

Town of Machias, Maine

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

For the Year Ended June 30, 2007

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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, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Machias, Maine's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2009 on our consideration of the Town of Machias, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and 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 budgetary comparison information on pages 6 through 15 and 44 through 45 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.

Board of Selectmen
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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.

Chantrel Whittaker & Associates

Bangor, Maine
January 30, 2009

Town of Machias, Maine

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

March 10, 2009

The Management Discussion and Analysis ("MD&A") is a report of the Town of Machias's fiscal activity for the year ending June 30, 2007 compared with 2006. 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 Margarett) 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, 2007 was \$1,060,854.
- On a budget basis the Town originally budgeted a deficiency of \$243,277. However, there was a positive budget variance of \$63,331.

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 27-43.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning financial performance (budget and actual with budget to GAAP differences and budget and actual with variances). Required supplementary information can be found on pages 44-45.

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 \$10,325,587 as of June 30, 2007.

Net Assets for the Period Ending June 30, 2007 and 2006

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 1,911,530	\$ 2,122,624	\$ 965,341	\$ 713,569	\$ 2,876,871	\$ 2,836,193
Capital assets	<u>4,518,051</u>	<u>4,465,416</u>	<u>5,046,723</u>	<u>4,543,830</u>	<u>9,564,774</u>	<u>9,009,246</u>
Total Assets	<u>6,429,581</u>	<u>6,588,040</u>	<u>6,012,064</u>	<u>5,257,399</u>	<u>12,441,645</u>	<u>11,845,439</u>
Current liabilities	615,766	380,235	153,135	122,251	768,901	502,486
Noncurrent liabilities	<u>1,018,267</u>	<u>1,253,511</u>	<u>328,890</u>	<u>370,464</u>	<u>1,347,157</u>	<u>1,623,975</u>
Total Liabilities	<u>1,634,033</u>	<u>1,633,746</u>	<u>482,025</u>	<u>492,715</u>	<u>2,116,058</u>	<u>2,126,461</u>
Net Assets (Accumulated Deficit)						
Investment in capital assets, net of debt	3,542,989	3,286,572	4,717,833	4,173,366	8,260,822	7,459,938
Restricted	175,620	387,667	929,883	887,943	1,105,503	1,275,610
Unrestricted	<u>1,076,939</u>	<u>1,280,055</u>	<u>(117,677)</u>	<u>(296,625)</u>	<u>959,262</u>	<u>983,430</u>
Total Net Assets	<u>\$ 4,795,548</u>	<u>\$ 4,954,294</u>	<u>\$ 5,530,039</u>	<u>\$ 3,641,046</u>	<u>\$ 10,325,587</u>	<u>\$ 9,718,978</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 \$238,524.

The Town recognized deferred property taxes of \$30,497 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, 2007 and 2006.

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
REVENUES						
Charges for services and other	\$ 112,368	\$ 92,092	\$ 872,793	\$ 975,624	\$ 985,161	\$ 1,067,716
Operating grants and contributions	3,766,306	4,167,929	-	-	3,766,306	4,167,929
Capital grants and contributions	108,822	423,559	740,038	938,553	848,860	1,362,112
Property Taxes	2,133,981	1,899,426	-	-	2,133,981	1,899,426
Excise and miscellaneous taxes	257,677	258,409	-	-	257,677	258,409
Interest and lien charges	10,705	13,372	-	6,446	10,705	19,818
Grants and contributions not restricted to specific purpose	411,017	325,233	-	-	411,017	325,233
Unrestricted investment and interest income	53,576	37,962	12,722	17,478	66,298	55,440
Miscellaneous	1,988	63,530	-	-	1,988	63,530
Special item- gain on sale of assets	-	39,522	-	-	-	39,522
Transfers	<u>(9,132)</u>	<u>27,115</u>	<u>9,132</u>	<u>(21,615)</u>	<u>-</u>	<u>5,500</u>
Total Revenues	<u>6,847,308</u>	<u>7,348,149</u>	<u>1,634,685</u>	<u>1,916,486</u>	<u>8,481,993</u>	<u>9,264,635</u>

EXPENSES AND TRANSFERS							
General Government	\$ 274,029	\$ 253,949	-	-	\$ 274,029	\$ 253,949	
Public safety	458,037	512,286	-	-	458,037	512,286	
Public works	325,657	300,459	-	-	325,657	300,459	
General assistance	556	1,646	-	-	556	1,646	
Culture and recreation	41,608	42,804	-	-	41,608	42,804	
Education	4,219,938	4,107,958	-	-	4,219,938	4,107,958	
On-behalf payments - State of Maine	445,311	487,597	-	-	445,311	487,597	
Grants and other contributions	624,338	819,453	-	-	624,338	819,453	
Interest on long-term debt	75,660	31,601	-	-	75,660	31,601	
Airport	7,263	6,020	-	-	7,263	6,020	
County tax	157,954	166,783	-	-	157,954	166,783	
School lunch program	144,166	135,301	-	-	144,166	135,301	
Capital outlay	231,537	350,032	-	-	231,537	350,032	
Other	-	-	-	-	-	-	
Business-type Activities	-	-	869,330	792,848	869,330	792,848	
Total Expenses	<u>7,006,054</u>	<u>7,308,289</u>	<u>869,330</u>	<u>792,848</u>	<u>7,875,384</u>	<u>8,101,137</u>	
Change in net assets	(158,746)	39,860	765,355	1,123,638	606,609	1,163,498	
Net assets, beginning 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>	
Net assets, end of year	<u>\$4,795,548</u>	<u>\$4,954,294</u>	<u>\$5,530,039</u>	<u>\$4,764,684</u>	<u>\$10,325,587</u>	<u>\$9,718,978</u>	

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

Governmental Activities

For the year ended June 30, 2007, the Town's net assets for governmental activities decreased by \$158,746.

Expenses of governmental activities include depreciation expense of \$238,524. 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, 2007 totaled \$2,859,812, an increase of 8% from June 30, 2006. Of this amount, \$2,133,981 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, 2007, the Town's net assets from business-type activities increased by \$765,355 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 \$1,150,327, \$477,121 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 \$2,103,484. Excise taxes accounted for \$249,565 in total revenue.

On behalf payments amounted to \$445,311 during the year ended June 30, 2007. 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 \$7,348,527, \$238,612 higher than the year before.

The Town paid \$491,863 in governmental funds capital outlays during the year. Of this, \$291,158 was capitalized.

Capital Asset and Debt Administration

Capital Assets

	Balance 6/30/06	Additions/ Completions	Retire- ments	Balance 6/30/07
Governmental Activities				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	402,136	-	-	402,136
Buildings and improvements	6,504,303	-	-	6,504,303
Infrastructure	29,187	205,809	-	234,996
Equipment, furniture and fixtures	473,303	85,350	-	558,653
Vehicles	<u>850,063</u>	<u>-</u>	<u>-</u>	<u>850,063</u>
Total capital assets	<u>8,824,066</u>	<u>291,159</u>	<u>-</u>	<u>9,115,225</u>
<i>Less accumulated depreciation</i>	<u>(4,358,650)</u>	<u>(238,534)</u>	<u>-</u>	<u>(4,597,174)</u>
Total capital assets, net	<u>\$ 4,465,416</u>	<u>\$ 52,635</u>	<u>\$ -</u>	<u>\$ 4,518,051</u>
	Balance 6/30/06	Additions/ Completions	Retire- ments	Balance 6/30/07
Business-Type Activities				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	1,224,479	368,920	-	1,593,399
Lines and mains and buildings	5,226,341	-	-	5,226,341
Vehicles and equipment	<u>211,347</u>	<u>258,001</u>	<u>(64,812)</u>	<u>404,536</u>
Total capital assets	<u>6,663,167</u>	<u>626,921</u>	<u>(64,812)</u>	<u>7,225,276</u>
<i>Less accumulated depreciation</i>	<u>(2,119,337)</u>	<u>(124,028)</u>	<u>64,812</u>	<u>(2,178,553)</u>
Total capital assets, net	<u>\$ 4,543,830</u>	<u>\$ 502,893</u>	<u>\$ -</u>	<u>\$ 5,046,723</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, 2007 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Ending Balance</u>
Bonds and notes payable	\$1,340,252	\$ -	\$(222,004)	\$1,118,248
Capital lease obligations	<u>283.723</u>	<u>60.505</u>	<u>(115.319)</u>	<u>228.909</u>
Total	<u>\$1,623.975</u>	<u>\$ 60.505</u>	<u>\$(337.323)</u>	<u>\$1,347.157</u>

	<u>Total Interest Paid</u>
Bonds and notes payable	\$ 34,160
Capital lease obligations	<u>7.780</u>
Total	<u>\$ 41,940</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, 2007.

During the year, actual revenues exceeded budgeted revenues by \$51,392. Most of this variance resulted from unanticipated intergovernmental revenues.

Budgeted expenditures exceeded actual expenditures by \$11,939.

The only major budget variances for the year ended June 30, 2007 is as follows:

1. Education was overspent by \$69,405 due to the unreimbursed construction costs and additional unanticipated costs.
2. Highways and streets were overspent by \$16,541 due to storm related costs.

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, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	\$ 659,542	\$ 188,348	\$ 847,890
Investments	371,197	350,362	721,559
Taxes receivable	177,528	478,586	656,114
Internal balances	298,971	(298,971)	-
Due from fiduciary funds	5,500	-	5,500
Due from other governmental agencies	370,507	247,016	617,523
Other receivables	22,623	-	22,623
Inventories	5,662	-	5,662
Capital assets, net	4,518,051	5,046,723	9,564,774
Total assets	<u>6,429,581</u>	<u>6,012,064</u>	<u>12,441,645</u>
LIABILITIES			
Accounts payable and accrued expenses	131,639	153,135	284,774
Due to other governmental agencies	2,050	-	2,050
Prepaid taxes	4,500	-	4,500
Accrued summer teacher pay	312,503	-	312,503
Short-term line of credit payable	165,074	-	165,074
Long-term liabilities			
Due within one year			
Bonds payable	162,311	41,176	203,487
Capital leases payable	72,294	-	72,294
Due in more than one year			
Bonds payable	627,047	287,714	914,761
Capital leases payable	156,615	-	156,615
Total liabilities	<u>1,634,033</u>	<u>482,025</u>	<u>2,116,058</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,542,989	4,717,833	8,260,822
Restricted for:			
Capital projects	131,120	-	131,120
Machias Water Co.	-	275,880	275,880
Other purposes	44,500	654,003	698,503
Unrestricted			
Undesignated (deficit)	1,076,939	(117,677)	959,262
Total net assets	<u>\$ 4,795,548</u>	<u>\$ 5,530,039</u>	<u>\$ 10,325,587</u>

Town of Machias, Maine
Statement of Activities
For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 274,029	\$ 16,246	-	-	\$ (257,783)
Public safety	458,037	44,952	-	-	(413,085)
Public works	325,657	7,218	20,648	-	(297,791)
General assistance	556	-	256	-	(300)
Culture and recreation	41,608	103	57	-	(41,448)
Education	4,104,969	-	2,529,242	-	(1,575,727)
Adult education	114,969	-	107,993	-	(7,036)
On-behalf payments - State of Maine	445,311	-	445,311	-	-
Grants and other contributions	624,338	-	554,784	-	(69,554)
Interest on long-term debt	75,660	-	-	-	(75,660)
Airport	7,263	1,481	-	-	(5,782)
County tax	157,954	-	-	-	(157,954)
School lunch program	144,166	42,368	108,075	-	6,277
Capital outlay	231,537	-	-	-	(231,537)
Total governmental activities	7,006,054	112,368	3,766,306	108,822	(3,018,558)
Business-type activities					
Sewer fund	399,293	270,342	-	710,038	581,087
Solid waste	236,890	229,662	-	-	(7,228)
Ambulance fund	164,203	314,798	-	-	180,595
Telcenter	68,944	57,991	-	30,000	(10,953)
Total business-type activities	869,330	872,793	-	740,038	743,501
Total primary government	\$ 7,875,384	\$ 985,161	\$ 3,766,306	\$ 848,860	(3,018,558)
General revenues:					
Taxes:					
Property taxes					2,133,981
Excise taxes, licenses, permits and fees					257,677
Interest and lien costs					10,705
Grants and contributions not restricted to specific programs					411,017
Unrestricted investment and interest earnings					53,576
Miscellaneous					1,988
Transfers					(9,132)
Total general revenues					2,859,812
Change in net assets					(158,746)
Net assets - beginning					4,954,294
Net assets - ending					\$ 4,795,548
					\$ 5,530,039
					\$ 10,325,587

Town of Machias, Maine
Balance Sheet
Governmental Funds
June 30, 2007

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 600,403	\$ 43,956	\$ 15,183	\$ 659,542
Investments	84,987	-	286,210	371,197
Taxes receivable, net	177,528	-	-	177,528
Due from other funds	800,088	469,679	-	1,269,767
Receivable from other governments	129,758	-	240,750	370,508
Other receivables	-	20,000	2,623	22,623
Inventories	-	-	5,662	5,662
Total assets	<u>\$ 1,792,764</u>	<u>\$ 533,635</u>	<u>\$ 550,428</u>	<u>\$ 2,876,827</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 44,056	\$ 55,392	\$ 26,854	\$ 126,302
Due to other funds	913,706	-	51,590	965,296
Payable to other governments	2,050	-	-	2,050
Deferred property taxes	145,438	-	-	145,438
Prepaid property taxes	4,500	-	-	4,500
Accrued summer teacher pay	290,370	-	22,133	312,503
Short-term note payable	-	165,074	-	165,074
Other payables	5,337	-	-	5,337
Total liabilities	<u>1,405,457</u>	<u>220,466</u>	<u>100,577</u>	<u>1,726,500</u>
Fund balances				
Reserved for				
Capital projects	-	131,120	-	131,120
Other purposes	41,877	-	2,623	44,500
Unreserved,				
Designated for education	2,924	-	-	2,924
Designated for town	6,430	-	-	6,430
Designated for capital projects funds	-	182,049	-	182,049
Undesignated	336,076	-	-	336,076
Unreserved, reported in non-major				
Undesignated special revenue funds	-	-	447,228	447,228
Total fund balances	<u>387,307</u>	<u>313,169</u>	<u>449,851</u>	<u>1,150,327</u>
Total liabilities and fund balances	<u>\$ 1,792,764</u>	<u>\$ 533,635</u>	<u>\$ 550,428</u>	<u>\$ 2,876,827</u>

Town of Machias, Maine
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net
Assets
June 30, 2007

Total fund balance, governmental funds	\$	1,150,327
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.		4,518,051
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		
Deferred revenue related to property taxes		145,438
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		(1,018,268)
Net Assets of Governmental Activities in the Statement of Net Assets	\$	<u>4,795,548</u>

Town of Machias, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 2,103,484	\$ -	\$ -	\$ 2,103,484
Excise taxes	249,565	-	-	249,565
Interest and lien charges	10,705	-	-	10,705
Licenses, permits and fees	19,176	-	-	19,176
Intergovernmental	2,979,661	98,215	752,072	3,829,948
On-behalf payments - State of Maine	445,311	-	-	445,311
Charges for services	51,777	-	42,369	94,146
Investment earnings	39,517	3,944	10,115	53,576
Miscellaneous	19,044	1,066	-	20,110
Total revenues	<u>5,918,240</u>	<u>103,225</u>	<u>804,556</u>	<u>6,826,021</u>
EXPENDITURES				
Current				
General government	237,963	-	-	237,963
Police department	215,615	-	-	215,615
Fire department	198,417	-	-	198,417
Highways and streets	258,369	-	-	258,369
Education	4,145,534	-	624,339	4,769,873
Adult education	115,405	-	-	115,405
On-behalf payments - State of Maine	445,311	-	-	445,311
Recreation	7,808	-	-	7,808
General assistance	556	-	-	556
Airport	6,843	-	-	6,843
Public safety building	13,306	-	-	13,306
County tax	157,954	-	-	157,954
Third party requests	32,800	-	-	32,800
Other	28,737	-	-	28,737
School lunch program	-	-	149,207	149,207
Debt service				
Principal	180,430	-	-	180,430
Interest and other charges	38,070	-	-	38,070
Capital outlay	56,975	425,347	9,541	491,863
Total expenditures	<u>6,140,093</u>	<u>425,347</u>	<u>783,087</u>	<u>7,348,527</u>
Excess (deficiency) of revenues over expenditures	<u>(221,853)</u>	<u>(322,122)</u>	<u>21,469</u>	<u>(522,506)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	54,517	-	-	54,517
Transfers in	-	15,451	-	15,451
Transfers out	(15,451)	-	(9,132)	(24,583)
Total other financing sources and uses	<u>39,066</u>	<u>15,451</u>	<u>(9,132)</u>	<u>45,385</u>
Net change in fund balances	(182,787)	(306,671)	12,337	(477,121)
FUND BALANCES - BEGINNING	<u>570,094</u>	<u>619,840</u>	<u>437,514</u>	<u>1,627,448</u>
FUND BALANCES - ENDING	<u>\$ 387,307</u>	<u>\$ 313,169</u>	<u>\$ 449,851</u>	<u>\$ 1,150,327</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, 2007

Net change in fund balances - total governmental funds: \$ (477,121)

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

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

Capital outlays	291,158	
Depreciation	(238,524)	52,634

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.

30,497

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.

235,244

Change in net assets of governmental activities

\$ (158,746)

Town of Machias, Maine
Statement of Net Assets
Proprietary Funds
June 30, 2007

	Enterprise Funds			Total
	Sewer Fund	Solid Waste Facility	Other Enterprise Funds	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ 174,802	\$ 13,546	\$ 188,348
Investments	350,362	-	-	350,362
Accounts receivable, net	326,294	-	152,292	478,586
Due from other funds	33,851	-	492,452	526,303
Receivables from other governments	247,016	-	-	247,016
Total current assets	<u>957,523</u>	<u>174,802</u>	<u>658,290</u>	<u>1,790,615</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	1,593,399	-	-	1,593,399
Vehicles and equipment	295,639	-	108,897	404,536
Less accumulated depreciation	(1,890,888)	-	(287,665)	(2,178,553)
Total non-current assets	<u>4,575,423</u>	<u>-</u>	<u>471,300</u>	<u>5,046,723</u>
Total assets	<u>5,532,946</u>	<u>174,802</u>	<u>1,129,590</u>	<u>6,837,338</u>
LIABILITIES				
Current liabilities:				
Accounts payable	153,135	-	-	153,135
Due to other funds	314,399	377,475	133,400	825,274
Bonds and notes payable	41,176	-	-	41,176
Non-current liabilities:				
Bonds and notes payable	287,714	-	-	287,714
Total liabilities	<u>796,424</u>	<u>377,475</u>	<u>133,400</u>	<u>1,307,299</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,246,533	-	471,300	4,717,833
Reserved for other purposes	442,166	174,802	37,036	654,004
Reserved for Machias Water Co.	275,880	-	-	275,880
Unrestricted (deficit)	(228,057)	(377,475)	-	(605,532)
Unrestricted, reported in nonmajor fund	-	-	487,854	487,854
Total net assets (deficit)	<u>\$ 4,736,522</u>	<u>\$ (202,673)</u>	<u>\$ 996,190</u>	<u>\$ 5,530,039</u>

Town of Machias, Maine
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2007

	Enterprise Funds			Total
	Sewer Fund	Solid Waste Facility	Other Enterprise Funds	
REVENUES				
Charges for services	\$ 270,342	\$ 229,662	\$ 372,674	\$ 872,678
OPERATING EXPENSES				
Personal services	108,774	92,669	98,869	300,312
Contractual services	2,500	103,954	9,103	115,557
Utilities	83,559	11,008	44,400	138,967
Repairs and maintenance	54,717	6,926	23,416	85,059
Other supplies and expenses	42,897	17,015	12,969	72,881
Insurance claims and expenses	6,096	5,318	11,886	23,300
Depreciation	91,525	-	32,503	124,028
Total operating expenses	<u>390,068</u>	<u>236,890</u>	<u>233,146</u>	<u>860,104</u>
Operating income (loss)	<u>(119,726)</u>	<u>(7,228)</u>	<u>139,528</u>	<u>12,574</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	6,062	6,371	289	12,722
Donations	-	-	30,115	30,115
Capital grants and contributions	710,038	-	-	710,038
Interest expense	(9,226)	-	-	(9,226)
Total non-operating revenue	<u>706,874</u>	<u>6,371</u>	<u>30,404</u>	<u>743,649</u>
Income (loss) before contributions and transfers	<u>587,148</u>	<u>(857)</u>	<u>169,932</u>	<u>756,223</u>
Transfers in	9,132	-	-	9,132
Change in net assets	596,280	(857)	169,932	765,355
Total net assets (deficit) - beginning	4,140,242	(201,816)	826,258	4,764,684
Total net assets (deficit) - ending	<u>\$ 4,736,522</u>	<u>\$ (202,673)</u>	<u>\$ 996,190</u>	<u>\$ 5,530,039</u>

Town of Machias, Maine
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2007

	Proprietary Fund Types - Enterprise			Totals
	Sewer	Solid Waste Facility	Other Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from user charges and tenants	\$ 201,449	\$ 242,413	\$ 360,564	\$ 804,426
Payments for administrative services	(200,929)	(196,623)	(187,873)	(585,425)
Payments to suppliers for goods and services	(95,114)	(40,267)	(12,769)	(148,150)
Interfund activity	6,724	(5,523)	(190,037)	(188,836)
Net cash used by operating activities	<u>(87,870)</u>	<u>-</u>	<u>(30,115)</u>	<u>(117,985)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interest paid	(9,226)	-	-	(9,226)
Interest income	6,062	6,371	289	12,722
Transfers in	9,132	-	-	9,132
Net cash used by noncapital financing activities	<u>5,968</u>	<u>6,371</u>	<u>289</u>	<u>12,628</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on bonds	(41,574)	-	-	(41,574)
Capital grants and contributions	728,075	-	30,115	758,190
Construction in progress	(598,537)	-	-	(598,537)
Net cash provided (used) by capital and related financial activities	<u>87,964</u>	<u>-</u>	<u>30,115</u>	<u>118,079</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(6,062)	-	-	(6,062)
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	6,371	289	6,660
CASH AND CASH EQUIVALENTS, BEGINNING	-	168,431	13,257	181,688
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ -</u>	<u>\$ 174,802</u>	<u>\$ 13,546</u>	<u>\$ 188,348</u>
Supplemental Information				
Interest charged to expense	<u>\$ 9,226</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,226</u>
Reconciliation of operating income to net cash used by operating activities				
Operating income (loss)	\$ (119,726)	\$ (7,228)	\$ 139,528	\$ 12,574
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	91,525	-	32,503	124,028
(Increase) decrease in the following assets				
Accounts receivable	(68,893)	12,751	(12,110)	(68,252)
Interfund receivables	(9,132)	-	(168,486)	(177,618)
Increase (decrease) in the following liabilities				
Interfund payables	15,856	(5,523)	(21,550)	(11,217)
Accounts payable and other accrued liabilities	2,500	-	-	2,500
Net cash provided by operating activities	<u>\$ (87,870)</u>	<u>\$ -</u>	<u>\$ (30,115)</u>	<u>\$ (117,985)</u>

Town of Machias, Maine
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 133,275	\$ 79,690
LIABILITIES		
Due to student groups	-	79,690
Due to other funds	5,500	-
Total liabilities	5,500	79,690
NET ASSETS		
Held in trust for scholarships and other purposes	\$ 127,775	\$ -

Town of Machias, Maine
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2007

	Private Purpose Trust Fund
ADDITIONS	
Interest	\$ 5,215
Contributions	5,023
Total additions	10,237
DEDUCTIONS	
Scholarships	3,627
Change in net assets	6,610
Net assets - beginning	121,165
Net assets - ending	\$ 127,775

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2007

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

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

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

Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements report information of all the activities of the Town, except fiduciary funds. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2007

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Basis of Presentation (Continued)

Government-wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

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

The Town has presented the following major governmental funds:

General Fund

The General Fund is the primary operating fund of the Town and is always classified as a major fund. This fund is used to account for all financial resources not accounted for in other funds.

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:

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Proprietary Funds (Continued)

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

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

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

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

Fiduciary Funds are not included in the government-wide statements. The Town has presented the following Fiduciary Funds:

Private Purpose Funds

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

Agency Funds

Agency funds account for assets held by the Town in a purely custodial capacity and include student activity 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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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

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

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2007

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Deposits and Investments

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

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

Inventories

Inventories of food and supplies in the school lunch program are valued at 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, 2007

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 7, 8 and 9.

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 8.

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, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - Property Taxes

Property taxes were levied on assessed values of April 1, 2006 were due on December 15, 2006 and March 15, 2007, respectively. Interest was charged the highest rate per annum authorized by Maine Law on amounts not paid by the due date. Upon the expiration of eight months, and within one year from the date of original commitment, a tax lien is recorded for all delinquent taxes on real estate. If taxes were paid in full by December 15, 2006 a 3% discount was applied.

Property taxes assessed and collected during the year ended June 30, 2007, and during the first sixty days of the next fiscal year are recognized as revenue in 2007. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue.

Assessed value	
Real estate	\$77,558,410
Personal property	<u>6,930,693</u>
	\$84,489,103
Tax rate (per \$1,000)	<u>25.7</u>
Commitment	\$ 2,171,369
Less collections and abatements	<u>2,046,382</u>
Receivable at June 30, 2007	<u>\$ 124,987</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.

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	\$ (179,947)
On behalf payments revenue	445,311
On behalf payments expenditures	(445,311)
End of year adjustment for accrued wages not recognized as expenditures	<u>(2,840)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses – GAAP basis	<u>\$ (182,787)</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2007

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, 2007, the Town reported deposits of \$1,060,855 with bank balances of \$1,055,056. Of the Town's total bank balance of \$1,055,056, \$181,636 was exposed to custodial credit risk as this amount was not insured or collateralized and \$873,420 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	\$ 659,542
Reported in proprietary funds	<u>188,348</u>
Total reported on the Statement of Net Assets	847,890
Reported in fiduciary funds	<u>212,965</u>
Total deposits	<u>\$1,060,855</u>

Investments

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

Custodial Credit Risk: Custodial credit risk is the risk that in the event of failure of the counterparty, the Town will not be able to recover the value of its investments. The Town does not have an investment policy for custodial credit risk. At June 30, 2007 the Town's investments of \$721,559, 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 \$170,713 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:

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2007

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Interest Rate Risk (Continued)

	Due in less than one year	Due in 1-5 years
U.S. Agency notes	\$50,000	\$224,966

Investments have been reported as follows:

Reported in governmental funds	\$ 371,197
Reported in proprietary funds	<u>350,362</u>
Total investments	<u>\$ 721,559</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, 2007 the Town's interest has been valued at \$275,880.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2007

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance 6/30/06	Additions/ Completions	Retire- ments	Balance 6/30/07
Governmental Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	402,136	-	-	402,136
	<u>967,210</u>	<u>-</u>	<u>-</u>	<u>967,210</u>
<i>Capital assets being depreciated</i>				
Buildings and land improvements	6,504,303	-	-	6,504,303
Infrastructure	29,187	205,809	-	234,996
Equipment, furniture and fixtures	473,303	85,350	-	558,653
Vehicles	850,063	-	-	850,063
Total capital assets being depreciated	<u>7,856,856</u>	<u>291,159</u>	<u>-</u>	<u>8,148,015</u>
Less accumulated depreciation for:				
Buildings and land improvements	(3,463,610)	(113,601)	-	(3,577,211)
Infrastructure	(1,459)	(9,502)	-	(10,961)
Equipment, furniture and fixtures	(344,552)	(55,902)	-	(400,454)
Vehicles	(549,029)	(59,519)	-	(608,548)
Total accumulated depreciation	<u>(4,358,650)</u>	<u>(238,524)</u>	<u>-</u>	<u>(4,597,174)</u>
Total capital assets, being depreciated, net	<u>3,498,206</u>	<u>52,635</u>	<u>-</u>	<u>3,550,841</u>
Governmental activities capital assets, net	<u>\$ 4,465,416</u>	<u>\$ 52,635</u>	<u>\$ -</u>	<u>\$ 4,518,051</u>
Business-Type Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	1,224,479	368,920	-	1,593,399
Total capital assets not being depreciated	<u>1,225,479</u>	<u>368,920</u>	<u>-</u>	<u>1,594,399</u>
<i>Capital assets being depreciated</i>				
Infrastructure and buildings	5,226,341	-	-	5,226,341
Vehicles and equipment	211,347	258,001	(64,812)	404,536
Total capital assets being depreciated	<u>5,437,688</u>	<u>258,001</u>	<u>(64,812)</u>	<u>5,630,877</u>
Less accumulated depreciation				
Infrastructure and buildings	(1,907,990)	(124,028)	-	(2,032,018)
Vehicles and equipment	(211,347)	-	64,812	(146,535)
Total accumulated depreciation	<u>(2,119,337)</u>	<u>(124,028)</u>	<u>64,812</u>	<u>(2,178,553)</u>
Total capital assets, being depreciated, net	<u>3,318,351</u>	<u>(133,973)</u>	<u>-</u>	<u>3,184,378</u>
Business-type activities capital assets, net	<u>\$ 4,543,830</u>	<u>\$ 502,893</u>	<u>\$ -</u>	<u>\$ 5,046,723</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2007

3. CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2007, was charged as direct expense to programs as follows:

<i>Governmental activities</i>	
General government	\$ 7,404
Protection	46,400
Public works	67,288
Recreation	1,000
Airport	420
Education	<u>116,012</u>
Total depreciation expense – Governmental activities	<u>\$238,524</u>
<i>Business-type activities</i>	
Sewer	\$ 91,525
Telcenter	<u>32,503</u>
Total depreciation expense – business-type activities	<u>\$124,028</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, 2007 are:

2008	\$ 82,758
2009	78,739
2010	76,129
2011	<u>12,101</u>
	249,727
Less amount representing interest	<u>20,818</u>
Present value of minimum lease payments	<u>\$228,909</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2007

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, 2007.

	Original Amount	Balance June 30, 2006	(Forgiven)/ (Retired)	Balance June 30, 2007
Governmental Debt				
General Obligation Bonds and Notes				
General bonds				
Maine Municipal Bond Bank, 0% school renovation bond, dated August 21, 2001, due 2011	\$1,000,000	\$ 225,540	\$ (37,590)	\$ 187,950
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 21, 2007, due 2012	736,000	630,427	(105,569)	524,858
General notes				
Machias Savings Bank, 3.29% equipment note, dated August 13, 2003, due 2010	134,000	95,699	(19,149)	76,550
Machias Savings Bank, 5% fire truck note, dated January 5, 2000, due 2007	124,922	<u>18,122</u>	<u>(18,122)</u>	<u>-</u>
Total general obligation bonds and notes payable		<u>969,788</u>	<u>(180,430)</u>	<u>789,358</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	49,700	(7,700)	42,000
Maine Municipal Bond Bank, 1% sewer rehabilitation project, dated July 26, 2002, due 2008	85,500	35,193	(17,445)	17,748
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 21, 2007, due 2012	101,000	86,571	(14,429)	72,142
Maine Municipal Bond Bank, 2.19% sewer rehabilitation project, dated July 26, 2002, due 2023	205,000	<u>199,000</u>	<u>(2,000)</u>	<u>197,000</u>
Total sewer bonds and notes		<u>370,464</u>	<u>(41,574)</u>	<u>328,890</u>
Total general obligation and proprietary bonds and notes payable		<u>\$1,340,252</u>	<u>\$ (222,004)</u>	<u>\$1,118,247</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2007

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	
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	162,261	7,633	32,845	5,670	208,409
2012	140,164	3,454	33,129	4,933	181,680
2013-2017	-	-	70,080	13,027	83,107
2018-2022	-	-	71,422	5,672	77,094
2023	-	-	15,391	167	15,548
	<u>\$ 789,358</u>	<u>\$ 59,079</u>	<u>\$328,890</u>	<u>\$52,936</u>	<u>\$1,230,263</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, 2007, 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, 2007, the County had debt outstanding of \$172,493, of which the Town's share was 2% for a total of \$3,450.

5. SHORT-TERM NOTE PAYABLE

The Town issued a short term note payable in advance of long term note financing. The funds have been deposited in its capital projects fund. The note is necessary to fund a road extension project.

The balance of the note payable at June 30, 2007, was \$165,074.

6. INTERFUND TRANSACTIONS

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

Individual fund interfund receivable and payables balances at June 30, 2007 arising from these transactions were as follows:

	Receivable	Payable
General fund	\$ 800,088	\$ 913,706
Capital projects fund	469,679	-
Proprietary fund	526,303	825,274
Fiduciary fund	-	5,500
Non-major funds	<u>134,149</u>	<u>51,590</u>
	<u>\$1,796,070</u>	<u>\$1,796,070</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2007

6. INTERFUND TRANSACTIONS (CONTINUED)

Interfund transfers during the fiscal year June 30, 2007 were as follows:

	Transfers from		
	General fund	Other governmental fund	Totals
Trans- fer to			
Capital projects fund	\$ 15,451	\$ -	\$ 15,451
Proprietary funds	<u>-</u>	<u>9,132</u>	<u>9,132</u>
	<u>\$ 15,451</u>	<u>\$ 9,132</u>	<u>\$ 24,583</u>

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

7. NET ASSETS – RESTRICTED

At June 30, 2007, the fund balances which are restricted for other purposes were comprised of the following:

Debt service – public safety building	\$31,619
Superintendent's office	<u>10,258</u>
Total general fund	<u>41,877</u>
Special revenue fund- revolving loan reserve	<u>2,623</u>
Total reserved for other purposes	<u>\$44,500</u>

At June 30, 2007, the fund balances which are restricted for capital projects were comprised of the following:

Comprehensive plan	\$ 2,289
Airport improvement	74,491
Ambulance replacement	26,880
Economic development	88,733
Fire department ventilation	4,629
Fire truck replacement	3,276
Industrial development	(175,913)
Recreation building	7,820
Sewer expansion	75,323
Sewer overflow	3,366
Sidewalk repair	2,500
Skatepark	1,467
Storm drain repair and replacement	10,973
Tennis court	3,985
Tree replacement/removal	<u>1,301</u>
	<u>\$131,120</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2007

8. UNRESERVED FUND BALANCES- DESIGNATED

The general fund's designated fund balance at June 30, 2007 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, 2007 consists of:

Roads	\$ 93,664
Town office	<u>88,385</u>
	<u>\$182,049</u>

9. RETAINED EARNINGS - RESTRICTED - ENTERPRISE FUNDS

At June 30, 2007, the enterprise fund's restricted fund balance for other purposes was comprised of the following:

Sewer fund	\$381,610
Reserve for debt/capital	60,556
Reserve for debt service	<u>442,166</u>
Total sewer fund	
Solid waste fund	174,802
Restricted for Howe's corner	
Nonmajor proprietary fund- ambulance fund	
Reserve for vehicle replacement	<u>37,036</u>
	<u>\$654,004</u>

10. UNRESTRICTED NET ASSETS (DEFICIT) - ENTERPRISE FUNDS

The solid waste fund has a deficit in its unrestricted net assets of \$377,475 for the year ended June 30, 2007. 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 \$228,057 that will also be reduced with increased fees. In the other enterprise funds the telcenter has a deficit in unrestricted net assets of \$84,854 for the year ended June 30, 2007 as the result of presentation for GASB 34.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2007

11. PENSION PLANS

Maine Public Employees Retirement Systems - School Employees

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

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, 2007, was approximately \$2,326,596. The State of Maine Department of Education is required, by state statute, to contribute the employer contribution which amounts to \$445,311 (19.14%) of compensation for the year ended June 30, 2007. There is no contribution required by the school department except for federally funded teachers for which the school department contributes 19.14% of their compensation. This cost amounted to \$49,700 for the year ended June 30, 2007, and is chargeable to the applicable grant.

Deferred Compensation Plan

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

The Town contributes at rates which vary from 0 to 6.5%, depending on the monthly elections and contributions of participants. Employees may elect to contribute up to 25% of earnings, but the Town limits its match to 6.5%. The Town made matching contributions of \$9,048 and employees elected to defer \$12,603 for a contribution of \$21,651 for the year ended June 30, 2007.

12. PARTICIPATION IN PUBLIC ENTITY RISK POOL

The Town is a member of the Maine Municipal Association - Worker Compensation Trust Fund ("Fund"). The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain lower costs for worker's compensation coverage and develop a comprehensive loss control program. The Town pays an annual premium to the fund for its worker's compensation coverage. The Town's agreement with the Fund provides that the fund will be self-sustaining through member premiums and will provide, through commercial companies reinsurance contracts, individual stop loss coverage for member Town's for claims in excess of \$400,000 with an excess limit of \$2,000,000.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2007

12. PARTICIPATION IN PUBLIC ENTITY RISK POOL (CONTINUED)

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.

13. COMMITMENTS

The Town was also committed to four contracts for sewer construction projects with remaining amounts totaling \$562,443.

14. 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, 2007

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
	Original	Final			
REVENUES					
Property Taxes	\$ 2,171,369	\$ 2,171,369	\$ 2,103,484	\$ -	\$ 2,103,484
Excise taxes	250,100	250,100	249,565	-	249,565
Interest and lien costs	12,000	12,000	10,705	-	10,705
Licenses and permits	21,725	21,725	19,176	-	19,176
Intergovernmental					
Education	2,538,395	2,538,395	2,557,342	-	2,557,342
On-behalf payments - State of Maine	-	-	-	445,311	445,311
Town	373,249	373,249	422,319	-	422,319
Charges for services	10,800	10,800	51,777	-	51,777
Investment earnings	25,000	25,000	39,517	-	39,517
Miscellaneous	18,900	18,900	19,044	-	19,044
Total revenues	<u>5,421,538</u>	<u>5,421,538</u>	<u>5,472,929</u>	<u>445,311</u>	<u>5,918,240</u>
EXPENDITURES					
Current:					
General government	256,050	256,050	237,963	-	237,963
Police department	247,155	247,155	215,615	-	215,615
Fire department	196,627	196,627	198,417	-	198,417
Highways and streets	244,328	241,828	258,369	-	258,369
Education	4,073,289	4,073,289	4,142,694	2,840	4,145,534
Adult education	137,107	137,107	115,405	-	115,405
On-behalf payments - State of Maine	-	-	-	445,311	445,311
Recreation	15,400	9,949	7,808	-	7,808
General assistance	5,000	5,000	556	-	556
Airport	13,800	13,800	6,843	-	6,843
Public safety building	10,200	10,200	13,306	-	13,306
County tax	161,178	161,178	157,954	-	157,954
Third party requests	32,800	32,800	32,800	-	32,800
Other	35,360	35,360	28,737	-	28,737
Debt service:					
Principal	180,430	180,430	180,430	-	180,430
Interest and other charges	30,091	30,091	38,070	-	38,070
Capital outlay	18,500	18,500	2,458	-	2,458
Total expenditures	<u>5,657,315</u>	<u>5,649,364</u>	<u>5,637,425</u>	<u>448,151</u>	<u>6,085,576</u>
Excess (deficiency) of revenues over expenditures	<u>(235,777)</u>	<u>(227,826)</u>	<u>(164,496)</u>	<u>(2,840)</u>	<u>(167,336)</u>
OTHER FINANCING SOURCES (USES)					
Transfers out	(7,500)	(15,451)	(15,451)	-	(15,451)
Net change in fund balances	(243,277)	(243,277)	(179,947)	(2,840)	(182,787)
FUND BALANCES - BEGINNING	857,624	857,624	857,624	(287,530)	570,094
FUND BALANCES - ENDING	<u>\$ 614,347</u>	<u>\$ 614,347</u>	<u>\$ 677,677</u>	<u>\$ (290,370)</u>	<u>\$ 387,307</u>

Town of Machias, Maine
Budget and Actual (with Variances)
General Fund
For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 2,171,369	\$ 2,171,369	\$ 2,103,484	\$ (67,885)
Excise taxes	250,100	250,100	249,565	(535)
Interest and lien costs	12,000	12,000	10,705	(1,295)
Licenses and permits	21,725	21,725	19,176	(2,549)
Intergovernmental				
Education	2,538,395	2,538,395	2,557,342	18,947
Town	373,249	373,249	422,319	49,070
Charges for services	10,800	10,800	51,777	40,977
Investment earnings	25,000	25,000	39,517	14,517
Miscellaneous	18,900	18,900	19,044	144
Total revenues	5,421,538	5,421,538	5,472,929	51,391
EXPENDITURES				
Current:				
General government	256,050	256,050	237,963	18,087
Police department	247,155	247,155	215,615	31,540
Fire department	196,627	196,627	198,417	(1,790)
Highways and streets	244,328	241,828	258,369	(16,541)
Education	4,073,289	4,073,289	4,142,694	(69,405)
Adult education	137,107	137,107	115,405	21,702
Recreation	15,400	9,949	7,808	2,141
General assistance	5,000	5,000	556	4,444
Airport	13,800	13,800	6,843	6,957
Public safety building	10,200	10,200	13,306	(3,106)
County tax	161,178	161,178	157,954	3,224
Third party requests	32,800	32,800	32,800	-
Other	35,360	35,360	28,737	6,623
Debt service:				
Principal	180,430	180,430	180,430	-
Interest and other charges	30,091	30,091	38,070	(7,979)
Capital outlay	18,500	18,500	2,458	16,042
Total expenditures	5,657,315	5,649,364	5,637,425	11,939
Excess (deficiency) of revenues over expenditures	(235,777)	(227,826)	(164,496)	63,330
OTHER FINANCING SOURCES (USES)				
Transfers out	(7,500)	(15,451)	(15,451)	-
Net change in fund balances	(243,277)	(243,277)	(179,947)	\$ 63,330
FUND BALANCES - BEGINNING	857,624	857,624	857,624	
FUND BALANCES - ENDING	\$ 614,347	\$ 614,347	\$ 677,677	

Town of Machias, Maine
Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	Special Revenue Fund - Education	Special Revenue Fund - School Lunch	Special Revenue Fund - Town	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,050	\$ 12,133	\$ -	\$ 15,183
Investments	-	-	286,210	286,210
Receivable from other governments	215,738	17,895	7,117	240,750
Note receivable	-	-	2,623	2,623
Inventories	-	5,662	-	5,662
Total assets	<u>\$ 218,788</u>	<u>\$ 35,690</u>	<u>\$ 295,950</u>	<u>\$ 550,428</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 25,769	\$ 1,085	\$ -	\$ 26,854
Due to other funds	11,493	19,813	20,284	51,590
Other accrued expenses	22,133	-	-	22,133
Total liabilities	<u>59,395</u>	<u>20,898</u>	<u>20,284</u>	<u>100,577</u>
Fund balances:				
Reserved for other purposes	-	-	2,623	2,623
Unreserved, Undesignated	159,393	14,792	273,043	447,228
Total fund balances	<u>159,393</u>	<u>14,792</u>	<u>275,666</u>	<u>449,851</u>
Total liabilities and fund balances	<u>\$ 218,788</u>	<u>\$ 35,690</u>	<u>\$ 295,950</u>	<u>\$ 550,428</u>

Town of Machias, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	Special Revenue Fund - Education	Special Revenue Fund - School Lunch	Special Revenue Fund - Town	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental	\$ 634,456	\$ 108,075	\$ 9,541	\$ 752,072
Charges for services	-	42,369	-	42,369
Investment earnings	-	-	10,115	10,115
Total revenues	<u>634,456</u>	<u>150,444</u>	<u>19,656</u>	<u>804,556</u>
EXPENDITURES				
Education	624,339	-	-	624,339
Food	-	90,086	-	90,086
Labor	-	59,121	-	59,121
Capital outlay	-	-	9,541	9,541
Total expenditures	<u>624,339</u>	<u>149,207</u>	<u>9,541</u>	<u>783,087</u>
Excess (deficiency) of revenues over expenditures	<u>10,117</u>	<u>1,237</u>	<u>10,115</u>	<u>21,469</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(9,132)	(9,132)
Net change in fund balances	10,117	1,237	983	12,337
Fund balances - beginning	149,276	13,555	274,683	437,514
Fund balances - ending	<u>\$ 159,393</u>	<u>\$ 14,792</u>	<u>\$ 275,666</u>	<u>\$ 449,851</u>

Town of Machias, Maine
Combining Statement of Net Assets
Other Enterprise Funds
June 30, 2007

	Enterprise Funds		
	Telcenter	Ambulance Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 13,546	\$ -	\$ 13,546
Accounts Receivable, net	-	152,292	152,292
Due from other funds	-	492,452	492,452
Total current assets	13,546	644,744	658,290
Non-current assets:			
Capital assets:			
Buildings	650,068	-	650,068
Equipment and furniture	-	108,897	108,897
Less accumulated depreciation	(178,768)	(108,897)	(287,665)
Total non-current assets	471,300	-	471,300
Total assets	484,846	644,744	1,129,590
LIABILITIES			
Current Liabilities:			
Due to other funds	98,400	35,000	133,400
NET ASSETS			
Invested in capital assets, net of related debt	471,300	-	471,300
Restricted for other purposes	-	37,036	37,036
Unrestricted	(84,854)	572,708	487,854
Total net assets	\$ 386,446	\$ 609,744	\$ 996,190

Town of Machias, Maine
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Other Enterprise Funds
For the Year Ended June 30, 2007

	Telcenter	Ambulance Fund	Total
REVENUES			
Charges for services	\$ 57,992	\$ 314,682	\$ 372,674
OPERATING EXPENSES			
Personal services	8,871	89,998	98,869
Contractual services	-	9,103	9,103
Utilities	12,114	32,286	44,400
Repairs and maintenance	13,998	9,418	23,416
Other supplies and expenses	200	12,769	12,969
Insurance claims and expenses	1,258	10,628	11,886
Depreciation	32,503	-	32,503
Total operating expenses	<u>68,944</u>	<u>164,202</u>	<u>233,146</u>
Operating income (loss)	(10,952)	150,480	139,528
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	289	-	289
Miscellaneous revenue	-	30,115	30,115
Total non-operating revenue (expenses)	<u>289</u>	<u>30,115</u>	<u>30,404</u>
Change in net assets	(10,663)	180,595	169,932
Total net assets - beginning	<u>397,109</u>	<u>429,149</u>	<u>826,258</u>
Total net assets - ending	<u>\$ 386,446</u>	<u>\$ 609,744</u>	<u>\$ 996,190</u>

Town of Machias, Maine
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCES - AGENCY FUNDS
 June 30, 2007

	Balances July 1, 2006	Receipts	Expenditures	Balances June 30, 2007
Rose Gaffney School	\$ 14,927	\$ 56,303	\$ 52,810	\$ 18,420
Machias High School	43,811	94,325	87,117	51,019
Machias Vocational Center	12,196	11,293	13,245	10,244
Other	37	-	30	7
	<u>\$ 70,971</u>	<u>\$ 161,921</u>	<u>\$ 153,202</u>	<u>\$ 79,690</u>
Total				

Town of Machias, Maine
TAXES RECEIVABLE, TAX LIENS AND TAX ACQUIRED PROPERTY
GENERAL FUND
June 30, 2007

Taxes receivable	\$ 124,987
2006	1,658
2005	1,058
2004	<u>18,594</u>
2003 and prior	
Total taxes receivable	<u>146,297</u>
Tax liens and tax acquired property	29,961
2005	<u>1,270</u>
2004 and prior	
Total tax liens and tax acquired property	<u>31,231</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 177,528</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, 2007, which collectively comprise the Town of Machias, Maine's basic financial statements and have issued our report thereon dated January 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Machias, Maine's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Machias, Maine's financial statements that is more than inconsequential will not be prevented or detected by the Town of Machias, Maine's internal control. We considered the deficiencies described as #2007-1 and #2007-2 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Machias, Maine's internal control. We consider the significant deficiency #2007-1 noted above to be a material weakness.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Machias, Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management of the Town of Machias, Maine, in the letter dated January 30, 2009.

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

This report is intended solely for the information and use of the City Council, 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.

Chantrelle Thibodeau & Associates

January 30, 2009



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**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, 2007. 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, 2007.

Internal Control Over Compliance

The management of Town of Machias, Maine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Town of Machias, Maine's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Machias, Maine's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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.

Chandra Shibodan & Associates

January 30, 2009



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**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, 2007, 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 and 1995.

Brantner, Thibodeau & Associates

January 30, 2009

Town of Machias, Maine
 AUDIT ADJUSTMENTS TO EF-M-45
 Year ended June 30, 2007

	General Fund*	Adult Education*	Special Revenue	Totals
<i>June 30 balance as per EF-M-45</i>	\$ 6,227	\$ 181,779	\$ 84,539	\$ 272,545
<i>Beginning balance variance</i>	212,512	(125,866)	117,383	204,029
Revenue Adjustment				
Accounts receivable adj net	-	-	2,455	2,455
Expenditure Adjustment				
Accounts payable	(1,185)			(1,185)
Adult education activity for report	(253)	253	-	-
Other	(3,024)	-	-	(3,024)
Reclass for report	22,851		(22,851)	-
Accrued summer teacher pay	(290,370)	-	(22,133)	(312,503)
Audited GAAP Basis Fund Balance	<u>\$ (53,242)</u>	<u>\$ 56,166</u>	<u>\$ 159,393</u>	<u>\$ 162,317</u>

* combined on report in designated for education

Town of Machias, Maine
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2007

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	\$ 20,000
Economic development infrastructure	14.228	G305175	<u>269,005</u>
Total U.S. Department of Housing and Urban Development			<u>289,005</u>
<i>U.S. Department of Transportation</i>			
Direct			
FAA grant - airport improvement program	20.106	AIP#3-23-0029-05-2005	<u>95,697</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>266,780</u>
<i>U.S. Department of Homeland Security</i>			
Passed through Maine State Department of Defense, Veterans and Emergency Management			
Homeland security grant program	97.067	GE-T6-0047	<u>9,541</u>
Total U.S. Department of Homeland Security			<u>9,541</u>
<i>U.S. Department of Education</i>			
Passed through State Department of Education			
Title IA	84.010	13-05A-6334-13	184,116
Title V innovative	84.298	13-05A-1072-66	1,590
Adult basic education	84.002	13-05A-6296-64	79,833
Gear - up	84.334	13-05A-6341-13	18,219
Title IIA teacher quality	84.367	13-05A-1138-11	43,087
Title IID education technology	84.318	13-05A-1006-7	2,797
Title IC basic	84.048	13-05A-5159-8	32,754
<i>Cluster</i>			
Part B Section 619- Preschool	84.173	13-05A-6241-23	1,131
Title VI, Part B - Local Entitlement	84.027	13-05A-6317-12	<u>128,826</u>
Total U.S. Department of Education			<u>492,353</u>
<i>U.S. Department of Agriculture</i>			
Passed through State Department of Education			
National School Lunch Program	10.555	13-05A-8121-05	75,992
Summer food service program	10.559	13-05A-7130-05	6,004
Food donation program	10.550	N/A	8,928
National School Lunch -After school snack	10.555	13-05A-7142-05	1,358
School breakfast program	10.553	13-05A-7127-05	<u>21,793</u>
Total U.S. Department of Agriculture			<u>114,075</u>
<i>U.S. Department of Health and Human Services</i>			
Passed through Office of Substance Abuse			
Title IVA - Safe and Drug Free School Education	84.186	13-05A-6346-57	<u>4,172</u>
Total U.S. Department of Health and Human Services			<u>4,172</u>
Total federal programs			<u>\$ 1,271,623</u>

Town of Machias, Maine
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

1. **BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Town of Machias 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, 2007

Section I — Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting

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

Noncompliance material to financial statements noted? - yes no

Federal Awards

Internal control over major programs

- Material weakness(es) identified? - yes no
- 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, 2007

Section II — Financial Statement Findings

#2007-1	
<i>Criteria or specific requirement</i>	Significant accounting services needed
<i>Condition</i>	Inadequate reviews and approvals of transactions, accounting entries or system outputs leading to significant accounting services.
<i>Context</i>	Town relied on auditor for the preparation of many support schedules, fixed asset updating, and reports.
<i>Effect</i>	Failure to perform certain management functions could result in misstated information and unreliable reporting
<i>Cause</i>	Lack of adequate oversight and fiscal management.
<i>Recommendation</i>	Town should have more oversight of its financial reporting and entries, supporting documentation and fixed asset schedules.
<i>Management's response</i>	Due to change in personnel and interim finance staff and lack of sufficient training the Town was unable to perform certain functions, however progress was made in 2007-2008 fiscal year.
#2007-2	
<i>Criteria or specific requirement</i>	Internal control over financial reporting
<i>Condition</i>	Management does not control the preparation of the financial statements and fixed asset reporting which also results in significant audit adjustments.
<i>Questioned costs</i>	None
<i>Context</i>	Management has relied on its auditors to prepare the financial statements
<i>Effect</i>	Management may not be able to identify an error or misstatement in the financial statements. In addition, management may not be able to recognize that a required footnote had been omitted or an inappropriate footnote was included in the footnotes
<i>Cause</i>	Lack of knowledge and training in financial statement preparation (including required note disclosures)
<i>Recommendation</i>	Management should obtain the training necessary to permit the Town to understand its own financial statements and required footnotes
<i>Management's response</i>	Management will attempt to obtain training that will provide the knowledge necessary to assist more in the preparation of the financial statements

Town of Machias, Maine
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2007

Section III — Federal Award Findings and Questioned Costs

<i>Information on the federal program</i>	None
<i>Criteria or specific requirement (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, 2007

2005-01
Condition

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

Current Status

Not corrected in 2007. 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.