

Town of Machias, Maine

**REPORT ON FINANCIAL STATEMENTS
(with required and other supplementary information)**

For the Year Ended June 30, 2010

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Independent Auditor's Report

Board of Selectmen
Town of Machias, Maine

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, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Machias, Maine's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Machias, Maine as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2011 on our consideration of the Town of Machias, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 6 through 15 and 44 through 45 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Machias, Maine's financial statements as a whole. The other supplementary information described in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ronald M. Woodman & Associates

Bangor, Maine
April 13, 2011

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, 2010 compared with 2009. The report is presented in a manner that fairly represents the Town's present financial position in respect to all funds and accounts. Included is all the information to accurately understand the Town's financial position, and the data is correct to the best of our knowledge and belief.

The report includes funds and accounts that the Town of 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.

An assortment of hotels, restaurants, churches, hardware stores, and banking institutions are located throughout town.

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. A new regional airport is currently being studied and could provide an economic boost to the area should the project move forward.

Town of Machias, Maine

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

FINANCIAL INFORMATION

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.

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, 2010 was \$2,443,351.
- On a budget basis the Town originally budgeted a deficiency of \$68,208. However, there was a positive budget variance of \$183,252.

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 assets 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

Town of Machias, Maine

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

which now include total bonds and leases due over their entire lives. The result is the net assets 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.

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 to be a major governmental fund.

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 27-43.

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 44-45.

Town of Machias, Maine

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

The report also presents, in combining schedules, non-major governmental funds following the required supplementary information.

GOVERNMENT-WIDE ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$11,670,958 as of June 30, 2010.

Net Assets for the Period Ending June 30, 2010 and 2009

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 2,637,381	\$ 2,302,491	\$ 1,020,860	\$ 732,343	\$ 3,658,241	\$ 3,034,834
Capital assets	<u>4,731,082</u>	<u>4,338,383</u>	<u>6,067,360</u>	<u>5,793,144</u>	<u>10,798,442</u>	<u>10,131,527</u>
Total Assets	<u>7,368,463</u>	<u>6,640,874</u>	<u>7,088,220</u>	<u>6,525,487</u>	<u>14,456,683</u>	<u>13,166,361</u>
Current liabilities	559,215	577,690	207,065	16,193	766,280	593,883
Noncurrent liabilities	<u>1,424,346</u>	<u>999,502</u>	<u>595,099</u>	<u>657,533</u>	<u>2,019,445</u>	<u>1,657,035</u>
Total Liabilities	<u>1,983,561</u>	<u>1,577,192</u>	<u>802,164</u>	<u>673,726</u>	<u>2,785,725</u>	<u>2,250,918</u>
Net Assets (Accumulated Deficit)						
Investment in capital assets, net of debt	3,306,736	3,373,867	5,472,261	5,135,611	8,778,997	8,509,478
Restricted	393,861	401,758	949,763	935,599	1,343,624	1,337,357
Unrestricted	<u>1,684,305</u>	<u>1,288,057</u>	<u>(135,968)</u>	<u>(219,449)</u>	<u>1,548,337</u>	<u>1,068,608</u>
Total Net Assets	<u>\$ 5,384,902</u>	<u>\$ 5,063,682</u>	<u>\$ 6,286,056</u>	<u>\$ 5,851,761</u>	<u>\$ 11,670,958</u>	<u>\$ 10,915,443</u>

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

As a result of applying the GASB 34 statement, the Town recorded depreciation expense of \$242,337.

The Town recognized deferred property taxes of \$58,381 as revenue for the Statement of Net Assets.

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, 2010 and 2009.

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
REVENUES						
Charges for services and other	\$ 82,354	\$ 99,551	\$ 1,016,927	\$ 1,018,086	1,099,281	\$ 1,117,637
Operating grants and contributions	4,013,467	4,382,412	-	-	4,013,467	4,382,412
Capital grants and contributions	66,723	482,268	478,074	111,216	544,797	593,484
Property taxes	2,645,708	2,423,621	-	-	2,645,708	2,423,621
Excise and miscellaneous taxes	232,509	231,706	-	-	232,509	231,706
Interest and lien charges	29,555	25,251	-	-	29,555	25,251
Grants and contributions not restricted to specific purpose	346,157	428,048	-	-	346,157	428,048
Unrestricted investment and interest income	17,993	27,273	29,446	20,842	47,439	48,115
Miscellaneous	22,062	45,042	-	1	22,062	45,043
Transfers	<u>(48,284)</u>	<u>(30,652)</u>	<u>48,284</u>	<u>30,652</u>	-	-
Total Revenues	<u>7,408,244</u>	<u>8,114,520</u>	<u>1,572,731</u>	<u>1,180,797</u>	<u>8,980,975</u>	<u>9,295,317</u>
EXPENSES AND TRANSFERS						
General government	\$ 286,008	\$ 277,740	-	-	\$ 286,008	\$ 277,740
Public safety	575,099	584,031	-	-	575,099	584,031
Public works	383,122	441,967	-	-	383,122	441,967
General assistance	2,450	1,393	-	-	2,450	1,393
Culture and recreation	49,202	47,649	-	-	49,202	47,649
Education	3,847,804	4,619,824	-	-	3,847,804	4,619,824
Adult education-general	178,013	178,013	-	-	178,013	178,013
On-behalf payments -- State of Maine	447,058	456,516	-	-	447,058	456,516
Grants and other contributions	806,868	527,759	-	-	806,868	527,759
Interest on long-term debt	26,462	60,349	-	-	26,462	60,349
Airport	6,524	16,325	-	-	6,524	16,325
Tax incremental financing	24,563	-	-	-	24,563	-
County tax	167,629	167,744	-	-	167,629	167,744
School lunch program	170,015	176,976	-	-	170,015	176,976
Capital outlay	116,207	554,112	-	-	116,207	554,112
Business-type Activities	-	-	<u>1,138,436</u>	<u>1,122,759</u>	<u>1,138,436</u>	<u>1,122,759</u>
Total Expenses	<u>7,087,024</u>	<u>8,110,398</u>	<u>1,138,436</u>	<u>1,122,759</u>	<u>8,225,460</u>	<u>9,233,157</u>
Change in net assets	321,220	4,122	434,295	58,038	755,515	62,160
Net assets, beginning of year	5,063,682	5,162,883	5,851,761	5,690,400	10,915,443	10,853,283
Restatement of beginning capital assets	-	(103,323)	-	103,323	-	-
Net assets, end of year	<u>\$5,384,902</u>	<u>\$ 5,063,682</u>	<u>\$6,286,056</u>	<u>\$5,851,761</u>	<u>\$11,670,958</u>	<u>\$10,915,443</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, 2010, the Town's net assets for governmental activities increased by \$321,220.

Expenses of governmental activities include depreciation expense of \$242,337. 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, 2010 totaled \$3,245,700, an increase of 3% from June 30, 2009. Of this amount, \$2,645,708 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, 2010, the Town's net assets from business-type activities increased by \$434,295 with the receipt of sewer capital grants 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 \$1,817,106, \$294,983 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:

Town of Machias, Maine

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

Revenues include property taxes totaling \$2,587,327. Excise taxes accounted for \$224,700 in total revenue.

On behalf payments amounted to \$447,058 during the year ended June 30, 2010. 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 \$7,827,129, \$570,447 lower than the previous year.

The Town paid \$753,586 in governmental funds capital outlays during the year. Of this, \$635,036 was capitalized.

Capital Asset and Debt Administration

Capital Assets

	Balance 6/30/09	Additions/ Completions	Retire- ments/reclass	Balance 6/30/10
Governmental Activities				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	-	545,399	-	545,399
Buildings and improvements	6,190,841	26,602	-	6,217,443
Infrastructure	798,701	-	-	798,701
Equipment, furniture and fixtures	591,379	63,035	-	654,414
Vehicles	<u>1,010,790</u>	<u>-</u>	<u>-</u>	<u>1,010,790</u>
Total capital assets	<u>9,156,785</u>	<u>635,036</u>	<u>-</u>	<u>9,791,821</u>
<i>Less accumulated depreciation</i>	<u>(4,818,402)</u>	<u>(242,337)</u>	<u>-</u>	<u>(5,060,739)</u>
Total capital assets, net	<u>\$4,338,383</u>	<u>\$ 392,699</u>	<u>\$ -</u>	<u>\$ 4,731,082</u>

Town of Machias, Maine

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

	Total Interest Paid
Bonds and notes payable	\$ 41,210
Capital lease obligations	<u>5,925</u>
Total	<u>\$ 47,135</u>

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 Highlights

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

Additional information about this difference can be found on page 44 of the financial statements.

FINANCIAL HIGHLIGHTS

The following is a discussion of the financial highlights during the fiscal year ended June 30, 2010.

During the year, budgeted revenues exceeded actual revenues by \$222,460. Most of this variance resulted from reduction in property tax collections and reduction in intergovernmental revenues.

Budgeted expenditures exceeded actual expenditures by \$384,205.

Town of Machias, Maine

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

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, at PO Box 418 Machias, Maine 04654 or call (207) 255-6621.

Town of Machias, Maine
Statement of Net Assets
June 30, 2010

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and equivalents	\$ 1,347,214	\$ 208,025	\$ 1,555,239
Investments	369,607	425,627	795,234
Taxes and fees receivable	351,985	523,746	875,731
Internal balances	288,441	(288,441)	-
Due from fiduciary funds	5,500	-	5,500
Due from other governmental agencies	261,752	151,903	413,655
Other receivables	8,183	-	8,183
Inventories	4,699	-	4,699
Capital assets, net	4,731,082	6,067,360	10,798,442
Total assets	<u>7,368,463</u>	<u>7,088,220</u>	<u>14,456,683</u>
LIABILITIES			
Accounts payable and accrued expenses	119,954	207,065	327,019
Due to other governmental agencies	4,531	-	4,531
Prepaid taxes	2,675	-	2,675
Accrued summer teacher pay	432,055	-	432,055
Long-term liabilities			
Due within one year			
Bonds and notes payable	326,572	63,428	390,000
Capital leases payable	25,891	-	25,891
Due in more than one year			
Bonds and notes payable	1,020,799	531,671	1,552,470
Capital leases payable	51,084	-	51,084
Total liabilities	<u>1,983,561</u>	<u>802,164</u>	<u>2,785,725</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,306,736	5,472,261	8,778,997
Restricted for			
Capital projects	343,182	-	343,182
Machias Water Co.	-	309,630	309,630
Other purposes	50,679	640,133	690,812
Unrestricted (deficit)	1,684,305	(135,968)	1,548,337
Total net assets	<u>\$ 5,384,902</u>	<u>\$ 6,286,056</u>	<u>\$ 11,670,958</u>

Town of Machias, Maine
Statement of Activities
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenues and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental activities						
General government	\$ 286,008	\$ 9,265	-	\$ -	\$ (276,743)	\$ (276,743)
Public safety	575,099	25,952	-	-	(549,147)	(549,147)
Public works	383,122	5,551	17,964	-	(359,607)	(359,607)
General assistance	2,450	-	1,880	-	(570)	(570)
Culture and recreation	49,202	984	596	-	(47,622)	(47,622)
Education	3,847,804	-	2,473,172	-	(1,374,632)	(1,374,632)
Adult education	178,013	-	99,559	-	(78,454)	(78,454)
On-behalf payments - State of Maine	447,058	-	447,058	-	-	-
Grants and other contributions	806,868	-	832,541	-	25,673	25,673
Interest on long-term debt	26,462	-	-	-	(26,462)	(26,462)
Airport	6,524	600	20	-	(5,904)	(5,904)
Tax incremental financing	24,563	-	-	-	(24,563)	(24,563)
County tax	167,629	-	-	-	(167,629)	(167,629)
School lunch program	170,015	40,002	140,677	-	10,664	10,664
Capital outlay	116,207	-	-	66,723	(49,484)	(49,484)
Total governmental activities	7,087,024	82,354	4,013,467	66,723	(2,924,480)	(2,924,480)
Business-type activities						
Sewer fund	469,360	396,111	-	478,074	-	404,825
Solid waste	385,072	319,594	-	-	(65,478)	(65,478)
Ambulance fund	208,991	236,311	-	-	27,320	27,320
Telcenter	75,013	64,911	-	-	(10,102)	(10,102)
Total business-type activities	1,138,436	1,016,927	-	478,074	356,565	356,565
	\$ 8,225,460	\$ 1,099,281	\$ 4,013,467	\$ 544,797	(2,924,480)	(2,557,915)
General revenues:						
Taxes:						
Property taxes					2,645,708	2,645,708
Excise taxes, licenses, permits and fees					232,509	232,509
Interest and lien costs					29,555	29,555
Grants and contributions not restricted to specific programs					346,157	346,157
Unrestricted investment and interest earnings					17,993	17,993
Miscellaneous					22,062	22,062
Transfers					(46,284)	(46,284)
Total general revenues					3,245,700	3,245,700
Change in net assets					321,220	755,515
Net assets - beginning					5,063,682	10,915,443
Net assets - ending					\$ 5,384,902	\$ 11,670,958

See accompanying notes to basic financial statements.

**Town of Machias, Maine
Balance Sheet
Governmental Funds
June 30, 2010**

	<u>General Fund</u>	<u>Special Revenue Fund - School Categorical Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,304,578	\$ 2,602	\$ 40,033	\$ 1,347,213
Investments	110,456	-	259,150	369,606
Taxes receivable, net	351,985	-	-	351,985
Due from other funds	860,351	213,484	576,272	1,650,107
Receivable from other governments	246,841	7,304	7,608	261,753
Other receivables	560	-	7,623	8,183
Inventories	-	-	4,699	4,699
Total assets	<u>\$ 2,874,771</u>	<u>\$ 223,390</u>	<u>\$ 895,385</u>	<u>\$ 3,993,546</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 89,550	\$ 27,219	\$ -	\$ 116,769
Due to other funds	1,320,152	-	36,014	1,356,166
Payable to other governments	4,531	-	-	4,531
Deferred property taxes	261,058	-	-	261,058
Prepaid property taxes	2,675	-	-	2,675
Accrued summer teacher pay	389,236	38,036	4,783	432,055
Other payables	3,186	-	-	3,186
Total liabilities	<u>2,070,388</u>	<u>65,255</u>	<u>40,797</u>	<u>2,176,440</u>
Fund balances				
Reserved for				
Capital projects	-	-	343,182	343,182
Other purposes	48,056	-	2,623	50,679
Unreserved				
Designated for education	25,054	-	-	25,054
Designated for town	5,895	-	-	5,895
Undesignated	725,378	158,135	-	883,513
Unreserved, reported in non-major				
Designated capital projects funds	-	-	203,783	203,783
Undesignated special revenue funds	-	-	305,000	305,000
Total fund balances	<u>804,383</u>	<u>158,135</u>	<u>854,588</u>	<u>1,817,106</u>
Total liabilities and fund balances	<u>\$ 2,874,771</u>	<u>\$ 223,390</u>	<u>\$ 895,385</u>	<u>\$ 3,993,546</u>

Town of Machias, Maine
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2010

Total fund balance, governmental funds	\$ 1,817,106
Amounts reported for governmental activities in the Statement of Net Assets 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 Assets.	4,731,082
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	
Deferred revenue related to property taxes	261,058
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, and Bonds Payable), 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 Assets.	(1,424,344)
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 5,384,902</u>

Town of Machias, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	<u>General Fund</u>	<u>Special Revenue Fund - School Categorical Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 2,587,327	\$ -	\$ -	\$ 2,587,327
Excise taxes	224,700	-	-	224,700
Interest and lien charges	29,555	-	-	29,555
Licenses, permits and fees	21,822	-	-	21,822
Intergovernmental	2,911,584	872,580	208,007	3,992,171
On-behalf payments - State of Maine	447,058	-	-	447,058
Charges for services	24,252	-	40,002	64,254
Investment and interest earnings	12,153	-	5,839	17,992
Miscellaneous	13,877	-	-	13,877
Total revenues	<u>6,272,328</u>	<u>872,580</u>	<u>253,848</u>	<u>7,398,756</u>
EXPENDITURES				
Current				
General government	274,961	-	-	274,961
Police department	253,909	-	-	253,909
Fire department	255,657	-	-	255,657
Highways and streets	295,807	-	-	295,807
Education	3,838,745	822,600	-	4,661,345
Adult education	144,955	-	-	144,955
On-behalf payments - State of Maine	447,058	-	-	447,058
Recreation	6,203	-	-	6,203
General assistance	2,450	-	-	2,450
Airport	6,104	-	-	6,104
Public safety building	16,053	-	-	16,053
County tax	167,629	-	-	167,629
Third party requests	40,080	-	-	40,080
Tax increment financing	24,563	-	-	24,563
Other services	7,065	-	9,657	16,722
School lunch program	-	-	170,015	170,015
Debt service				
Principal	263,570	-	-	263,570
Interest and other charges	26,462	-	-	26,462
Capital outlay	125,160	-	628,426	753,586
Total expenditures	<u>6,196,431</u>	<u>822,600</u>	<u>808,098</u>	<u>7,827,129</u>
Excess (deficiency) of revenues over expenditures	<u>75,897</u>	<u>49,980</u>	<u>(554,250)</u>	<u>(428,373)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from debt	-	-	708,605	708,605
Proceeds from capital leases	63,035	-	-	63,035
Transfers in	72,733	-	16,641	89,374
Transfers out	(93,261)	(15,725)	(28,672)	(137,658)
Total other financing sources and uses	<u>42,507</u>	<u>(15,725)</u>	<u>696,574</u>	<u>723,356</u>
Net change in fund balances	118,404	34,255	142,324	294,983
FUND BALANCES - BEGINNING	<u>685,979</u>	<u>123,880</u>	<u>712,264</u>	<u>1,522,123</u>
FUND BALANCES - ENDING	<u>\$ 804,383</u>	<u>\$ 158,135</u>	<u>\$ 854,588</u>	<u>\$ 1,817,106</u>

See accompanying notes to basic financial statements.

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, 2010

Net change in fund balances - total governmental funds: \$ 294,983

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	635,036	
Depreciation	<u>(242,337)</u>	392,699

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. This amount represents the change in the deferred taxes

58,381

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		(772,248)
Debt repayments		<u>347,405</u>

Change in net assets of governmental activities

\$ 321,220

Town of Machias, Maine
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Enterprise Funds			Total
	Sewer Fund	Solid Waste Facility	Other Proprietary Funds	
ASSETS				
Current assets				
Cash and cash equivalents	\$ -	\$ 193,878	\$ 14,147	\$ 208,025
Investments	425,627	-	-	425,627
Accounts receivable, net	378,093	-	145,653	523,746
Due from other funds	9,513	-	541,598	551,111
Receivables from other governments	151,903	-	-	151,903
Total current assets	<u>965,136</u>	<u>193,878</u>	<u>701,398</u>	<u>1,860,412</u>
Non-current assets				
Capital assets				
Land and improvements	1,000	-	-	1,000
Infrastructure and buildings	6,169,671	345,250	650,068	7,164,989
Construction in progress	1,351,305	-	-	1,351,305
Vehicles and equipment	302,630	52,368	161,713	516,711
Less accumulated depreciation	<u>(2,286,062)</u>	<u>(274,211)</u>	<u>(406,372)</u>	<u>(2,966,645)</u>
Total non-current assets	<u>5,538,544</u>	<u>123,407</u>	<u>405,409</u>	<u>6,067,360</u>
Total assets	<u>6,503,680</u>	<u>317,285</u>	<u>1,106,807</u>	<u>7,927,772</u>
LIABILITIES				
Current liabilities				
Accounts payable	207,067	-	-	207,067
Due to other funds	272,206	466,869	100,475	839,550
Bonds and notes payable	47,844	15,584	-	63,428
Non-current liabilities				
Bonds and notes payable	498,921	32,750	-	531,671
Total liabilities	<u>1,026,038</u>	<u>515,203</u>	<u>100,475</u>	<u>1,641,716</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,991,779	75,073	405,409	5,472,261
Reserved for other purposes	419,719	193,878	26,536	640,133
Reserved for Machias Water Co.	309,630	-	-	309,630
Unrestricted (deficit)	(243,486)	(466,869)	-	(710,355)
Unrestricted, reported in nonmajor fund	-	-	574,387	574,387
Total net assets (deficit)	<u>\$ 5,477,642</u>	<u>\$ (197,918)</u>	<u>\$ 1,006,332</u>	<u>\$ 6,286,056</u>

Town of Machias, Maine
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

	Enterprise Funds			Total
	Sewer Fund	Solid Waste Facility	Other Proprietary Funds	
REVENUES				
Charges for services and interest	\$ 396,111	\$ 319,595	\$ 301,221	\$ 1,016,927
OPERATING EXPENSES				
Personal services	125,207	115,400	167,835	408,442
Contractual services	23,998	212,332	9,029	245,359
Utilities	83,617	9,696	18,504	111,817
Repairs and maintenance	17,346	6,877	19,466	43,689
Other supplies and expenses	50,285	5,479	12,923	68,687
Insurance claims and expenses	6,082	6,165	15,520	27,767
Capital outlay	13,427	14,851	-	28,278
Depreciation	136,644	12,142	40,727	189,513
Total operating expenses	<u>456,606</u>	<u>382,942</u>	<u>284,004</u>	<u>1,123,552</u>
Operating income (loss)	<u>(60,495)</u>	<u>(63,347)</u>	<u>17,217</u>	<u>(106,625)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	22,570	6,735	141	29,446
Capital grants and contributions	478,074	-	-	478,074
Interest expense	(12,755)	(2,129)	-	(14,884)
Total non-operating revenue	<u>487,889</u>	<u>4,606</u>	<u>141</u>	<u>492,636</u>
Income (loss) before transfers	<u>427,394</u>	<u>(58,741)</u>	<u>17,358</u>	<u>386,011</u>
Transfers in	60,112	17,207	-	77,319
Transfers out	-	-	(29,035)	(29,035)
Total transfers	<u>60,112</u>	<u>17,207</u>	<u>(29,035)</u>	<u>48,284</u>
Change in net assets	487,506	(41,534)	(11,677)	434,295
Total net assets (deficit) - beginning	<u>4,990,136</u>	<u>(156,384)</u>	<u>1,018,009</u>	<u>5,851,761</u>
Total net assets (deficit) - ending	<u>\$ 5,477,642</u>	<u>\$ (197,918)</u>	<u>\$ 1,006,332</u>	<u>\$ 6,286,056</u>

Town of Machias, Maine
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2010

	Proprietary Fund Types - Enterprise			Totals
	Sewer	Solid Waste Facility	Other Proprietary Funds	
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from user charges and tenants	\$ 333,582	\$ 319,595	\$ 336,858	\$ 990,035
Payments for administrative services	(259,109)	(136,740)	(214,782)	(610,631)
Payments to suppliers for goods and services	(60,853)	(234,060)	(28,495)	(323,408)
Interfund activity	(121,885)	51,205	(64,547)	(135,227)
Net cash provided (used) by operating activities	<u>(108,265)</u>	<u>-</u>	<u>29,034</u>	<u>(79,231)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Investment in Machias Water Co.	19,952	-	-	19,952
Interest paid	(12,755)	(2,129)	-	(14,884)
Interest income	2,618	6,735	141	9,494
Transfers in (out)	60,112	17,207	(29,035)	48,284
Net cash provided (used) by noncapital financing activities	<u>69,927</u>	<u>21,813</u>	<u>(28,894)</u>	<u>62,846</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on bonds	(47,356)	(15,078)	-	(62,434)
Bond proceeds	18,163	-	-	18,163
Capital grants and contributions	362,957	-	-	362,957
Acquisition and construction of capital assets	(272,856)	-	-	(272,856)
Net cash provided (used) by capital and related financial activities	<u>60,908</u>	<u>(15,078)</u>	<u>-</u>	<u>45,830</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(22,570)	-	-	(22,570)
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	6,735	140	6,875
CASH AND CASH EQUIVALENTS, BEGINNING	-	187,143	14,007	201,150
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ -</u>	<u>\$ 193,878</u>	<u>\$ 14,147</u>	<u>\$ 208,025</u>
Supplemental Information				
Interest charged to expense	<u>\$ 12,755</u>	<u>\$ 2,129</u>	<u>\$ -</u>	<u>\$ 14,884</u>
Reconciliation of operating income to net cash used by operating activities				
Operating income (loss)	\$ (60,495)	\$ (63,347)	\$ 17,217	\$ (106,625)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	136,644	12,142	40,727	189,513
(Increase) decrease in the following assets				
Accounts receivable	(62,529)	-	35,637	(26,892)
Interfund receivables	-	-	(42,146)	(42,146)
Increase (decrease) in the following liabilities				
Interfund payables	(121,885)	51,205	(22,401)	(93,081)
Net cash provided (used) by operating activities	<u>\$ (108,265)</u>	<u>\$ -</u>	<u>\$ 29,034</u>	<u>\$ (79,231)</u>

Town of Machias, Maine
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	<u>\$ 21,287</u>	<u>\$ 71,591</u>
LIABILITIES		
Due to student groups	-	71,591
Due to other funds	<u>5,500</u>	<u>-</u>
Total liabilities	<u>5,500</u>	<u>71,591</u>
NET ASSETS		
Held in trust for scholarships and other purposes	<u>\$ 15,787</u>	<u>\$ -</u>

Town of Machias, Maine
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2010

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Interest	\$ 65
Net assets - beginning	<u>15,722</u>
Net assets - ending	<u>\$ 15,787</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

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. As allowed in section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Town has elected not to apply Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued after November 30, 1989. The more significant accounting policies of the Town are described below.

Financial Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in its own name)
- the Town holds the corporate powers of the organization
- the Town appoints a voting majority of the organization's board
- the Town is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Town
- there is fiscal dependency by the organization on the Town

Based on the aforementioned criteria, the Town of Machias, Maine has no component units.

Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements report information of all the activities of the Town, except fiduciary funds. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. 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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Government-wide Financial Statements (Continued)

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.

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 and proprietary activities. These 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.

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.

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The Town has presented the following major proprietary funds:

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Proprietary Funds (Continued)

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.

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.

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

The Town has presented the following Fiduciary Funds:

Private Purpose 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. 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 includes student activities funds. Since agency funds are custodial in nature, they do not involve the measurement of results of operations.

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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus/Basis of Accounting (Continued)

The government-wide statements and fund financial statements for proprietary 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 assets and the operating statements present increases, revenues, and decreases, expenses, in net total assets. 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Agency funds are also presented on 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 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, as they are deemed immaterial.

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.

In accordance with Governmental Accounting Standard Board Statement No. 24, *Accounting and Reporting for Certain Grants and Other Financial Assistance*, 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 fund 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.

The Town prepares its general fund annual budget on a basis (budget basis) which differs from generally accepted accounting principles (GAAP basis). Additional information is presented on Exhibit 1.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits and Investments

For purposes of the statement of 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.

Inventories

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

Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or between proprietary funds are netted as part of the reconciliation to the government-wide financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances".

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 \$2,000 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

Prior to July 1, 2003, governmental funds' infrastructure assets were not fully capitalized. These assets acquired subsequently have been recorded at cost.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are reported as liabilities in government-wide statements. The long-term debt consists primarily of notes, bonds and capital leases payable.

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

Compensated Absences

The Town's policies regarding vacation and sick time does not permit employees to accumulate earned but unused vacation and sick leave. 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.

Nature and Purpose of Reservations and Designations of Fund Equity

The Town records reserves to indicate that a portion of the fund balance is legally segregated for a specific future use, which is indicated by the title of each reserve listed in the balance sheet and statement of net assets. Further information is provided in Notes 6 and 8.

The fund equity designation of designated other than school in the general fund represents funds set aside for future projects, primarily for future capital outlays. Further information is provided in Note 7.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed on their 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, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - Property Taxes

Property taxes were levied on assessed values of April 1, 2009 were due on October 15, 2009 and March 15, 2010, respectively. Interest was charged the highest rate per annum 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, 2009 a 3% discount was applied.

Property taxes assessed and collected during the year ended June 30, 2010, and during the first sixty days of the next fiscal year are recognized as revenue in 2010. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue.

Assessed value	
Real estate	\$134,601,400
Personal property	<u>8,075,400</u>
	\$142,676,800
Tax rate (per \$1,000)	<u>19.10</u>
Commitment	\$ 2,725,127
Less collections, discounts and abatements	<u>2,461,084</u>
Receivable at June 30, 2010	<u>\$ 264,044</u>
Collection rate	90%

Recent Accounting Pronouncements

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intent of this statement is to provide clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The new statement is effective for financial statement periods beginning after June 15, 2010. The Town is currently assessing the impact of this statement on its financial statements.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

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, 2010, the Town reported deposits of \$1,648,117 with bank balances of \$1,840,812. Of the Town's total bank balance of \$1,840,812, \$0 was exposed to custodial credit risk as all balances were insured or 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	\$1,347,214
Reported in proprietary funds	<u>208,025</u>
Total reported on the Statement of Net Assets	1,555,239
Reported in fiduciary funds	<u>92,878</u>
Total deposits	<u>\$1,648,117</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.

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, 2010 the Town's investments of \$795,234, invested in U.S. Treasury notes, U.S. Agency notes, company stock and money market funds, are not exposed to custodial credit risk as the investments are in the Town's name.

Concentration of Credit Risk: The Town has no investments that meet the criteria to be classified as a concentration of credit risk investment. The Town does not have a policy related to concentration of credit risk.

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:

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Interest Rate Risk (Continued)

	Due in less than one year	Due in 1-5 years	
U.S. Agency notes	\$115,263	\$227,895	

Investments have been reported as follows:

Reported in governmental funds	\$ 369,607
Reported in proprietary funds	<u>425,627</u>
Total investments	<u>\$ 795,234</u>

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, 2009 the Town's interest has been valued at \$309,630.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance 6/30/09	Additions/ Completions	Retirements/ Reclassifications	Balance 6/30/10
Governmental Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	-	545,399	-	545,399
Total capital assets not being depreciated	<u>565,074</u>	<u>545,399</u>	<u>-</u>	<u>1,110,473</u>
<i>Capital assets being depreciated</i>				
Buildings and land improvements	6,190,841	26,602	-	6,217,443
Infrastructure	798,701	-	-	798,701
Equipment, furniture and fixtures	591,379	63,035	-	654,414
Vehicles	1,010,790	-	-	1,010,790
Total capital assets being depreciated	<u>8,591,711</u>	<u>89,637</u>	<u>-</u>	<u>8,681,348</u>
Less accumulated depreciation for:				
Buildings and land improvements	(3,546,582)	(105,430)	-	(3,652,012)
Infrastructure	(41,614)	(9,502)	-	(51,116)
Equipment, furniture and fixtures	(513,893)	(78,339)	-	(592,292)
Vehicles	(716,313)	(49,066)	-	(765,379)
Total accumulated depreciation	<u>(4,818,402)</u>	<u>(242,337)</u>	<u>-</u>	<u>(5,060,739)</u>
Total capital assets, being depreciated, net	<u>3,773,309</u>	<u>(152,700)</u>	<u>-</u>	<u>3,620,609</u>
Governmental activities capital assets, net	<u>\$ 4,338,383</u>	<u>\$ 392,699</u>	<u>\$ -</u>	<u>\$ 4,731,082</u>
Business-Type Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	1,256,495	463,729	-	1,720,224
Total capital assets not being depreciated	<u>1,257,495</u>	<u>463,729</u>	<u>-</u>	<u>1,721,224</u>
<i>Capital assets being depreciated</i>				
Infrastructure and buildings	6,796,071	-	(167,368)	6,628,703
Vehicles and equipment	516,710	-	-	516,710
Total capital assets being depreciated	<u>7,312,781</u>	<u>-</u>	<u>(167,368)</u>	<u>7,145,413</u>
Less accumulated depreciation				
Infrastructure and buildings	(2,581,087)	(162,801)	167,368	(2,576,520)
Vehicles and equipment	(196,045)	(26,712)	-	(222,757)
Total accumulated depreciation	<u>(2,777,132)</u>	<u>(189,513)</u>	<u>167,368</u>	<u>(2,799,277)</u>
Total capital assets, being depreciated, net	<u>4,535,649</u>	<u>(189,513)</u>	<u>-</u>	<u>4,346,136</u>
Business-type activities capital assets, net	<u>\$ 5,793,144</u>	<u>\$ 274,216</u>	<u>\$ -</u>	<u>\$ 6,067,360</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

3. CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2010, was charged as direct expense to programs as follows:

<i>Governmental activities</i>	
General government	\$ 3,982
Protection	49,480
Public works	82,742
Recreation	2,919
Airport	420
Education	<u>102,794</u>
Total depreciation expense – Governmental activities	<u>\$242,337</u>
<i>Business-type activities</i>	
Sewer	\$ 136,644
Ambulance	8,224
Telcenter	32,503
Solid waste	<u>12,142</u>
Total depreciation expense – business-type activities	<u>\$189,513</u>

4. LONG-TERM DEBT

Obligations Under Capital Leases

The Town is committed to leases for photocopier equipment and a truck scale. 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.

Minimum future lease payments under capital leases as of June 30, 2010 are:

2011	\$ 30,780
2012	18,679
2013	18,679
2014	15,144
2015	<u>5,048</u>
	88,330
Less amount representing interest	<u>11,355</u>
Present value of minimum lease payments	<u>\$ 76,975</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

4. LONG-TERM DEBT (CONTINUED)

General obligation fund and proprietary fund bonds and notes payable

The following is a summary of general obligation fund and proprietary fund bonds and notes payable transactions of the Town for the year ended June 30, 2010.

	Original Amount	Balance June 30, 2009	Additions/ (Retired)	Balance June 30, 2010
Governmental Debt				
General Obligation Bonds and Notes				
General Bonds				
Maine Municipal Bond Bank, 0% school renovation bond, dated August 21, 2001, due 2011	\$1,000,000	\$ 112,770	\$ (37,590)	\$ 75,180
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 21, 2010, due 2012	736,000	313,716	(105,571)	208,145
Maine Municipal Bond Bank, 4.6% school renovation bond, dated December 22, 2009, due 2020	709,213	-	709,213	709,213
General Notes				
Machias Savings Bank, 3.29% equipment note, dated August 13, 2003, due 2010	134,000	38,250	(19,150)	19,100
Machias Savings Bank, 3.65% industrial park note, dated December 28, 2007, due 2013	349,481	284,784	(67,360)	217,404
Machias Savings Bank, 3.12% vehicle note, dated December 2, 2008, due 2015	113,979	113,979	(14,944)	99,035
Machias Savings Bank, 1.95% vehicle note, dated December 2, 2008, due 2010	38,248	<u>38,248</u>	<u>(18,954)</u>	<u>19,294</u>
Total general obligation bonds and notes payable		<u>901,727</u>	<u>445,644</u>	<u>1,347,371</u>
Business-type Debt				
Proprietary Fund Bonds and Notes Payable				
Sewer Bonds and Notes				
Farmers Home Administration, 5% sewer rehabilitation project, dated April 21, 1983, due 2013	138,700	28,000	(7,000)	21,000
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 21, 2010, due 2012	101,000	43,284	(14,429)	28,855
Maine Municipal Bond Bank, 2.19% sewer rehabilitation project, dated July 26, 2002, due 2023	205,000	184,137	(11,136)	173,001
Maine Municipal Bond Bank, 1.40% sewer rehabilitation project, dated May 15, 2010, due 2029	338,700	<u>338,700</u>	<u>(14,791)</u>	<u>323,909</u>
Total sewer bonds and notes payable		<u>594,121</u>	<u>(47,356)</u>	<u>546,765</u>
Solid Waste Note Payable				
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 4, 2010, due 2013	78,000	<u>63,412</u>	<u>(15,078)</u>	<u>48,334</u>
Total proprietary bonds and notes payable		<u>657,533</u>	<u>(62,434)</u>	<u>595,099</u>
Total general obligation and proprietary bonds and notes payable		<u>\$1,559,260</u>	<u>\$383,210</u>	<u>\$1,942,470</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

4. LONG-TERM DEBT (CONTINUED)

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	
2011	\$ 326,572	\$ 46,279	\$ 63,428	\$ 13,123	\$ 452,402
2012	288,052	41,847	64,441	11,336	405,676
2013	153,763	32,529	51,067	8,798	246,157
2014	82,158	26,225	27,937	7,758	144,078
2015	85,738	22,645	28,465	7,266	144,114
2016-2020	411,088	57,300	150,638	28,600	647,626
2021-2025	-	-	133,646	15,419	149,065
2025-2029	-	-	75,477	6,566	82,043
	<u>\$ 1,347,371</u>	<u>\$ 229,825</u>	<u>\$ 595,099</u>	<u>\$ 98,866</u>	<u>\$ 2,271,161</u>

In accordance with 30-A MRSA Section 5702 of the Maine law, no municipality shall incur debt for specific purposes in excess of 15 percent of the State valuation of such municipality. At June 30, 2010, the Town was in compliance with these limitations.

5. 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, 2010 arising from these transactions were as follows:

	Receivable	Payable	Transfers in	Transfers out
General fund	\$ 860,351	\$1,320,152	\$ 72,733	\$ 93,261
Special revenue- school	213,484	-	-	15,725
Major proprietary funds	9,513	739,077	77,319	-
Fiduciary fund	-	5,500	-	-
Non-major proprietary funds	541,598	100,475	-	29,035
Non-major governmental funds	<u>572,560</u>	<u>32,302</u>	<u>16,641</u>	<u>28,672</u>
	<u>\$2,197,506</u>	<u>\$2,197,506</u>	<u>\$166,693</u>	<u>\$166,693</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

5. INTERFUND TRANSACTIONS (CONTINUED)

Transfers are used to move revenues from the fund that budget requires to collect them to the fund that budget requires to expend them and use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorization.

6. NET ASSETS – RESTRICTED

At June 30, 2010, the fund balances which are restricted for other purposes were comprised of the following:

Debt service – public safety building	\$34,680
Superintendent's office	<u>13,376</u>
Total general fund	<u>48,056</u>
Special revenue fund- revolving loan reserve	<u>2,623</u>
Total reserved for other purposes	<u>\$50,679</u>

At June 30, 2010, the fund balances which are restricted for capital projects were comprised of the following:

Airport improvement	\$ 72,114
Ambulance replacement	26,880
Basketball court	1,233
Boat dock	1,980
Comprehensive plan	297
Economic development	88,733
Fire department ventilation	4,629
Fire truck replacement	3,276
Industrial development	24,099
Recreation building	7,820
Sewer expansion	75,323
Sewer overflow	3,366
Sidewalk repair	500
Skate park	5,967
Storm drain repair and replacement	10,972
Tennis court	14,549
E-911 signs	<u>1,444</u>
	<u>\$343,182</u>

7. UNRESERVED FUND BALANCES– DESIGNATED

The general fund's designated fund balance other than education at June 30, 2010 consists of:

Softball field backstop	\$ 1,677
Recreation accommodations	<u>4,218</u>
	<u>\$ 5,895</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

7. UNRESERVED FUND BALANCES— DESIGNATED (CONTINUED)

The other governmental fund -capital project fund's designated fund balance at June 30, 2010 consists of:

Roads	\$ 93,664
Town office	88,385
School	<u>21,735</u>
	<u>\$203,783</u>

8. RETAINED EARNINGS – RESTRICTED – ENTERPRISE FUNDS

At June 30, 2010, the enterprise fund's restricted fund balance for other purposes was comprised of the following:

Sewer fund	
Reserve for debt/capital	\$353,736
Reserve for debt service	<u>65,983</u>
Total sewer fund	419,719
Solid waste fund	
Restricted for Howe's corner	193,878
Nonmajor proprietary fund- ambulance fund	
Reserve for vehicle replacement	<u>26,536</u>
	<u>\$640,133</u>

9. UNRESTRICTED NET ASSETS (DEFICIT) – NON-MAJOR PROPRIETARY FUND

In the non-major proprietary funds the telcenter fund has a deficit in unrestricted net assets of \$51,528 for the year ended June 30, 2010 to be funded through future Town funding.

10. SUBSEQUENT EVENTS

The Town entered into a new interim loan agreement on November 15, 2010 for \$500,000 to finance the sewer project.

11. PENSION PLANS

Maine Public Employees Retirement Systems - School Employees

All School teachers, plus other qualified educators, participate in the Maine Public Employees Retirement System's teacher group. The teacher's group is a cost-sharing plan with a special funding situation, established by the Maine State legislature. The Maine Public Employees Retirement System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the state legislature. The Maine Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the teacher's group. That report may be obtained by calling 1-800-451-9800.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

11. PENSION PLANS (CONTINUED)

Maine Public Employees Retirement Systems - School Employees(Continued)

Plan members are required to contribute 7.65% of their compensation to the retirement system. The school departments' payroll for employees covered by this group, for the fiscal year ended June 30, 2010, was approximately \$2,514,385. The State of Maine Department of Education is required, by state statute, to contribute the employer contribution which amounts to \$447,058 (17.78%) of compensation for the year ended June 30, 2010. There is no contribution required by the school department except for federally funded teachers for which the school department contributes 17.78% of their compensation. This cost amounted to \$58,117 for the year ended June 30, 2010, and is chargeable to the applicable grant.

Deferred Compensation Plan

The Town offers certain employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, administered by International City Manager Association (ICMA) Retirement Corporation, permits the employees to defer a portion on their salary until future years. The deferred compensation is not available to employees until termination, retirement death or unforeseeable emergency.

The Town contributes at rates which vary from 0 to 6.5%, depending on the monthly elections and contributions of participants. Employees may elect to contribute up to 25% of earnings, but the Town limits its match to 6.5%. The Town made matching contributions of \$19,211 and employees elected to defer \$22,684 for a contribution of \$41,895 for the year ended June 30, 2010.

12. PARTICIPATION IN PUBLIC ENTITY RISK POOL

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 \$400,000 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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2010

12. PARTICIPATION IN PUBLIC ENTITY RISK POOL (CONTINUED)

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.

13. SCHOOL ADMINISTRATIVE REORGANIZATION

On June 6, 2007, the Maine House and Senate enacted the two-year state budget including the school administrative reorganization legislation "School Administrative Reorganization" ("SAR") as Public Law 2007, Chapter 240 and on April 18, 2008 Public Law 2007, Chapter 668 (enacted by passage of LD 2323, An Act to Remove Barriers to the Reorganization of School Administrative Units. The law sets forth state policy to ensure that schools are organized as School Administrative Units (SAUs) or Alternative Organizational Structures (AOS).

On April 29, 2010, a referendum vote was held to form AOS #96 which includes the Town of Machias. This proposal was accepted by the voters. As of July 1, 2011, the new AOS #96 was formed for administrative cost sharing purposes only.

14. COMMITMENTS

The Town was also committed to contracts for sewer projects with a remaining amount totaling approximately \$500,000.

15. 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.

Town of Machias, Maine
Budget and Actual (with Budget to GAAP Differences)
General Fund
For the year ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts,</u>	<u>Budget to GAAP</u>	<u>Actual Amounts,</u>
	<u>Original</u>	<u>Final*</u>	<u>Budgetary Basis</u>	<u>Differences**</u>	<u>GAAP Basis</u>
REVENUES					
Property taxes, net	\$ 2,725,127	\$ 2,725,127	\$ 2,587,327	\$ -	\$ 2,587,327
Excise taxes	223,250	223,250	224,700	-	224,700
Interest and lien costs	15,000	15,000	29,555	-	29,555
Licenses and permits	19,030	19,030	21,822	-	21,822
Intergovernmental					
Education	2,552,911	2,568,140	2,532,687	-	2,532,687
On-behalf payments - State of Maine	-	-	-	447,058	447,058
Town	453,435	453,435	378,897	-	378,897
Charges for services	23,748	23,748	24,252	-	24,252
Interest earnings	18,000	18,000	12,153	-	12,153
Miscellaneous	2,000	2,000	13,877	-	13,877
Total revenues	<u>6,032,501</u>	<u>6,047,730</u>	<u>5,825,270</u>	<u>447,058</u>	<u>6,272,328</u>
EXPENDITURES					
Current:					
General government	301,302	301,302	274,961	-	274,961
Police department	308,144	308,144	253,909	-	253,909
Fire department	276,143	276,143	255,657	-	255,657
Highways and streets	311,182	311,182	295,807	-	295,807
Education	4,117,186	4,117,186	3,890,536	(51,791)	3,838,745
Adult education	129,726	144,955	144,955	-	144,955
On-behalf payments - State of Maine	-	-	-	447,058	447,058
Recreation	9,885	9,885	6,203	-	6,203
General assistance	4,800	4,800	2,450	-	2,450
Airport	17,100	17,100	6,104	-	6,104
Public safety building	16,053	16,053	16,053	-	16,053
County tax	167,629	167,629	167,629	-	167,629
Third party requests	40,080	40,080	40,080	-	40,080
Tax increment financing	32,100	32,100	24,563	-	24,563
Other services	27,160	27,160	7,065	-	7,065
Debt service:					
Principal	214,531	214,531	215,139	48,431	263,570
Interest and other charges	26,462	26,462	26,462	-	26,462
Capital outlay	122,226	122,226	125,160	-	125,160
Total expenditures	<u>6,121,709</u>	<u>6,136,938</u>	<u>5,752,733</u>	<u>443,698</u>	<u>6,196,431</u>
Excess (deficiency) of revenues over expenditures	<u>(89,208)</u>	<u>(89,208)</u>	<u>72,537</u>	<u>3,360</u>	<u>75,897</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from capital leases	63,035	63,035	63,035	-	63,035
Transfers in	51,226	51,226	72,733	-	72,733
Transfers out	(93,261)	(93,261)	(93,261)	-	(93,261)
Total other financing sources and uses	<u>21,000</u>	<u>21,000</u>	<u>42,507</u>	<u>-</u>	<u>42,507</u>
Net change in fund balances	(68,208)	(68,208)	115,044	3,360	118,404
FUND BALANCES - BEGINNING	<u>1,078,575</u>	<u>1,078,575</u>	<u>1,078,575</u>	<u>(392,596)</u>	<u>685,979</u>
FUND BALANCES - ENDING	<u>\$ 1,010,367</u>	<u>\$ 1,010,367</u>	<u>\$ 1,193,619</u>	<u>\$ (389,236)</u>	<u>\$ 804,383</u>

* - additional adult education budgeted revenues

** - 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	\$ 115,044
On behalf payments revenue	447,058
On behalf payments expenditures	(447,058)
Capital outlay	(63,035)
Proceeds from capital leases	63,035
Change in accrued summer teacher pay	3,360
Net change in fund balances - GAAP basis	<u>\$ 118,404</u>

Town of Machias, Maine
Budget and Actual (with Variances)
General Fund
For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes, net	\$ 2,725,127	\$ 2,725,127	\$ 2,587,327	\$ (137,800)
Excise taxes	223,250	223,250	224,700	1,450
Interest and lien costs	15,000	15,000	29,555	14,555
Licenses and permits	19,030	19,030	21,822	2,792
Intergovernmental				
Education	2,552,911	2,568,140	2,532,687	(35,453)
Town	453,435	453,435	378,897	(74,538)
Charges for services	23,748	23,748	24,252	504
Investment earnings	18,000	18,000	12,153	(5,847)
Miscellaneous	2,000	2,000	13,877	11,877
Total revenues	<u>6,032,501</u>	<u>6,047,730</u>	<u>5,825,270</u>	<u>(222,460)</u>
EXPENDITURES				
Current:				
General government	301,302	301,302	274,961	26,341
Police department	308,144	308,144	253,909	54,235
Fire department	276,143	276,143	255,657	20,486
Highways and streets	311,182	311,182	295,807	15,375
Education	4,117,186	4,117,186	3,890,536	226,650
Adult education	129,726	144,955	144,955	-
Recreation	9,885	9,885	6,203	3,682
General assistance	4,800	4,800	2,450	2,350
Airport	17,100	17,100	6,104	10,996
Public safety building	16,053	16,053	16,053	-
County tax	167,629	167,629	167,629	-
Third party requests	40,080	40,080	40,080	-
Tax increment financing	32,100	32,100	24,563	7,537
Other services	27,160	27,160	7,065	20,095
Debt service:				
Principal	214,531	214,531	215,139	(608)
Interest and other charges	26,462	26,462	26,462	-
Capital outlay	122,226	122,226	125,160	(2,934)
Total expenditures	<u>6,121,709</u>	<u>6,136,938</u>	<u>5,752,733</u>	<u>384,205</u>
Excess (deficiency) of revenues over expenditures	<u>(89,208)</u>	<u>(89,208)</u>	<u>72,537</u>	<u>161,745</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	63,035	63,035	63,035	-
Transfers in	51,226	51,226	72,733	21,507
Transfers out	(93,261)	(93,261)	(93,261)	-
Total other financing sources and uses	<u>21,000</u>	<u>21,000</u>	<u>42,507</u>	<u>21,507</u>
Net change in fund balances	(68,208)	(68,208)	115,044	<u>\$ 183,252</u>
FUND BALANCES - BEGINNING	<u>1,078,575</u>	<u>1,078,575</u>	<u>1,078,575</u>	
FUND BALANCES - ENDING	<u>\$ 1,010,367</u>	<u>\$ 1,010,367</u>	<u>\$ 1,193,619</u>	

**Town of Machias, Maine
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010**

	Special Revenue Fund - School Lunch	Special Revenue Fund - Town	Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 40,033	\$ -	\$ -	\$ 40,033
Investments	-	259,150	-	259,150
Due from other funds	-	36,307	539,965	576,272
Receivable from other governments	5,608	-	2,000	7,608
Note receivable	-	2,623	5,000	7,623
Inventories	4,699	-	-	4,699
Total assets	<u>\$ 50,340</u>	<u>\$ 298,080</u>	<u>\$ 546,965</u>	<u>\$ 895,385</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 22,790	\$ 13,224	\$ -	\$ 36,014
Other accrued expenses	4,783	-	-	4,783
Total liabilities	<u>27,573</u>	<u>13,224</u>	<u>-</u>	<u>40,797</u>
Fund balances:				
Reserved for other purposes	-	2,623	-	2,623
Capital projects	-	-	343,182	343,182
Unreserved,				
Designated	-	-	203,783	203,783
Undesignated	22,767	282,233	-	305,000
Total fund balances	<u>22,767</u>	<u>284,856</u>	<u>546,965</u>	<u>854,588</u>
Total liabilities and fund balances	<u>\$ 50,340</u>	<u>\$ 298,080</u>	<u>\$ 546,965</u>	<u>\$ 895,385</u>

Town of Machias, Maine
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

	Special Revenue Fund - School Lunch	Special Revenue Fund - Town	Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental	\$ 140,677	\$ 9,657	\$ 57,673	\$ 208,007
Charges for services	40,002	-	-	40,002
Investment earnings	-	5,839	-	5,839
Total revenues	<u>180,679</u>	<u>15,496</u>	<u>57,673</u>	<u>253,848</u>
EXPENDITURES				
Current				
Food and supplies	96,718	-	-	96,718
Labor	73,297	-	-	73,297
Other	-	9,657	-	9,657
Capital outlay	-	-	628,426	628,426
Total expenditures	<u>170,015</u>	<u>9,657</u>	<u>628,426</u>	<u>808,098</u>
Excess (deficiency) of revenues over expenditures	<u>10,664</u>	<u>5,839</u>	<u>(570,753)</u>	<u>(554,250)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from state renovation funds	-	-	708,605	708,605
Transfers in	-	-	16,641	16,641
Transfers out	-	(6,481)	(22,191)	(28,672)
Total other financing sources and uses	<u>-</u>	<u>(6,481)</u>	<u>703,055</u>	<u>696,574</u>
Net change in fund balances	10,664	(642)	132,302	142,324
Fund balances - beginning	12,103	285,498	414,663	712,264
Fund balances - ending	<u>\$ 22,767</u>	<u>\$ 284,856</u>	<u>\$ 546,965</u>	<u>\$ 854,588</u>

Town of Machias, Maine
Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2010

	<u>Proprietary Funds</u>		<u>Total Nonmajor Proprietary Funds</u>
	<u>Telcenter</u>	<u>Ambulance Fund</u>	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 14,147	\$ -	\$ 14,147
Accounts receivable, net	-	145,653	145,653
Due from other funds	-	541,598	541,598
Total current assets	<u>14,147</u>	<u>687,251</u>	<u>701,398</u>
Non-current assets			
Capital assets			
Buildings	650,068	-	650,068
Equipment and furniture	-	161,713	161,713
Less accumulated depreciation	<u>(276,277)</u>	<u>(130,095)</u>	<u>(406,372)</u>
Total non-current assets	<u>373,791</u>	<u>31,618</u>	<u>405,409</u>
Total assets	<u>387,938</u>	<u>718,869</u>	<u>1,106,807</u>
LIABILITIES			
Current liabilities			
Due to other funds	<u>65,475</u>	<u>35,000</u>	<u>100,475</u>
NET ASSETS			
Invested in capital assets, net of related debt	373,791	31,618	405,409
Restricted for other purposes	-	26,536	26,536
Unrestricted (deficit)	<u>(51,328)</u>	<u>625,715</u>	<u>574,387</u>
Total net assets	<u>\$ 322,463</u>	<u>\$ 683,869</u>	<u>\$ 1,006,332</u>

Town of Machias, Maine
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2010

	<u>Telcenter</u>	<u>Ambulance Fund</u>	<u>Total Nonmajor Proprietary Funds</u>
REVENUES			
Charges for services	\$ 64,910	\$ 236,311	\$ 301,221
OPERATING EXPENSES			
Personal services	21,463	146,372	167,835
Contractual services	298	8,731	9,029
Utilities	11,735	6,769	18,504
Repairs and maintenance	7,720	11,746	19,466
Other supplies and expenses	109	12,814	12,923
Insurance claims and expenses	1,185	14,335	15,520
Depreciation	32,503	8,224	40,727
Total operating expenses	<u>75,013</u>	<u>208,991</u>	<u>284,004</u>
Operating income (loss)	(10,103)	27,320	17,217
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	141	-	141
Income (loss) before contributions and transfers	(9,962)	27,320	17,358
Transfers out	-	(29,035)	(29,035)
Change in net assets	(9,962)	(1,715)	(11,677)
Total net assets - beginning	<u>332,425</u>	<u>685,584</u>	<u>1,018,009</u>
Total net assets - ending	<u>\$ 322,463</u>	<u>\$ 683,869</u>	<u>\$ 1,006,332</u>

Town of Machias, Maine

TOWN OF MACHIAS SCHOOL DEPARTMENT
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

Year ended June 30, 2010

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Local assessments	\$ 1,494,001	\$ 1,494,001	\$ -
State subsidy	1,280,790	1,329,359	48,569
Intergovernmental	1,000	36,129	35,129
Tuition and fees	1,116,000	1,100,717	(15,283)
Other	41,511	51,884	10,373
Total revenues	3,933,302	4,012,090	78,788
EXPENDITURES			
Regular instruction			
Elementary	1,114,395	1,115,274	(879)
Early childhood	89,631	92,842	(3,211)
Secondary	680,044	691,308	(11,264)
Instruction improvement	11,000	5,087	5,913
Special education			
Elementary	172,970	171,043	1,928
Secondary	95,198	95,692	(494)
Administrative	27,193	19,536	7,657
Tutoring	4,406	3,874	532
Evaluation	15,442	11,292	4,150
Speech therapy	16,651	10,631	6,020
Gifted and talented	57,670	50,132	7,538
Career and technical education	223,525	225,358	(1,833)
Other instruction			
Co-curricular - athletic elementary	22,034	13,616	8,418
Co-curricular - athletic secondary	54,445	44,118	10,327
Co-curricular - elementary	15,429	13,212	2,217
Co-curricular - secondary	31,916	33,837	(1,921)
Student and staff support			
Guidance and counseling - elementary	62,866	63,232	(366)
Guidance and counseling - secondary	94,055	90,617	3,438
Health services	7,500	10,994	(3,494)
Library and media - elementary	32,585	24,962	7,623
Library and media - secondary	51,585	49,081	2,484
Instruction improvement	4,620	4,034	586
System administration			
Office of superintendent	93,011	74,918	18,093
School board	19,184	19,878	(694)
School administration			
Office of principal - elementary	174,844	159,743	15,101
Office of principal - secondary	163,837	134,256	29,581
Transportation and buses	138,243	138,502	(259)
Facilities and maintenance			
Operation and maintenance of plant	483,798	502,209	(18,411)
Debt service	90,000	-	90,000
Vehicle Maintenance & Operation	14,245	14,962	(717)
Site improvement	1,000	2,341	(1,341)
Other			
Contingency	10,000	3,957	6,043
Total expenditures	4,073,302	3,890,536	182,766
Excess (deficiency) of revenues over expenditures	(140,000)	121,554	261,554
OTHER FINANCING SOURCES (USES)			
Utilization of prior year surplus	140,000	140,000	-
Total other financing sources	140,000	140,000	-
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ 261,554	\$ 261,554

Town of Machias, Maine
COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS - TOWN
 June 30, 2010

	Downtown Revolving Loan Fund	Station 98	Economic Development (Mill)	State Local Road Assistance	Sewer Grant	Maine Waste Management Grant	Downtown planning	Thermal imaging camera	Fire Donations	Scholarship	Totals
ASSETS											
Investments	\$ -	\$ 10,707	\$ 246,721	\$ -	\$ -	\$ -	\$ -	\$ 1,722	\$ -	\$ -	\$ 259,150
Loans receivable	2,623	-	-	-	-	-	-	-	-	-	2,623
Due from other funds	5,401	-	-	16,345	86	4,990	8,784	526	-	175	36,307
Total assets	\$ 8,024	\$ 10,707	\$ 246,721	\$ 16,345	\$ 86	\$ 4,990	\$ 8,784	\$ 2,248	\$ -	\$ 175	\$ 298,080
LIABILITIES											
Due to other funds	\$ -	\$ 637	\$ 11,664	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 923	\$ -	\$ 13,224
FUND EQUITY											
Fund Balance											
Reserved for revolving loan fund	2,623	10,070	235,057	16,345	86	4,990	8,784	2,248	(923)	175	2,623
Unreserved - undesignated	5,401	-	-	-	-	-	-	-	-	-	282,233
Total fund equity	8,024	10,070	235,057	16,345	86	4,990	8,784	2,248	(923)	175	284,856
Total liabilities and fund equity	\$ 8,024	\$ 10,707	\$ 246,721	\$ 16,345	\$ 86	\$ 4,990	\$ 8,784	\$ 2,248	\$ -	\$ 175	\$ 298,080

Town of Machias, Maine
Statement of Revenues, Expenditures and Changes in Fund
Balances - Agency Funds
June 30, 2010

	Balances July 1, 2009	Receipts	Expenditures	Balances June 30, 2010
Rose Gaffney School	\$ 17,732	\$ 64,592	\$ 47,186	\$ 35,138
Machias High School	46,022	61,742	73,778	33,986
Machias Vocational Center	7,394	2,615	7,542	2,467
Total	\$ 71,148	\$ 128,949	\$ 128,506	\$ 71,591

Town of Machias, Maine
Taxes receivable, Tax liens and Tax Acquired Property
General Fund
June 30, 2010

Taxes receivable	
2009	\$ 264,044
2008	1,330
2007 and prior	<u>15,022</u>
Total taxes receivable	<u>280,396</u>
Tax liens and tax acquired property	
2008	70,579
2007 and prior	<u>1,010</u>
Total tax liens and tax acquired property	<u>71,589</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 351,985</u>

**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 the 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, 2010, which collectively comprise the Town of Machias, Maine's basic financial statements and have issued our report thereon dated April 13, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Machias, Maine's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Machias, Maine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Machias, Maine's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of finding and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 entities financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: #2010-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Machias, Maine's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management of the Town of Machias, Maine, in the letter dated April 13, 2011.

The Town of Machias, Maine's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town of Machias, Maine's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town selectmen, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Christine Whitcomb & Associates

Bangor, Maine
April 13, 2011



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**Independent Auditor's Report on Compliance With Requirements
That Could Have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133**

Board of Selectmen
Town of Machias, Maine

Compliance

We have audited the Town of Machias, Maine's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Machias, Maine's major federal programs for the year ended June 30, 2010. The 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Machias, Maine's management. Our responsibility is to express an opinion on the Town of Machias, Maine's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the 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. Our audit does not provide a legal determination on the Town of Machias, Maine's compliance with those requirements.

In our opinion, the 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, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questions costs as item #2010-2.

Internal Control Over Compliance

Management of the Town of Machias, Maine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Machias, Maine's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness on internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 that is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, detected or corrected, on a timely basis.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. However, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item #2010-2. *A significant deficiency in internal control over compliance* is a deficiency, or 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.

The Town of Machias, Maine's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town of Machias, Maine's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Selectmen, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Barbara Thibodeau & Associates

Bangor, Maine
April 13, 2011

**Town of Machias, Maine
Audit Adjustments to MEDMS Financial System
Year ended June 30, 2010**

	General Fund*	Special Revenue Grants and other	School lunch	Totals
June 30 balance as per MEDEMS	\$ (2,589,901)	\$ -	\$ -	\$ (2,589,901)
Beginning balance variance	2,137,077	123,880	12,103	2,273,060
Reclass activity	(20,668)	11,438	9,230	-
Revenues adjustments				
Due from other governments	19,758	-	625	20,383
Additional adjustment to school trial balance	55,246	-	-	55,246
Transfer in	15,725	-	-	15,725
Expenditures adjustments				
Adjustment to liabilities	15,221	-	-	15,221
Adjust inventory	-	-	809	809
Accrued summer teacher pay	392,596	22,817	-	415,413
Audited GAAP Basis Fund Balance	\$ 25,054	\$ 158,135	\$ 22,767	\$ 205,956

**Report on Compliance Based
on Requirements of the Maine
School Finance Acts**

Board of Selectmen
Town of Machias, Maine

With regard to the accompanying audit report of the Town of Machias, Maine for the year ended June 30, 2010, we state the following assurances:

1. The audit has been conducted in accordance with applicable state and federal laws relating to financial and compliance audits.
2. Budgetary controls were in place.
3. The Town has complied with applicable provisions of the Essential Program and Services Funding Act.
4. The Town is in compliance with the applicable provisions of the Maine School Finance Acts of 1985 and 1995.
5. The Town has complied with transfer limitations between budget cost centers pursuant to section 1485, subsection 4.
6. The Town 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.

Bangor, Maine
April 13, 2011

Town of Machias, Maine
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2010

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	Disbursements/ Expenditures
<i>U.S. Department of Transportation</i>			
Direct			
FAA grant - airport improvement program	20.106	AIP#3-23-0029-06-2007	\$ <u>706</u>
<i>U.S. Environmental Protection Agency</i>			
Passed through Maine Department of Environmental Protection ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	unknown	<u>666,057</u>
<i>U.S. Department of Homeland Security</i>			
Passed through Maine State Department of Defense, Disaster grants - public assistance	97.036	FEMA-1693-DR-ME	<u>20,711</u>
<i>U.S. Department of Education</i>			
<i>Passed through State Department of Education</i>			
<i>Title IA Cluster</i>			
Title IA Grants to Local Educational Agencies	84.010	13-05A-3057-13	197,261
ARRA - Title IA Grants to Local Educational Agencies	84.389A	20-05A-3057-13	153,400
ARRA State fiscal stabilization fund	84.394A	20-05A-2077-01	37,287
Career and technical education- Perkins Title IC	84.048	13-05A-3030-8	63,389
Adult basic education	84.002	13-05A-6296-64	9,005
Gear - up	84.334	13-05A-6341-13	22,319
Title IIA teacher quality	84.367	13-05A-3042-11	42,983
<i>Title IID Cluster</i>			
Title IID education technology	84.318	13-05A-3003-2	2,824
ARRA - Title IID education technology	84.386X	20-05A-3003-2	6,981
<i>Cluster</i>			
Part B Section 619- Preschool	84.173	13-05A-6241-23	1,324
ARRA - Part B Section 619- Preschool	84.392A	20-05A-6241-23	174
Title VI, Part B - Local Entitlement	84.027	13-05A-3046-12	144,951
ARRA - Title VI, Part B - Local Entitlement	84.391A	20-05A-3046-12	80,088
<i>Passed through Office of Substance Abuse</i>			
Title IVA - Safe and Drug Free School Education	84.186	13-05A-6346-57	<u>3,673</u>
Total U.S. Department of Education			<u>765,659</u>
<i>U.S. Department of Agriculture</i>			
<i>Passed through State Department of Education</i>			
National School Lunch Program	10.555	13-05A-8121-05	108,391
After school snack	10.555	13-05A-8121-05	2,217
Summer food service program	10.559	13-05A-7130-05	6,907
School breakfast program	10.553	13-05A-7127-05	<u>29,362</u>
<i>Passed through State Department of Conservation</i>			
U.S.D.A. Forest Service Urban and Community Forestry	10.675	unknown	<u>4,000</u>
Total U.S. Department of Agriculture			<u>150,877</u>
<i>U.S. Department of Justice</i>			
<i>Passed through City of Calais, Maine</i>			
ARRA - Office of Justice Programs - 2009SBB92263	16.804	N/A	<u>9,657</u>
Total expenditures of federal awards			<u>\$ 1,613,667</u>

Town of Machias, Maine
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

PURPOSE OF THE SCHEDULE

Office of Management and Budget (OMB) Circular A-133, 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, 2010. The reporting entity is defined in the Notes to the Financial Statements of the Town of Machias, Maine.

2. BASIS OF PRESENTATION

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

a. Pursuant to OMB Circular A-133, 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. OMB Circular A-133 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.

**Town of Machias, Maine
Schedule of Findings and Questioned Costs
Year ended June 30, 2010**

Section I — Summary of Auditor's Results

Financial Statements

Type of auditor's report issued - *Unqualified 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 - *Unqualified opinion*

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? - yes no

Identification of major programs

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
66.458	Capitalization grant for clean water state revolving loan fund
84.010, 84.389	Title IA, ARRA Title IA cluster

Dollar threshold used to distinguish between Type A and Type B programs - \$300,000

Auditee qualified as low-risk auditee? - yes no

Town of Machias, Maine
Summary Schedule of Prior Audit Findings
Year ended June 30, 2010

2009-01
Condition

Inadequate reviews and approvals of transactions, accounting entries or system outputs leading to significant accounting services.

Current Status

Mostly corrected in 2010.

2009-02
Condition

Management does not control the preparation of the financial statements and fixed asset reporting which also results in significant audit adjustments.

Current Status

Management continues to devote more time to fixing problem.

2009-03
Condition

Management does not control the preparation of the financial statements and federal grant reporting, including the schedule of expenditures of federal awards and data collection form.

Current Status

Management continues to devote more time to fixing problem.

#2009-4
Condition

Management's response

Personnel costs paid with federal grant funds were not properly supported by proper documentation.
All Title IA salaried staff are now required to maintain documentation on a monthly basis to support their charge to the grant and fully funded staff sign semi-annual certification forms but are not signed in the appropriate time period.