

Town of Machias, Maine

ANNUAL FINANCIAL STATEMENTS
(with required and other supplementary information)

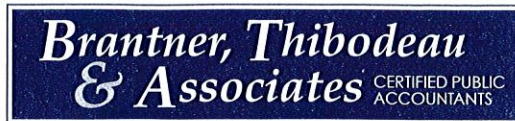
For the Year Ended June 30, 2016

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Independent Auditor's Report

Board of Selectmen
Town of Machias, 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 Machias, Maine as of and for the year ended June 30, 2016, 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 did not audit the Schedules of Pension Amounts by Employer reported by the State of Maine Public Employees Retirement System, which provides information used to calculate the amounts recognized in the financial statements of the Town of Machias, Maine as deferred outflows and deferred inflows related to pensions, net pension liability, pension expense, and pension revenue of governmental activities. Those schedules were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Machias, Maine, is based solely on the report of the other auditors and certain other procedures related to the allocation percentage and the amounts allocated to the Town of Machias, Maine based on the allocation percentage. 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, based on our audit and the report of other auditors, 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 Machias, Maine as of June 30, 2016 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, analysis, budgetary comparison information and pension information on pages 7 through 16 and 52 through 55 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 Town of Machias Maine's basic financial statements. The other supplementary information on Schedules 1 through 6 is presented for purposes of additional analysis and is 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 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The reconciliation of audit adjustments to annual financial data submitted to MEDMS financial system is presented as required by the laws of the State of Maine and is also not a required part of the basic financial statements.

The other supplementary information on Schedules 1 through 6, the schedule of expenditures of federal awards, and the reconciliation of audit adjustments to annual financial data submitted to MEDMS financial system 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, Schedules 1 through 6, the schedule of expenditures of federal awards, and the reconciliation of audit adjustments to annual financial data submitted to MEDMS financial system are fairly stated in all material respects in relation to the basic financial statements as a whole.

Brantner Hibodan & Associates

December 28, 2016

Town of Machias, Maine

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

The Management Discussion and Analysis ("MD&A") is a report of the Town of Machias' fiscal activity for the year ending June 30, 2016 compared with 2015. 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 the Town of Machias 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 (Administration, Sewer, Public Works, Protection, and others) and the school department. The school department and all other municipal departments combined are what comprise the Town. The financial statements and assets include the municipal and school departments as one total. The combination of these gives the true financial status of the Town of Machias.

GENERAL INFORMATION

The Town has a current population of 2,300 residents but through the years has served as an economic and service center for many surrounding communities in Washington County.

The Town continues to be successful in obtaining grant funding and has undertaken several new projects. The Town's aging infrastructure continues to require extensive rehabilitation and/or reconstruction. Transportation is another problem area that must be addressed to ensure the Town's long term business stability and growth. The rehabilitation of the local airport is an ongoing project and could provide an economic boost to the area as the project moves forward.

The Town Administration is responsible for the accounting structure of the community. This structure includes the establishment of financial 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.

Town of Machias, Maine

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

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

- The balance of the Town's cash and investments as of June 30, 2016 was \$4,986,936.
- On a budget basis the Town ended the year with a positive budget variance of \$467,366.

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is an introduction to the Town's basic financial statements. The basic financial statements are prepared and are part of the Town's annual audit. The MD&A serves as a subjective explanation by the Town of the data contained in the audit. 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 other supplementary information 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 now include land, buildings, inventory, and other capital assets. These are then reduced by the liabilities which now include total bonds and leases due over their entire lives and deferred inflows of resources, such as prepaid taxes. 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 use fees or user based revenue, 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. The business-type activities of Machias are sewer, solid waste disposal, ambulance and the telcenter.

Town of Machias, Maine

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

Fund Financial Statements

Governmental Funds

Most of the Town's basic services are reported in governmental funds, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed shorter-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement. The Town considers the general fund and the special revenue fund for school grants to be major governmental funds.

Notes to Financial Statements

The notes to the financial statements are included in the audit to give specific comment to certain areas. These are a crucial part of the audit and are closely monitored by Town administration. The reason they are monitored is that they provide additional insight into activities of the Town. These can show areas of strength and weakness for continued success and improvement. The notes to the financial statements are included on pages 28-51.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning financial performance (budget and actual with budget to GAAP differences and budget and actual with variances). Required supplementary information can be found on pages 52-55.

The report also presents combining schedules for non-major governmental and proprietary funds and other supplementary information following the required supplementary information.

Town of Machias, Maine

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

GOVERNMENT-WIDE ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$18,703,304 as of June 30, 2016.

Net Position for the Period Ending June 30, 2016 and 2015

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 3,824,322	\$ 3,438,200	\$ 1,152,151	\$ 1,082,128	\$ 4,976,473	\$ 4,520,328
Capital assets	<u>5,301,385</u>	<u>5,325,527</u>	<u>11,004,240</u>	<u>11,357,812</u>	<u>16,305,625</u>	<u>16,683,339</u>
Total Assets	<u>9,125,707</u>	<u>8,763,727</u>	<u>12,156,391</u>	<u>12,439,940</u>	<u>21,282,098</u>	<u>21,203,667</u>
Deferred Outflows of resources	<u>177,018</u>	<u>122,440</u>	-	-	<u>177,018</u>	<u>122,440</u>
Current liabilities	551,126	691,612	34,063	96,998	585,189	788,610
Noncurrent liabilities	<u>1,261,994</u>	<u>1,002,355</u>	<u>831,486</u>	<u>829,908</u>	<u>2,093,480</u>	<u>1,832,263</u>
Total Liabilities	<u>1,813,120</u>	<u>1,693,967</u>	<u>865,549</u>	<u>926,906</u>	<u>2,678,669</u>	<u>2,620,873</u>
Deferred inflows of resources	<u>77,143</u>	<u>91,382</u>	-	-	<u>77,143</u>	<u>91,382</u>
Net Position						
Net investment in capital assets	4,280,407	4,275,458	10,189,151	10,471,565	14,469,558	14,747,023
Restricted	1,024,386	1,019,959	684,440	627,884	1,708,826	1,647,843
Unrestricted	<u>2,107,669</u>	<u>1,805,401</u>	<u>417,251</u>	<u>413,585</u>	<u>2,524,920</u>	<u>2,218,986</u>
Total Net Position	<u>\$ 7,412,462</u>	<u>\$ 7,100,818</u>	<u>\$11,290,842</u>	<u>\$11,513,034</u>	<u>\$18,703,304</u>	<u>\$18,613,852</u>

The following are significant current year transactions that have had an impact on the Statement of Net Position:

As a result of applying the GASB 34 statement, the Town recorded depreciation expense of \$316,647 and recorded capital asset additions of \$292,505.

The Town recognized deferred property taxes of \$3,943 as a reduction revenue for the Statement of Net Position.

The Town recognized changes in net pension liability, deferred inflows and deferred outflows related to pensions for a net effect of \$10,213.

Town of Machias, Maine

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2016 and 2015.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	2016	2015	2016	2015	2016	2015
REVENUES						
Charges for services and other	\$ 195,977	\$ 214,673	\$ 1,270,964	\$ 1,190,526	\$ 1,466,941	\$ 1,405,199
Operating grants and contributions	4,347,903	4,080,101	-	-	4,347,903	4,080,101
Capital grants and contributions	251,686	37,901	15,958	47,503	267,644	85,404
Property taxes	2,787,967	2,678,613	-	-	2,787,967	2,678,613
Excise and miscellaneous taxes	273,335	258,194	-	-	273,335	258,194
Interest and lien charges	21,660	22,653	-	-	21,660	22,653
Grants and contributions not restricted to specific purpose	283,270	290,709	-	-	283,270	290,709
State portion of pension contribution	-	112,948	-	-	112,948	112,948
Unrestricted investment and interest income	7,059	6,119	25,837	43,752	32,896	49,871
Miscellaneous	18,454	5,221	273	195	18,727	5,417
Total Revenues	<u>8,187,311</u>	<u>7,707,132</u>	<u>1,313,032</u>	<u>1,281,976</u>	<u>9,500,343</u>	<u>8,979,109</u>
EXPENSES						
General government	\$ 405,166	\$ 425,106	-	-	\$ 405,166	\$ 425,106
Police	327,667	343,216	-	-	327,667	337,818
Fire	227,351	376,312	-	-	227,351	381,711
Public works	552,883	441,929	-	-	552,883	441,929
Education	4,626,127	4,396,521	-	-	4,626,127	4,395,774
Adult education-general	72,783	103,745	-	-	72,783	103,745
On-behalf payments – State of Maine	204,709	282,863	-	-	204,709	282,863
Culture and recreation	38,091	43,124	-	-	38,091	43,124
General assistance	3,616	11,149	-	-	3,616	11,149
Airport	14,255	12,198	-	-	14,255	12,198
County tax	204,030	203,508	-	-	204,030	203,508
Tax incremental financing	16,324	18,557	-	-	16,324	18,557
Other	12,782	34,425	-	-	12,782	34,425
Grants and other contributions	496,420	392,703	-	-	496,420	392,703
School lunch program	294,281	271,041	-	-	294,281	271,041
Interest on long-term debt	32,961	68,753	-	-	32,961	68,753
Capital outlay	249,136	35,396	-	-	249,136	35,396
Business-type Activities	-	-	1,632,209	1,583,650	1,632,209	1,583,650
Total Expenses	<u>7,778,682</u>	<u>7,459,799</u>	<u>1,571,518</u>	<u>1,571,518</u>	<u>9,410,891</u>	<u>9,043,450</u>
Excess(deficiency) before special items and transfers	408,629	247,333	(319,177)	(301,674)	89,452	(54,341)
Transfers	(96,985)	(100,714)	96,985	100,714	-	-
Special item – sale of assets	-	-	-	-	-	-
Special item – DEP fine/ fine adjustments	-	-	-	-	-	-
Change in net position	311,644	146,619	(222,192)	(200,960)	89,452	143,734
Net position, beginning of year	<u>7,100,818</u>	<u>7,104,000</u>	<u>11,513,034</u>	<u>11,713,994</u>	<u>18,613,852</u>	<u>18,817,994</u>
Restatement for pension reporting	-	(149,801)	-	-	-	(149,801)
Net positions, beginning, restated	<u>7,100,818</u>	<u>6,954,199</u>	<u>11,513,994</u>	<u>11,713,994</u>	<u>18,613,852</u>	<u>18,668,193</u>
Net position, end of year	<u>\$ 7,100,818</u>	<u>\$ 7,100,818</u>	<u>\$ 11,290,872</u>	<u>\$ 11,513,034</u>	<u>\$ 18,703,304</u>	<u>\$ 18,613,852</u>

Town of Machias, Maine

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

The narrative that follows considers the operations of governmental and business-type activities separately.

Governmental Activities

For the year ended June 30, 2016, the Town's net position for governmental activities increased by \$311,644.

Expenses of governmental activities include depreciation expense of \$316,647. Depreciation expense has been allocated and is included in various function/program expenses of the Town.

General revenues consist of all revenues that are not considered to be program revenues or charges for services. General revenues for the year ended June 30, 2016 totaled \$3,374,457 an increase* of 17,288 from June 30, 2016. Of this amount, \$2,787,967 was from local property taxes.

Business-type Activities

As previously mentioned, the Town's business-type activities consist of its sewer, solid waste, ambulance and telcenter funds.

During the year ended June 30, 2016, the Town's net position from business-type activities decreased by \$222,192 with the depreciation of assets comprising most of the amount.

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, its governmental funds reported a combined fund balance of \$2,960,437, \$289,638 higher than the previous year. An analysis of transactions affecting the change in the combined fund balance of the Town's governmental funds is as follows:

Revenues include property taxes totaling \$2,791,910. Excise taxes accounted for \$265,798 in total revenue.

Town of Machias, Maine

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

On behalf payments amounted to \$204,709 during the year ended June 30, 2016. Additional information on these “on-behalf” payments can be found in the notes to the basic financial statements.

The intergovernmental revenues include federal and state subsidies and contributions and the school department.

Total governmental fund expenditures for the year were \$7,918,539, \$355,972 higher than the previous year.

The Town capitalized \$281,999 of capital outlays in governmental activities.

Capital Asset and Debt Administration

Capital Assets

	Balance 6/30/15	Additions/ Completions	Retire- ments/reclass	Balance 6/30/16
Governmental Activities				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	273,114	-	(9,893)	263,221
Buildings and Improvements	6,691,347	11,359	-	6,702,706
Infrastructure	1,684,940	-	-	1,684,940
Equipment, furniture and fixtures	806,201	73,004	9,893	889,098
Vehicles	<u>713,758</u>	<u>208,142</u>	-	<u>921,900</u>
Total capital assets	<u>10,734,434</u>	<u>292,505</u>	-	<u>11,026,939</u>
<i>Less accumulated depreciation</i>	<u>(5,408,907)</u>	<u>(316,647)</u>	-	<u>(5,725,554)</u>
Total capital assets, net	<u>\$ 5,325,527</u>	<u>\$ (24,142)</u>	<u>\$ -</u>	<u>\$ 5,301,385</u>

Town of Machias, Maine

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

	Balance 6/30/15	Additions/ Completions	Retire- ments/reclass	Balance 6/30/16
Business-Type Activities				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	1,009,641	6,981	(1,009,641)	6,981
Lines and mains and buildings	13,932,710	-	1,009,641	14,942,351
Vehicles and equipment	<u>730,686</u>	<u>8,977</u>	-	<u>739,663</u>
Total capital assets	<u>15,674,037</u>	<u>15,958</u>	-	<u>15,689,995</u>
<i>Less accumulated depreciation</i>	<u>(4,316,225)</u>	<u>(369,530)</u>	-	<u>(4,685,755)</u>
Total capital assets, net	<u>\$11,357,812</u>	<u>\$ (353,572)</u>	<u>\$ -</u>	<u>\$11,004,240</u>

Additional information on the Town's capital assets can be found in Note 4.

Debt Administration

The Town's debt consists of bonds, notes, capital leases obligations, and compensated absences. A summary of the Town's debt activity for the year ended June 30, 2016 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Bonds and notes payable	\$1,902,589	\$ 225,347	\$(291,821)	\$1,836,115
Compensated Absences	65,498	-	(9,207)	56,291
Capital lease obligations	<u>42,699</u>	<u>-</u>	<u>(31,168)</u>	<u>11,531</u>
Total	<u>\$2,010,786</u>	<u>\$ 110,000</u>	<u>\$(300,934)</u>	<u>\$1,903,937</u>

Town of Machias, Maine

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

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

REQUIRED SUPPLEMENTARY INFORMATION

General Fund Budgetary Discussions

The Town recognizes revenues and expenditures on a budget basis that differs from how revenues and expenditures should be recognized under generally accepted accounting principles (GAAP).

Additional information about this difference can be found on pages 52 and 53 of the financial statements.

During the year, actual revenues exceeded budgeted revenues by \$347,247. Most of this variance resulted from increases in intergovernmental revenues.

The Town's property tax collections were \$32,964 under what was budgeted because of increased receivables, increase in deferred revenue and more discounts and abatements.

Budgeted expenditures exceeded actual expenditures by \$92,432.

The Town overspent its general government and recreation budget as a result of increased expenses.

Town of Machias, Maine

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

Economic Factors and Next Year's Budgets and Rates

The Machias Board of Selectmen and the Town Manager do not anticipate any significant economic factors during the next fiscal year that would have an adverse effect upon the Town's financial position. The proposed municipal budget for the 2016-2017 fiscal year has a total increase of \$12,248.00 assuming that all warrant articles are adopted as presented to the voters. It is expected that this increase will be offset by a decrease in the school funding by the exact same amount, resulting in a zero dollar increase to the taxpayers.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the Town's finances. If you have questions about this report or need any additional information, contact the Town Manager or the Finance Director, at PO Box 418, Machias, Maine 04654 or call (207) 255-6621.

Town of Machias, Maine
Statement of Net Position
June 30, 2016

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and equivalents	\$ 2,311,724	\$ 222,504	\$ 2,534,228
Investments	384,633	630,147	1,014,780
Taxes receivable	378,732	-	378,732
Accounts receivable	-	396,452	396,452
Internal balances	117,708	(117,708)	-
Due from other governmental agencies	615,699	20,756	636,455
Other receivables	5,918	-	5,918
Inventories	4,212	-	4,212
Other assets	5,696	-	5,696
Capital assets not being depreciated	828,295	7,981	836,276
Capital assets being depreciated, net of accumulated depreciation	4,473,090	10,996,259	15,469,349
Total assets	<u>9,125,707</u>	<u>12,156,391</u>	<u>21,282,098</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	<u>177,018</u>	<u>-</u>	<u>177,018</u>
LIABILITIES			
Accounts payable and accrued expenses	120,607	11,076	131,683
Due to other governmental agencies	6,434	22,987	29,421
Unearned revenues	47,426	-	47,426
Accrued summer teacher pay	376,659	-	376,659
Long-term liabilities			
Due within one year			
Bonds and notes payable	242,837	69,025	311,862
Capital leases payable	6,073	-	6,073
Due in more than one year			
Bonds and notes payable	766,610	757,643	1,524,253
Capital leases payable	5,458	-	5,458
Net pension liability	189,543	-	189,543
Compensated absences	51,473	4,818	56,291
Total liabilities	<u>1,813,120</u>	<u>865,549</u>	<u>2,678,669</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	64,354	-	64,354
Prepaid taxes	12,789	-	12,789
Total deferred inflows of resources	<u>77,143</u>	<u>-</u>	<u>77,143</u>
NET POSITION			
Net investment in capital assets	4,280,407	10,189,151	14,469,558
Restricted for			
Education	595,482	-	595,482
Capital projects	21,735	-	21,735
Machias Water Co.	-	509,443	509,443
School lunch	4,298	-	4,298
Other purposes	325,992	174,997	500,989
Unrestricted	2,184,548	417,251	2,601,799
Total net position	<u>\$ 7,412,462</u>	<u>\$ 11,290,842</u>	<u>\$ 18,703,304</u>

**Town of Machias, Maine
Statement of Activities
For the Year Ended June 30, 2016**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenues and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities							
General government	\$ 405,166	\$ 53,700	\$ -	\$ -	\$ (351,466)	\$ -	\$ (351,466)
Police department	327,667	23,400	11,747	-	(292,520)	-	(292,520)
Fire department	227,351	78,770	-	15,500	(133,081)	-	(133,081)
Public works	552,883	2,308	17,371	-	(533,204)	-	(533,204)
Education	4,626,127	-	3,353,216	-	(1,272,911)	-	(1,272,911)
Adult education	72,783	-	39,929	-	(32,854)	-	(32,854)
On-behalf payments - State of Maine	204,709	-	204,709	-	-	-	-
Culture and recreation	38,091	122	3,288	-	(34,681)	-	(34,681)
General assistance	3,616	-	2,490	-	(1,126)	-	(1,126)
Airport	14,255	-	-	-	(14,255)	-	(14,255)
County tax	204,030	-	-	-	(204,030)	-	(204,030)
Tax incremental financing	16,324	610	-	-	(15,714)	-	(15,714)
Other	12,782	-	-	-	(12,782)	-	(12,782)
Grants and other contributions	496,420	-	497,968	-	1,548	-	1,548
School lunch program	294,381	37,067	217,185	-	(40,129)	-	(40,129)
Interest on long-term debt	32,961	-	-	-	(32,961)	-	(32,961)
Capital outlay	249,136	-	-	236,186	(12,950)	-	(12,950)
Total governmental activities	<u>7,778,682</u>	<u>195,977</u>	<u>4,347,903</u>	<u>251,686</u>	<u>(2,983,116)</u>	<u>-</u>	<u>(2,983,116)</u>
Business-type activities							
Sewer fund	785,575	512,702	-	15,958	-	(256,915)	(256,915)
Solid waste	342,443	288,106	-	-	-	(54,337)	(54,337)
Ambulance fund	431,780	419,651	-	-	-	(12,129)	(12,129)
Telcenter	72,411	50,505	-	-	-	(21,906)	(21,906)
Total business-type activities	<u>1,632,209</u>	<u>1,270,964</u>	<u>-</u>	<u>15,958</u>	<u>-</u>	<u>(345,287)</u>	<u>(345,287)</u>
Total government	<u>\$ 9,410,891</u>	<u>\$ 1,466,941</u>	<u>\$ 4,347,903</u>	<u>\$ 267,644</u>	<u>(2,983,116)</u>	<u>(345,287)</u>	<u>(3,328,403)</u>
General revenues							
Taxes							
Property taxes					2,787,967	-	2,787,967
Excise taxes, licenses, permits and fees					273,335	-	273,335
Interest and lien charges					21,660	-	21,660
Grants and contributions not restricted to specific programs					283,270	-	283,270
Unrestricted investment and interest earnings					7,059	25,837	32,896
Miscellaneous					18,454	273	18,727
Transfers					(96,985)	96,985	-
Total general revenues and transfers					<u>3,294,760</u>	<u>123,095</u>	<u>3,417,855</u>
Change in net position					311,644	(222,192)	89,452
NET POSITION - BEGINNING					<u>7,100,818</u>	<u>11,513,034</u>	<u>18,613,852</u>
NET POSITION - ENDING					<u>\$ 7,412,462</u>	<u>\$ 11,290,842</u>	<u>\$ 18,703,304</u>

**Town of Machias, Maine
Balance Sheet
Governmental Funds
June 30, 2016**

	<u>General Fund</u>	<u>Special Revenue Fund - School Categorical Grants</u>	<u>Special Revenue Fund - School Lunch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 2,268,105	\$ -	\$ 43,619	\$ -	\$ 2,311,724
Investments	115,264	-	-	269,369	384,633
Taxes receivable, net	378,732	-	-	-	378,732
Due from other funds	798,414	-	-	582,071	1,380,485
Receivable from other governments	376,609	229,244	9,846	-	615,699
Other receivables	-	-	3,298	2,620	5,918
Inventories	-	-	4,212	-	4,212
Prepaid expenses	5,696	-	-	-	5,696
Total assets	<u>\$ 3,942,820</u>	<u>\$ 229,244</u>	<u>\$ 60,975</u>	<u>\$ 854,060</u>	<u>\$ 5,087,099</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 115,643	\$ 1,778	\$ -	\$ -	\$ 117,421
Due to other funds	989,493	129,775	123,386	20,123	1,262,777
Payable to other governments	6,434	-	-	-	6,434
Unearned grant revenue	-	45,064	2,362	-	47,426
Accrued summer teacher pay	332,423	41,486	2,750	-	376,659
Other payables	3,186	-	-	-	3,186
Total liabilities	<u>1,447,179</u>	<u>218,103</u>	<u>128,498</u>	<u>20,123</u>	<u>1,813,903</u>
Deferred inflows of resources					
Prepaid property taxes	12,789	-	-	-	12,789
Unavailable property taxes	299,970	-	-	-	299,970
Total deferred inflows of resources	<u>312,759</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>312,759</u>
Fund balances					
Nonspendable for					
Inventories	-	-	4,298	-	4,298
Restricted for					
Education	661,220	11,141	-	-	672,361
Capital projects	-	-	-	21,735	21,735
Town grants and other purposes	38,345	-	-	287,647	325,992
Committed for					
Other purposes	43,725	-	-	-	43,725
Capital projects	-	-	-	524,555	524,555
Unassigned (deficit)	1,439,592	-	(71,821)	-	1,367,771
Total fund balances	<u>2,182,882</u>	<u>11,141</u>	<u>(67,523)</u>	<u>833,937</u>	<u>2,960,437</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,942,820</u>	<u>\$ 229,244</u>	<u>\$ 60,975</u>	<u>\$ 854,060</u>	<u>\$ 5,087,099</u>

Town of Machias, Maine
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2016

Total fund balance, governmental funds	\$ 2,960,437
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	5,301,385
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds.	
Deferred inflows related to property taxes	299,971
Certain deferred outflows of resources, deferred inflows of resources, and internal balances related to pensions are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	
Deferred outflows related to pensions	177,018
Deferred inflows related to pensions	(64,354)
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Bonds Payable and Net Pension Liability), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.	<u>(1,261,995)</u>
Net Position of Governmental Activities in the Statement of Net Position	<u><u>\$ 7,412,462</u></u>

Town of Machias, Maine
Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds
For the Year Ended June 30, 2016

	General Fund	Special Revenue Fund - School Categorical Grants	Special Revenue Fund - School Lunch	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 2,791,910	\$ -	\$ -	\$ -	\$ 2,791,910
Excise taxes	265,798	-	-	-	265,798
Interest and lien charges	21,660	-	-	-	21,660
Licenses, permits and fees	19,961	-	-	-	19,961
Intergovernmental					
Town	318,181	-	-	236,186	554,367
Education	3,281,706	497,967	217,185	-	3,996,858
On-behalf payments - State of Maine	204,709	-	-	-	204,709
Charges for services	26,336	-	37,067	-	63,403
Interfund charges for services	99,720	-	-	-	99,720
Investment and interest earnings	5,980	-	-	1,079	7,059
Miscellaneous	52,595	-	-	1,775	54,370
Total revenues	<u>7,088,556</u>	<u>497,967</u>	<u>254,252</u>	<u>239,040</u>	<u>8,079,815</u>
EXPENDITURES					
Current					
General government	391,153	-	-	-	391,153
Police department	320,687	-	-	-	320,687
Fire department	231,708	-	-	-	231,708
Public works	432,101	-	-	-	432,101
Education	4,410,830	-	-	-	4,410,830
Adult education	72,783	-	-	-	72,783
On-behalf payments - State of Maine	204,709	-	-	-	204,709
Recreation	33,996	-	-	-	33,996
General assistance	3,616	-	-	-	3,616
Airport	9,465	-	-	-	9,465
County tax	204,030	-	-	-	204,030
Tax increment financing	16,324	-	-	-	16,324
Other services	12,782	-	-	-	12,782
Federal, state and local grants	-	492,609	-	-	492,609
School lunch program	-	-	294,381	-	294,381
Debt service					
Principal	223,269	-	-	-	223,269
Interest and other charges	32,961	-	-	-	32,961
Capital outlay	260,852	-	-	270,283	531,135
Total expenditures	<u>6,861,266</u>	<u>492,609</u>	<u>294,381</u>	<u>270,283</u>	<u>7,918,539</u>
Excess (deficiency) of revenues over expenditures	<u>227,290</u>	<u>5,358</u>	<u>(40,129)</u>	<u>(31,243)</u>	<u>161,276</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from bond	225,347	-	-	-	225,347
Transfers in	-	-	170,000	21,000	191,000
Transfers out	(287,985)	-	-	-	(287,985)
Total other financing sources and uses	<u>(62,638)</u>	<u>-</u>	<u>170,000</u>	<u>21,000</u>	<u>128,362</u>
Net change in fund balances	164,652	5,358	129,871	(10,243)	289,638
FUND BALANCES (DEFICIT)- BEGINNING	<u>2,018,230</u>	<u>5,783</u>	<u>(197,394)</u>	<u>844,180</u>	<u>2,670,799</u>
FUND BALANCES (DEFICIT) - ENDING	<u>\$ 2,182,882</u>	<u>\$ 11,141</u>	<u>\$ (67,523)</u>	<u>\$ 833,937</u>	<u>\$ 2,960,437</u>

Town of Machias, 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, 2016

Net change in fund balances - total governmental funds: \$ 289,638

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Capital outlays	\$ 292,505	
Depreciation	<u>(316,647)</u>	(24,142)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. More specifically, this amount represents the change in deferred property taxes. (3,943)

Some deferred outflows of resources and deferred inflows of resources related to pensions reported in the statement of activities do not require the use of current financial resources and these are not reported in governmental funds:

Deferred outflows related to pensions		54,578
Deferred inflows related to pensions		18,228

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.

Debt proceeds	\$ (225,347)	
Debt repayments	<u>254,437</u>	29,090

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Net pension expense		(62,593)
Compensated absences not reflected on Governmental funds		<u>10,788</u>

Change in net position of governmental activities \$ 311,644

Town of Machias, Maine
Statement of Net Position
Proprietary Funds
June 30, 2016

	Enterprise Funds				Total
	Sewer Fund	Solid Waste Facility	Ambulance Fund	Other Proprietary Fund - Telcenter	
ASSETS					
Current assets					
Cash and cash equivalents	\$ -	\$ 222,504	\$ -	\$ -	\$ 222,504
Investments	630,147	-	-	-	630,147
Accounts receivable, net	225,306	-	171,146	-	396,452
Due from other funds	9,512	-	592,168	32,940	634,620
Receivables from other governments	-	20,756	-	-	20,756
Total current assets	<u>864,965</u>	<u>243,260</u>	<u>763,314</u>	<u>32,940</u>	<u>1,904,479</u>
Non-current assets					
Capital assets not being depreciated	7,981	-	-	-	7,981
Capital assets being depreciated, net of accumulated depreciation	10,662,629	117,152	37,707	178,771	10,996,259
Total non-current assets	<u>10,670,610</u>	<u>117,152</u>	<u>37,707</u>	<u>178,771</u>	<u>11,004,240</u>
Total assets	<u>11,535,575</u>	<u>360,412</u>	<u>801,021</u>	<u>211,711</u>	<u>12,908,719</u>
LIABILITIES					
Current liabilities					
Accounts payable	-	11,076	-	-	11,076
Due to other funds	261,224	456,104	35,000	-	752,328
Payable to other governments	22,987	-	-	-	22,987
Bonds and notes payable	44,597	-	24,428	-	69,025
Total current liabilities	<u>328,808</u>	<u>467,180</u>	<u>59,428</u>	<u>-</u>	<u>855,416</u>
Non-current liabilities					
Compensated absences	-	4,818	-	-	4,818
Bonds and notes payable	732,785	-	24,858	-	757,643
Total non-current liabilities	<u>732,785</u>	<u>4,818</u>	<u>24,858</u>	<u>-</u>	<u>762,461</u>
Total liabilities	<u>1,061,593</u>	<u>471,998</u>	<u>84,286</u>	<u>-</u>	<u>1,617,877</u>
NET POSITION					
Net investment in capital assets	9,893,228	117,152	-	178,771	10,189,151
Restricted capital replacement	127,195	-	13,451	-	140,646
Restricted for USDA debt requirements	34,351	-	-	-	34,351
Restricted for Machias Water Co.	509,443	-	-	-	509,443
Unrestricted (deficit)	(90,235)	(228,738)	703,284	32,940	417,251
Total net position (deficit)	<u>\$ 10,473,982</u>	<u>\$ (111,586)</u>	<u>\$ 716,735</u>	<u>\$ 211,711</u>	<u>\$ 11,290,842</u>

Town of Machias, Maine
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2016

	Enterprise Funds				Total
	Sewer Fund	Solid Waste Facility	Ambulance Fund	Other Proprietary Fund - Telcenter	
REVENUES					
Charges for services and interest	\$ 512,702	\$ 288,105	\$ 419,651	\$ 50,505	\$ 1,270,963
Total operating revenues	<u>512,702</u>	<u>288,105</u>	<u>419,651</u>	<u>50,505</u>	<u>1,270,963</u>
OPERATING EXPENSES					
Personal services	8,217	27,105	263,770	23,587	322,679
Contractual services	219,823	259,074	10,562	-	489,459
Utilities	102,967	5,416	8,835	8,783	126,001
Repairs and maintenance	29,502	20,344	70,806	5,503	126,155
Other supplies and expenses	96,754	8,151	25,500	220	130,625
Insurance claims and expenses	15,217	7,597	24,395	1,815	49,024
Depreciation	295,654	14,756	26,617	32,503	369,530
Total operating expenses	<u>768,134</u>	<u>342,443</u>	<u>430,485</u>	<u>72,411</u>	<u>1,613,473</u>
Operating income (loss)	<u>(255,432)</u>	<u>(54,338)</u>	<u>(10,834)</u>	<u>(21,906)</u>	<u>(342,510)</u>
NON-OPERATING REVENUES (EXPENSES)					
Interest and investment revenue	22,644	3,168	-	25	25,837
Miscellaneous revenue	-	-	275	-	275
Capital grants and contributions	15,958	-	-	-	15,958
Interest expense	(17,442)	-	(1,295)	-	(18,737)
Total non-operating revenue	<u>21,160</u>	<u>3,168</u>	<u>(1,020)</u>	<u>25</u>	<u>23,333</u>
Income (loss) before transfers and special item	<u>(234,272)</u>	<u>(51,170)</u>	<u>(11,854)</u>	<u>(21,881)</u>	<u>(319,177)</u>
Transfers in	61,985	35,000	-	-	96,985
Change in net position	(172,287)	(16,170)	(11,854)	(21,881)	(222,192)
Total net position (deficit) - beginning	<u>10,646,269</u>	<u>(95,416)</u>	<u>728,589</u>	<u>233,592</u>	<u>11,513,034</u>
Total net position (deficit) - ending	<u>\$ 10,473,982</u>	<u>\$ (111,586)</u>	<u>\$ 716,735</u>	<u>\$ 211,711</u>	<u>\$ 11,290,842</u>

Town of Machias, Maine
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2016

	Proprietary Fund Types - Enterprise				Totals
	Sewer	Solid Waste Facility	Ambulance Fund	Other Proprietary Fund-Telcenter	
CASH FLOWS FROM OPERATING ACTIVITIES					
Received from user charges and tenants	\$ 484,499	\$ 296,563	\$ 397,337	\$ 50,505	\$ 1,228,904
Payments for administrative services	(23,434)	(25,523)	(288,165)	(23,587)	(360,709)
Payments to suppliers for goods and services	(449,496)	(294,520)	(115,703)	(16,321)	(876,040)
Interfund activity	(24,299)	(11,520)	31,561	(25,091)	(29,349)
Net cash provided (used) by operating activities	<u>(12,730)</u>	<u>(35,000)</u>	<u>25,030</u>	<u>(14,494)</u>	<u>(37,194)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interest paid	(17,442)	-	(1,295)	-	(18,737)
Interest income	-	3,168	-	25	3,193
Donation	-	-	275	-	275
Transfers in (out)	61,985	35,000	-	-	96,985
Net cash provided (used) by noncapital financing activities	<u>44,543</u>	<u>38,168</u>	<u>(1,020)</u>	<u>25</u>	<u>81,716</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on bonds and leases	(44,541)	-	(24,010)	-	(68,551)
Capital grants and contributions	28,686	-	-	-	28,686
Acquisition and construction of capital assets	(15,958)	-	-	-	(15,958)
Net cash (used) by capital and related financial activities	<u>(31,813)</u>	<u>-</u>	<u>(24,010)</u>	<u>-</u>	<u>(55,823)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>-</u>	<u>3,168</u>	<u>-</u>	<u>(14,469)</u>	<u>(11,301)</u>
CASH AND CASH EQUIVALENTS, BEGINNING	<u>-</u>	<u>219,336</u>	<u>-</u>	<u>14,469</u>	<u>233,805</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ -</u>	<u>\$ 222,504</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 222,504</u>
Reconciliation of operating income to net cash used by operating activities					
Operating income (loss)	\$ (255,432)	\$ (54,338)	\$ (10,834)	\$ (21,906)	\$ (342,510)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	295,654	14,756	26,617	32,503	369,530
(Increase) decrease in the following assets					
Accounts receivable	(28,203)	8,458	(22,314)	-	(42,059)
Interfund receivables	-	-	31,561	(25,091)	6,470
Increase (decrease) in the following liabilities					
Compensated absences payable	-	1,582	-	-	1,582
Interfund payables	(24,299)	(11,520)	-	-	(35,819)
Accounts payable and other accrued liabilities	(450)	6,062	-	-	5,612
Net cash provided (used) by operating activities	<u>\$ (12,730)</u>	<u>\$ (35,000)</u>	<u>\$ 25,030</u>	<u>\$ (14,494)</u>	<u>\$ (37,194)</u>

Town of Machias, Maine
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 1,362,058	\$ 75,870
LIABILITIES		
Due to student groups	-	75,870
NET POSITION		
Held in trust for scholarships and other purposes	<u>\$ 1,362,058</u>	<u>\$ -</u>

Town of Machias, Maine
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2016

	Private Purpose Trust Funds
ADDITIONS	
Interest	\$ 23,686
Contributions	9,284
Total additions	32,970
 DEDUCTIONS	
Scholarships	4,532
Change in net position	28,438
 NET POSITION - BEGINNING	1,333,620
 NET POSITION - ENDING	\$ 1,362,058

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Machias, Maine, was incorporated in 1784 under the laws of the State of Maine. The Town operates under a selectmen-manager form of government and provides the following services: general government services, public safety, public works, sewer, health and welfare, education, library and recreation.

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and the Financial Accounting Standards Board, when applicable. The more significant accounting policies of the Town are described below.

A. FINANCIAL REPORTING ENTITY

In evaluating the Town as a reporting entity, management has addressed all potential component units for which the Town may be financially accountable and, as such, should be included within the Town's financial statements. In accordance with GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Town is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits or to impose specific financial burdens on the Town. Additionally, the Town is required to consider other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on the application of these criteria, there are no entities that should be included as part of these financial statements.

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements report information of all activities of the Town, except for fiduciary funds. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The business-type activities of the Town include the sewer fund, solid waste facility fund, the ambulance fund, and the Telcenter fund, a property held for leasing to businesses for the purpose of economic development.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given program; and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The Town segregates transactions related to certain functions or activities in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental, proprietary, and fiduciary activities. The governmental and proprietary statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column, when applicable. The fiduciary statements aggregate and present each fund type as a separate column on the fund financial statements.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS (CONTINUED)

1. Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources.

The Town has presented the following major governmental funds:

General Fund

The general fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Fund- School Categorical Grants

The special revenue fund – school categorical grants is used to account for the proceeds of specific revenue sources that are legally or contractually restricted to expenditures for specified purposes. This fund includes federal and state grants for specific education purposes.

Special Revenue Fund- School Lunch

The special revenue fund – school lunch is used to account for the proceeds of specific revenue sources that are legally or contractually restricted to expenditures for school lunch purposes.

2. Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting, in essentially the same manner as a private entity. The accounting objectives are determinations of net income, financial position and cash flow.

The Town has presented the following major proprietary funds:

Sewer Fund

Activities of the fund include administration, operations and maintenance of the sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of long-term debt for the sewer fund. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Solid Waste Fund

Activities of the fund include solid waste disposal and maintenance of the facility. Costs are financed from user charges and Town contributions.

Ambulance Fund

Activities of the fund include medical transportation services and repairs and maintenance of vehicles. Costs are financed from user charges and Town contributions.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS (CONTINUED)

2. Proprietary Funds (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel, contractual services, and supplies. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

3. Fiduciary Funds (not included in the government-wide statements)

The Town has presented the following fiduciary funds:

Private Purpose Trust Funds

Private purpose funds are funds held by the Town in a trustee capacity and are accounted for in essentially the same manner as a proprietary fund. Private purpose trusts for the Town account for various scholarship accounts. Capital maintenance of private purpose funds is critical.

Agency Funds

Agency funds account for assets held by the Town in a purely custodial capacity and include student activities funds. Since agency funds are custodial in nature, they do not involve the measurement of results of operations.

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and the fund financial statements for proprietary funds and fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities, whether current or non-current, are included on the statement of net position and the operating statements present increases, revenues, and decreases, expenses, in net total position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, intergovernmental revenues and charges for services. All other governmental fund revenues are recognized when received.

E. BUDGETS AND BUDGETARY ACCOUNTING

The Town utilizes a formal budgetary accounting system to control revenues accounted for in the general fund. These budgets are established in accordance with the various laws which govern the Town's operations.

Payments made by the State of Maine to the Maine Public Employees Retirement System for teachers and certain other school employees are reported as offsetting revenues and expenditures of the general fund in accordance with generally accepted accounting principles.

Generally, appropriations for the general fund and the enterprise funds lapse at year end, except for balances approved to be carried forward by Board of Selectmen. In accordance with legal requirements of the State of Maine all education balances are continued.

Formal budgets are not adopted for the other funds. Grant procedures for many of the revenues included in the special revenue funds require submission of a budget. However, such budgets are not subject to formal adoption procedures and are normally prepared based upon the grant period which does not necessarily correspond with the Town's fiscal year.

F. FINANCIAL STATEMENT AMOUNTS

1. Deposits and Investments

For purposes of the statements of net position and cash flows, the proprietary and fiduciary funds consider all highly liquid investments, except for money market mutual funds, with a maturity of three months or less to be cash equivalents. Additional information is presented in Note 2.

Investments are carried at fair value. Additional information, including the composition of investments, is presented in Note 2.

2. Inventories

Inventories of food and supplies in the school lunch program are valued at cost, determined on a first in, first out (FIFO) basis.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

3. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the government-wide financial statement of net position. Any residual balances between the governmental activities and fiduciary funds are reported in the statement of net position as "due to/from fiduciary funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position as "internal balances".

4. Interfund Transfers

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of the governmental funds on the fund financial statements. For the purposes of the government-wide statement of activities, all interfund transfers between individual funds within governmental activities and individual funds within business-type activities have been eliminated.

5. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of \$5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 years
Sewer systems	50-100 years
Roads and parking lots	20-50 years
Machinery and equipment	3-50 years
Vehicles	3-25 years

The Town elected to utilize the infrastructure transition option in the implementation of GASB Statement #34 which does not require the Town to retroactively capitalize certain infrastructure assets.

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

6. Long-term Debt

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 the government-wide statements. The long-term liabilities consist of notes, bonds and capital leases payable, net pension liability, and compensated absences liability.

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

The Town's policy regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick leave. The liability for these governmental compensated absences is recorded on 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.

7. Pensions

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

8. 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.

9. Government-wide Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements.

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 the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

10. Government-wide Net Position (Continued)

The remaining net position is reported as unrestricted. For expenditures that qualify for either classification, amounts will be first spent from restricted net position then from unrestricted net position.

11. Governmental Fund Balances

Fund balance represents the difference between assets and liabilities in the fund financial statements. Fund balance must be properly reported within one of the five fund balance categories listed below:

Nonspendable, such as fund balances associated with inventories or prepaid expenses. The nonspendable fund balance may also include amounts that are required to be maintained intact, such as the corpus of an endowment fund.

Restricted fund balance category includes amounts that can be used only for the specific purposes stipulated by constitution, grantors or through enabling legislation.

Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Town's highest level of decision making authority, which is the passage of a resolution by simple majority vote of the Town Meeting.

Assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Funds may be assigned by simple majority vote of the Town Meeting, upon passage of a budget ordinance in which fund balances are used to balance the budget, or by the Board of Selectmen, under authority granted by the Town's fund balance policy.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The Town has formally adopted a fund balance policy that addresses the requirements of GASB 54. For expenditures that qualify for multiple categories, amounts will be first spent from restricted fund balance, followed by committed fund balance, then assigned fund balance, and finally unassigned fund balance.

12. Revenue Recognition - Property Taxes

Property taxes were levied on assessed values of April 1, 2015 and were due on October 15, 2015 and March 15, 2016, respectively. Interest was charged at 5% per annum as authorized by Maine Law on amounts not paid by the due date. Upon the expiration of eight months, and within one year from the date of original commitment, a tax lien is recorded for all delinquent taxes on real estate. If taxes were paid in full by October 15, 2015 a 2% discount was applied.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

11. Revenue Recognition - Property Taxes (Continued)

For purposes of the fund financial statements, property taxes assessed and collected during the year ended June 30, 2016, and during the first sixty days of the next fiscal year are recognized as revenue in 2016. Receivables estimated to be collectible after the sixty day period are recorded as deferred inflows of resources in the general fund.

Assessed value	
Real estate	\$132,660,800
Personal property	<u>6,495,570</u>
	\$139,156,370
Tax rate (per \$1,000)	<u>20.30</u>
Commitment	\$ 2,824,874
Less collections, discounts and abatements	<u>(2,570,748)</u>
Receivable at June 30, 2016	<u>\$ 254,126</u>
Collection rate	91%

12. Recent Accounting Pronouncements

During the year ended June 30, 2016, the Town implemented GASB Statement No. 72, *Fair Value Measurement and Application*. This statement improves accounting and financial reporting by state and local governments by enhancing comparability of financial statements among governments and providing information to financial statement users about the impact of fair value measurements on a government's financial position. There was no effect on the Town's financial position.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 2. DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk: 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, 2016, the Town reported deposits of \$3,972,156 with bank balances of \$4,049,007. Of the Town's total bank balance of \$4,049,007, \$3,235,675 was exposed to custodial credit risk. Of the exposed amount, \$2,000,000 was collateralized by underlying securities held by the related bank, which were not in the Town's name.

Deposits have been reported as follows:

Reported in governmental funds	\$ 2,311,724
Reported in proprietary funds	<u>222,504</u>
Total reported on the Statement of Net Position	2,534,228
Reported in fiduciary funds	<u>1,437,928</u>
Total deposits	<u>\$ 3,972,156</u>

Investments

Statutes authorize the Town to invest in certificates of deposit, repurchase agreements, and other available bank investments. In addition, the Town can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law. The trust and agency fund is also authorized to invest in various instruments in accordance with laws of the State of Maine.

The Town's investments are as follows:

Money market accounts	\$ 167,915
U.S. Agency notes	337,421
Common stock, Machias Water Co.	<u>509,444</u>
Total investments	<u>\$1,014,780</u>

Custodial Credit Risk: Custodial credit risk is the risk that in the event of failure of the counterparty, the Town will not be able to recover the value of its investments. The Town does not have an investment policy for custodial credit risk. At June 30, 2016 the Town's investments of \$1,014,780, invested in money market accounts, U.S. Agency notes, and company stock, are not exposed to custodial credit risk as the investments are in the Town's name.

Concentration of Credit Risk: The Town's investment in common stock meets the criteria to be classified as a concentration of credit risk investment. The investment of \$509,443 in the Machias Water Company makes up approximately 49% of the Town's total investments. The Town does not have a policy related to concentration of credit risk.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Interest Rate Risk: The Town does not have a policy related to investment rate risk. The Town is required to disclose the interest rate risk of its debt investments as follows:

	Due in less than one year	Due in 1-5 years
U.S. Agency notes	\$ 98,531	\$ 238,890

Investments have been reported as follows:

Reported in governmental funds	\$ 384,633
Reported in proprietary funds	630,147
Total investments	\$1,014,780

On November 14, 1992 the Town's sewer enterprise fund received 186 shares of stock of the Machias Water Company and purchased another 26 shares in 2001 representing a 46.50% ownership interest. The Town values its interest on the equity method based on the water company's book values at the end of its fiscal year which is December 31. At December 31, 2015 the Town's interest has been valued at \$509,443 and is included in the proprietary funds.

NOTE 3. ACCOUNTS RECEIVABLE

The proprietary fund - ambulance fund records an allowance for uncollectible receivables based on a percentage of Medicaid covered charges for services. The allowance for the year ended June 30, 2016 is \$16,927 based on an estimate of 9% of total receivables.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance 6/30/15	Additions/ Completions	Retirements/ Reclassifications	Balance 6/30/16
Governmental Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	273,114	-	(9,893)	263,221
Total capital assets not being depreciated	<u>838,188</u>	<u>-</u>	<u>(9,893)</u>	<u>828,295</u>
<i>Capital assets being depreciated</i>				
Buildings and land improvements	6,691,347	11,359	-	6,702,706
Infrastructure	1,684,940	-	-	1,684,940
Equipment, furniture and fixtures	806,201	73,004	9,893	889,098
Vehicles	713,758	208,142	-	921,900
Total capital assets being depreciated	<u>9,896,246</u>	<u>292,505</u>	<u>9,893</u>	<u>10,198,644</u>
Less accumulated depreciation for:				
Buildings and land improvements	(3,786,660)	(128,094)	-	(3,914,754)
Infrastructure	(288,382)	(56,165)	-	(344,547)
Equipment, furniture and fixtures	(703,292)	(59,733)	-	(763,025)
Vehicles	(630,573)	(72,655)	-	(703,228)
Total accumulated depreciation	<u>(5,408,907)</u>	<u>(316,647)</u>	<u>-</u>	<u>(5,725,554)</u>
Total capital assets being depreciated, net	<u>4,487,339</u>	<u>(24,142)</u>	<u>9,893</u>	<u>4,473,090</u>
Governmental activities capital assets, net	<u>\$ 5,325,527</u>	<u>\$ (24,142)</u>	<u>\$ -</u>	<u>\$ 5,301,385</u>
Business-Type Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	1,009,641	6,981	(1,009,641)	6,981
Total capital assets not being depreciated	<u>1,010,641</u>	<u>6,981</u>	<u>(1,009,641)</u>	<u>7,981</u>
<i>Capital assets being depreciated</i>				
Infrastructure and buildings	13,932,710	-	1,009,641	14,942,351
Vehicles and equipment	730,686	8,977	-	739,663
Total capital assets being depreciated	<u>14,663,396</u>	<u>8,977</u>	<u>1,009,641</u>	<u>15,682,014</u>
Less accumulated depreciation				
Infrastructure and buildings	(3,912,632)	(333,549)	-	(4,246,181)
Vehicles and equipment	(403,593)	(35,981)	-	(439,574)
Total accumulated depreciation	<u>(4,316,225)</u>	<u>(369,530)</u>	<u>-</u>	<u>(4,685,755)</u>
Total capital assets being depreciated, net	<u>10,347,171</u>	<u>(360,553)</u>	<u>1,009,641</u>	<u>10,996,259</u>
Business-type activities capital assets, net	<u>\$ 11,357,812</u>	<u>\$ (353,572)</u>	<u>\$ -</u>	<u>\$ 11,004,240</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 4. CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2016, was charged as direct expense to programs as follows:

<i>Governmental activities</i>	
General government	\$ 6,357
Police	16,812
Fire	12,575
Public works	122,968
Recreation	4,094
Airport	4,790
Education grants	3,810
Education	<u>145,241</u>
Total depreciation expense – Governmental activities	<u>\$ 316,647</u>
<i>Business-type activities</i>	
Sewer	\$ 295,654
Solid waste	14,756
Ambulance	26,617
Telcenter	<u>32,503</u>
Total depreciation expense – business-type activities	<u>\$ 369,530</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 5. LONG-TERM LIABILITIES

The following is a summary of long term liabilities for the year ended June 30, 2016:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Portion due within one year
Governmental Liabilities					
General Obligation Bonds and Notes					
General Bonds					
Maine Municipal Bond Bank, 4.6% school renovation bond, dated December 22, 2009, due 2020	\$ 397,698	\$ -	\$ (71,659)	\$ 326,039	\$ 74,961
General Notes					
Machias Savings Bank, 3.12% vehicle note, dated December 2, 2008, due 2016	17,811	-	(17,811)	-	-
Machias Savings Bank, 2.50% road projects note, dated December 2, 2008, due 2016	237,906	-	(57,266)	180,640	58,705
Machias Savings Bank, 1.95% vehicles note, dated October 23, 2012, due 2018	45,899	-	(15,002)	30,897	15,297
Machias Savings Bank, 2.06% school renovations note, dated July 10, 2013, due 2023	198,056	-	(23,006)	175,050	23,476
Machias Savings Bank, 2.99% school bus note, dated March 1, 2016, due 2020	-	85,347	(17,512)	67,835	16,207
Machias Savings Bank, 1.25% Town cruiser note, dated July 29, 2015, due 2019	-	35,000	-	35,000	11,531
Machias Savings Bank, 1.79% Town equipment note, dated May 11, 2016, due 2021	-	105,000	-	105,000	21,000
Machias Savings Bank, 1.75% road projects note, dated September 10, 2014 due 2023	<u>110,000</u>	<u>-</u>	<u>(21,014)</u>	<u>88,986</u>	<u>21,660</u>
Total general obligation bonds and notes	1,007,370	225,347	(223,270)	1,009,447	242,837
Capital Leases	42,699	-	(31,168)	11,531	6,073
Net Pension Liability	126,950	62,593	-	189,543	N/A
Compensated Absences	<u>62,262</u>	<u>-</u>	<u>(10,789)</u>	<u>51,473</u>	<u>N/A</u>
Total governmental activities liabilities	<u>\$ 1,239,281</u>	<u>\$ 287,940</u>	<u>\$ (265,227)</u>	<u>\$ 1,261,994</u>	<u>\$ 248,910</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

Business-type Liabilities

Proprietary Fund Bonds and Notes Payable

Sewer Bonds

Maine Municipal Bond Bank, 2.19% sewer rehabilitation project, dated July 26, 2002, due 2023

\$ 112,978 \$ - \$ (12,925) \$ 100,053 \$ 13,251

Maine Municipal Bond Bank, 1.40% sewer rehabilitation project, dated May 15, 2010, due 2029

246,782 - (16,079) 230,703 16,304

Maine Municipal Bond Bank, 1.00% sewer rehabilitation project, dated January 21, 2011, due 2016

816 - (816) - -

Maine Municipal Bond Bank, 1.00% sewer rehabilitation project, dated December 21, 2011, due 2017

1,624 - (808) 816 816

Rural Development Bond, 2.25% sewer rehabilitation project, dated January 25, 2012, due 2040

459,723 - (13,918) 445,805 14,226

Ambulance Note Payable

Machias Savings Bank, 1.75% vehicle note, dated November 21, 2012, due 2018

73,296 - (24,005) 49,291 24,428

Total proprietary fund bonds and notes payable

895,219 - (68,551) 826,668 69,025

Compensated Absences

3,236 1,582 - 4,818 N/A

Total proprietary activities liabilities

898,455 1,582 (68,551) 831,486 69,025

Total general obligation and proprietary liabilities

\$ 2,137,736 \$ 289,522 \$ (333,778) \$ 2,093,480 \$ 317,935

General obligation and proprietary fund bonds and notes payable

Future maturities of general obligation and proprietary bonds and notes payable are as follows:

Year ended June 30	General Obligations		Proprietary Obligations		Total
	Principal	Interest	Principal	Interest	
2017	\$ 242,837	\$ 28,939	\$ 69,025	\$ 17,172	\$ 357,973
2018	249,126	22,650	69,526	15,890	357,192
2019	240,625	15,238	45,563	14,589	316,015
2020	177,157	7,884	46,482	13,711	245,234
2021	47,074	2,029	47,422	12,814	109,339
2022-2026	52,628	1,654	203,415	51,515	309,212
2027-2031	-	-	149,946	32,910	182,856
2032-2036	-	-	103,886	17,439	121,325
2037-2040	-	-	91,402	5,562	96,964
	<u>\$ 1,009,447</u>	<u>\$ 78,394</u>	<u>\$ 826,668</u>	<u>\$ 181,602</u>	<u>\$ 2,096,111</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

In accordance with Maine law, no municipality shall incur debt for specific purposes in excess of certain percentages of State valuation of such municipality. At June 30, 2016, the Town was in compliance with these limitations.

Capital Leases Payable

The Town is the lessee of photocopiers under capital leases expiring in fiscal years ending June 30, 2017 and 2019. The liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair market value of the asset acquired.

As of June 30, 2016, the Town had recorded \$109,367 in governmental activities equipment related to outstanding capital leases. Amortization of these assets is included with depreciation expense. Accumulated depreciation for these assets at June 30, 2016 is \$99,773, respectively.

Minimum future lease payments under capital leases as of June 30, 2016 are:

2017	\$ 6,073
2018	4,404
2019	<u>1,835</u>
	12,312
Less amount representing interest	<u>(781)</u>
Present value of minimum lease payments	<u>\$11,531</u>

NOTE 6. INTERFUND TRANSACTIONS

During the course of normal operations the Town has numerous transactions between funds including expenditures and transfers.

Individual fund interfund receivable and payables balances at June 30, 2016 arising from these transactions and interfund transfers were as follows:

	<u>Receivable</u>	<u>Payable</u>	<u>Transfers in</u>	<u>Transfers out</u>
General fund	\$798,414	\$989,493	\$ -	\$ 287,985
Special revenue- school grants	-	129,775	-	-
Special revenue- school lunch	-	123,386	170,000	-
Sewer fund	9,512	261,224	61,985	-
Solid waste fund	-	456,104	35,000	-
Ambulance fund	592,168	35,000	-	-
Non-major proprietary funds	32,940	-	-	-
Non-major governmental funds	<u>575,171</u>	<u>13,223</u>	<u>21,000</u>	<u>-</u>
	<u>\$2,008,205</u>	<u>\$2,008,205</u>	<u>\$ 287,985</u>	<u>\$ 287,985</u>

The outstanding balances between funds result mainly from short-term cash flow needs that are funded by the general fund, as it hold the Town's checking account. Transfers were used to move funds from the general fund in accordance with budgetary authorizations, including debt payments of the proprietary funds, a \$170,000 transfer to the school lunch fund and \$35,000 to the Solid Waste Facility proprietary fund to cover deficits. Additionally, \$21,000 was moved from the general fund to the other governmental funds to cover budget authorized capital outlay expenditures.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 7. NET INVESTMENT IN CAPITAL ASSETS

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds payable, adding back any unspent proceeds. The Town's net investment in capital assets was calculated as follows at June 30, 2016:

	Governmental Activities	Business-type Activities
Capital assets	\$ 11,026,939	\$ 15,690,015
Accumulated depreciation	(5,725,554)	(4,685,775)
Related bonds payable	(1,009,447)	(826,668)
Related capital leases payable	(11,531)	-
Non-major proprietary fund deficit reported in unrestricted fund balance	-	11,579
Total balance	\$ 4,280,407	\$ 10,189,151

NOTE 8. NET POSITION – RESTRICTED – EDUCATION

At June 30, 2016 the Town's restricted for education was comprised as follows:

General education	\$ 572,261
Adult education	12,080
Transitions	4,385
PPEG	2,532
REAP	415
MELMAC grant	3,809
Total	\$ 595,482

NOTE 9. NET POSITION – RESTRICTED – CAPITAL PROJECTS

At June 30, 2016 the Town's capital projects restricted fund balance was comprised as follows:

School renovations	\$ 9,765
School roof repairs	11,970
Total	\$ 21,735

NOTE 10. FUND BALANCE – RESTRICTED – OTHER PURPOSES

At June 30, 2016 the Town's general fund balance restricted for other purposes was comprised as follows:

Tax increment financing	\$ 30,956
Healthy Maine Streets grant	7,340
Boxcar office	49
Total	\$ 38,345

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 11. FUND BALANCE – RESTRICTED – OTHER PURPOSES

At June 30, 2016 the Town's other governmental funds - special revenue fund balance restricted for Town grants and other purposes was comprised as follows:

Mill account	\$ 244,785
Revolving loan fund	8,021
Sewer grant	86
State and local roads	16,345
Maine Waste Management-transfer station	4,990
Station 98	3,067
Thermal imaging camera	1,394
Downtown planning-donations	8,784
Scholarship funds	<u>175</u>
Total	<u>\$ 287,647</u>

NOTE 12. FUND BALANCES – COMMITTED FOR CAPITAL PROJECTS

At June 30, 2016, the Town's other governmental funds fund balances committed for capital projects were comprised of the following:

Airport improvement	\$ 404
Ambulance replacement	26,879
Basketball court	1,233
Boat dock	1,980
Comprehensive plan	7,820
Downtown revitalization	9,795
Economic development	88,733
E-911 signs	1,271
Fire department homeland security	314
Fire department ventilation	32,000
Fire truck replacement	3,276
Industrial development	24,099
Lawnmower	700
Regional Airport	65,274
Roads	48,664
Sewer expansion	75,323
Sewer overflow	3,367
Sidewalk repair	6,540
School renovations	61,969
Skate park	5,967
Tennis court	14,549
Town office	<u>44,398</u>
Total committed for capital projects	<u>\$ 524,555</u>

NOTE 13. FUND BALANCES – COMMITTED FOR OTHER PURPOSES

At June 30, 2016, the Town's general fund balances committed for other purposes were comprised of the following:

Recreation – facilities and activities	\$ 895
Recreation – softball field	1,166
4 th of July	4,520
250 th Anniversary celebration	1,052
Debt service – public safety building	<u>36,092</u>
Total	<u>\$ 43,725</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 14. DEFINED BENEFIT PENSION PLAN

Maine Public Employees Retirement System

All School teachers, plus other qualified educators, participate in the Maine Public Employees Retirement System's State Employee and Teacher (SET) Plan. The SET plan is a cost-sharing multiple employer defined benefit plan with a special funding situation, established by the Maine State legislature. The State of Maine is a non-employer contributing entity in that the State pays the initial unfunded actuarial liability on behalf of teachers, while school departments contribute the normal cost, calculated actuarially, for their teacher members.

Pension Benefits

Benefit terms are established in Maine statute. The System's retirement programs provide defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting occurs upon the earning of five years of service credit. In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for State employees and teachers is age 60, 62, or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below his/her normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employee and teacher members and by contract with other participating employers under applicable statutory provisions.

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

Contributions

Member and employer contribution rates are each a percentage of applicable member compensation. Member contribution rates are defined by law or Board rule and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined through actuarial valuations.

The contributions for the year ended June 30, 2016 were as follows:

	<u>Covered Payroll</u>	<u>Contribution Percentage</u>	<u>Contribution Amount</u>
Employee contribution	\$ 2,204,174	7.65%	\$ 168,619
State DOE contribution for non-federally funded employees	2,043,006	10.02%	204,709
Employer contribution for normal costs of non-federally funded employees	2,043,006	3.36%	68,645
Employer contribution for federally funded employees	161,168	13.93%	22,451

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Net Pension Liability

The collective net pension liability for the SET Plan, measured as of June 30, 2015 was as follows:

SET Plan collective total pension liability	\$ 8,208,737,166
Less plan net position	<u>(6,858,619,082)</u>
SET Plan collective net pension liability	<u>\$ 1,350,118,084</u>

At June 30, 2016, the Town reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Town. The amount recognized by the Town as its proportionate share of the net pension liability and the total portion of the net pension liability that was associated with the Town were as follows:

Town's proportionate share of the net pension liability	\$ 189,543
State's proportionate share of the net pension liability associated with the Town	<u>2,450,872</u>
Total	<u>\$ 2,640,415</u>

The net pension liability was measured as of June 30, 2015, and the total collective pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportionate share percentage of the collective net pension liability was 0.014037%, allocated based on Unfunded Actuarial Liability (UAL) contributions to the plan. This percentage was 0.026057% at the prior measurement date of June 30, 2014.

Pension Expense and Revenue

For the year ended June 30, 2016, the Town recognized pension expense of \$85,665 related to the SET Plan, made up of the Town's proportionate share of plan pension expense \$25,566, and net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions \$60,099, and recognized revenue of \$111,439 for support provided by the State.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Deferred Outflows and Inflows of Resources

For the year ended June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SET Plan	
	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ -	\$ 1,316
Changes of assumptions	5,222	-
Net difference between projected and actual investment earnings on pension plan investments	40,107	48,678
Changes in proportion and differences between employer contributions and proportionate share of contributions	41,450	14,360
Employer's contributions to plan subsequent to measurement date of collective net pension liability	<u>90,239</u>	<u>-</u>
Total	<u>\$ 177,018</u>	<u>\$ 64,354</u>

\$90,239 reported as deferred outflows related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows and outflows will be recognized as pension expense as follows:

Year ended June 30	Amount
2017	\$ 14,302
2018	4,296
2019	(6,199)
2020	<u>10,026</u>
	<u>\$ 22,425</u>

Actuarial Assumptions

Actuarial Cost Method

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions

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

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

Asset Valuation Method

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

Amortization

The initial unfunded actuarial liability (IUAL) of the SET Plan is amortized on a level percentage of payroll over the amortization period then in effect under statutory and constitutional requirements. All other gains, losses, and changes are amortized over ten-year periods beginning on the date as of which they occur.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2015 and June 30, 2014 are as follows:

Investment Rate of Return – For the SET Plan, 7.125% per annum for the year ended June 30, 2015 and 7.25% for the year ended June 30, 2014, compounded annually.

Salary Increases, Merit and Inflation – Teachers, 3.50% to 13.5% per year.

Mortality Rates – For active State employee members and non-disabled retirees of the State employee plan, the RP2000 Tables projected forward to 2016 using Scale AA are used; for active members and non-disabled retirees of the teachers' plan, the ages are set back two years; for all recipients of disability benefits, the Revenue Ruling 96-7 Disabled Mortality Table for Males and Females is used.

Cost of Living Benefit Increases – 2.55% per annum for State employees and teachers for the years ended June 30, 2015 and June 30, 2014.

Expected Rate of Return on Plan Assets

The long-term expected rate of return on pension plan assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S Equities	20%	5.2%
Non-U.S. Equities	20%	5.5%
Private Equity	10%	7.6%
Real Assets:		
Real Estate	10%	3.7%
Infrastructure	10%	4.0%
Hard Assets	5%	4.8%
Fixed Income	25%	0.7%

Changes in Assumptions

Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. There were no changes in assumptions for the SET Plan.

Discount Rate

The discount rate used to measure the collective total pension liability was 7.125% for 2015 and 2014 for the SET Plan. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table shows how the collective net pension liability/(asset) as of June 30, 2015 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rate is 7.125% for the SET Plan. Amounts for the SET plan reflect only the teachers' group portion of the plan.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
SET Plan	\$ 2,363,737,470	\$ 1,350,118,084	\$ 505,890,521

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued MainePERS financial report that includes financial statements and required supplementary information for the SET plan. That report may be obtained by calling 1-800-451-9800.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Deferred Compensation Plan – ICMA

The Town also provides a 457 Deferred Compensation Plan and other retirement plans. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The Town contributes 8% of base pay for participating employees. Employees may elect to contribute from 2% up to 10% of earnings. The Town made contributions of \$18,310 and employees elected to defer \$19,303 for a contribution of \$37,613 for the year ended June 30, 2016.

NOTE 15. PARTICIPATION IN PUBLIC ENTITY RISK POOL

The Town is exposed to various risks of losses related to torts, theft, damage, and destruction of assets, injuries to employees, and natural disasters. The Town maintains membership in various risk pools to mitigate these risks to an acceptable level and to limit the Town's exposure to losses.

The Town is 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, individual stop loss coverage for member Town's for claims in excess of \$500,000 with an excess limit of \$2,000,000.

The Town is also a member of the Maine Municipal Association - Property and Casualty Pool ("Pool"). As with the Fund above, the Pool was created to obtain lower rates for its members. The Town pays an annual premium for its property and liability coverage. Under the property coverage portion of the Pool, coverage is provided after the deductible is met, to \$2,000,000. Under the liability portion of the Pool, coverage is provided after the deductible is met, to \$1,000,000.

The Town is also a member of the Maine Municipal Association - Unemployment Compensation 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 unemployment compensation coverage and develop a comprehensive loss control program. The Town contributes to MSMA based on the first \$12,000 of wages for unemployment compensation. Each member has its reserve, which is determined by the actuary. The annual rate set by the Fund's actuary is based on the member's reserve and on estimated future claims. Each member is responsible for its own excess of claims over reserve.

The School Department is a member of the Maine School Management Association - Unemployment Compensation Trust Fund ("MSMA"). MSMA was created to formulate, develop and administer a program of modified self-funding for MSMA's membership, obtain lower costs for unemployment compensation coverage and develop a comprehensive loss control program. The School Department contributes to MSMA based on the first \$12,000 of wages for unemployment compensation. Each member has its reserve, which is determined by the actuary. If the reserve is higher than is determined by the actuary, excess contributions are returned to the member. The annual rate set by MSMA's actuary is based on the member's reserve and on estimated future claims. Each member is responsible for its own excess of claims over reserve.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 16. CONTINGENCIES

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

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

NOTE 17. ENVIRONMENTAL LIABILITIES

The Town was fined by the Department of Environmental Protection \$22,987 for a wastewater discharge violation which occurred on June 12, 2013. This liability has been recorded in both the government-wide and the fund financial statements.

Town of Machias, Maine
Budget and Actual (with Budget to GAAP Differences)
General Fund
For the year ended June 30, 2016

	Budgeted Amounts			Actual Amounts, Budgetary Basis	Budget to GAAP Differences**	Actual Amounts, GAAP Basis
	Original	Changes	Final*			
REVENUES						
Property taxes, net	\$ 2,824,874	\$ -	\$ 2,824,874	\$ 2,791,910	\$ -	\$ 2,791,910
Excise taxes	229,850	-	229,850	265,798	-	265,798
Interest and lien costs	25,000	-	25,000	21,660	-	21,660
Licenses and permits	20,473	-	20,473	19,961	-	19,961
Intergovernmental						
Education	2,962,813	39,929	3,002,742	3,281,706	-	3,281,706
On-behalf payments - State of Maine	-	-	-	-	204,709	204,709
Town	283,660	11,747	295,407	318,181	-	318,181
Charges for services	24,950	-	24,950	26,336	-	26,336
Interfund charges for services	99,800	-	99,800	107,481	(7,761)	99,720
Interest earnings	5,000	-	5,000	5,980	-	5,980
Donation	-	15,000	15,000	15,000	-	15,000
Miscellaneous	1,265	-	1,265	37,595	-	37,595
Total revenues	<u>6,477,685</u>	<u>66,676</u>	<u>6,544,361</u>	<u>6,891,608</u>	<u>196,948</u>	<u>7,088,556</u>
EXPENDITURES						
Current						
General government	388,414	-	388,414	391,153	-	391,153
Police department	325,600	11,747	337,347	316,807	3,880	320,687
Fire department	229,570	-	229,570	223,948	7,760	231,708
Public safety building	29,300	-	29,300	19,401	(19,401)	-
Highways and streets	459,042	-	459,042	432,101	-	432,101
Education	4,559,774	-	4,559,774	4,617,114	(206,284)	4,410,830
Adult education	30,000	42,783	72,783	72,783	-	72,783
On-behalf payments - State of Maine	-	-	-	-	204,709	204,709
Recreation	31,450	-	31,450	33,996	-	33,996
General assistance	5,450	-	5,450	3,616	-	3,616
Airport	13,300	(3,000)	10,300	9,465	-	9,465
County tax	204,030	-	204,030	204,030	-	204,030
Tax increment financing	17,275	-	17,275	16,324	-	16,324
Other services	20,000	(6,000)	14,000	12,782	-	12,782
Debt service						
Principal	175,321	(61,985)	113,336	123,639	99,630	223,269
Interest and other charges	10,519	-	10,519	-	32,961	32,961
Capital outlay	67,000	195,506	262,506	175,505	85,347	260,852
Total expenditures	<u>6,566,045</u>	<u>179,051</u>	<u>6,745,096</u>	<u>6,652,664</u>	<u>208,602</u>	<u>6,861,266</u>
Excess (deficiency) of revenues over expenditures	<u>(88,360)</u>	<u>(112,375)</u>	<u>(200,735)</u>	<u>238,944</u>	<u>(11,654)</u>	<u>227,290</u>
OTHER FINANCING SOURCES (USES)						
Use of unrestricted carryover fund balances	47,600	-	47,600	-	-	-
Use of restricted carryover fund balances	150,000	172,854	322,854	-	-	-
Use of committed carryover fund balances	-	2,159	2,159	-	-	-
Overlay	(81,553)	-	(81,553)	-	-	-
Proceeds from debt	-	225,347	225,347	225,347	-	225,347
Transfers out	(27,687)	(287,985)	(315,672)	(287,985)	-	(287,985)
Total other financing sources and uses	<u>88,360</u>	<u>112,375</u>	<u>200,735</u>	<u>(62,638)</u>	<u>-</u>	<u>(62,638)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>176,306</u>	<u>(11,654)</u>	<u>164,652</u>
FUND BALANCES - BEGINNING				<u>2,338,999</u>	<u>(320,769)</u>	<u>2,018,230</u>
FUND BALANCES - ENDING				<u>\$ 2,515,305</u>	<u>\$ (332,423)</u>	<u>\$ 2,182,882</u>

* - Includes additional adult education budgeted revenues, reclassifications, and use of committed funds

** - Adjustments necessary to convert the general fund's net change in fund balances on the budget basis to a GAAP basis are provided below:

Net change in fund balances - budget basis	\$ 176,306
On behalf payments revenue	204,709
On behalf payments expenditures	(204,709)
Change in accrued summer teacher pay	(11,654)
Net change in fund balances - GAAP basis	<u>\$ 164,652</u>

Town of Machias, Maine
Budget and Actual (with Variances)
General Fund
For the year ended June 30, 2016

	Budgeted Amounts			Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Changes	Final*		
REVENUES					
Property taxes, net	\$ 2,824,874	\$ -	\$ 2,824,874	\$ 2,791,910	\$ (32,964)
Excise taxes	229,850	-	229,850	265,798	35,948
Interest and lien costs	25,000	-	25,000	21,660	(3,340)
Licenses and permits	20,473	-	20,473	19,961	(512)
Intergovernmental					
Education	2,962,813	39,929	3,002,742	3,281,706	278,964
Town	283,660	11,747	295,407	318,181	22,774
Charges for services	24,950	-	24,950	26,336	1,386
Interfund charges for services	99,800	-	99,800	107,481	7,681
Investment earnings	5,000	-	5,000	5,980	980
Donation	-	15,000	15,000	15,000	-
Miscellaneous	1,265	-	1,265	37,595	36,330
Total revenues	<u>6,477,685</u>	<u>66,676</u>	<u>6,544,361</u>	<u>6,891,608</u>	<u>347,247</u>
EXPENDITURES					
Current					
General government	388,414	-	388,414	391,153	(2,739)
Police department	325,600	11,747	337,347	316,807	20,540
Fire department	229,570	-	229,570	223,948	5,622
Public safety building	29,300	-	29,300	19,401	9,899
Highways and streets	459,042	-	459,042	432,101	26,941
Education	4,559,774	-	4,559,774	4,531,757	28,017
Adult education	30,000	42,783	72,783	72,783	-
Recreation	31,450	-	31,450	33,996	(2,546)
General assistance	5,450	-	5,450	3,616	1,834
Airport	13,300	(3,000)	10,300	9,465	835
County tax	204,030	-	204,030	204,030	-
Tax increment financing	17,275	-	17,275	16,324	951
Other services	20,000	(6,000)	14,000	12,782	1,218
Debt service					
Principal	175,321	(61,985)	113,336	113,120	216
Interest and other charges	10,519	-	10,519	10,519	-
Capital outlay	67,000	195,506	262,506	260,862	1,644
Total expenditures	<u>6,566,045</u>	<u>179,051</u>	<u>6,745,096</u>	<u>6,652,664</u>	<u>92,432</u>
Excess (deficiency) of revenues over expenditures	<u>(88,360)</u>	<u>(112,375)</u>	<u>(200,735)</u>	<u>238,944</u>	<u>439,679</u>
OTHER FINANCING SOURCES (USES)					
Use of unrestricted carryover fund balances	47,600	-	47,600	-	47,600
Use of restricted carryover fund balances	150,000	172,854	322,854	-	322,854
Use of committed carryover fund balances	-	2,159	2,159	-	2,159
Overlay	(81,553)	-	(81,553)	-	(81,553)
Proceeds from debt	-	225,347	225,347	225,347	-
Transfers out	(27,687)	(287,985)	(315,672)	(287,985)	27,687
Total other financing sources and uses	<u>88,360</u>	<u>112,375</u>	<u>200,735</u>	<u>(62,638)</u>	<u>318,747</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	176,306	<u>\$ 176,306</u>
FUND BALANCES - BEGINNING				<u>2,338,999</u>	
FUND BALANCES - ENDING				<u>\$ 2,515,305</u>	

* - Includes additional adult education budgeted revenues, reclassifications, and use of committed funds

Town of Machias, Maine
Schedule of the Town's Proportionate Share of the Net Pension Liability
State Employees and Teachers Plan
Last 10 Fiscal Years*
For the years ended June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Town's proportion of the net pension liability	0.014039%	0.011751%	0.014357%							
Town's proportionate share of the net pension liability	\$ 189,543	\$ 126,950	\$ 228,255							
State's proportionate share of the net pension liability associated with the Unit	<u>2,450,872</u>	<u>2,086,549</u>	<u>3,057,002</u>							
Total	<u><u>\$ 2,640,415</u></u>	<u><u>\$ 2,213,499</u></u>	<u><u>\$ 3,285,257</u></u>							
Town's covered-employee payroll	\$ 2,204,174	\$ 2,310,728	\$ 2,260,733							
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	8.60%	5.49%	10.10%							
Plan fiduciary net position as a percentage of the total pension liability	83.55%	83.91%	76.85%							

* The amounts presented for each fiscal year available were determined as of June 30 of the previous year

Town of Machias, Maine
Schedule of Town Contributions
State Employees and Teachers Plan
Last 10 Fiscal Years*
For the years ended June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 75,753	\$ 78,454	\$ 22,528							
Contributions in relation to the contractually required contribution	<u>(75,753)</u>	<u>(78,454)</u>	<u>(22,528)</u>							
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
Town's covered-employee payroll	\$ 2,204,174	\$ 2,310,728	\$ 2,260,733							
Contributions as a percentage of covered-employee payroll	3.44%	3.40%	1.00%							

* The amounts presented for each fiscal year available were determined as of June 30 of the previous year

**Town of Machias, Maine
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016**

	<u>Special Revenue Fund - Town</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Investments	\$ 269,369	\$ -	\$ 269,369
Due from other funds	35,781	546,290	582,071
Note receivable	2,620	-	2,620
Total assets	<u>\$ 307,770</u>	<u>\$ 546,290</u>	<u>\$ 854,060</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Due to other funds	<u>\$ 20,123</u>	<u>\$ -</u>	<u>\$ 20,123</u>
Fund balances			
Restricted for			
Capital projects	-	21,735	21,735
Town grants and other purposes	287,647	-	287,647
Committed for capital projects	-	524,555	524,555
Total fund balances	<u>287,647</u>	<u>546,290</u>	<u>833,937</u>
Total liabilities and fund balances	<u>\$ 307,770</u>	<u>\$ 546,290</u>	<u>\$ 854,060</u>

Town of Machias, Maine
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2016

	<u>Special Revenue Fund - Town</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES			
Intergovernmental	\$ 138,524	\$ 97,662	\$ 236,186
Donations	1,775	-	1,775
Investment earnings	1,022	57	1,079
Total revenues	<u>141,321</u>	<u>97,719</u>	<u>239,040</u>
EXPENDITURES			
Capital outlay	<u>147,725</u>	<u>122,558</u>	<u>270,283</u>
Total expenditures	<u>147,725</u>	<u>122,558</u>	<u>270,283</u>
Excess (deficiency) of revenues over expenditures	<u>(6,404)</u>	<u>(24,839)</u>	<u>(31,243)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	21,000	21,000
Transfers out	-	-	-
Total other financing sources and uses	<u>-</u>	<u>21,000</u>	<u>21,000</u>
Net change in fund balances	(6,404)	(3,839)	(10,243)
FUND BALANCES - BEGINNING	<u>294,051</u>	<u>550,129</u>	<u>848,478</u>
FUND BALANCES - ENDING	<u>\$ 287,647</u>	<u>\$ 546,290</u>	<u>\$ 833,937</u>

Town of Machias, Maine

TOWN OF MACHIAS SCHOOL DEPARTMENT
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND

Year ended June 30, 2016

	Adjusted Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Local assessments	\$ 1,474,647	\$ 1,474,647	\$ -
State subsidy	1,702,750	1,737,698	34,948
Intergovernmental	6,500	26,241	19,741
Tuition and fees	1,232,650	1,457,997	225,347
Other	20,914	19,840	(1,074)
Total revenues	<u>4,437,461</u>	<u>4,716,423</u>	<u>278,962</u>
EXPENDITURES			
Regular instruction			
Elementary	1,301,994	1,302,485	(491)
Early childhood	133,422	135,693	(2,271)
Secondary	640,497	649,869	(9,372)
Instruction improvement	7,720	-	7,720
Special education			
Elementary	332,512	319,557	12,955
Secondary	160,048	157,192	2,856
Administrative	31,629	31,629	-
Tutoring	4,406	1,168	3,238
Evaluation	19,858	16,717	3,141
Speech therapy	20,582	26,489	(5,907)
Gifted and talented	81,740	67,761	13,979
Career and technical education	197,600	182,314	15,286
Other Instruction			
Co-curricular - athletic elementary	26,745	21,266	5,479
Co-curricular - athletic secondary	75,047	86,643	(11,596)
Co-curricular - elementary	17,048	23,270	(6,222)
Co-curricular - secondary	31,791	31,590	201
Student and staff support			
Guidance and counseling - elementary	77,409	76,564	845
Guidance and counseling - secondary	97,254	92,925	4,329
Health services	44,603	42,036	2,567
Library and media - elementary	22,207	19,511	2,696
Library and media - secondary	40,579	42,696	(2,117)
System administration			
Office of superintendent	119,620	119,620	-
School board	20,150	23,927	(3,777)
School administration			
Office of principal - elementary	185,648	170,127	15,521
Office of principal - secondary	134,044	157,812	(23,768)
Transportation and buses	145,707	180,386	(34,679)
Facilities and maintenance			
Operation and maintenance of plant	472,214	453,674	18,540
Debt service	90,000	87,184	2,816
Vehicle Maintenance & Operation	17,200	3,771	13,429
Site improvement	500	-	500
Other			
Contingency	10,000	-	10,000
Total expenditures	<u>4,559,774</u>	<u>4,523,876</u>	<u>35,898</u>
Excess (deficiency) of revenues over expenditures	<u>(122,313)</u>	<u>192,547</u>	<u>314,860</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	(197,687)	(170,000)	27,687
Utilization of prior year surplus	320,000	-	(320,000)
Total other financing sources	<u>122,313</u>	<u>(170,000)</u>	<u>(292,313)</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 22,547</u>	<u>\$ 22,547</u>

Town of Machias, Maine
Combining Balance Sheet - Special Revenue Funds - Town
June 30, 2016

	Downtown Revolving Loan Fund	Station 98	Economic Development (Mill)	State Local Road Assistance	Sewer Grant	Maine Waste Management Grant	Downtown planning	Thermal imaging camera	Scholar- ship	Totals
ASSETS										
Investments	\$ -	\$ 11,130	\$ 256,448	\$ -	\$ -	\$ -	\$ -	\$ 1,791	\$ -	\$ 269,369
Loans receivable	2,620	-	-	-	-	-	-	-	-	2,620
Due from other funds	5,401	-	-	16,345	86	4,990	8,784	-	175	35,781
Total assets	<u>\$ 8,021</u>	<u>\$ 11,130</u>	<u>\$ 256,448</u>	<u>\$ 16,345</u>	<u>\$ 86</u>	<u>\$ 4,990</u>	<u>\$ 8,784</u>	<u>\$ 1,791</u>	<u>\$ 175</u>	<u>\$ 307,770</u>
LIABILITIES										
Due to other funds	\$ -	\$ 8,063	\$ 11,663	\$ -	\$ -	\$ -	\$ -	\$ 397	\$ -	\$ 20,123
FUND EQUITY										
Fund Balance										
Restricted	8,021	3,067	244,785	16,345	86	4,990	8,784	1,394	175	287,647
Total fund equity	<u>8,021</u>	<u>3,067</u>	<u>244,785</u>	<u>16,345</u>	<u>86</u>	<u>4,990</u>	<u>8,784</u>	<u>1,394</u>	<u>175</u>	<u>287,647</u>
Total liabilities and fund equity	<u>\$ 8,021</u>	<u>\$ 11,130</u>	<u>\$ 256,448</u>	<u>\$ 16,345</u>	<u>\$ 86</u>	<u>\$ 4,990</u>	<u>\$ 8,784</u>	<u>\$ 1,791</u>	<u>\$ 175</u>	<u>\$ 307,770</u>

Town of Machias, Maine
Statement of Receipts, Disbursements, and Changes in Balances
Agency Funds
June 30, 2016

	Balances			Balances
	July 1,	Receipts	Disbursements	June 30,
	2015			2016
Rose Gaffney School	\$ 24,875	\$ 47,261	\$ 46,355	\$ 25,781
Machias High School	42,416	111,749	109,591	44,574
Machias Vocational Center	5,512	348	345	5,515
Total	\$ 72,803	\$ 159,358	\$ 156,291	\$ 75,870

Town of Machias, Maine
Taxes receivable, Tax liens and Tax acquired property
General Fund
June 30, 2016

Taxes receivable	
2015	\$ 254,126
2014	2,698
2013 and prior	<u>6,344</u>
Total taxes receivable	<u>263,168</u>
Tax liens and tax acquired property	
2014	111,149
2013 and prior	<u>4,415</u>
Total tax liens and tax acquired property	<u>115,564</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 378,732</u>



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**Report on Compliance
With the Requirements of the
Maine School Finance Act**

Board of Selectmen
Town of Machias, Maine

We audited the financial statements of Town of Machias, Maine as of and for the year ended June 30, 2016, and have issued our report thereon dated December 28, 2016.

The management of Town of Machias, Maine is responsible for the Town's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Town's compliance with laws and regulations, noncompliance with which could have a material effect on the financial statements of Town of Machias, Maine.

Title 20-A Sec 6051 requires certain written assurances with respect to school audits. Our audit of compliance with laws and regulations consisted of, at a minimum, the following:

1. The audit has been conducted in accordance with applicable state and federal laws relating to financial and compliance audits as indicated in federal Office of Management and Budget circulars.
2. Budgetary controls were in place.
3. A determination of whether or not the annual financial data submitted to the department is correct.
4. A determination of whether or not the School Department has exceeded its authority to expend funds as provided by the total budget summary article.
5. The School Department has complied with applicable provisions of the Essential Services and Program Funding Act.
6. A determination of whether the School Department has complied with the applicable provisions of the unexpended balances requirements established under Section 15004.
7. The School Department has complied with transfer limitations between budget cost centers pursuant to section 1485, subsection 4.
8. The School Department has complied with budget content requirements pursuant to section 15693, subsection 1 and cost center summary budget format requirements pursuant to sections 1305C, 1485, 1701C and 2307.

The results of our tests indicate that, for the items tested, Town of Machias, Maine complied with those provisions of Maine laws and regulations. Nothing came to our attention that caused us to believe that, for the items not tested, Town of Machias, Maine was not in compliance with Maine laws and regulations.

Brantner Thibodeau & Associates

December 28, 2016

Town of Machias, Maine
Reconciliation of Audit Adjustments to Annual Financial Data
Submitted to MEDMS Financial System
Year ended June 30, 2016

	General		Special Revenue		Totals
	Fund	Grants and other	School lunch		
June 30 balance as per MEDMS	\$ 594,979	\$ 6,166	\$ (172,990)	\$ 428,155	
Beginning balance adjustments	66,094	(383)	(24,404)	41,307	
Revenues adjustments					
Revenues per MEDMS	4,824,305	448,725	257,654	5,530,684	
Due from other governments	-	49,242	-	49,242	
Transfer in	-	-	170,000	170,000	
Adjust revenues	19,966	-	-	19,966	
Adjust receivables	144,808	-	(3,402)	141,406	
Expenditures adjustments					
Expenses per MEDMS	(4,784,578)	(493,798)	(294,295)	(5,572,671)	
Adjustment to expenses	(34,354)	1,189	-	(33,165)	
Transfers out	(170,000)	-	-	(170,000)	
Adjust inventory	-	-	(86)	(86)	
GAAP Basis Fund Balance (Deficit)	<u>\$ 661,220</u>	<u>\$ 11,141</u>	<u>\$ (67,523)</u>	<u>\$ 604,838</u>	



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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Selectmen
Town of Machias, Maine

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Machias, Maine as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Town of Machias, Maine's basic financial statements and have issued our report thereon dated December 28, 2016. Our report includes a reference to other auditors who audited the Schedules of Pension Amounts by Employer reported by the State of Maine Public Employees Retirement System, as described in our report on the Town of Machias, Maine's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency which is described in the accompanying schedule of findings and questioned costs as item #2016-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Machias, Maine's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item #2016-002.

We noted certain other matters that we have reported to management of Town of Machias, Maine, in the letter dated December 28, 2016.

Town of Machias, Maine's Response to Findings

Town of Machias, Maine's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Machias, Maine's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Bartrur Chibodian & Associates

December 28, 2016

**Independent Auditor's Report on Compliance For Each Major Program
and on Internal Control over Compliance Required by the Uniform Guidance**

Board of Selectmen
Town of Machias, Maine

Report on Compliance for Each Major Federal Program

We have audited Town of Machias, Maine's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Town of Machias, Maine's major federal programs for the year ended June 30, 2016. Town of Machias, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Town of Machias, Maine's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Machias, Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Town of Machias, Maine's compliance.

Opinion on Each Major Federal Program

In our opinion, Town of Machias, Maine, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Town of Machias, Maine is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Town of Machias, Maine's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Machias, Maine's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Barbara Shiodian & Associates

December 28, 2016

Town of Machias, Maine
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	Disbursements/ Expenditures
<i>U.S. Department of Agriculture</i>			
<i>Passed through State Department of Education</i>			
Fresh fruit and vegetable program	10.582	13-05A-3028-05	\$ 20,422
<i>Cluster</i>			
National School Lunch Program	10.555	13-05A-8025-05	135,291
After school snack	10.555	13-05A-3020-05	12,817
Summer food service program	10.559	13-05A-3016-05	5,337
School breakfast program	10.553	13-05A-3014-05	47,654
<i>Total Child Nutrition Cluster</i>			<u>201,099</u>
Total U.S. Department of Agriculture			<u>221,521</u>
<i>U.S. Department of Environmental Protection</i>			
<i>Passed through Maine Department of Environmental Protection</i>			
Capitalization Grants for Clean Water State Revolving Funds	66.458	EM96154201	<u>15,958</u>
<i>U.S. Department of Education</i>			
<i>Passed through State Department of Education</i>			
Title IA Grants to Local Educational Agencies	84.010	13-05A-3057-13	189,733
Career and technical education- Perkins Title IC	84.048	13-05A-3030-8	35,279
Title IIA teacher quality	84.367	13-05A-3042-11	27,399
Rural Education Achievement Program	84.358	13-05A-1078-03	3,813
<i>Special Education Cluster</i>			
Part B Section 619- Preschool	84.173	13-05A-6241-23	2,007
Title VI, Part B - Local Entitlement	84.027	13-05A-3046-12	81,766
<i>Total Special Education Cluster</i>			<u>83,773</u>
Total U.S. Department of Education			<u>339,997</u>
<i>U.S. Department of Health and Human Services</i>			
<i>Passed through Maine Development Foundation</i>			
Community transformation program- Healthy Maine Streets	93.737	unknown	<u>1,847</u>
<i>U.S. Housing and Urban Development</i>			
<i>Passed through State Department of Economic and Community Development</i>			
Workforce Development Grant	14.228	015-19A-0587-012-6331	<u>138,524</u>
<i>U.S. Department of Justice</i>			
<i>Passed through Town of Baileyville, Maine</i>			
Edward Byrne Memorial Justice Assistance Grant	16.738	BAI-01-13	<u>10,118</u>
<i>U.S. Department of Transportation</i>			
<i>Direct</i>			
FAA grant - airport improvement program	20.106	AIP#3-23-0029-06-2011	<u>66,548</u>
Total expenditures of federal awards			<u>\$ 794,513</u>

Town of Machias, Maine
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

PURPOSE OF THE SCHEDULE

The Uniform Guidance requires a Schedule of Expenditures of Federal Awards showing total expenditures for each federal award program as identified in the catalog of Federal Domestic Assistance (CFDA).

SIGNIFICANT ACCOUNTING POLICIES

1. REPORTING ENTITY

The accompanying schedule includes all federal award programs of the Town for the fiscal year ended June 30, 2016. The reporting entity is defined in the Notes to the Financial Statements of Town of Machias, Maine.

2. BASIS OF PRESENTATION

The information in this schedule is presented in accordance with the requirements of requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

- a. Pursuant to the Uniform Guidance, federal financial assistance is defined as assistance provided by federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations.
- b. The Uniform Guidance establishes the level of expenditures to be used in defining major federal financial award programs. Major programs for the Town have been identified in the Schedule of Findings and Questioned Costs

3. BASIS OF ACCOUNTING

The information presented in the Schedule of Expenditures of Federal Awards is presented on a basis consistent with the Town's general purpose financial statements. The grants included are all accounted for on a modified accrual basis of accounting which is described in the notes to the general purpose financial statements.

4. NONCASH AWARDS

The amount reported on the schedule is the value of commodities received by the Town during the current year and priced as prescribed by USDA and is included in the National School Lunch Program total.

5. CHILD NUTRITION CLUSTER

The Town commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Unit assumes it expends federal monies first.

**Town of Machias, Maine
Schedule of Findings and Questioned Costs
Year ended June 30, 2016**

Section I — Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP - *Unmodified opinion*

Internal control over financial reporting

- Material weakness(es) identified? - yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? - yes none reported

Noncompliance material to financial statements noted? - yes no

Federal Awards

Internal control over major programs

- Material weakness(es) identified? - yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? - yes none reported

Type of auditor's report issued on compliance for major programs - *Unmodified opinion*

Any audit findings disclosed that are required to be reported in accordance with the 2 CFR 200.516(a)? - yes no

Identification of major programs

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
14.228	Community Development Block Grants
10.555,10.553	National School Lunch Program Cluster

Dollar threshold used to distinguish between Type A and Type B programs - \$750,000

Auditee qualified as low-risk auditee? - yes no

**Town of Machias, Maine
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2016**

Section II — Financial Statement Findings

	#2016-001
<i>Criteria or specific requirement</i>	Internal control over financial reporting and closing process.
<i>Condition</i>	The Town and school department need to implement additional controls over year end closing procedures and the preparation of the financial statement. The lack of which results in significant audit adjustments. Reconciliations required for financial statement preparation and information required for conversion of fund financial statements to government-wide financial statements and other adjusting entries are not always being performed appropriately and effectively.
<i>Context</i>	The overall year-end financial closing process and reconciliations to financial statements are now being performed timely and additionally the Town and the School department maintain independent accounting records, however, additional adjustments were needed to reconcile these sets of records.
<i>Effect</i>	The Town and school department may not be able to identify an error or misstatement in the financial statements. In addition, management may not be able to recognize that a required footnote has been omitted or an inappropriate footnote has been included in the footnotes.
<i>Cause</i>	Lack of year end reconciliations and analysis of the overall reporting requirements including a lack of maintaining appropriate subsidiary records for year-end adjusting entries. Lack of knowledge and training necessary to permit the Town to understand its own financial statements and required footnotes.
<i>Recommendation</i>	The Town and School Department should establish a system of control and records at year end as wells as throughout the years to ensure these records are in agreement and financial statements are adjusted appropriately. The Town and School Department will need to take additional time in the year end closing process to identify any errors or misstatements in its own financial statements and required footnotes.
<i>Management's response</i>	The Town and School Department will put in place a process for more accurate year-end closing and financial statement preparation. Management will work with the auditor to identify and correct problematic areas.

**Town of Machias, Maine
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2016**

Section II — Financial Statement Findings (Continued)

#2016-002

<i>Information on the federal program</i>	CFDA #84.010, Title IA
<i>Pass-through entity</i>	State of Maine, Department of Education
<i>Finding type</i>	Non-compliance
<i>Criteria or specific requirement (including statutory, regulatory, or other citation)</i>	Cash management (2 CFR section 200.305(b).
<i>Condition</i>	The School Department does not have adequate procedures in place to monitor cash balances of federal funds to minimize the time between receipt and disbursements of funds including the lack of review of financials for accurate reporting.
<i>Questioned costs</i>	None.
<i>Context</i>	The balances of the grant program identified above exceeded amounts considered reasonable for immediate cash needs.

Section III — Federal Award Findings and Questioned Costs

None noted

Town of Machias, Maine
Summary Schedule of Prior Audit Findings
Year ended June 30, 2016

#2015-001

Condition

The Town does not have appropriate controls over year end closing procedures and the preparation of the financial statements, which results in significant audit adjustments. Reconciliations required for financial statement preparation and information required for conversion of fund financial statements to government-wide financial statements and other adjusting entries are not being performed appropriately and effectively.

Current Status

The process was improved in 2015-16.

#2015-002

Condition

The Town did not perform the necessary review of its budget and tax commitment reconciliation to recognize an error.

Current Status

The finding was corrected in 2015-16.

#2015-003

Condition

The school department is exceeded its authority to spend funds under the total budgetary summary article provisions of Maine laws and regulations.

Current Status

The finding was corrected in 2015-16.