F - COMBINING BALANCE SHEET – NONMAJOR CAPITAL PROJECTS FUNDS	51
SCHEDULE G - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – NONMAJOR CAPITAL PROJECTS FUNDS	52
PERMANENT FUNDS DESCRIPTION	53
SCHEDULE H - COMBINING BALANCE SHEET – NONMAJOR PERMANENT FUNDS	54
SCHEDULE I - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – NONMAJOR PERMANENT FUNDS	55
GENERAL CAPITAL ASSETS DESCRIPTION	56
SCHEDULE J - SCHEDULE OF GENERAL CAPITAL ASSETS BY FUNCTION	57

SCHEDULE K - SCHEDULE OF CHANGES IN GENERAL CAPITAL ASSETS BY FUNCTION	58
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FEDERAL COMPLIANCE

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	59 - 60
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STATE COMPLIANCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	61
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	62
INDEPENDENT AUDITORS' REPORT ON STATE REQUIREMENTS	63
RECONCILIATION OF AUDIT ADJUSTMENTS TO ANNUAL FINANCIAL DATA SUBMITTED TO THE MEDMS FINANCIAL SYSTEM	64



*Proven Expertise and Integrity*  
INDEPENDENT AUDITORS' REPORT

Board of Selectmen  
Town of Newcastle  
Newcastle, Maine

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

### Opinions

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

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 40 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 Newcastle, Maine's basic financial statements. The Schedule of Departmental Operations – General Fund, combining and individual nonmajor fund financial statements and capital asset schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 20-A MRSA §6051, Sub-chapter 1(K) of the Maine Revised Statutes, as amended, and is also not a required part of the basic financial statements.

The Schedule of Departmental Operations – General Fund, combining and individual nonmajor fund financial statements, capital asset schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Departmental Operations – General Fund, combining and individual nonmajor fund financial statements capital asset schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2018, on our consideration of the Town of Newcastle, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Newcastle, Maine's internal control over financial reporting and compliance.

*RHR Smith & Company*

Buxton, Maine  
March 2, 2018

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

**(UNAUDITED)**

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

**Financial Statement Overview**

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

**Basic Financial Statements**

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

**Government-Wide Financial Statements**

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

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

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



Both of the above mentioned financial statements have one column for the Town's one type of activity. The type of activity presented for the Town of Newcastle, Maine is:

- *Governmental activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal and state grants). All of the Town's basic services are reported in governmental activities, which include general government, public safety, health and welfare, public works, education, and unclassified.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Newcastle, Maine, like other local governments uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. All of the funds of the Town of Newcastle, Maine are categorized as governmental funds.

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

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

The Town of Newcastle, Maine presents two columns in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and

changes in fund balances. The Town's major governmental fund is the general fund. All other funds are shown as nonmajor and are combined in the "Other Governmental Funds" column on these statements.

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

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

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and the Fund Financial Statements. The Notes to Financial Statements can be found following the Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.

### **Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information, which includes a Budgetary Comparison Schedule - Budgetary Basis - Budget and Actual - General Fund.

### **Other Supplementary Information**

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

### **Government-Wide Financial Analysis**

Our analysis below focuses on the net position, and changes in net position of the Town's governmental activities. The Town's total net position increased by \$315,618 from \$4,019,652 to \$4,335,270.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased to a balance of \$1,333,674.

**Table 1**  
**Town of Newcastle, Maine**  
**Net Position**  
**June 30,**

	<b>2017</b>	<b>2016 (Restated)</b>
<b>Assets:</b>		
Current Assets	\$ 1,908,321	\$ 1,627,704
Capital Assets	2,947,146	3,100,461
Total Assets	4,855,467	4,728,165
<b>Liabilities:</b>		
Current Liabilities	209,943	259,568
Long-term Debt Outstanding	235,227	372,727
Total Liabilities	445,170	632,295
<b>Deferred Inflows of Resources:</b>		
Prepaid taxes	75,027	76,218
Total Deferred Inflows of Resources	75,027	76,218
<b>Net Position:</b>		
Net Investment in Capital Assets	2,575,143	2,499,212
Restricted - Nonexpendable	110,038	108,037
Restricted:		
General Fund	258,386	233,461
Permanent Funds	58,029	44,565
Unrestricted	1,333,674	1,134,377
Total Net Position	\$ 4,335,270	\$ 4,019,652

**Revenues and Expenses**

Revenues for the Town's governmental activities increased by 3.41% while total expenses increased by 11.14%. Miscellaneous revenues experienced the largest increase while capital outlay, education and public works expenses experienced the largest increases.

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

	<u>2017</u>	<u>2016</u>
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for services	\$ 38,256	\$ 27,756
Operating grants and contributions	91,766	107,777
<i>General Revenues:</i>		
Property taxes	4,602,107	4,567,278
Excise taxes	398,257	370,340
Grants and contributions not restricted to specific programs	211,974	156,419
Miscellaneous	147,182	78,909
<b>Total Revenues</b>	<u>5,489,542</u>	<u>5,308,479</u>
<b>Expenses</b>		
General government	403,005	450,978
Public safety	282,330	178,594
Health and welfare	100,578	107,655
Public works	545,670	365,825
County tax	375,961	372,803
Education	3,117,143	2,929,353
Interest on long-term debt	19,273	30,831
Capital outlay	270,574	29,670
Unclassified	59,390	189,625
<b>Total Expenses</b>	<u>5,173,924</u>	<u>4,655,334</u>
Change in Net Position	315,618	653,145
Net Position - July 1, Restated	<u>4,019,652</u>	<u>3,366,507</u>
Net Position - June 30	<u>\$ 4,335,270</u>	<u>\$ 4,019,652</u>

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

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

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

	<u>2017</u>	<u>2016 (Restated)</u>
General Fund:		
Nonspendable	\$ 11,892	\$ 16,326
Restricted	258,386	233,461
Committed	-	49,612
Assigned	137,488	-
Unassigned	791,551	589,893
Total General Fund	<u>\$ 1,199,317</u>	<u>\$ 889,292</u>
Nonmajor Funds:		
Special Revenue Funds:		
Assigned	\$ 6,511	\$ 54,652
Capital Project Funds:		
Committed	98,066	146,531
Assigned	58,525	50,735
Permanent Funds:		
Nonspendable - principal	110,038	108,037
Restricted	58,029	44,565
Total Nonmajor Funds	<u>\$ 331,169</u>	<u>\$ 404,520</u>

The general fund total fund balance increased by \$310,025 from the prior fiscal period. The nonmajor fund balances decreased by \$73,351 from the prior fiscal period.

### Budgetary Highlights

The significant difference between the original and final budget for the general fund was due to the use of restricted and committed fund balances as well as the use of certain applied receipts.

The general fund actual revenues exceeded the budget by \$183,671. All revenue categories were over budget with the exception of property taxes and homestead exemption.

The general fund actual expenditures were under budget by \$363,665. All expenditure categories were under budget with the exception of public works.

## Capital Asset and Long-Term Debt Administration

### Capital Assets

As of June 30, 2017, the net book value of capital assets recorded by the Town decreased by \$153,315. This decrease was due to the current year depreciation expense of \$98,199 and net disposals of \$55,116.

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

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 131,165	\$ 131,165
Buildings and improvements	500,796	523,333
Equipment and vehicles	434,638	518,055
Infrastructure	<u>1,880,547</u>	<u>1,927,908</u>
Total	<u>\$ 2,947,146</u>	<u>\$ 3,100,461</u>

### Debt

At June 30, 2017, the Town had notes outstanding in the amount of \$363,554 versus \$590,675 last year. Other obligations include capital leases payable and accrued compensated absences. Refer to Note 5 of Notes to Financial Statements.

### Currently Known Facts, Decisions, or Conditions

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

The Town's unassigned fund balance is below a level sufficient to sustain government operations for a period of approximately two months, however the Town maintains reserves for future operations, capital and program needs. The Town is working to rebuild unassigned fund balance to a sufficient level.

To further promote and ensure the financial well-being and fiscal stability of the Town, Newcastle adopted a Fund Balance Policy in October of 2008. The Town's management designed the policy around maintaining an appropriate level of Unassigned Fund Balance with the intent to reduce the need for borrowing, protect and enhance the Town's Bond Rating and to provide the funds necessary to meet the Town's near-term operating obligations. The policy requires that a surplus minimum be maintained equal to 1/12<sup>th</sup> or 8% of the Town's General Fund Budget, but not to exceed 15%. At June 30, 2017, the Town maintained balances above the minimum level. The policy also includes a provision for the suggested utilization of excess funds on additional capital improvement needs and tax rate stabilization or reduction purposes.

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

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Office at 4 Pump Street, P.O. Box 386, Newcastle, Maine 04553-0386.

## STATEMENT A

## TOWN OF NEWCASTLE, MAINE

STATEMENT OF NET POSITION  
JUNE 30, 2017

	Governmental Activities
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 1,454,831
Investments	162,871
Accounts receivable (net of allowance for uncollectibles):	
Taxes	11,583
Liens	251,325
Other	118
Due from other governments	15,701
Tax acquired property	11,892
Total current assets	<u>1,908,321</u>
Noncurrent assets:	
Capital assets:	
Land and other assets not being depreciated	131,165
Infrastructure, buildings and vehicles net of accumulated depreciation	2,815,981
Total noncurrent assets	<u>2,947,146</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 4,855,467</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 20,188
Accrued payroll liabilities	8,148
Due to other governments	30,745
Current portion of long-term obligations	150,862
Total current liabilities	<u>209,943</u>
Noncurrent liabilities:	
Noncurrent portion of long-term obligations:	
Notes payable	229,000
Capital leases payable	6,227
Total noncurrent liabilities	<u>235,227</u>
<b>TOTAL LIABILITIES</b>	<u>445,170</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Prepaid taxes	75,027
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>75,027</u>
<b>NET POSITION</b>	
Net investment in capital assets	2,575,143
Restricted - nonexpendable	110,038
Restricted: General fund	258,386
Permanent funds	58,029
Unrestricted	1,333,674
<b>TOTAL NET POSITION</b>	<u>4,335,270</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u><u>\$ 4,855,467</u></u>

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



## TOWN OF NEWCASTLE, MAINE

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue & Changes in Net Position
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities
Governmental activities:					
General government	\$ 403,005	\$ 38,256	\$ -	\$ -	\$ (364,749)
Public safety	282,330	-	-	-	(282,330)
Health and welfare	100,578	-	-	-	(100,578)
Public works	545,670	-	38,004	-	(507,666)
County tax	375,961	-	-	-	(375,961)
Education	3,117,143	-	53,762	-	(3,063,381)
Interest on long-term debt	19,273	-	-	-	(19,273)
Capital outlay	270,574	-	-	-	(270,574)
Unclassified	59,390	-	-	-	(59,390)
Total government	<u>\$ 5,173,924</u>	<u>\$ 38,256</u>	<u>\$ 91,766</u>	<u>\$ -</u>	<u>(5,043,902)</u>

STATEMENT B (CONTINUED)  
TOWN OF NEWCASTLE, MAINE

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Governmental Activities</u>
Changes in net position:	
Net (expense) revenue	<u>(5,043,902)</u>
General revenues:	
Taxes:	
Property taxes, levied for general purposes	4,602,107
Excise taxes	398,257
Grants and contributions not restricted to specific programs	211,974
Miscellaneous	147,182
Total general revenues	<u>5,359,520</u>
Change in net position	315,618
NET POSITION - JULY 1, RESTATED	<u>4,019,652</u>
NET POSITION - JUNE 30	<u>\$ 4,335,270</u>

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

## TOWN OF NEWCASTLE, MAINE

BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2017

	General Fund	Other Governmental Funds	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,398,474	\$ 56,357	\$ 1,454,831
Investments	-	162,871	162,871
Accounts receivable (net of allowance for uncollectibles):			
Taxes	11,583	-	11,583
Liens	251,325	-	251,325
Other	118	-	118
Due from other governments	15,701	-	15,701
Tax acquired property	11,892	-	11,892
Due from other funds	450	112,391	112,841
<b>TOTAL ASSETS</b>	<b>\$ 1,689,543</b>	<b>\$ 331,619</b>	<b>\$ 2,021,162</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 20,188	\$ -	\$ 20,188
Accrued payroll liabilities	8,148	-	8,148
Due to other governments	30,745	-	30,745
Due to other funds	112,391	450	112,841
<b>TOTAL LIABILITIES</b>	<b>171,472</b>	<b>450</b>	<b>171,922</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid taxes	75,027	-	75,027
Deferred tax revenues	243,727	-	243,727
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>318,754</b>	<b>-</b>	<b>318,754</b>
<b>FUND BALANCES</b>			
Nonspendable	11,892	110,038	121,930
Restricted	258,386	58,029	316,415
Committed	-	98,066	98,066
Assigned	137,488	65,036	202,524
Unassigned	791,551	-	791,551
<b>TOTAL FUND BALANCES</b>	<b>1,199,317</b>	<b>331,169</b>	<b>1,530,486</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 1,689,543</b>	<b>\$ 331,619</b>	<b>\$ 2,021,162</b>

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

## TOWN OF NEWCASTLE, MAINE

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

	<u>Total Governmental Funds</u>
Total Fund Balances	\$ 1,530,486
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation	2,947,146
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds shown above:	
Taxes and liens receivable	243,727
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Notes payable	(363,554)
Capital leases payable	(8,449)
Accrued compensated absences	<u>(14,086)</u>
Net position of governmental activities	<u>\$ 4,335,270</u>

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

## TOWN OF NEWCASTLE, MAINE

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

	General Fund	Other Governmental Funds	Total
<b>REVENUES</b>			
Taxes:			
Property taxes	\$ 4,585,420	\$ -	\$ 4,585,420
Excise taxes	398,257	-	398,257
Intergovernmental	303,740	-	303,740
Charges for services	38,256	-	38,256
Miscellaneous revenues	65,906	81,276	147,182
<b>TOTAL REVENUES</b>	<b>5,391,579</b>	<b>81,276</b>	<b>5,472,855</b>
<b>EXPENDITURES</b>			
Current:			
General government	378,432	-	378,432
Public safety	245,674	-	245,674
Health and welfare	100,578	-	100,578
Public works	442,281	-	442,281
County tax	375,961	-	375,961
Education	3,117,143	-	3,117,143
Unclassified	54,250	4,894	59,144
Debt service:			
Principal	227,121	-	227,121
Interest	19,273	-	19,273
Capital outlay	-	270,574	270,574
<b>TOTAL EXPENDITURES</b>	<b>4,960,713</b>	<b>275,468</b>	<b>5,236,181</b>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<b>430,866</b>	<b>(194,192)</b>	<b>236,674</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	172,109	172,109
Transfers (out)	(120,841)	(51,268)	(172,109)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(120,841)</b>	<b>120,841</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>310,025</b>	<b>(73,351)</b>	<b>236,674</b>
<b>FUND BALANCES - JULY 1, RESTATED</b>	<b>889,292</b>	<b>404,520</b>	<b>1,293,812</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 1,199,317</b>	<b>\$ 331,169</b>	<b>\$ 1,530,486</b>

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

## TOWN OF NEWCASTLE, MAINE

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

Net change in fund balances - total governmental funds (Statement E)	<u>\$ 236,674</u>
Amounts reported for governmental activities in the Statement of Activities (Statement B) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense allocated to those expenditures over the life of the assets:	
Capital asset disposals	(55,116)
Depreciation expense	<u>(98,199)</u>
	<u>(153,315)</u>
Revenues in the Statement of Activities that do not provide current financial resources are not reported	
Taxes and liens receivable	<u>16,687</u>
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position	
	<u>229,246</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Accrued compensated absences	<u>(13,674)</u>
Change in net position of governmental activities (Statement B)	<u><u>\$ 315,618</u></u>

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

TOWN OF NEWCASTLE, MAINE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity**

The Town of Newcastle, Maine was incorporated under the laws of the State of Maine. The Town operates under the selectmen-town manager form of government and provides the following services: general government, public safety, health and sanitation, public works, education, and unclassified.

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

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

**Implementation of New Accounting Standards**

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

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

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

Statement No. 77, "*Tax Abatement Disclosures*". The objective of the Statement is to improve disclosure of information about the nature and magnitude of tax

TOWN OF NEWCASTLE, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

abatements, making these transactions more transparent to financial statement users. As such, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. Management has determined the impact of this Statement is not material to the financial statements.

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

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

Statement No. 82, "*Pension Issues*". The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting



TOWN OF NEWCASTLE, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Management has determined the impact of this Statement is not material to the financial statements.

**Government-Wide and Fund Financial Statements**

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

Both the government-wide and fund financial statements categorize primary activities as governmental. The Town categorizes all activities as governmental.

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

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

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

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

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

TOWN OF NEWCASTLE, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

1. Governmental Funds:

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

Major fund:

- a. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Nonmajor funds:

- b. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
- c. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities or equipment.
- d. Permanent Funds are used to account for assets held by the Town that are legally restricted pursuant to Title 30-A, §5653 of the Maine State Statutes, as amended, and unless otherwise specified, only earnings, and not principal, may be used for purposes that benefit the Town or its citizenry. The Town's policy for authorizing and spending investment income follows State statutes.

The emphasis in fund financial statements is on the major funds in the governmental activities category. Nonmajor funds by category are summarized into a single column, GASB Statement No. 34 sets forth minimum criteria (percentage of the

TOWN OF NEWCASTLE, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenses of either the fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in one column in the fund financial statements.

**Basis of Accounting**

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

1. Accrual

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

2. Modified Accrual

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

**Budget**

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

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

1. Early in the second half of the year the Town prepares a budget for the fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.

TOWN OF NEWCASTLE, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. A meeting of the inhabitants of the Town was called for the purpose of adopting the proposed budget after public notice of the meeting was given.
3. The budget was adopted subsequent to passage by the inhabitants of the Town.
4. The Town does not adopt budgets for Special Revenue Funds.

**Deposits and Investments**

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Town's investment policy requires collateralization of accounts and deposits only when exceeding an amount equal to 25% of capital, surplus and undivided profits as defined in M.S.R.A 30-A § 5706.

It is the Town's policy to value investments at fair value. None of the Town's investments are reported at amortized cost. The Town Treasurer is authorized by State Statutes to invest all excess funds in the following:

- Obligations of the U.S. Government, its agencies and instrumentalities.
- Certificates of deposits and other evidences of deposits at banks, savings and loan associations.
- Prime bankers acceptances
- Prime commercial papers
- Repurchase agreements whose underlying collateral consist of the foregoing
- Money market mutual funds whose portfolios consist of the foregoing

It is the policy of the Town of Newcastle Maine to invest public funds in a manner in which will provide safety of principal with a market rate of return while meeting the daily cash flow demands of the town, and conforming to all state and local statutes governing the investment of public funds.

**Receivables**

Receivables include amounts due from governmental agencies. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. Allowances are reported when accounts are proven to be uncollectible. Allowances for uncollectible accounts netted with accounts receivable were \$15,819 for the year ended June 30, 2017. The allowance for uncollectible amounts is estimated to be \$0 as of June 30, 2017.

TOWN OF NEWCASTLE, MAINE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Interfund Receivables and Payables**

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

**Transactions Between Funds**

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

**Capital Assets**

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

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

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

Estimated useful lives are as follows:

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

TOWN OF NEWCASTLE, MAINE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Long-term Obligations**

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

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

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

**Compensated Absences**

The Town's policies regarding vacation and sick time do permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred. As of June 30, 2017, the Town's liability for compensated absences is \$14,086.

**Net Position**

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

TOWN OF NEWCASTLE, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Fund Balance**

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

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

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

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

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

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

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

TOWN OF NEWCASTLE, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of financial position and/or balance sheet will at times report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town currently has no deferred outflows of resources.

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

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

The Town's property tax for the upcoming fiscal year was levied July 11, 2016 on the assessed value listed as of April 1, 2016, for all real and personal property located in the Town. Taxes were due on August 31, 2016 and March 31, 2017. Interest on unpaid taxes commenced on September 1, 2016 and April 1, 2017, at 3.5% per annum.

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

The Town is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$20,637 for the year ended June 30, 2017.

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



TOWN OF NEWCASTLE, MAINE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Program Revenues**

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

**Encumbrance Accounting**

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

**Use of Estimates**

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

NOTE 2 - DEPOSITS AND INVESTMENTS

The Town's investment policies, which follow state statutes, require that all investments be made in public funds in a manner which will provide safety of principal with a market rate of return while meeting the cash flow demands of the Town and conforming to all state statutes and local ordinances governing the investment of public funds. These investment policies apply to all Town funds.

**Deposits:**

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Town will not be able to recover its deposits. The Town does not have a policy covering custodial credit risk for deposits. However, the Town maintains deposits in qualifying financial institutions that are a member of the FDIC or NCUSIF as defined in Title 30-A, Section 5706 of the Maine Revised Statutes. At June 30, 2017, the Town's deposits of \$1,454,831 were comprised of bank deposits and cash equivalents of \$1,544,504. Of these bank deposits and cash equivalents, \$306,357 was insured by federal depository insurance. The remaining bank deposits of \$1,238,147 were collateralized with securities held by the financial institution in the Town's name.

TOWN OF NEWCASTLE, MAINE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

<u>Account Type</u>	<u>Bank Balance</u>
Municipal NOW accounts	\$ 1,488,147
Money market accounts	33,371
Savings accounts	4,299
Cash and cash equivalents	18,687
	\$ 1,544,504

**Investments:**

Custodial credit risk for investments is that, in the event of failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Currently, the Town does not have a policy for custodial credit risk for investments.

In accordance with its investment policy, the Town seeks to minimize custodial credit risk by doing business with authorized institutions, depositories and broker/dealers. As such, the Town's investments of \$162,871 were fully covered by the Securities Investor Protection Corporation (SIPC).

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

<u>Account Type</u>	<u>Fair Value</u>	<u>Not Applicable</u>	<u>Less than 1 Year</u>	<u>1-5 Years</u>
Equity Securities:				
Common Stock:				
Domestic	\$ 86,157	\$ 86,157	\$ -	\$ -
Foreign	52,648	52,648	-	-
Real Estate Investment Trusts	24,066	24,066	-	-
	\$ 162,871	\$ 162,871	\$ -	\$ -

TOWN OF NEWCASTLE, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

**Fair Value Hierarchy**

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

Investments by Fair Value Level	June 30, 2017 Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Equity Securities:				
Common Stock - Domestic & Foreign	\$ 138,805	\$ 138,805	\$ -	\$ -
Real Estate Investment Trusts	24,066	24,066	-	-
Total Equity Securities	<u>162,871</u>	<u>162,871</u>	<u>-</u>	<u>-</u>
Total Investments by Fair Value Level	<u>162,871</u>	<u>\$ 162,871</u>	<u>\$ -</u>	<u>\$ -</u>
Cash equivalents measured at the net asset value (NAV)				
Money market mutual funds	-	-	-	-
Total cash equivalents measured at the NAV	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments and cash equivalents measured at fair value	<u>\$ 162,871</u>			

Equity securities classified in Level I of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities are classified in Level 2 of the fair value hierarchy and may be valued using publicly reliable sources or using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The Town has no Level 2 or 3 investments. The fair value of money market mutual funds that are measured at NAV per share (or its equivalent) is calculated as of June 30, 2017 in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies.

Credit risk – Statutes for the State of Maine authorize the Town to invest in obligations of the U.S. Treasury, agencies and instrumentalities, other states and Canada, provided such securities are rated within the three highest grades by an approved rating service of the State of Maine, corporate stocks and bonds within statutory limits, financial institutions, mutual funds and repurchase agreements. The Town does not have an investment policy on credit risk.

Interest rate risk – is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's investment policy seeks to limit investment maturities to less than four years when practicable as a means of managing its exposure to fair value losses arising from fluctuations in interest rates.

TOWN OF NEWCASTLE, MAINE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

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

	Receivables (Due from)	Payables (Due to)
General fund	\$ 450	\$ 112,391
Nonmajor Special revenue funds	3,719	-
Nonmajor Capital projects funds	104,222	67
Nonmajor Permanent funds	4,450	383
	\$ 112,841	\$ 112,841

NOTE 4 - CAPITAL ASSETS

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

	Balance, 7/1/16	Additions	Disposals	Balance, 6/30/17
<u>Governmental activities</u>				
Non-depreciated assets:				
Land	\$ 131,165	\$ -	\$ -	\$ 131,165
	131,165	-	-	131,165
Depreciated assets:				
Buildings and improvements	823,321	-	-	823,321
Equipment & vehicles	1,025,768	-	(78,896)	946,872
Infrastructure	3,766,766	-	-	3,766,766
	5,615,855	-	(78,896)	5,536,959
Less: accumulated depreciation	(2,646,559)	(98,199)	23,780	(2,720,978)
	2,969,296	(98,199)	(55,116)	2,815,981
Net capital assets	\$ 3,100,461	\$ (98,199)	\$ (55,116)	\$ 2,947,146
<u>Current year depreciation:</u>				
General government				\$ 13,024
Public safety				36,656
Public works				48,273
Recreation				246
Total depreciation expense				\$ 98,199

TOWN OF NEWCASTLE, MAINE  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

NOTE 5 - LONG-TERM DEBT

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

	Balance, 7/1/16 (Restated)	Additions	Deletions	Balance, 6/30/17	Current Portion
Notes payable	\$ 590,675	\$ -	\$ (227,121)	\$ 363,554	\$ 134,554
Capital leases payable	10,574	-	(2,125)	8,449	2,222
Accrued compensated absences	412	13,674	-	14,086	14,086
	<u>\$ 601,661</u>	<u>\$ 13,674</u>	<u>\$ (229,246)</u>	<u>\$ 386,089</u>	<u>\$ 150,862</u>

The following is a summary of the outstanding notes payable:

Note payable to Damariscotta Bank and Trust for the town office. Annual principal payments of \$19,800 plus interest at a rate of 4.24% per annum. Maturity in August of 2019.	\$ 55,869
Note payable to Damariscotta Bank and Trust for roads. Monthly principal and interest payments of \$16,418. Interest is charged at a rate of 3.970% per annum. Maturity in December of 2017.	96,360
Note payable to Damariscotta Bank and Trust for a fire truck. Monthly principal and interest payments of \$2,257. Interest is charged at a rate of 4.190% per annum. Maturity in January of 2027.	<u>211,325</u>
Total notes payable	<u>\$ 363,554</u>

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

	Principal	Interest	Total Debt Service
2018	\$ 134,554	\$ 11,257	\$ 145,811
2019	38,991	8,459	47,450
2020	36,273	7,646	43,919
2021	20,889	6,194	27,083
2022	21,794	5,289	27,083
2023-2027	111,053	11,529	122,582
	<u>\$ 363,554</u>	<u>\$ 50,374</u>	<u>\$ 413,928</u>

TOWN OF NEWCASTLE, MAINE  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

NOTE 5 - LONG-TERM DEBT (CONTINUED)

The following is a summary of the lease outstanding as of June 30, 2017:

The Town leases a copier under a non-cancellable lease agreement. The lease is for five years with monthly payments of \$213 through January of 2021. The effective interest rate is 4.515% per annum.

The following is a summary of the outstanding capital lease principal and interest requirements for the next four fiscal years ending June 30:

Year Ending June 30:		
2018	\$	2,558
2019		2,558
2020		2,558
2021		1,492
Total minimum lease payments		9,166
Less: amount representing interest		(717)
Present value of minimum lease payments	\$	8,449

NOTE 6 - NONSPENDABLE FUND BALANCES

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

General Fund:		
Tax acquired property	\$	11,892
Nonmajor Permanent Funds (See Schedule H)		110,038
	\$	121,930

NOTE 7 - RESTRICTED FUND BALANCES

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

General Fund:		
Education	\$	258,386
Nonmajor Permanent Funds (See Schedule H)		58,029
	\$	316,415

TOWN OF NEWCASTLE, MAINE  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

NOTE 8 - COMMITTED FUND BALANCES

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

Nonmajor Capital Projects Funds (See Schedule F)	<u>\$ 98,066</u>
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NOTE 9 - ASSIGNED FUND BALANCES

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

General Fund:	
Comp plan carry forward	\$ 29,128
Fire station/ community room	9,397
Sheepscot fire station	13,201
Overtaxed	85,762
Nonmajor Special Revenue Funds (See Schedule D)	6,511
Nonmajor Capital Projects Funds (See Schedule F)	<u>58,525</u>
	<u>\$ 202,524</u>

NOTE 10 - EXPENDITURES OVER APPROPRIATIONS

At June 30, 2017, the following appropriations were exceeded by actual expenditures:

	Excess
Public Works (Article 12)	<u>\$ 12,295</u>

NOTE 11 - OVERLAPPING DEBT

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

	Outstanding Debt	Town's Percentage	Total Share
County of Lincoln	\$ 5,460,000	4.00%	\$ 218,400
GSB School	300,000	39.85%	119,550
			<u>\$ 337,950</u>

TOWN OF NEWCASTLE, MAINE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 12 - RISK MANAGEMENT

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

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

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

The Town is also a member of the Maine Municipal Association – Unemployment Compensation Group Fund (“MMA UC Fund”). The MMA UC Fund was created to assist in meeting members’ obligations under the Employment Security Act in an efficient and cost-effective manner. The Fund is composed of individual municipalities and other public and related non-profit entities that are individually self-insured but administered as a group. Within the Fund, each member has a separate account. As