



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Bar Harbor Savings and Loan Association

We have audited the accompanying financial statements of Bar Harbor Savings and Loan Association (the Association), which comprise the statement of financial condition as of December 31, 2015, and the related statements of income, comprehensive income, retained income and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 opinion.

### ***Opinion***

In our opinion, the 2015 financial statements referred to above present fairly, in all material respects, the financial position of Bar Harbor Savings and Loan Association as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Board of Directors  
Bar Harbor Savings and Loan Association

***Adjustments to Prior Period Financial Statements***

The financial statements of the Association as of December 31, 2014, were audited by another auditor whose report dated February 17, 2015, expressed an unmodified opinion on those statements. As disclosed in Note 1, the Association has restated its 2014 financial statements during 2015 to recognize deferred income taxes on unrealized gains on securities available-for-sale and the allowance for loan losses and to correct deferred income taxes related to depreciation temporary differences, to record previously unrecorded adjustments to correct misstatements identified in the 2014 audit and to reclassify securities available-for sale from interest bearing deposits in other banks, in accordance with U.S. generally accepted accounting principles. The other auditor reported on the 2014 financial statements before the restatements.

As part of our audit of the 2015 financial statements, we also audited adjustments described in Note 1 that were applied to restate the accompanying 2014 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2014 financial statements of the Association other than with respect to the adjustments and, accordingly, we do not express an opinion or any form of assurance on the 2014 financial statements as a whole.

*Berry Dunn McNeil & Parker, LLC*

Bangor, Maine  
March 2, 2016

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Statements of Financial Condition**

**December 31, 2015 and 2014**

**ASSETS**

	<u>2015</u>	Restated <u>2014</u>
Cash and due from banks	\$ 75,566	\$ 64,690
Interest-bearing deposits in other banks	<u>3,742,982</u>	<u>2,900,215</u>
Total cash and cash equivalents	<b>3,818,548</b>	2,964,905
Securities available-for-sale	<b>9,874,775</b>	11,918,344
Federal Home Loan Bank stock, at cost	<b>731,000</b>	500,000
Loans receivable, net of allowance for loan losses of \$691,000 in 2015 and 2014	<b>80,132,525</b>	71,503,649
Premises and equipment, net	<b>968,587</b>	1,002,229
Accrued interest receivable	<b>234,531</b>	239,965
Other assets	<u>191,913</u>	<u>203,798</u>
Total assets	<b><u>\$ 95,951,879</u></b>	<b><u>\$ 88,332,890</u></b>

**LIABILITIES AND RETAINED INCOME**

Liabilities		
Savings and NOW deposits	\$ 26,623,287	\$ 25,349,562
Other time deposits	<u>49,094,480</u>	<u>49,174,536</u>
Total deposits	<b>75,717,767</b>	74,524,098
Borrowed funds	<b>11,376,405</b>	5,862,501
Accrued expenses and other liabilities	<u>135,487</u>	<u>98,150</u>
Total liabilities	<b><u>87,229,659</u></b>	<b><u>80,484,749</u></b>
Retained income		
Appropriated to general reserves	<b>3,726,205</b>	3,726,205
Unappropriated	<b>4,798,716</b>	3,901,100
Accumulated other comprehensive income		
Net unrealized appreciation on securities available-for-sale, net of deferred income taxes	<u>197,299</u>	<u>220,836</u>
Total retained income	<b><u>8,722,220</u></b>	<b><u>7,848,141</u></b>
Total liabilities and retained income	<b><u>\$ 95,951,879</u></b>	<b><u>\$ 88,332,890</u></b>

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The accompanying notes are an integral part of these financial statements.

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Statements of Income**

**Years Ended December 31, 2015 and 2014**

	<u>2015</u>	Restated <u>2014</u>
Interest income		
Loans receivable	\$ 3,440,640	\$ 3,134,379
Securities available-for-sale	292,994	370,532
Other interest-earning assets	<u>13,936</u>	<u>7,438</u>
Total interest income	<u>3,747,570</u>	<u>3,512,349</u>
Interest expense		
Deposits	1,051,329	1,154,904
Borrowed funds	<u>140,471</u>	<u>102,546</u>
Total interest expense	<u>1,191,800</u>	<u>1,257,450</u>
Net interest income	2,555,770	2,254,899
Provision for loan losses	<u>-</u>	<u>60,000</u>
Net interest income after provision for loan losses	<u>2,555,770</u>	<u>2,194,899</u>
Noninterest income (net)		
Rental income	26,400	26,400
Loss on disposal of premises and equipment	-	(12,125)
Gain (loss) on sale of securities available-for-sale	7,174	(6,781)
Other	<u>8,138</u>	<u>3,147</u>
Noninterest income (net)	<u>41,712</u>	<u>10,641</u>
Noninterest expenses		
Salaries and benefits	643,584	598,776
Occupancy and equipment	124,630	115,341
Computer services	116,093	127,442
Deposit insurance	123,250	113,076
Regulatory assessment	8,460	15,022
Consulting fees	87,060	70,213
Professional fees	63,956	44,015
Advertising	52,782	42,766
Dues and subscriptions	10,655	10,969
Donations	8,845	6,985
Office supplies and postage	16,787	15,731
Other	<u>16,754</u>	<u>12,657</u>
Total noninterest expenses	<u>1,272,856</u>	<u>1,172,993</u>
Income before income taxes	1,324,626	1,032,547
Income tax expense	<u>427,010</u>	<u>314,500</u>
Net income	<u>\$ 897,616</u>	<u>\$ 718,047</u>

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The accompanying notes are an integral part of these financial statements.

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Statements of Retained Income**

**Years Ended December 31, 2015 and 2014**

	<u>Appropriated to General Reserves</u>	<u>Unappropriated</u>	<u>Net Unrealized Appreciation on Securities Available- for-Sale</u>	<u>Total</u>
Balance, December 31, 2013, as previously reported	\$ 3,531,378	\$ 3,194,334	\$ 94,150	\$ 6,819,862
Adjustment to record deferred income taxes on the allowance for loan losses, and to correct deferred income taxes related to depreciation temporary differences	-	215,007	-	215,007
Adjustment to record deferred income taxes on unrealized gain on securities available- for-sale	<u>-</u>	<u>-</u>	<u>(32,011)</u>	<u>(32,011)</u>
Balance, December 31, 2013, restated	3,531,378	3,409,341	62,139	7,002,858
Transfer from unappropriated to appropriated	194,827	(194,827)	-	-
Adjustments to unappropriated	-	(31,461)	-	(31,461)
Net income	-	718,047	-	718,047
Other comprehensive income	<u>-</u>	<u>-</u>	<u>158,697</u>	<u>158,697</u>
Balance, December 31, 2014, restated	3,726,205	3,901,100	220,836	7,848,141
Net income	-	897,616	-	897,616
Other comprehensive loss	<u>-</u>	<u>-</u>	<u>(23,537)</u>	<u>(23,537)</u>
Balance, December 31, 2015	\$ <u><u>3,726,205</u></u>	\$ <u><u>4,798,716</u></u>	\$ <u><u>197,299</u></u>	\$ <u><u>8,722,220</u></u>

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The accompanying notes are an integral part of these financial statements.

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Statements of Cash Flows**

**Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>Restated 2014</u>
Cash flows from operating activities		
Net income	\$ 897,616	\$ 718,047
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	54,652	51,695
Amortization of premiums and discounts on securities available-for-sale	14,200	-
Provision for loan losses	-	60,000
Net (gain) loss on sale of securities available for sale	(7,174)	6,781
Net loss on sale of premises and equipment	-	12,125
Deferred income taxes	4,247	2,250
Decrease in accrued income receivable and other assets	13,072	2,266
Increase in accrued expenses and other liabilities	<u>49,463</u>	<u>162,868</u>
Net cash provided by operating activities	<u>1,026,076</u>	<u>1,016,032</u>
Cash flows from investing activities		
Net increase in loans to customers	(8,628,876)	(10,437,588)
Proceeds from sale, maturities and principal repayments of available-for-sale securities	2,000,880	3,954,643
Purchase of Federal Home Loan Bank stock	(231,000)	-
Additions to premises and equipment	<u>(21,010)</u>	<u>(93,192)</u>
Net cash used by investing activities	<u>(6,880,006)</u>	<u>(6,576,137)</u>
Cash flows from financing activities		
Net increase in deposits	1,193,669	3,896,537
Net increase in short-term borrowings	1,000,000	-
Proceeds from long-term borrowings	5,000,000	1,800,000
Repayment of long-term borrowings	<u>(486,096)</u>	<u>(478,765)</u>
Net cash provided by financing activities	<u>6,707,573</u>	<u>5,217,772</u>
Net increase (decrease) in cash and cash equivalents	853,643	(342,333)
Cash and cash equivalents, beginning of year	<u>2,964,905</u>	<u>3,307,238</u>
Cash and cash equivalents, end of year	<u>\$ 3,818,548</u>	<u>\$ 2,964,905</u>
Supplementary cash flow information		
Interest paid on deposits and borrowed funds	\$ 1,191,160	\$ 1,162,550
Income taxes paid, net of refunds received	381,155	256,747

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