

Town of Machias, Maine
REPORT ON FINANCIAL STATEMENTS
(with required and other supplementary information)
For the Year Ended June 30, 2006

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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, 2006, 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'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 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, 2006, and the respective changes in financial position and, where applicable, cash flows 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 May 8, 2008, on our consideration of the Town of Machias, Maine's internal control over financial reporting and 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.

The management's discussion and analysis and the budgetary comparison information on pages 6-15 and 46 through 47, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Machias, Maine's basic financial statements. 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 basic 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 basic financial statements of the Town of Machias, Maine. The other supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Randru Shibodeau & Associates

May 8, 2008

Town of Machias, Maine

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

May 8, 2008

The Management Discussion and Analysis ("MD&A") is a report of the Town of Machias's fiscal activity for the year ending June 30, 2006 compared with 2005. 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. So 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.

BIOGRAPHICAL INFORMATION

The Town of Machias is a small residential community located along the upper mouth of the Machias River in Washington County, Maine. The town was founded in 1784 but was settled as a trading post in 1633. It was the first town settled in this area and has historic building and sites dating back to before the Revolutionary War. The first Naval battle of the Revolutionary War (the battle of the Margareta) occurred in Machias. Machias became the Shiretown of Washington County in 1790.

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. Shipbuilding and the timber industry dominated the economic opportunities in the early days and these trades continued steadily through the mid nineteen hundreds. As the demand for timber and shipbuilding declined, the service based businesses grew.

An assortment of hotels, restaurants, churches, hardware stores, and banking institutions are located throughout town. There are various state agency buildings such as the Career Center, Department of Health and Human Services, the Washington County Court House and Jail, and the U.S. Post Office that provide necessary state services to the area residents. The University of Maine at Machias, the Machias Veteran's Home and the Down East Community Hospital also provide invaluable services to the area. Several new

businesses have opened up in the past year and the Town continues to grow despite tremendous economic volatility in the state.

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. The ability to ship and receive products in a competitive and cost effective manner will determine the future of the town.

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, 2006 was \$2,182,870.
- On a budget basis the Town originally budgeted a deficiency of \$408,072. However, there was a positive budget variance of \$365,576.

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 first year of compliance with GASB 34 does not require comparative analysis. So the information supplied this year will be summarized and discussed to create a base for future year's comparisons. 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 finance's 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 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 in 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, Special Revenue- School and Capital projects Funds to be major governmental funds.

Notes to Financial Statements

The notes to the financial statements are included in the audit to give specific comment to certain areas. These are a crucial part of the audit and are closely monitored by town administration. The reason they are monitored is that they provide additional insight into activities of the town. These can show areas of strength and weakness for continued success and improvement. The notes to the financial statements are included on pages 27-45.

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 46-47.

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 \$9,718,978 as of June 30, 2006.

Net Assets for the Period Ending June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 2,122,624	\$ 2,173,699	\$ 713,569	\$ 295,168	\$ 2,836,193	\$ 2,468,867
Capital assets	<u>4,465,416</u>	<u>4,516,009</u>	<u>4,543,830</u>	<u>3,754,920</u>	<u>9,009,246</u>	<u>8,270,929</u>
Total Assets	<u>6,588,040</u>	<u>6,689,708</u>	<u>5,257,399</u>	<u>4,050,088</u>	<u>11,845,439</u>	<u>10,739,796</u>
Current liabilities	380,235	311,356	122,251	-	502,486	311,356
Noncurrent liabilities	<u>1,253,511</u>	<u>1,463,918</u>	<u>370,464</u>	<u>409,042</u>	<u>1,623,975</u>	<u>1,872,960</u>
Total Liabilities	<u>1,633,746</u>	<u>1,775,274</u>	<u>492,715</u>	<u>409,042</u>	<u>2,126,461</u>	<u>2,184,316</u>
Net Assets (Accumulated Deficit)						
Investment in capital assets, net of debt	3,286,572	3,001,526	4,173,366	3,363,927	7,459,938	6,365,453
Restricted	387,667	665,559	887,943	876,614	1,275,610	1,542,173
Unrestricted	<u>1,280,055</u>	<u>1,247,349</u>	<u>(296,625)</u>	<u>(599,495)</u>	<u>983,430</u>	<u>647,854</u>
Total Net Assets	<u>\$ 4,954,294</u>	<u>\$ 4,914,434</u>	<u>\$ 3,641,046</u>	<u>\$ 3,641,046</u>	<u>\$ 9,718,978</u>	<u>\$ 8,555,480</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 \$223,553.

The Town recognized deferred property taxes of \$50,962 as revenue for the Statement of Net Assets.

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2006 and 2005.

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
REVENUES						
Charges for services and other	\$ 92,092	\$ 84,460	\$ 975,624	\$ 696,972	\$ 1,067,716	\$ 781,432
Operating grants and contributions	4,167,929	3,915,157	-	-	4,167,929	3,915,157
Capital grants and contributions	423,559	127,217	938,553	-	1,362,112	127,217
Property Taxes	1,899,426	1,793,200	-	-	1,899,426	1,793,200
Excise and miscellaneous taxes	258,409	251,631	-	-	258,409	251,631
Interest and lien charges	13,372	9,991	6,446	27,428	19,818	37,419
Grants and contributions not restricted to specific purpose	325,233	329,255	-	-	325,233	329,255
Unrestricted investment and interest income	37,962	20,883	17,478	13,265	55,440	34,148
Miscellaneous	63,530	-	-	-	63,530	-
Special item- gain on sale of assets	39,522	125,000	-	-	39,522	125,000
Transfers	<u>27,115</u>	<u>19,473</u>	<u>(21,615)</u>	<u>(19,473)</u>	<u>5,500</u>	<u>-</u>
Total Revenues	<u>7,348,149</u>	<u>6,696,627</u>	<u>1,916,486</u>	<u>718,192</u>	<u>9,264,635</u>	<u>7,414,819</u>

EXPENSES AND TRANSFERS

General Government	\$ 253,949	\$ 245,318	-	-	\$ 253,949	\$ 245,318
Public safety	512,286	477,048	-	-	512,286	477,048
Public works	300,459	339,129	-	-	300,459	339,129
General assistance	1,646	2,006	-	-	1,646	2,006
Culture and recreation	42,804	42,849	-	-	42,804	42,849
Education	4,107,958	3,996,694	-	-	4,107,958	3,996,694
On-behalf payments – State of Maine	487,597	371,443	-	-	487,597	371,443
Grants and other contributions	819,453	813,448	-	-	819,453	813,448
Interest on long-term debt	31,601	25,573	-	8,853	31,601	34,426
Airport	6,020	9,712	-	-	6,020	9,712
County tax	166,783	170,040	-	-	166,783	170,040
School lunch program	135,301	119,198	-	-	135,301	119,198
Capital outlay	350,032	86,799	-	-	350,032	86,799
Other	-	-	-	-	-	-
Business-type Activities	-	-	792,848	719,914	792,848	719,914
Total Expenses	<u>7,308,289</u>	<u>6,699,257</u>	<u>792,848</u>	<u>728,767</u>	<u>8,101,137</u>	<u>7,428,024</u>
Change in net assets	39,860	(2,630)	1,123,638	(10,575)	1,163,498	(13,205)
Net assets, beginning of year	4,914,434	4,957,100	3,641,046	3,496,436	8,555,480	8,453,536
Restatement	-	115,149	-	-	-	115,149
Reclassification	-	(155,185)	-	155,185	-	-
Net assets, end of year	<u>\$4,954,294</u>	<u>\$4,914,434</u>	<u>\$4,764,684</u>	<u>\$3,641,046</u>	<u>\$ 9,718,978</u>	<u>\$ 8,555,480</u>

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

Governmental Activities

For the year ended June 30, 2006, the Town's net assets for governmental activities increased by \$39,860.

Expenses of governmental activities include depreciation expense of \$223,553. 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, 2006 totaled \$2,664,569, an increase of 4% from June 30, 2005. Of this amount, \$1,899,426 was from local property taxes.

Business-type Activities

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

During the year ended June 30, 2006, the Town's net assets from business-type activities increased by \$1,123,638 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 \$1,627,448, \$68,922 lower than the previous year. An analysis of transactions affecting the change in the combined fund balance of the Town's governmental funds is as follows:

Revenues include property taxes totaling \$1,950,388. Excise taxes accounted for \$249,943 in total revenue.

On behalf payments amounted to \$487,597 during the year ended June 30, 2006. 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 \$7,587,139, \$311,388 higher than the year before.

The Town paid \$634,590 in governmental funds capital outlays during the year. Of this, \$172,960 was capitalized.

Capital Asset and Debt Administration

Capital Assets

	<u>Balance 6/30/05</u>	<u>Additions/ Completions</u>	<u>Retire- ments</u>	<u>Balance 6/30/06</u>
Governmental Activities				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	294,217	137,106	(29,187)	402,136
Buildings and improvements	6,504,303	-	-	6,504,303
Infrastructure	-	29,187	-	29,187
Equipment, furniture and fixtures	466,015	7,288	-	473,303
Vehicles	<u>821,497</u>	<u>28,566</u>	<u>-</u>	<u>850,063</u>
Total capital assets	<u>8,651,106</u>	<u>202,147</u>	<u>(29,187)</u>	<u>8,824,066</u>
<i>Less accumulated depreciation</i>	<u>(4,135,097)</u>	<u>(223,553)</u>	<u>-</u>	<u>(4,358,650)</u>
Total capital assets, net	<u>\$ 4,516,009</u>	<u>\$ (21,406)</u>	<u>\$(29,187)</u>	<u>\$ 4,465,416</u>
	Balance 6/30/05	Additions/ Completions	Retire- ments	Balance 6/30/06
Business-Type Activities				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	307,603	916,876	-	1,224,479
Lines and mains and buildings	5,226,341	-	-	5,226,341
Vehicles and equipment	<u>211,347</u>	<u>-</u>	<u>-</u>	<u>211,347</u>
Total capital assets	<u>5,745,291</u>	<u>916,876</u>	<u>-</u>	<u>6,663,167</u>
<i>Less accumulated depreciation</i>	<u>(1,991,371)</u>	<u>(127,966)</u>	<u>-</u>	<u>(2,119,337)</u>
Total capital assets, net	<u>\$ 3,754,920</u>	<u>\$ 788,910</u>	<u>\$ -</u>	<u>\$ 4,543,830</u>

Additional information on the Town's capital assets can be found in Note 3.

Debt Administration

The Town's debt consists bonds, notes and capital leases. A summary of the Town's debt activity for the year ended June 30, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Ending Balance</u>
Bonds and notes payable	\$1,673,944	\$ -	\$(333,692)	\$1,340,252
Capital lease obligations	<u>199,016</u>	<u>142,049</u>	<u>(57,342)</u>	<u>283,723</u>
Total	<u>\$1,872,960</u>	<u>\$ 142,049</u>	<u>\$(391,034)</u>	<u>\$1,623,975</u>

	<u>Total Interest Paid</u>
Bonds and notes payable	\$ 35,973
Capital lease obligations	<u>10,747</u>
Total	<u>\$ 46,720</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 in the notes to the basic financial statements. The amount of the difference is also disclosed on page 46 of the financial statements.

FINANCIAL HIGHLIGHTS

The following is a discussion of the financial highlights during the fiscal year ended June 30, 2006.

During the year, actual revenues exceeded budgeted revenues by \$274,208. Most of this variance resulted from unanticipated intergovernmental revenues.

Budgeted expenditures exceeded actual expenditures by \$70,868.

The only major budget variances for the year ended December 31, 2007 is as follows:

1. Capital outlay was overexpent by \$20,065 due to the purchase of a police cruiser.

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 6300 Machias, Maine 04402-6300 or call (207) 848-3485.

Town of Machias, Maine
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and equivalents	\$ 945,642	\$ 181,688	\$ 1,127,330
Investments	358,115	344,300	702,415
Taxes receivable	159,102	397,583	556,685
Internal balances	487,806	(487,806)	-
Due from fiduciary funds	5,500	-	5,500
Due from other governmental agencies	133,998	277,804	411,802
Other receivables	28,136	-	28,136
Inventories	4,325	-	4,325
Capital assets, net	4,465,416	4,543,830	9,009,246
Total assets	<u>6,588,040</u>	<u>5,257,399</u>	<u>11,845,439</u>
LIABILITIES			
Accounts payable and accrued expenses	83,997	122,251	206,248
Due to other governmental agencies	4,822	-	4,822
Prepaid taxes	3,886	-	3,886
Accrued summer teacher pay	287,530	-	287,530
Long-term liabilities			
Due within one year			
Bonds payable	180,433	40,875	221,308
Capital leases payable	76,458	-	76,458
Due in more than one year			
Bonds payable	789,355	329,589	1,118,944
Capital leases payable	207,265	-	207,265
Total liabilities	<u>1,633,746</u>	<u>492,715</u>	<u>2,126,461</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,286,572	4,173,366	7,459,938
Restricted for:			
Capital projects	344,445	-	344,445
Machias Water Co.	-	272,444	272,444
Other purposes	43,222	615,499	658,721
Unrestricted			
Undesignated (deficit)	1,280,055	(296,625)	983,430
Total net assets	<u>\$ 4,954,294</u>	<u>\$ 4,764,684</u>	<u>\$ 9,718,978</u>

Town of Machias, Maine
Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Program Revenue				Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 253,949	\$ 18,978	\$ -	\$ -	\$ (234,971)	\$ -	\$ (234,971)
Public safety	512,286	20,333	-	-	(491,953)	-	(491,953)
Public works	300,459	8,008	20,664	-	(271,787)	-	(271,787)
General assistance	1,646	-	1,043	-	(603)	-	(603)
Culture and recreation	42,804	514	39	-	(42,251)	-	(42,251)
Education	4,134,333	-	2,721,067	-	(1,413,266)	-	(1,413,266)
Adult education	92,400	-	53,622	-	(38,778)	-	(38,778)
On-behalf payments - State of Maine	487,597	-	487,597	-	-	-	-
Grants and other contributions	819,453	-	786,064	-	(33,389)	-	(33,389)
Interest on long-term debt	31,601	-	-	-	(31,601)	-	(31,601)
Airport	6,020	1,477	-	-	(4,543)	-	(4,543)
County tax	166,783	-	-	-	(166,783)	-	(166,783)
School lunch program	135,301	42,782	97,833	-	5,314	-	5,314
Capital outlay	350,032	-	-	423,559	73,527	-	73,527
Total governmental activities	\$ 7,334,664	\$ 92,092	\$ 4,167,929	\$ 423,559	(2,651,084)	-	(2,651,084)
Business-type activities							
Sewer fund	356,568	259,099	-	938,553	-	841,084	841,084
Solid waste	219,379	204,484	-	-	-	(14,895)	(14,895)
Ambulance fund	149,194	462,609	-	-	-	313,415	313,415
Telcenter	67,707	49,432	-	-	-	(18,275)	(18,275)
Total business-type activities	792,848	975,624	-	938,553	-	1,121,329	1,121,329
Total primary government	\$ 8,127,512	\$ 1,067,716	\$ 4,167,929	\$ 1,362,112	(2,651,084)	(1,121,329)	(1,529,755)
General revenues:							
Taxes:							
Property taxes					1,899,426	-	1,899,426
Excise taxes, licenses, permits and fees					258,409	-	258,409
Interest and lien costs					13,372	6,446	19,818
Grants and contributions not restricted to specific programs					351,608	-	351,608
Unrestricted investment and interest earnings					37,962	17,478	55,440
Miscellaneous					63,530	-	63,530
Special item - gain on sale of asset					39,522	-	39,522
Transfers					27,115	(21,615)	5,500
Total general revenues					2,690,944	2,309	2,693,253
Change in net assets					39,860	1,123,638	1,163,498
Net assets - beginning					4,914,434	3,641,046	8,555,480
Net assets - ending					\$ 4,954,294	\$ 4,764,684	\$ 9,718,978

See accompanying notes to basic financial statements.

Town of Machias, Maine
Balance Sheet
Governmental Funds
June 30, 2006

	General Fund	Special Revenue Fund - Education	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 835,764	\$ 3,265	\$ 101,000	\$ 5,613	\$ 945,642
Investments	82,020	-	-	276,095	358,115
Taxes receivable, net	159,102	-	-	-	159,102
Due from other funds	801,185	134,149	534,217	-	1,469,551
Receivable from other governments	77,725	11,862	23,985	20,426	133,998
Other receivables	513	-	25,000	2,623	28,136
Inventories	-	-	-	4,325	4,325
Total assets	<u>\$ 1,956,309</u>	<u>\$ 149,276</u>	<u>\$ 684,202</u>	<u>\$ 309,082</u>	<u>\$ 3,098,869</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 16,469	\$ -	\$ 64,362	\$ -	\$ 80,831
Due to other funds	955,401	-	-	20,844	976,245
Payable to other governments	4,822	-	-	-	4,822
Deferred property taxes	114,941	-	-	-	114,941
Prepaid taxes	3,886	-	-	-	3,886
Accrued summer teacher pay	287,530	-	-	-	287,530
Other payables	3,166	-	-	-	3,166
Total liabilities	<u>1,386,215</u>	<u>-</u>	<u>64,362</u>	<u>20,844</u>	<u>1,471,421</u>
Fund balances					
Reserved for					
Capital projects	-	-	344,445	-	344,445
Other purposes	40,599	-	-	2,623	43,222
Unreserved,					
Designated for education	135,637	-	-	-	135,637
Designated for town	6,430	-	-	-	6,430
Designated for capital projects funds	-	-	275,395	-	275,395
Undesignated	387,428	149,276	-	-	536,704
Unreserved, reported in non-major					
Undesignated special revenue funds	-	-	-	285,615	285,615
Total fund balances	<u>570,094</u>	<u>149,276</u>	<u>619,840</u>	<u>288,238</u>	<u>1,627,448</u>
Total liabilities and fund balances	<u>\$ 1,956,309</u>	<u>\$ 149,276</u>	<u>\$ 684,202</u>	<u>\$ 309,082</u>	<u>\$ 3,098,869</u>

Town of Machias, Maine
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006

Total fund balance, governmental funds	\$	1,627,448
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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.		4,465,416
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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.		
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Deferred revenue related to property taxes		114,941
--------------------------------------------	--	---------

Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, 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.		(1,253,511)
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Net Assets of Governmental Activities in the Statement of Net Assets	\$	<u>4,954,294</u>
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Town of Machias, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General Fund	Special Revenue Fund - Education	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 1,950,388	\$ -	\$ -	\$ -	\$ 1,950,388
Excise taxes	249,943	-	-	-	249,943
Interest and lien charges	13,372	-	-	-	13,372
Licenses, permits and fees	19,651	-	-	-	19,651
Intergovernmental	3,147,779	786,065	252,061	115,267	4,301,172
On-behalf payments - State of Maine	487,597	-	-	-	487,597
Charges for services	30,025	-	-	42,782	72,807
Investment earnings	30,338	-	-	7,623	37,961
Miscellaneous	48,795	-	53,064	23,249	125,108
Total revenues	<u>5,977,888</u>	<u>786,065</u>	<u>305,125</u>	<u>188,921</u>	<u>7,257,999</u>
EXPENDITURES					
Current					
General government	240,128	-	-	-	240,128
Police department	236,974	-	-	-	236,974
Fire department	207,471	-	-	-	207,471
Highways and streets	241,214	-	-	-	241,214
Education	3,930,492	819,453	-	-	4,749,945
Adult education	92,400	-	-	-	92,400
On-behalf payments - State of Maine	487,597	-	-	-	487,597
Recreation	7,144	-	-	-	7,144
General assistance	1,646	-	-	-	1,646
Airport	5,600	-	-	-	5,600
Public safety building	18,833	-	-	-	18,833
County tax	166,783	-	-	-	166,783
Third party requests	32,700	-	-	-	32,700
Other	6,567	-	-	-	6,567
School lunch program	-	-	-	135,302	135,302
Debt service					
Principal	311,841	-	-	-	311,841
Interest and other charges	36,779	-	-	-	36,779
Capital outlay	170,614	-	448,026	39,113	657,753
Total expenditures	<u>6,194,783</u>	<u>819,453</u>	<u>448,026</u>	<u>174,415</u>	<u>7,636,677</u>
Excess (deficiency) of revenues over expenditures	<u>(216,895)</u>	<u>(33,388)</u>	<u>(142,901)</u>	<u>14,506</u>	<u>(378,678)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from state renovation funds	-	-	101,000	-	101,000
Proceeds from capital leases	142,049	-	-	-	142,049
Transfers in	66,759	-	7,500	-	74,259
Transfers out	(40,261)	-	-	(6,883)	(47,144)
Total other financing sources and uses	<u>168,547</u>	<u>-</u>	<u>108,500</u>	<u>(6,883)</u>	<u>270,164</u>
SPECIAL ITEM					
Proceeds from sale of building	-	-	39,522	-	39,522
Net change in fund balances	<u>(48,348)</u>	<u>(33,388)</u>	<u>5,121</u>	<u>7,623</u>	<u>(68,992)</u>
Fund balances - beginning	<u>618,442</u>	<u>182,664</u>	<u>614,719</u>	<u>280,615</u>	<u>1,696,440</u>
Fund balances - ending	<u>\$ 570,094</u>	<u>\$ 149,276</u>	<u>\$ 619,840</u>	<u>\$ 288,238</u>	<u>\$ 1,627,448</u>

Town of Machias, Maine
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds: \$ (68,992)

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.

This is the amount by which depreciation \$223,553 exceeded capital outlays \$172,960 in the current period. (50,593)

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. (50,962)

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. This is the amount by which repayments exceeded proceeds.

379,727

Change in net assets of governmental activities \$ 209,180

Town of Machias, Maine
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Enterprise Funds				Total
	Sewer Fund	Solid Waste Facility	Ambulance Fund	Other Enterprise Fund - Telcenter	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ -	\$ 168,431	\$ -	\$ 13,257	\$ 181,688
Investments	344,300	-	-	-	344,300
Accounts receivable, net	257,401	-	140,182	-	397,583
Due from other funds	24,719	-	323,967	-	348,686
Receivables from other governments	265,053	12,751	-	-	277,804
Total current assets	<u>891,473</u>	<u>181,182</u>	<u>464,149</u>	<u>13,257</u>	<u>1,550,061</u>
Non-current assets:					
Capital assets:					
Land and improvements	1,000	-	-	-	1,000
Infrastructure and buildings	4,576,273	-	-	650,068	5,226,341
Construction in progress	1,224,479	-	-	-	1,224,479
Vehicles and equipment	37,638	-	173,709	-	211,347
Less accumulated depreciation	(1,799,363)	-	(173,709)	(146,265)	(2,119,337)
Total non-current assets	<u>4,040,027</u>	<u>-</u>	<u>-</u>	<u>503,803</u>	<u>4,543,830</u>
Total assets	<u>4,931,500</u>	<u>181,182</u>	<u>464,149</u>	<u>517,060</u>	<u>6,093,891</u>
LIABILITIES					
Current liabilities:					
Accounts payable	122,251	-	-	-	122,251
Due to other funds	298,543	382,998	35,000	119,951	836,492
Bonds and notes payable	40,875	-	-	-	40,875
Non-current liabilities:					
Bonds and notes payable	329,589	-	-	-	329,589
Total liabilities	<u>791,258</u>	<u>382,998</u>	<u>35,000</u>	<u>119,951</u>	<u>1,329,207</u>
NET ASSETS					
Invested in capital assets, net of related debt	3,669,563	-	-	503,803	4,173,366
Reserved for other purposes	440,032	168,431	7,036	-	615,499
Reserved for Machias Water Co.	272,444	-	-	-	272,444
Unrestricted (deficit)	(241,797)	(370,247)	422,113	(106,694)	(296,625)
Total net assets (deficit)	<u>\$ 4,140,242</u>	<u>\$ (201,816)</u>	<u>\$ 429,149</u>	<u>\$ 397,109</u>	<u>\$ 4,764,684</u>

Town of Machias, Maine
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Enterprise Funds				Other Enterprise Fund - Telcenter	Total
	Sewer Fund	Solid Waste Facility	Ambulance Fund	\$		
REVENUES						
Charges for services	\$ 265,545	\$ 204,484	\$ 462,608	\$ 49,432	\$ 982,069	
OPERATING EXPENSES						
Personal services	78,455	84,074	86,806	-	249,335	
Contractual services	50,964	92,165	9,574	-	152,703	
Utilities	71,913	12,690	483	35,204	120,290	
Repairs and maintenance	41,795	13,114	23,545	-	78,454	
Other supplies and expenses	2,821	11,915	15,019	-	29,755	
Insurance claims and expenses	7,141	5,421	9,829	-	22,391	
Depreciation	91,525	-	3,937	32,503	127,965	
Total operating expenses	<u>344,614</u>	<u>219,379</u>	<u>149,193</u>	<u>67,707</u>	<u>780,893</u>	
Operating income (loss)	<u>(79,069)</u>	<u>(14,895)</u>	<u>313,415</u>	<u>(18,275)</u>	<u>201,176</u>	
NON-OPERATING REVENUES (EXPENSES)						
Interest and investment revenue	10,408	6,829	-	241	17,478	
Capital grants and contributions	938,553	-	-	-	938,553	
Interest expense	(11,954)	-	-	-	(11,954)	
Total non-operating revenue (expenses)	<u>937,007</u>	<u>6,829</u>	<u>-</u>	<u>241</u>	<u>944,077</u>	
Income (loss) before contributions and transfers	<u>857,938</u>	<u>(8,066)</u>	<u>313,415</u>	<u>(18,034)</u>	<u>1,145,253</u>	
Transfers in	39,644	-	-	-	39,644	
Transfers out	(4,000)	(18,500)	(31,259)	(7,500)	(61,259)	
Total transfers	<u>35,644</u>	<u>(18,500)</u>	<u>(31,259)</u>	<u>(7,500)</u>	<u>(21,615)</u>	
Change in net assets	893,582	(26,566)	282,156	(25,534)	1,123,638	
Total net assets (deficit) - beginning	3,246,660	(175,250)	146,993	422,643	3,641,046	
Total net assets (deficit) - ending	<u>\$ 4,140,242</u>	<u>\$ (201,816)</u>	<u>\$ 429,149</u>	<u>\$ 397,109</u>	<u>\$4,764,684</u>	

Town of Machias, Maine
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2006

	Proprietary Fund Types - Enterprise				Totals
	Sewer	Solid Waste Facility	Ambulance	Other Enterprise-Telcenter	
CASH FLOWS FROM OPERATING ACTIVITIES					
Received from user charges and tenants	\$ 247,008	\$ 191,733	\$ 346,700	\$ 49,432	\$ 834,873
Payments for administrative services	(208,473)	-	(130,237)	(35,204)	(373,914)
Payments to suppliers for goods and services	(44,616)	(219,379)	(15,019)	-	(279,014)
Interfund activity	142,093	46,146	(170,185)	(6,728)	11,326
Total adjustments to income	<u>136,012</u>	<u>18,500</u>	<u>31,259</u>	<u>7,500</u>	<u>193,271</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interest paid	(11,954)	-	-	-	(11,954)
Interest income	10,408	6,829	-	241	17,478
Transfers in(out)	35,644	(18,500)	(31,259)	(7,500)	(21,615)
Net cash used by noncapital financing activities	<u>34,098</u>	<u>(11,671)</u>	<u>(31,259)</u>	<u>(7,259)</u>	<u>(16,091)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on bonds	(38,578)	-	-	-	(38,578)
Capital grants and contributions	673,500	-	-	-	673,500
Construction in progress	(794,624)	-	-	-	(794,624)
Net cash provided (used) by capital and related financial activities	<u>(159,702)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(159,702)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	(10,408)	-	-	-	(10,408)
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	6,829	-	241	7,070
CASH AND CASH EQUIVALENTS, BEGINNING	-	161,602	-	13,016	174,618
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ -</u>	<u>\$ 168,431</u>	<u>\$ -</u>	<u>\$ 13,257</u>	<u>\$ 181,688</u>
Reconciliation of operating income to net cash used by operating activities					
Operating income (loss)	\$ (79,069)	\$ (14,895)	\$ 313,415	\$ (18,275)	\$ 201,176
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	91,525	-	3,937	32,503	127,965
(Increase) decrease in the following assets					
Accounts receivable	(18,537)	(12,751)	(115,908)	-	(147,196)
Interfund receivables	(6,882)	-	(170,185)	-	(177,067)
Increase (decrease) in the following liabilities					
Interfund payables	148,975	46,146	-	(6,728)	188,393
Accounts payable and other accrued liabilities	-	-	-	-	-
Net cash provided by operating activities	<u>\$ 136,012</u>	<u>\$ 18,500</u>	<u>\$ 31,259</u>	<u>\$ 7,500</u>	<u>\$ 193,271</u>

Town of Machias, Maine
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 126,665	\$ 70,971
LIABILITIES		
Due to student groups	-	70,971
Due to other funds	5,500	-
Total liabilities	<u>5,500</u>	<u>70,971</u>
NET ASSETS		
Held in trust for scholarships and other purposes	<u>\$ 121,165</u>	<u>\$ -</u>

Town of Machias, Maine
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2006

	Private Purpose Trust Fund
ADDITIONS	
Interest	4,925
Contributions	1,217
Total additions	6,142
DEDUCTIONS	
Scholarships	4,768
Transfers out	5,500
Total deductions	10,268
Change in net assets	(4,126)
Net assets - beginning	125,291
Net assets - ending	\$ 121,165

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

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 application 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 combined 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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund Financial Statements (Continued)

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. This fund is used to account for all financial resources not accounted for in other funds.

Special Revenue Fund- Education

The Special Revenue Fund 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, state grants and other contributions for specific purposes.

Capital Projects Fund

The Capital Projects Fund is used to account for all resources for the acquisition or construction of capital facilities or items by the Town.

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 follow major proprietary funds:

Ambulance – Activities of the fund include administration and operations of the ambulance service and is financed through charges for services and governmental contributions.

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund Financial Statements (Continued)

Proprietary Funds (Continued)

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

Fiduciary Funds (Not included in government-wide statements)

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

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.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Property taxes are reported in the period for which levied. Other nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental fund financial statements are presented on 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 recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Modified Accrual (Continued)

period or within 60 days after year end. Property tax revenues are recognized in the period for which levied provided they are also available. Intergovernmental revenues and grants are recognized when all eligibility requirements are met and the revenues are available. Expenditures are recognized when the related liability is incurred. Exceptions to this general rule include principal and interest on general obligation long-term debt and employee vacation and sick leave, which are recognized when due and payable.

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 State Retirement System for teachers and certain other school employees are reported as offsetting revenues and expenditures of the general fund in accordance with GAAP.

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.

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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories of food and supplies in the school lunch program are valued at the lower of cost or market value.

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.

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, 2006

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 and compensated absences.

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

Government-Wide and Proprietary Fund 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. All other net assets are reported as unrestricted.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - Property Taxes

Property taxes were levied on assessed values of April 1, 2005 were due on October 30, 2005 and March 15, 2006, 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.

Property taxes assessed and collected during the year ended June 30, 2006, and during the first sixty days of the next fiscal year are recognized as revenue in 2006. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue.

Assessed value	
Real estate	\$75,085,500
Personal property	<u>6,995,900</u>
	\$82,081,400
Tax rate (per \$1,000)	<u>23.7</u>
Commitment	\$ 1,945,329
Less collections and abatements	<u>1,831,583</u>
Receivable at June 30, 2006	<u>\$ 113,746</u>
Collection rate	94%

Budget Basis of Accounting

The Town prepares its general fund annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the Town's method (budget basis) in the Budget and Actual (with Budget to GAAP Differences) – General Fund to provide a meaningful comparison of actual results with the budget. The major differences between budget and GAAP basis in the general fund are compensated absences and payments made by the State of Maine to the Maine State Retirement System are recognized for GAAP basis only.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget Basis of Accounting (Continued)

Adjustments necessary to convert the general funds' excess of revenues and other sources over expenditures and other uses on the budget basis to a GAAP basis are provided below:

Excess (deficiency) of revenues and other sources over expenditures and other uses – budget basis	\$ (42,496)
On behalf payments revenue	487,597
On behalf payments expenditures	(487,597)
End of year adjustment for accrued wages not recognized as expenditures	<u>(5,852)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses – GAAP basis	<u>\$ (48,348)</u>

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, 2006, the Town reported deposits of \$1,324,966 with bank balances of \$1,410,955. Of the Town's total bank balance of \$1,410,955, \$199,789 was exposed to custodial credit risk as this amount was not insured or collateralized and \$1,211,166 was collateralized by underlying securities held by the related bank, which were not in the Town's name.

Deposits have been reported as follows:

Reported in governmental funds	\$ 945,642
Reported in proprietary funds	<u>181,688</u>
Total reported on the Statement of Net Assets	1,127,330
Reported in fiduciary funds	<u>197,636</u>
Total deposits	<u>\$1,324,966</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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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, 2006 the Town's investments of \$702,415, 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 investments that meet the criteria to be classified as a concentration of credit risk investment. The money market funds of \$155,489 were invested in First Advisors Short Term Investment Fund. This fund is not rated. 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:

	<u>Due in less than one year</u>	<u>Due in 1-5 years</u>
U.S. Agency notes	\$49,757	\$199,745
U.S. Treasury notes	<u>24,980</u>	<u>-</u>
Total debt investments	<u>\$74,737</u>	<u>\$199,745</u>

Investments have been reported as follows:

Reported in governmental funds	\$ 358,115
Reported in proprietary funds	<u>344,300</u>
Total investments	<u>\$ 702,415</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, 2006 the Town's interest has been valued at \$272,444.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance 6/30/05	Additions/ Completions	Retire- ments	Balance 6/30/06
Governmental Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	294,217	137,106	(29,187)	402,136
	<u>859,291</u>	<u>137,106</u>	<u>(29,187)</u>	<u>967,210</u>
<i>Capital assets being depreciated</i>				
Buildings and land improvements	6,504,303	-	-	6,504,303
Infrastructure	-	29,187	-	29,187
Equipment, furniture and fixtures	466,015	7,288	-	473,303
Vehicles	821,497	28,566	-	850,063
Total capital assets being depreciated	<u>7,791,815</u>	<u>65,041</u>	<u>-</u>	<u>7,856,856</u>
Less accumulated depreciation for:				
Buildings and land improvements	(3,350,009)	(113,601)	-	(3,463,610)
Infrastructure	-	(1,459)	-	(1,459)
Equipment, furniture and fixtures	(295,578)	(48,974)	-	(344,552)
Vehicles	(489,510)	(59,519)	-	(549,029)
Total accumulated depreciation	<u>(4,135,097)</u>	<u>(223,553)</u>	<u>-</u>	<u>(4,358,650)</u>
Total capital assets, being depreciated, net	<u>3,656,718</u>	<u>(158,512)</u>	<u>-</u>	<u>3,498,206</u>
Governmental activities capital assets, net	<u>\$ 4,516,009</u>	<u>\$ (21,406)</u>	<u>\$(29,187)</u>	<u>\$ 4,465,416</u>
Business-Type Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	307,603	916,876	-	1,224,479
Total capital assets not being depreciated	<u>308,603</u>	<u>916,876</u>	<u>-</u>	<u>1,225,479</u>
<i>Capital assets being depreciated</i>				
Infrastructure and buildings	5,226,341	-	-	5,226,341
Vehicles and equipment	211,347	-	-	211,347
Total capital assets being depreciated	<u>5,437,688</u>	<u>-</u>	<u>-</u>	<u>5,437,688</u>
Less accumulated depreciation				
Infrastructure and buildings	(1,783,961)	(124,029)	-	(1,907,990)
Vehicles and equipment	(207,410)	(3,937)	-	(211,347)
Total accumulated depreciation	<u>(1,991,371)</u>	<u>(127,966)</u>	<u>-</u>	<u>(2,119,337)</u>
Total capital assets, being depreciated, net	<u>3,446,317</u>	<u>(127,966)</u>	<u>-</u>	<u>3,318,351</u>
Business-type activities capital assets, net	<u>\$ 3,754,920</u>	<u>\$ 788,910</u>	<u>\$ -</u>	<u>\$ 4,543,830</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

3. CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2006, was charged as direct expense to programs as follows:

<i>Governmental activities</i>	
General government	\$ 7,404
Protection	49,008
Public works	59,245
Recreation	2,960
Airport	420
Education	<u>104,516</u>
Total depreciation expense – Governmental activities	<u>\$223,553</u>
<i>Business-type activities</i>	
Sewer	\$ 91,526
Ambulance	3,937
Telcenter	<u>32,503</u>
Total depreciation expense – business-type activities	<u>\$127,966</u>

4. LONG-TERM DEBT

Obligations under capital leases

The Town is committed to leases for computers, software, photocopier equipment, plow truck and construction costs of an administration building. 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, 2006 are:

2007	\$ 89,129
2008	81,592
2009	77,572
2010	<u>64,028</u>
	312,321
Less amount representing interest	<u>28,598</u>
Present value of minimum lease payments	<u>\$283,723</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

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, 2006.

	Original Amount	Balance June 30, 2005	(Forgiven)/ (Retired)	Balance June 30, 2006
Governmental Debt				
General Obligation Bonds and Notes				
General bonds				
Maine Municipal Bond Bank, 7.2% to 9% school addition bond, dated October 23, 1985, due 2006	\$2,390,000	\$ 115,000	\$(115,000)	\$ -
Maine Municipal Bond Bank, 0% school renovation bond, dated August 21, 2001, due 2011	1,000,000	263,130	(37,590)	225,540
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 21, 2006, due 2012	736,000	736,000	(105,573)	630,427
General notes				
Machias Savings Bank, 3.29% equipment note, dated August 13, 2003, due 2010	134,000	114,850	(19,151)	95,699
Machias Savings Bank, 5% fire truck note, dated January 5, 2000, due 2007	124,922	<u>35,922</u>	<u>(17,800)</u>	<u>18,122</u>
Total general obligation bonds and notes payable		<u>1,264,902</u>	<u>(295,114)</u>	<u>969,788</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	54,700	(5,000)	49,700
Maine Municipal Bond Bank, 1% sewer rehabilitation project, dated July 26, 2002, due 2008	85,500	52,342	(17,149)	35,193
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 21, 2006, due 2012	101,000	101,000	(14,429)	86,571
Maine Municipal Bond Bank, 2.19% sewer rehabilitation project, dated July 26, 2002, due 2023	205,000	<u>201,000</u>	<u>(2,000)</u>	<u>199,000</u>
Total sewer bonds and notes		<u>409,042</u>	<u>(38,578)</u>	<u>370,464</u>
Total general obligation and proprietary bonds and notes payable		<u>\$1,673,944</u>	<u>\$ (333,692)</u>	<u>\$1,340,252</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

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	
2007	\$ 180,433	\$ 25,141	\$ 40,875	\$ 9,926	\$ 256,375
2008	162,311	20,177	41,176	8,890	232,554
2009	162,311	16,001	32,292	7,826	218,430
2010	162,311	11,814	32,565	6,751	213,441
2011	162,260	7,633	32,845	5,670	208,408
2012-2016	140,162	3,454	89,959	15,913	249,488
2017-2021	-	-	70,370	6,517	76,887
2022-2023	-	-	30,382	670	31,052
	<u>\$ 969,788</u>	<u>\$ 84,220</u>	<u>\$370,464</u>	<u>\$62,163</u>	<u>\$1,486,635</u>

In accordance with Maine law, no municipality shall incur debt for specific purposes in excess of certain percentages of State valuation of such municipality. At June 30, 2006, the Town was in compliance with these limitations.

OVERLAPPING DEBT

The Town is contingently liable for a proportionate share of the overlapping debt of Washington County. At June 30, 2006, the County had debt outstanding of \$172,493, of which the Town share was .2% for a total of \$345.

5. INTERFUND TRANSACTIONS

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

5. INTERFUND TRANSACTIONS (CONTINUED)

Individual fund interfund receivable and payables balances at June 30, 2006 arising from these transactions were as follows:

	Receivable	Payable
General fund	\$ 801,185	\$ 955,401
Special revenue fund-education	134,149	-
Capital projects fund	534,217	-
Proprietary fund	348,686	836,492
Fiduciary fund	-	5,500
Non-major funds	-	20,844
	\$1,818,237	\$1,818,237

Interfund transfers during the fiscal year June 30, 2006 were as follows:

		Transfers from				
		General fund	Other governmental fund	Fiduciary fund	Proprietary funds	Totals
Trans- fer to	General fund	\$ -	\$ -	\$ 5,500	\$ 61,259	\$ 66,759
	Capital projects fund	7,500	-	-	-	7,500
	Proprietary funds	<u>32,761</u>	<u>6,883</u>	-	-	<u>39,644</u>
		<u>\$ 40,261</u>	<u>\$ 6,883</u>	<u>\$ 5,500</u>	<u>\$ 61,259</u>	<u>\$ 113,903</u>

Transfers are used to (1) move revenues from the fund that budget requires to collect them to the fund that budget requires to expend them and (2) 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, 2006, the fund balances which are restricted for other purposes were comprised of the following:

Debt service – public safety building	\$30,371
Superintendent's office	<u>10,228</u>
Total general fund	<u>40,599</u>
Special revenue fund- revolving loan reserve	<u>2,623</u>
Total reserved for other purposes	<u>\$43,222</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

6. NET ASSETS – RESTRICTED (CONTINUED)

At June 30, 2006, the fund balances which are restricted for capital projects were comprised of the following:

Comprehensive plan	\$ 2,289
Tree replacement/removal	1,301
Economic development	88,733
Education heating system	783
Fire truck replacement	3,276
Fire department ventilation	3,563
Industrial development	29,896
Public safety building	12,500
Sewer overflow	3,366
Storm drain repair and replacement	10,973
Airport improvement	77,742
Vehicle replacement	26,880
Sewer expansion	75,323
Recreation building	<u>7,820</u>
	<u>\$344,445</u>

7. UNRESERVED FUND BALANCES– DESIGNATED

The general fund's designated fund balance at June 30, 2006 consists of:

Softball field backstop	\$ 1,677
Recreation accommodations	4,218
Salt shed	<u>535</u>
	<u>\$ 6,430</u>

The capital project fund's designated fund balance at June 30, 2006 consists of:

Roads	\$ 93,664
Town office	88,384
School renovations	<u>93,347</u>
	<u>\$275,395</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

8. RETAINED EARNINGS – RESTRICTED – ENTERPRISE FUNDS

At June 30, 2006, the enterprise fund's restricted fund balance for other purposes was comprised of the following:

Sewer fund	
Reserve for debt/capital	\$381,610
Reserve for debt service	<u>58,422</u>
Total sewer fund	440,032
Solid waste fund	
Restricted for Howe's corner	168,431
Ambulance fund	
Reserve for vehicle replacement	<u>7,036</u>
	<u>\$615,499</u>

9. UNRESTRICTED NET ASSETS (DEFICIT) - ENTERPRISE FUNDS

The solid waste fund has a deficit in its unrestricted net assets of \$370,247 for the year ended June 30, 2006. The Town has implemented a plan to reduce this deficit in future years through increased fees and Town appropriations. The sewer fund has a deficit in unrestricted net assets of \$241,797 that will also be reduced with increased fees. The other enterprise fund – telcenter has a deficit in unrestricted net assets of \$106,694 for the year ended June 30, 2006 as the result of presentation for GASB 34.

10. PENSION PLANS

Maine State Retirement Systems - School Employees

All School teachers, plus other qualified educators, participate in the Maine State 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 State 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 State 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.

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, 2006, was approximately \$2,546,197. The State of Maine Department of Education is required, by state statute, to contribute the employer contribution which amounts to \$487,597 (19.15%) of compensation for the year ended June 30, 2006. There is no contribution required by the school department except for Federally funded teachers for which the school department contributes 19.15% of their compensation. This cost amounted to \$75,412 for the year ended June 30, 2006, and is chargeable to the applicable grant.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

10. PENSION PLANS (CONTINUED)

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 \$9,269 and employees elected to defer \$11,233 for a contribution of \$20,502 for the year ended June 30, 2006.

11. 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.

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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2006

12. COMMITMENTS

The Town was also committed to three contracts for sewer construction projects with remaining amounts totaling \$409,504.

13. 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, 2006

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
	Original	Final			
REVENUES					
Property Taxes	\$ 1,945,329	\$ 1,945,329	\$ 1,950,388	\$ -	\$ 1,950,388
Excise taxes	232,500	232,500	249,943	-	249,943
Interest and lien costs	10,000	10,000	13,372	-	13,372
Licenses and permits	21,725	21,725	19,651	-	19,651
Intergovernmental					
Education	2,614,836	2,614,836	2,801,264	-	2,801,264
On-behalf payments - State of Maine	-	-	-	487,597	487,597
Town	324,918	324,918	346,515	-	346,515
Charges for services	8,000	8,000	30,025	-	30,025
Investment earnings	12,500	12,500	30,338	-	30,338
Miscellaneous	19,900	19,900	48,795	-	48,795
Total revenues	<u>5,189,708</u>	<u>5,189,708</u>	<u>5,490,291</u>	<u>487,597</u>	<u>5,977,888</u>
EXPENDITURES					
Current:					
General government	244,957	244,957	240,128	-	240,128
Police department	225,441	225,441	236,974	-	236,974
Fire department	212,042	212,042	207,471	-	207,471
Highways and streets	239,444	239,444	241,214	-	241,214
Education	4,213,330	4,213,330	4,174,805	5,852	4,180,657
On-behalf payments - State of Maine	-	-	-	487,597	487,597
Recreation	15,775	15,775	7,584	-	7,584
General assistance	5,000	5,000	1,646	-	1,646
Airport	13,800	13,800	5,600	-	5,600
Public safety building	18,272	18,272	18,833	-	18,833
County tax	170,187	170,187	166,783	-	166,783
Third party requests	32,260	32,260	32,260	-	32,260
Other	14,200	14,200	6,567	-	6,567
Debt service:					
Principal	159,251	159,251	159,251	-	159,251
Interest and other charges	31,319	31,319	31,604	-	31,604
Capital outlay	8,500	8,500	28,565	-	28,565
Total expenditures	<u>5,603,778</u>	<u>5,603,778</u>	<u>5,559,285</u>	<u>493,449</u>	<u>6,052,734</u>
Excess (deficiency) of revenues over expenditures	<u>(414,070)</u>	<u>(414,070)</u>	<u>(68,994)</u>	<u>(5,852)</u>	<u>(74,846)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	44,259	44,259	66,759	-	66,759
Transfers out	(38,261)	(38,261)	(40,261)	-	(40,261)
Total other financing sources and uses	<u>5,998</u>	<u>5,998</u>	<u>26,498</u>	<u>-</u>	<u>26,498</u>
Net change in fund balances	<u>(408,072)</u>	<u>(408,072)</u>	<u>(42,496)</u>	<u>(5,852)</u>	<u>(48,348)</u>
Fund balances - beginning	900,120	900,120	900,120	(281,678)	618,442
Fund balances - ending	<u>\$ 492,048</u>	<u>\$ 492,048</u>	<u>\$ 857,624</u>	<u>\$ (287,530)</u>	<u>\$ 570,094</u>

Town of Machias, Maine
Budget and Actual (with Variances)
General Fund
For the year ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$1,945,329	\$ 1,945,329	\$ 1,950,388	\$ 5,059
Excise taxes	232,500	232,500	249,943	17,443
Interest and lien costs	10,000	10,000	13,372	3,372
Licenses and permits	21,725	21,725	19,651	(2,074)
Intergovernmental				
Education	2,614,836	2,614,836	2,801,264	186,428
Town	324,918	324,918	346,515	21,597
Charges for services	8,000	8,000	30,025	22,025
Investment earnings	12,500	12,500	30,338	17,838
Miscellaneous	19,900	19,900	48,795	28,895
Total revenues	<u>5,189,708</u>	<u>5,189,708</u>	<u>5,490,291</u>	<u>300,583</u>
EXPENDITURES				
Current:				
General government	244,957	244,957	240,128	4,829
Police department	225,441	225,441	236,974	(11,533)
Fire department	212,042	212,042	207,471	4,571
Highways and streets	239,444	239,444	241,214	(1,770)
Education	4,213,330	4,213,330	4,174,805	38,525
Recreation	15,775	15,775	7,584	8,191
General assistance	5,000	5,000	1,646	3,354
Airport	13,800	13,800	5,600	8,200
Public safety building	18,272	18,272	18,833	(561)
County tax	170,187	170,187	166,783	3,404
Third party requests	32,260	32,260	32,260	-
Other	14,200	14,200	6,567	7,633
Debt service:				
Principal	159,251	159,251	159,251	-
Interest and other charges	31,319	31,319	31,604	(285)
Capital outlay	8,500	8,500	28,565	(20,065)
Total expenditures	<u>5,603,778</u>	<u>5,603,778</u>	<u>5,559,285</u>	<u>44,493</u>
Excess (deficiency) of revenues over expenditures	<u>(414,070)</u>	<u>(414,070)</u>	<u>(68,994)</u>	<u>345,076</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	44,259	44,259	66,759	22,500
Transfers out	(38,261)	(38,261)	(40,261)	(2,000)
Total other financing sources and uses	<u>5,998</u>	<u>5,998</u>	<u>26,498</u>	<u>20,500</u>
Net change in fund balances	(408,072)	(408,072)	(42,496)	<u>\$ 365,576</u>
Fund balances - beginning	900,120	900,120	900,120	
Fund balances - ending	<u>\$ 492,048</u>	<u>\$ 492,048</u>	<u>\$ 857,624</u>	

**Town of Machias, Maine
Balance Sheet
Other Governmental Funds
June 30, 2006**

	Special Revenue Fund - School Lunch	Special Revenue Fund - Town	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 5,613	\$ -	\$ 5,613
Investments	-	276,095	276,095
Receivable from other governments	13,309	7,117	20,426
Note receivable	-	2,623	2,623
Inventories	4,325	-	4,325
Total assets	<u>\$ 23,247</u>	<u>\$ 285,835</u>	<u>\$ 309,082</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	<u>\$ 9,692</u>	<u>\$ 11,152</u>	<u>\$ 20,844</u>
Fund balances:			
Reserved for:			
Other purposes	-	2,623	2,623
Unreserved			
Undesignated	13,555	272,060	285,615
Total fund balances	<u>13,555</u>	<u>274,683</u>	<u>288,238</u>
Total liabilities and fund balances	<u>\$ 23,247</u>	<u>\$ 285,835</u>	<u>\$ 309,082</u>

Town of Machias, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	Special Revenue Fund - School Lunch	Special Revenue Fund - Town	Total-Other Governmental Funds
REVENUES			
Intergovernmental	\$ 97,833	\$ 17,434	\$ 115,267
Charges for services	42,782	-	42,782
Investment earnings	-	7,623	7,623
Miscellaneous	-	23,249	23,249
Total revenues	<u>140,615</u>	<u>48,306</u>	<u>188,921</u>
EXPENDITURES			
Current			
Food	78,424	-	78,424
Labor	56,878	-	56,878
Capital outlay	-	39,113	39,113
Total expenditures	<u>135,302</u>	<u>39,113</u>	<u>174,415</u>
Excess (deficiency) of revenues over expenditures	<u>5,313</u>	<u>9,193</u>	<u>14,506</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>-</u>	<u>(6,883)</u>	<u>(6,883)</u>
Net change in fund balances	5,313	2,310	7,623
Fund balances - beginning	8,242	272,373	280,615
Fund balances - ending	<u>\$ 13,555</u>	<u>\$ 274,683</u>	<u>\$ 288,238</u>

Town of Machias, Maine
 COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS - TOWN
 June 30, 2006

	Downtown Revolving Loan Fund	Station 98	Economic Development (Mill)	State Local Road Assistance	Sewer Grant	Maine Waste Management Grant	Housing Grant	Downtown planning	Thermal imaging camera	Fire Donations	First Responders	Scholarship	Totals
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	-	25,304	249,266	-	-	-	-	-	1,534	-	-	-	276,104
Due from other governments	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans receivable	2,623	-	-	-	-	-	-	-	-	-	-	-	2,623
Interfund loans receivable	5,401	-	1,000	16,345	180	4,990	-	9,482	503	-	5,782	175	43,858
Total assets	\$ 8,024	\$ 25,304	\$ 250,266	\$ 16,345	\$ 180	\$ 4,990	\$ -	\$ 9,482	\$ 2,037	\$ -	\$ 5,782	\$ 175	\$ 322,585
LIABILITIES													
Interfund loans payable	\$ -	\$ 17,367	\$ 28,492	\$ -	\$ -	\$ -	\$ 95	\$ -	\$ -	\$ 1,948	\$ -	\$ -	\$ 47,902
FUND EQUITY													
Fund Balance													
Reserved for revolving loan fund	2,623	7,937	221,774	16,345	180	4,990	(95)	9,482	2,037	(1,948)	5,782	175	2,623
Unreserved - undesignated	5,401	-	-	-	-	-	-	-	-	-	-	-	272,060
Total fund equity	8,024	7,937	221,774	16,345	180	4,990	(95)	9,482	2,037	(1,948)	5,782	175	274,683
Total liabilities and fund equity	\$ 8,024	\$ 25,304	\$ 250,266	\$ 16,345	\$ 180	\$ 4,990	\$ -	\$ 9,482	\$ 2,037	\$ -	\$ 5,782	\$ 175	\$ 322,585

Town of Machias, Maine
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
SPECIAL REVENUE FUNDS - TOWN
 Year ended June 30, 2006

	Revolving loan fund	Station 98	Housing grant 2006	State Local Road Assistance	Thermal Imaging Camera	Sewer grant	Maine Waste Management Grant	Downtown planning-- donation
REVENUES								
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000
Investment and interest income	-	698	-	-	42	-	-	-
Donations	-	23,249	-	-	-	-	-	-
Total revenues	-	23,947	-	-	42	-	-	10,000
EXPENDITURES								
Capital	-	26,389	95	-	-	-	-	518
Excess of revenues over expenditures	-	(2,442)	(95)	-	42	-	-	9,482
FUND BALANCE - BEGINNING	8,024	10,379	-	16,345	1,995	180	4,990	-
FUND BALANCE - ENDING	\$ 8,024	\$ 7,937	\$ (95)	\$ 16,345	\$ 2,037	\$ 180	\$ 4,990	\$ 9,482

Continued

Town of Machias, Maine
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
SPECIAL REVENUE FUNDS - TOWN
 Year ended June 30, 2006

	Scholarship Grant	Mill Account	Fire donations	Housing Grant	First Responders	Homeland Security	Totals
REVENUES							
Intergovernmental	\$ -	\$ -	\$ -	\$ -	6,260	1,174	17,434
Investment and interest income	-	6,883	-	-	-	-	7,623
Donations	-	-	-	-	-	-	23,249
Total revenues	-	6,883	-	-	6,260	1,174	48,306
EXPENDITURES							
Capital	-	-	-	4,688	6,249	1,174	39,113
Excess (deficiency) of revenues over expenditures	-	6,883	-	(4,688)	11	-	9,193
OTHER FINANCING SOURCES (USES)							
Operating transfers in (out)	-	(6,883)	-	-	-	-	(6,883)
Excess (deficiency) of revenues over expenditures and other sources (uses)	-	-	-	(4,688)	11	-	2,310
FUND BALANCE - BEGINNING	175	221,774	(1,948)	4,688	5,772	-	272,373
FUND BALANCE - ENDING	\$ 175	\$ 221,774	\$ (1,948)	\$ -	\$ 5,783	\$ -	\$ 274,683

Town of Machias, Maine
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
CAPITAL PROJECTS FUNDS
Year ended June 30, 2006

	Fire department ventilation system	Sewer Expansion	Vehicle Replacement	Fire Truck Replacement	Tree Replacement and/or Removal	Education Heating System	Economic Development	Sewer Overflow	Storm Drain Repair and Replacement	Comprehensive Plan
REVENUES										
Intergovernmental and other	\$ 3,563	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EXPENDITURES										
Capital outlay	-	-	-	-	-	-	17,988	-	-	7,711
Excess of revenues over (under) expenditures	3,563	-	-	-	-	-	(17,988)	-	-	(7,711)
OTHER FINANCING SOURCES (USES)										
Bond proceeds	-	-	-	-	-	-	-	-	-	-
Operating transfers in (out)	-	-	-	-	-	-	-	-	-	-
Total other financing sources	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other (uses)	3,563	-	-	-	-	-	(17,988)	-	-	(7,711)
SPECIAL ITEM										
Proceeds from sale of land	-	-	-	-	-	-	39,522	-	-	-
Net change in fund balances	3,563	-	-	-	-	-	21,534	-	-	(7,711)
FUND BALANCE, BEGINNING	-	75,323	26,880	3,276	1,301	783	8,362	3,366	10,973	10,000
FUND BALANCE, ENDING	\$ 3,563	\$ 75,323	\$ 26,880	\$ 3,276	\$ 1,301	\$ 783	\$ 29,896	\$ 3,366	\$ 10,973	\$ 2,289

Continued

Town of Machias, Maine
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
CAPITAL PROJECTS FUNDS
 Year ended June 30, 2006

	Public Safety Building	Economic Development	Town Roads	Regional Airport	Airport Improvement	Town Office	School renovations	Recreation Building	Totals
REVENUES									
Intergovernmental and other	\$ -	\$ 9,000	\$ -	\$ 37,500	\$ 252,062	\$ -	\$ -	\$ 3,000	\$ 305,125
EXPENDITURES									
Capital outlay	-	16,080	137,106	-	258,807	-	7,653	2,681	448,026
Excess of revenues over (under) expenditures	-	(7,080)	(137,106)	37,500	(6,745)	-	(7,653)	319	(142,901)
OTHER FINANCING SOURCES (USES)									
Contributions from state renovation funds	-	-	-	-	-	-	101,000	-	101,000
Operating transfers in (out)	7,500	-	-	(6,463)	6,463	-	-	-	7,500
Total other financing sources	7,500	-	-	(6,463)	6,463	-	101,000	-	108,500
SPECIAL ITEM									
Proceeds from sale of land	-	-	-	-	-	-	-	-	39,522
Net change in fund balances	7,500	(7,080)	(137,106)	31,037	(282)	-	93,347	319	5,121
FUND BALANCE, BEGINNING	5,000	95,813	230,770	46,300	687	88,385	-	7,500	614,719
FUND BALANCE, ENDING	\$ 12,500	\$ 88,733	\$ 93,664	\$ 77,337	\$ 405	\$ 88,385	\$ 93,347	\$ 7,819	\$ 619,840

Town of Machias, Maine
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCES - AGENCY FUNDS**
 June 30, 2006

	<u>Balances</u> July 1, 2005	<u>Receipts</u>	<u>Expenditures</u>	<u>Balances</u> June 30, 2006
Rose Gaffney School	\$ 21,314	\$ 68,071	\$ 74,458	\$ 14,927
Machias High School	30,980	96,412	83,581	43,811
Machias Vocational Center	11,431	11,618	10,853	12,196
Other	<u>696</u>	<u>-</u>	<u>659</u>	<u>37</u>
Total	<u>\$ 64,421</u>	<u>\$ 176,101</u>	<u>\$ 169,551</u>	<u>\$ 70,971</u>

Town of Machias, Maine
TAXES RECEIVABLE, TAX LIENS AND TAX ACQUIRED PROPERTY
GENERAL FUND
June 30, 2006

Taxes receivable	
2005	\$ 113,746
2004	1,614
2003	1,434
2002 and prior	<u>20,243</u>
Total taxes receivable	<u>137,037</u>
Tax liens and tax acquired property	
2004	20,617
2003 and prior	<u>1,448</u>
Total tax liens and tax acquired property	<u>22,065</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 159,102</u>

Town of Machias, Maine
PROPERTY VALUATION, ASSESSMENT AND APPROPRIATIONS
GENERAL FUND
Year ended June 30, 2006

Assessed Valuation	
Real estate	\$ 75,085,500
Personal property	<u>6,995,900</u>
Total assessed valuation	<u>\$ 82,081,400</u>
Tax Commitment	
Total assessment at \$23.70 per thousand	<u>\$ 1,945,329</u>
Reconciliation of Commitment with Appropriation	
Current year tax commitment, as above	\$ 1,945,329
Estimated revenues	3,244,379
Budgeted transfers in	44,259
Appropriated from fund balance	<u>451,386</u>
	5,685,353
Less:	
Overlay	(43,314)
Budgeted transfers out	<u>(38,261)</u>
Total appropriations	<u>\$ 5,603,778</u>



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**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, 2006, which collectively comprise the Town of Machias, Maine's basic financial statements and have issued our report thereon dated May 8, 2008. 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 Town of Machias, Maine's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we considered to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town of Machias, Maine's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item #2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be a material weakness. However, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 other matters involving the internal control over financial reporting that we have reported to management of the Town of Machias, Maine in a separate letter dated May 8, 2008.

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.

Grant M. Thibodeau & Associates

May 8, 2008

**Report on Compliance With Requirements Applicable to
Each Major Program and Internal Control Over Compliance in
Accordance With OMB Circular A-133**

Board of Selectmen
Town of Machias, Maine

Compliance

We have audited the compliance of Town of Machias, Maine with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. 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 Town of Machias' 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 Town of Machias' compliance with those requirements.

In our opinion, the Town of Machias complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Town of Machias 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 Town of Machias' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, 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.

Grant & Associates

May 8, 2008

**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, 2006, 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's copy of Form EF-M-45 is correct and any generally accepted accounting principle differences are supported by the required reconciliation schedule.
4. The Town is in compliance with the applicable provisions of the Maine School Finance Acts of 1985, 1995 and 2003.

May 8, 2008

Town of Machias, Maine
AUDIT ADJUSTMENTS TO EF-M-45
Year ended June 30, 2006

	General Fund*	Adult Education*	Special Revenue	Totals
June 30 balance as per EF-M-45	\$ 176,191	\$ 160,330	\$ 31,893	\$ 368,414
Beginning balance variance	179,335	(117,333)	89,455	151,457
Revenue Adjustment				
Accounts receivable current year	-	-	11,015	11,015
Accounts receivable prior year	-	(7,490)	(12,056)	(19,546)
Unrecorded revenues	-	-	28,826	28,826
Expenditure Adjustment				
Activity reclass for report	33,041	(907)	143	32,277
Adult education activity for report	136	(136)	-	-
Accrued summer teacher pay	(287,530)	-	-	(287,530)
Audited GAAP Basis Fund Balance	<u>\$ 101,173</u>	<u>\$ 34,464</u>	<u>\$ 149,276</u>	<u>\$ 284,913</u>

* combined on report in designated for education

Town of Machias, Maine
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	Disbursements/ Expenditures
<i>U.S. Department of Housing and Urban Development</i>			
Passed through Department of Economic and Community Development			
Public infrastructure grant	14.228	G1004346	\$ 382,500
Economic development infrastructure	14.228	G305175	132,495
Community planning grant	14.228	G406050	<u>517</u>
Total U.S. Department of Housing and Urban Development			<u>515,512</u>
<i>U.S. Department of Transportation</i>			
Direct			
FAA grant - airport improvement program	20.106	N/A	<u>245,867</u>
<i>U.S. Environmental Protection Agency</i>			
Passed through Department of Environmental Protection			
Multi-media capacity building grant for states and tribes	66.709	XP97123801-0	<u>329,516</u>
<i>U.S. Department of Homeland Security</i>			
Passed through Maine State Department of Defense, Veterans and Emergency Management			
2004 State Domestic Preparedness Equipment Support Program	97.004	N/A	1,174
Law Enforcement Terrorism Prevention Program	97.074	N/A	<u>6,250</u>
Total U.S. Department of Homeland Security			<u>7,424</u>
<i>U.S. Department of Education</i>			
<i>Passed through State Department of Education</i>			
Title I	84.010	13-05A-6334-13	206,143
Title V innovative	84.298	13-05A-1072-66	1,865
Part B Section 619- Preschool	84.173	13-05A-6241-23	973
Adult basic education	84.002	13-05A-6296-64	99,670
Comprehensive school reform	84.332	13-05A-6339-13	10,003
Gear - up	84.334	13-05A-6341-13	33,049
Title IIA teacher quality	84.367	13-05A-1138-11	48,528
School renovations	84.352	13-05A-4101-2	2,285
Corrections	84.002	13-05A-6297-64	990
Title IID education technology	84.318	13-05A-1006-7	4,594
Title IC basic	84.048	13-05A-5159-8	42,702
Title VI, Part B - Local Entitlement	84.027	13-05A-6317-12	<u>132,284</u>
Total U.S. Department of Education			<u>583,086</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	70,076
Summer food service program	10.559	13-05A-7130-05	7,046
Food donation program	10.550	N/A	7,755
National School Lunch -After school snack	10.555	13-05A-7142-05	1,172
School breakfast program	10.553	13-05A-7127-05	<u>15,881</u>
Total U.S. Department of Agriculture			<u>101,930</u>
<i>U.S. Department of Health and Human Services</i>			
<i>Passed through State Department of Education</i>			
School health	93.938	013-05A-6312-15	2,000
<i>Passed through Office of Substance Abuse</i>			
Title IVA - Safe and Drug Free School Education	84.186	13-05A-6346-57	<u>12,588</u>
Total U.S. Department of Health and Human Services			<u>14,588</u>
Total federal programs			<u>\$ 1,797,923</u>

Town of Machias, Maine
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Town of Machias8 and is presented on the modified accrual basis of accounting. 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

Town of Machias, Maine
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

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
 - Reportable condition(s) 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
 - Reportable condition(s) 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>
14.228	Community and Economic Development Block Grants
66.709	Multi-media Capacity Building Grants for States and Tribes

- 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
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2006

Section II — Financial Statement Findings
#2006-01

<i>Criteria or specific requirement</i>	Reconciliations of general ledger
<i>Condition</i>	Reconciliations of major accounts not being performed or not being performed in a timely manner.
<i>Questioned costs</i>	None
<i>Context</i>	N/A
<i>Effect</i>	Incorrect postings and several adjustments required
<i>Cause</i>	Lack of time devoted to reviewing activity.
<i>Recommendation</i>	Segregation of duties, oversight by management and monthly reconciliations.
<i>Management's response</i>	Procedures being put in place to correct.

Section III — Federal Award Findings and Questioned Costs

<i>Information on the federal program</i>	None
<i>Criteria or specific requirement</i> <i>(including statutory, regulatory, or other citation).</i>	
<i>Condition</i>	
<i>Questioned costs</i>	
<i>Effect</i>	
<i>Cause</i>	
<i>Recommendation</i>	
<i>Management's response</i>	

Town of Machias, Maine
Summary Schedule of Prior Audit Findings
Year ended June 30, 2006

2005-01
Condition

Reconciliations of major accounts not being performed or not being performed in a timely manner.

Current Status

Not corrected in 2006. Management is currently fixing problems in 2007.

2005-02
Condition

The reconciliation between the school expenditures and revenues and the Town is critical. The accounts were not reconciled and activity was not recorded timely throughout the year.

Current Status

Management continues to devote more time to fixing problem.