

Town of Machias, Maine

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

For the Year Ended June 30, 2008

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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, 2008, 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, 2008, 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 August 26, 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 compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and 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.

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 Hibbard & Associates

Bangor, Maine
August 26, 2009

Town of Machias, Maine

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

August 20, 2009

The Management Discussion and Analysis ("MD&A") is a report of the Town of Machias' fiscal activity for the year ending June 30, 2008 compared with 2007. The report is presented in a manner that fairly represents the town's present financial position in respect to all funds and accounts. Included is all the information to accurately understand the town's financial position, and the data is correct to the best of our knowledge and belief.

The report includes funds and accounts that the Town of Machias is required, either by legal or fiduciary duty, to maintain in the operation of all services. The use of the additional financial statements is encouraged to more fully understand the report.

The financial information of the town includes all town departments. All town departments include municipal departments (Administration, Sewer, Public Works, Protection, and others) and the school department. The school department and all other municipal departments combined are what comprise the town. So the financial statements and assets include the municipal and school departments as one total. The combination of these gives the true financial status of the Town of Machias.

BIOGRAPHICAL INFORMATION

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

The town has a current population of 2,300 residents but through the years has served as an economic and service center for many surrounding communities in Washington County. Shipbuilding and the timber industry dominated the economic opportunities in the early days and these trades continued steadily through the mid nineteen hundreds. As the demand for timber and shipbuilding declined, the service based businesses grew.

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

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

The Town continues to be successful in obtaining grant funding and has undertaken several new projects. The town's aging infrastructure continues to require extensive rehabilitation and/or reconstruction. Transportation is another problem area that must be addressed to ensure the town's long term business stability and growth. A new regional airport is currently being studied and could provide an economic boost to the area should the project move forward. The ability to ship and receive products in a competitive and cost effective manner will determine the future of the town.

FINANCIAL INFORMATION

The Town Administration is responsible for the accounting structure of the community. This structure includes the establishment of financial controls that protect the town from loss and misuse. All accounting information is maintained and reported using generally accepted accounting principles (GAAP). Further, the administration performs constant review of all services to promote and assure optimum utilization of resources to provide the services requested by the community. All services are reviewed using a cost benefit analysis that considers the need and demand for the service provided balanced against the cost to the community as a whole.

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

- The balance of the Town's cash and investments as of June 30, 2008 was \$1,607,539.
- On a budget basis the Town originally budgeted a deficiency of \$128,034. However, there was a positive budget variance of \$453,441.

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 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 \$10,853,283 as of June 30, 2008.

Net Assets for the Period Ending June 30, 2008 and 2007

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 2,319,894	\$ 1,911,530	\$ 698,216	\$ 965,341	\$ 3,018,110	\$ 2,876,871
Capital assets	<u>4,453,502</u>	<u>4,518,051</u>	<u>5,676,208</u>	<u>5,046,723</u>	<u>10,129,710</u>	<u>9,564,774</u>
Total Assets	<u>6,773,396</u>	<u>6,429,581</u>	<u>6,374,424</u>	<u>6,012,064</u>	<u>13,147,820</u>	<u>12,441,645</u>
Current liabilities	477,371	615,766	318,311	153,135	795,682	768,901
Noncurrent liabilities	<u>1,133,142</u>	<u>1,018,267</u>	<u>365,713</u>	<u>328,890</u>	<u>1,498,855</u>	<u>1,347,157</u>
Total Liabilities	<u>1,610,513</u>	<u>1,634,033</u>	<u>684,024</u>	<u>482,025</u>	<u>2,294,537</u>	<u>2,116,058</u>
Net Assets (Accumulated Deficit)						
Investment in capital assets, net of debt	3,389,756	3,542,989	5,014,660	4,717,833	8,345,320	8,260,822
Restricted	387,558	175,620	920,403	929,883	1,307,961	1,105,503
Unrestricted	<u>1,385,569</u>	<u>1,076,939</u>	<u>(244,663)</u>	<u>(117,677)</u>	<u>1,200,002</u>	<u>959,262</u>
Total Net Assets	<u>\$ 5,162,883</u>	<u>\$ 4,795,548</u>	<u>\$ 5,690,400</u>	<u>\$ 5,530,039</u>	<u>\$ 10,853,283</u>	<u>\$ 10,325,587</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 \$233,593.

The Town recognized deferred property taxes of \$12,721 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, 2008 and 2007.

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
REVENUES						
Charges for services and other	\$ 84,561	\$ 112,368	\$ 862,520	\$ 872,793	\$ 947,081	\$ 985,161
Operating grants and contributions	4,140,969	3,766,306	-	-	4,140,969	3,766,306
Capital grants and contributions	267,999	108,822	394,968	740,038	662,967	848,860
Property Taxes	2,329,161	2,133,981	-	-	2,329,161	2,133,981
Excise and miscellaneous taxes	247,183	257,677	-	-	247,183	257,677
Interest and lien charges	21,952	10,705	-	-	21,952	10,705
Grants and contributions not restricted to specific purpose	483,579	411,017	-	-	483,579	411,017
Unrestricted investment and interest income	51,929	53,576	10,804	12,722	51,929	66,298
Miscellaneous	100,762	1,988	494	-	100,762	1,988
Special item- gain on sale of assets	-	-	-	-	-	-
Transfers	<u>(9,512)</u>	<u>(9,132)</u>	<u>9,512</u>	<u>9,132</u>	<u>8,996,881</u>	<u>8,481,993</u>
Total Revenues	<u>7,718,583</u>	<u>6,847,308</u>	<u>1,278,298</u>	<u>1,634,685</u>	<u>8,996,881</u>	<u>8,481,993</u>

EXPENSES AND TRANSFERS						
General Government	\$ 299,428	\$ 274,029	-	-	\$ 299,428	\$ 274,029
Public safety	493,059	458,037	-	-	493,059	458,037
Public works	409,426	325,657	-	-	409,426	325,657
General assistance	962	556	-	-	962	556
Culture and recreation	48,251	41,608	-	-	48,251	41,608
Education	4,268,679	4,219,938	-	-	4,268,679	4,219,938
Adult education-general	131,480				131,480	
On-behalf payments – State of Maine	451,694	445,311	-	-	451,694	445,311
Grants and other contributions	542,345	624,338	-	-	542,345	624,338
Interest on long-term debt	77,699	75,660	-	-	77,699	75,660
Airport	8,068	7,263	-	-	8,068	7,263
County tax	163,109	157,954	-	-	163,109	157,954
School lunch program	152,183	144,166	-	-	152,183	144,166
Capital outlay	304,865	231,537	-	-	304,865	231,537
Other	-	-	-	-	-	-
Business-type Activities	-	-	<u>1,117,937</u>	<u>869,330</u>	<u>1,117,937</u>	<u>869,330</u>
Total Expenses	<u>7,351,248</u>	<u>7,006,054</u>	<u>1,117,937</u>	<u>869,330</u>	<u>8,469,185</u>	<u>7,875,384</u>
Change in net assets	367,335	(158,746)	765,355	765,355	527,696	606,609
Net assets, beginning 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>
Net assets, end of year	<u>\$5,162,883</u>	<u>\$4,795,548</u>	<u>\$5,690,400</u>	<u>\$5,530,039</u>	<u>\$10,583,283</u>	<u>\$10,325,587</u>

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

Governmental Activities

For the year ended June 30, 2008, the Town's net assets for governmental activities increased by \$367,335.

Expenses of governmental activities include depreciation expense of \$233,593. 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, 2008 totaled \$3,225,054, an increase of 13% from June 30, 2007. Of this amount, \$2,329,161 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, 2008, the Town's net assets from business-type activities increased by \$160,361 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 \$1,684,364, \$534,037 higher than the previous year. An analysis of transactions affecting the change in the combined fund balance of the Town's governmental funds is as follows:

Revenues include property taxes totaling \$2,316,441. Excise taxes accounted for \$239,360 in total revenue.

On behalf payments amounted to \$451,694 during the year ended June 30, 2008. 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 \$7,511,905. \$163,378 higher than the year before.

The Town paid \$464,536 in governmental funds capital outlays during the year. Of this, \$159,671 was capitalized.

Capital Asset and Debt Administration

Capital Assets

	Balance 7/1/07	Additions/ Completions	Retire- ments	Balance 6/30/08
Governmental Activities				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	402,136	-	(402,136)	-
Buildings and improvements	6,504,303	-	-	6,504,303
Infrastructure	234,996	545,808	-	780,804
Equipment, furniture and fixtures	558,653	25,372	-	584,025
Vehicles	<u>850,063</u>	<u>-</u>	<u>-</u>	<u>850,063</u>
Total capital assets	<u>9,115,225</u>	<u>571,180</u>	<u>(402,136)</u>	<u>9,284,269</u>
<i>Less accumulated depreciation</i>	<u>(4,597,174)</u>	<u>(233,593)</u>	<u>-</u>	<u>(4,830,767)</u>
Total capital assets, net	<u>\$ 4,518,051</u>	<u>\$ 337,587</u>	<u>\$(402,136)</u>	<u>\$ 4,453,502</u>
	Balance 7/1/07	Additions/ Completions	Retire- ments	Balance 6/30/08
Business-Type Activities				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	1,593,399	-	(504,271)	1,089,128
Lines and mains and buildings	5,226,341	1,224,479	-	6,450,820
Vehicles and equipment	<u>404,536</u>	<u>75,795</u>	<u>-</u>	<u>480,331</u>
Total capital assets	<u>7,225,276</u>	<u>1,300,274</u>	<u>(504,271)</u>	<u>8,021,279</u>
<i>Less accumulated depreciation</i>	<u>(2,178,553)</u>	<u>(166,518)</u>	<u>-</u>	<u>(2,345,071)</u>
Total capital assets, net	<u>\$ 5,046,723</u>	<u>\$ 1,133,756</u>	<u>\$(504,271)</u>	<u>\$ 5,676,208</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, 2008 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Ending Balance</u>
Bonds and notes payable	\$1,118,248	\$427,481	\$(203,488)	\$1,342,241
Capital lease obligations	<u>228,909</u>	<u>-</u>	<u>(72,295)</u>	<u>156,614</u>
Total	<u>\$1,347,157</u>	<u>\$427,481</u>	<u>\$(275,783)</u>	<u>\$1,498,855</u>

	<u>Total Interest Paid</u>
Bonds and notes payable	\$ 40,109
Capital lease obligations	<u>10,463</u>
Total	<u>\$ 50,572</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, 2008.

During the year, actual revenues exceeded budgeted revenues by \$456,581. Most of this variance resulted from unanticipated intergovernmental revenues.

Budgeted expenditures exceeded actual expenditures by \$124,893.

The only major budget variances for the year ended June 30, 2008 is as follows:

1. Highways and streets were overspent by \$48,796 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 418 Machias, Maine 04654 or call (207) 255-6621.

Town of Machias, Maine
Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	\$ 1,307,574	\$ 194,441	\$ 1,502,015
Investments	384,862	355,073	739,935
Taxes receivable	206,241	388,264	594,505
Internal balances	258,735	(258,735)	-
Due from fiduciary funds	5,500	-	5,500
Due from other governmental agencies	131,113	19,173	150,286
Other receivables	17,623	-	17,623
Inventories	8,246	-	8,246
Capital assets, net	4,453,502	5,676,208	10,129,710
Total assets	<u>6,773,396</u>	<u>6,374,424</u>	<u>13,147,820</u>
LIABILITIES			
Accounts payable and accrued expenses	75,376	22,476	97,852
Due to other governmental agencies	2,636	-	2,636
Prepaid taxes	4,006	-	4,006
Accrued summer teacher pay	395,353	-	395,353
Short-term line of credit payable	-	295,835	295,835
Long-term liabilities			
Due within one year			
Bonds payable	227,028	46,880	273,908
Capital leases payable	71,943	-	71,943
Due in more than one year			
Bonds payable	749,500	318,833	1,068,333
Capital leases payable	84,671	-	84,671
Total liabilities	<u>1,610,513</u>	<u>684,024</u>	<u>2,294,537</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,389,756	5,014,660	8,404,416
Restricted for			
Capital projects	341,727	-	341,727
Machias Water Co.	-	277,849	277,849
Other purposes	45,831	642,554	688,385
Unrestricted (deficit)	1,385,569	(244,663)	1,140,906
Total net assets	<u>\$ 5,162,883</u>	<u>\$ 5,690,400</u>	<u>\$ 10,853,283</u>

Town of Machias, Maine
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenue			Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions			Governmental Activities	Business-type Activities	Total
Governmental activities								
General government	\$ 299,428	\$ 12,926	\$ -	\$ -	\$ (286,502)	\$ -	\$ (286,502)	
Public safety	493,059	22,129	-	-	(470,930)	-	(470,930)	
Public works	409,426	7,101	20,964	-	(381,361)	-	(381,361)	
General assistance	962	-	556	-	(406)	-	(406)	
Culture and recreation	48,251	144	112	-	(47,995)	-	(47,995)	
Education	4,268,679	-	2,943,673	-	(1,325,006)	-	(1,325,006)	
Adult education	131,480	-	112,105	-	(19,375)	-	(19,375)	
On-behalf payments - State of Maine	451,694	-	451,694	-	-	-	-	
Grants and other contributions	542,345	-	497,330	-	(45,015)	-	(45,015)	
Interest on long term debt	77,699	-	-	-	(77,699)	-	(77,699)	
Airport	8,068	1,039	-	-	(7,029)	-	(7,029)	
County tax	163,109	-	-	-	(163,109)	-	(163,109)	
School lunch program	152,183	41,222	114,535	-	3,574	-	3,574	
Capital outlay	304,865	-	-	267,999	(36,866)	-	(36,866)	
Total governmental activities	7,351,248	84,561	4,140,969	267,999	(2,857,719)	-	(2,857,719)	
Business-type activities								
Sewer fund	441,556	274,589	-	394,968	-	228,001	228,001	
Solid waste	366,976	334,377	-	-	-	(32,599)	(32,599)	
Ambulance fund	236,318	218,550	-	-	-	(17,768)	(17,768)	
Telcenter	73,087	35,004	-	-	-	(38,083)	(38,083)	
Total business-type activities	1,117,937	862,520	-	394,968	-	139,551	139,551	
	\$ 8,469,185	\$ 947,081	\$ 4,140,969	\$ 662,967	(2,857,719)	139,551	(2,718,168)	
General revenues:								
Taxes:								
Property taxes					2,329,161	-	2,329,161	
Excise taxes, licenses, permits and fees					247,183	-	247,183	
Interest and lien costs					21,952	-	21,952	
Grants and contributions not restricted to specific programs					483,579	-	483,579	
Unrestricted investment and interest earnings					51,929	10,804	62,733	
Miscellaneous					100,762	494	101,256	
Transfers					(9,512)	9,512	-	
Total general revenues					3,225,054	20,810	3,245,864	
Change in net assets					367,335	160,361	527,696	
Net assets - beginning					4,795,548	5,530,039	10,325,587	
Net assets - ending					\$ 5,162,883	\$ 5,690,400	\$ 10,853,283	

See accompanying notes to basic financial statements.

Town of Machias, Maine
Balance Sheet
Governmental Funds
June 30, 2008

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,288,064	\$ -	\$ 19,510	\$ 1,307,574
Investments	88,116	-	296,746	384,862
Taxes receivable, net	206,241	-	-	206,241
Due from other funds	790,117	488,897	133,240	1,412,254
Receivable from other governments	77,606	14,632	38,875	131,113
Other receivables	-	15,000	2,623	17,623
Inventories	-	-	8,246	8,246
Total assets	<u>\$ 2,450,144</u>	<u>\$ 518,529</u>	<u>\$ 499,240</u>	<u>\$ 3,467,913</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 43,730	\$ 14,732	\$ 11,623	\$ 70,085
Due to other funds	1,105,205	-	42,814	1,148,019
Payable to other governments	2,636	-	-	2,636
Deferred property taxes	158,159	-	-	158,159
Prepaid property taxes	4,006	-	-	4,006
Accrued summer teacher pay	374,739	-	20,614	395,353
Other payables	5,291	-	-	5,291
Total liabilities	<u>1,693,766</u>	<u>14,732</u>	<u>75,051</u>	<u>1,783,549</u>
Fund balances				
Reserved for				
Capital projects	-	341,727	-	341,727
Other purposes	43,208	-	2,623	45,831
Unreserved,				
Designated for education	140,778	-	-	140,778
Designated for town	6,430	-	-	6,430
Designated for capital projects funds	-	162,070	-	162,070
Undesignated	565,962	-	-	565,962
Unreserved, reported in non-major				
Undesignated special revenue funds	-	-	421,566	421,566
Total fund balances	<u>756,378</u>	<u>503,797</u>	<u>424,189</u>	<u>1,684,364</u>
Total liabilities and fund balances	<u>\$ 2,450,144</u>	<u>\$ 518,529</u>	<u>\$ 499,240</u>	<u>\$ 3,467,913</u>

Town of Machias, Maine
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net
Assets
June 30, 2008

Total fund balance, governmental funds	\$	1,684,364
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.		4,453,502
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		158,159
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.		(1,133,142)
Net Assets of Governmental Activities in the Statement of Net Assets	\$	5,162,883

Town of Machias, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 2,316,441	\$ -	\$ -	\$ 2,316,441
Excise taxes	239,360	-	-	239,360
Interest and lien charges	21,952	-	-	21,952
Licenses, permits and fees	26,998	-	-	26,998
Intergovernmental	3,520,822	267,999	637,080	4,425,901
On-behalf payments - State of Maine	451,694	-	-	451,694
Charges for services	19,636	-	41,221	60,857
Investment and interest earnings	40,906	487	10,536	51,929
Miscellaneous	109,816	-	1,025	110,841
Total revenues	<u>6,747,625</u>	<u>268,486</u>	<u>689,862</u>	<u>7,705,973</u>
EXPENDITURES				
Current				
General government	248,122	-	-	248,122
Police department	245,293	-	-	245,293
Fire department	204,875	-	-	204,875
Highways and streets	314,490	-	-	314,490
Education	4,271,987	-	542,346	4,814,333
Adult education	131,480	-	-	131,480
On-behalf payments - State of Maine	451,694	-	-	451,694
Recreation	7,521	-	-	7,521
General assistance	962	-	-	962
Airport	7,648	-	-	7,648
Public safety building	12,953	-	-	12,953
County tax	163,109	-	-	163,109
Third party requests	39,730	-	-	39,730
Other	50,556	-	-	50,556
School lunch program	-	-	152,183	152,183
Debt service				
Principal	162,311	-	-	162,311
Interest and other charges	40,109	-	-	40,109
Capital outlay	16,867	447,669	-	464,536
Total expenditures	<u>6,369,707</u>	<u>447,669</u>	<u>694,529</u>	<u>7,511,905</u>
Excess (deficiency) of revenues over expenditures	<u>377,918</u>	<u>(179,183)</u>	<u>(4,667)</u>	<u>194,068</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from debt	-	349,481	-	349,481
Transfers in	11,483	20,330	-	31,813
Transfers out	(20,330)	-	(20,995)	(41,325)
Total other financing sources and uses	<u>(8,847)</u>	<u>369,811</u>	<u>(20,995)</u>	<u>339,969</u>
Net change in fund balances	369,071	190,628	(25,662)	534,037
FUND BALANCES - BEGINNING	<u>387,307</u>	<u>313,169</u>	<u>449,851</u>	<u>1,150,327</u>
FUND BALANCES - ENDING	<u>\$ 756,378</u>	<u>\$ 503,797</u>	<u>\$ 424,189</u>	<u>\$ 1,684,364</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, 2008**

Net change in fund balances - total governmental funds: \$ 534,037

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	169,044	
Depreciation	<u>(233,593)</u>	(64,549)

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.

12,721

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.

(114,874)

Change in net assets of governmental activities

\$ 367,335

Town of Machias, Maine
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Enterprise Funds			Total
	Sewer Fund	Solid Waste Facility	Other Enterprise Funds	
ASSETS				
Current assets				
Cash and cash equivalents	\$ -	\$ 180,633	\$ 13,808	\$ 194,441
Investments	355,073	-	-	355,073
Accounts receivable, net	287,245	-	101,019	388,264
Due from other funds	43,363	-	502,699	546,062
Receivables from other governments	19,173	-	-	19,173
Total current assets	<u>704,854</u>	<u>180,633</u>	<u>617,526</u>	<u>1,503,013</u>
Non-current assets				
Capital assets				
Land and improvements	1,000	-	-	1,000
Infrastructure and buildings	5,800,752	-	650,068	6,450,820
Construction in progress	1,089,128	-	-	1,089,128
Vehicles and equipment	302,630	40,304	137,397	480,331
Less accumulated depreciation	<u>(2,020,153)</u>	<u>-</u>	<u>(324,918)</u>	<u>(2,345,071)</u>
Total non-current assets	<u>5,173,357</u>	<u>40,304</u>	<u>462,547</u>	<u>5,676,208</u>
Total assets	<u>5,878,211</u>	<u>220,937</u>	<u>1,080,073</u>	<u>7,179,221</u>
LIABILITIES				
Current liabilities				
Accounts payable	19,173	3,303	-	22,476
Due to other funds	296,744	369,074	138,979	804,797
Short term bond anticipation note payable	295,835	-	-	295,835
Bonds and notes payable	32,292	14,588	-	46,880
Non-current liabilities				
Bonds and notes payable	255,421	63,412	-	318,833
Total liabilities	<u>899,465</u>	<u>450,377</u>	<u>138,979</u>	<u>1,488,821</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,589,809	(37,696)	462,547	5,014,660
Reserved for other purposes	444,385	180,633	17,536	642,554
Reserved for Machias Water Co.	277,849	-	-	277,849
Unrestricted (deficit)	(333,297)	(372,377)	-	(705,674)
Unrestricted, reported in nonmajor fund	-	-	461,011	461,011
Total net assets (deficit)	<u>\$ 4,978,746</u>	<u>\$ (229,440)</u>	<u>\$ 941,094</u>	<u>\$ 5,690,400</u>

Town of Machias, Maine
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

	Enterprise Funds			Total
	Sewer Fund	Solid Waste Facility	Other Enterprise Funds	
REVENUES				
Charges for services and interest	\$ 274,589	\$ 334,377	\$ 253,535	\$ 862,501
OPERATING EXPENSES				
Personal services	105,441	100,617	176,782	382,840
Contractual services	46,192	195,329	10,058	251,579
Utilities	79,566	10,412	21,945	111,923
Repairs and maintenance	22,956	7,014	29,994	59,964
Other supplies and expenses	39,744	25,226	17,940	82,910
Insurance claims and expenses	9,503	6,442	15,434	31,379
Capital outlay	-	21,935	-	21,935
Depreciation	129,265	-	37,253	166,518
Total operating expenses	<u>432,667</u>	<u>366,975</u>	<u>309,406</u>	<u>1,109,048</u>
Operating income (loss)	<u>(158,078)</u>	<u>(32,598)</u>	<u>(55,871)</u>	<u>(246,547)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	4,712	5,831	262	10,805
Donations	-	-	513	513
Capital grants and contributions	394,968	-	-	394,968
Interest expense	(8,890)	-	-	(8,890)
Total non-operating revenue	<u>390,790</u>	<u>5,831</u>	<u>775</u>	<u>397,396</u>
Income (loss) before contributions and transfers	<u>232,712</u>	<u>(26,767)</u>	<u>(55,096)</u>	<u>150,849</u>
Transfers in	<u>9,512</u>	<u>-</u>	<u>-</u>	<u>9,512</u>
Change in net assets	242,224	(26,767)	(55,096)	160,361
Total net assets (deficit) - beginning	<u>4,736,522</u>	<u>(202,673)</u>	<u>996,190</u>	<u>5,530,039</u>
Total net assets (deficit) - ending	<u>\$ 4,978,746</u>	<u>\$ (229,440)</u>	<u>\$ 941,094</u>	<u>\$ 5,690,400</u>

Town of Machias, Maine
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2008

	Proprietary Fund Types - Enterprise			Totals
	Sewer	Solid Waste Facility	Other Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from user charges and tenants	\$ 313,638	\$ 334,377	\$ 304,808	\$ 952,823
Payments for administrative services	(161,136)	(117,471)	(214,161)	(492,768)
Payments to suppliers for goods and services	(142,266)	(246,201)	(57,992)	(446,459)
Interfund activity	(27,167)	(8,401)	(4,668)	(40,236)
Net cash provided (used) by operating activities	<u>(16,931)</u>	<u>(37,696)</u>	<u>27,987</u>	<u>(26,640)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Investment in Machias Water Co.	1,969	-	-	1,969
Interest paid	(8,890)	-	-	(8,890)
Interest income	2,743	5,831	262	8,836
Donation	-	-	513	513
Transfers in	9,512	-	-	9,512
Net cash provided (used) by noncapital financing activities	<u>5,334</u>	<u>5,831</u>	<u>775</u>	<u>11,940</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on bonds	(41,176)	-	-	(41,176)
Bond proceeds	295,835	78,000	-	373,835
Capital grants and contributions	622,811	-	-	622,811
Capital asset purchases	(861,161)	(40,304)	(28,500)	(929,965)
Net cash provided (used) by capital and related financial activities	<u>16,309</u>	<u>37,696</u>	<u>(28,500)</u>	<u>25,505</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(4,712)	-	-	(4,712)
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	5,831	262	6,093
CASH AND CASH EQUIVALENTS, BEGINNING	-	174,802	13,546	188,348
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ -</u>	<u>\$ 180,633</u>	<u>\$ 13,808</u>	<u>\$ 194,441</u>
Supplemental Information				
Interest charged to expense	<u>\$ 8,890</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,890</u>
Reconciliation of operating income to net cash used by operating activities				
Operating income (loss)	\$ (158,078)	\$ (32,598)	\$ (55,871)	\$ (246,547)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	129,265	-	37,253	166,518
(Increase) decrease in the following assets				
Accounts receivable	39,049	-	51,273	90,322
Interfund receivables	(9,512)	-	(10,247)	(19,759)
Increase (decrease) in the following liabilities				
Interfund payables	(17,655)	(8,401)	5,579	(20,477)
Accounts payable and other accrued liabilities	-	3,303	-	3,303
Net cash provided by operating activities	<u>\$ (16,931)</u>	<u>\$ (37,696)</u>	<u>\$ 27,987</u>	<u>\$ (26,640)</u>

Town of Machias, Maine
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 27,275	\$ 78,249
LIABILITIES		
Due to student groups	-	78,249
Due to other funds	5,500	-
Total liabilities	5,500	78,249
NET ASSETS		
Held in trust for scholarships and other purposes	\$ 21,775	\$ -

Town of Machias, Maine
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2008

	Private Purpose Trust Fund
ADDITIONS	
Interest	\$ 420
DEDUCTIONS	
Scholarships	329
Change in net assets	91
Net assets - beginning	127,775
Restate beginning balances	(106,091)
Net assets - beginning, restated	21,684
Net assets - ending	\$ 21,775

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2008

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, 2008

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, 2008

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

Measurement Focus/Basis of Accounting

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus/Basis of Accounting (Continued)

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

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

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

Budgets and Budgetary Accounting

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

In accordance with Governmental Accounting Standard Board Statement No. 24, *Accounting and Reporting for Certain Grants and Other Financial Assistance*, payments made by the State of Maine to the Maine Public Employees Retirement System for teachers and certain other school employees are reported as offsetting revenues and expenditures of the general fund in accordance with generally accepted accounting principles.

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

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2008

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. Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances".

Capital Assets

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

Assets capitalized have an original cost of \$2,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

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

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2008

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.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - Property Taxes

Property taxes were levied on assessed values of April 1, 2007 were due on December 15, 2007 and March 15, 2008, 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, 2007 a 3% discount was applied.

Property taxes assessed and collected during the year ended June 30, 2008, and during the first sixty days of the next fiscal year are recognized as revenue in 2008. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue.

Assessed value	
Real estate	\$81,720,085
Personal property	<u>7,163,900</u>
	\$88,883,985
Tax rate (per \$1,000)	<u>26.50</u>
Commitment	\$ 2,355,426
Less collections, discounts and abatements	<u>2,200,718</u>
Receivable at June 30, 2008	<u>\$ 154,708</u>
Collection rate	93%

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 Public Employees 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	\$ 453,440
On behalf payments revenue	451,694
On behalf payments expenditures	(451,694)
End of year adjustment for accrued wages not recognized as expenditures	<u>(84,369)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses – GAAP basis	<u>\$ 369,071</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2008

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, 2008, the Town reported deposits of \$1,607,539 with bank balances of \$1,523,763. Of the Town's total bank balance of \$1,523,763, \$80,633 was exposed to custodial credit risk as this amount was not insured or collateralized and \$1,443,130 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	\$1,307,574
Reported in proprietary funds	<u>194,441</u>
Total reported on the Statement of Net Assets	1,502,015
Reported in fiduciary funds	<u>105,524</u>
Total deposits	<u><u>\$1,607,539</u></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, 2008 the Town's investments of \$739,935, 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 \$144,195 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, 2008

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	\$39,730	\$278,160

Investments have been reported as follows:

Reported in governmental funds	\$ 384,862
Reported in proprietary funds	<u>355,073</u>
Total investments	<u>\$ 739,935</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 \$277,849.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2008

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance 6/30/07	Additions/ Completions	Retire- ments	Balance 6/30/08
Governmental Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	<u>402,136</u>	<u>-</u>	<u>(402,136)</u>	<u>-</u>
	<u>967,210</u>	<u>-</u>	<u>(402,136)</u>	<u>565,074</u>
<i>Capital assets being depreciated</i>				
Buildings and land improvements	6,504,303	-	-	6,504,303
Infrastructure	234,996	545,808	-	780,804
Equipment, furniture and fixtures	558,653	25,372	-	584,025
Vehicles	<u>850,063</u>	<u>-</u>	<u>-</u>	<u>850,063</u>
Total capital assets being depreciated	<u>8,148,015</u>	<u>571,180</u>	<u>-</u>	<u>8,719,195</u>
Less accumulated depreciation for:				
Buildings and land improvements	(3,577,211)	(113,601)	-	(3,690,812)
Infrastructure	(10,961)	(21,151)	-	(32,112)
Equipment, furniture and fixtures	(400,454)	(44,078)	-	(444,532)
Vehicles	<u>(608,548)</u>	<u>(54,763)</u>	<u>-</u>	<u>(663,311)</u>
Total accumulated depreciation	<u>(4,597,174)</u>	<u>(233,593)</u>	<u>-</u>	<u>(4,830,767)</u>
Total capital assets, being depreciated, net	<u>3,550,841</u>	<u>337,587</u>	<u>-</u>	<u>3,888,428</u>
Governmental activities capital assets, net	<u>\$ 4,518,051</u>	<u>\$ 337,587</u>	<u>\$(402,136)</u>	<u>\$ 4,453,502</u>
Business-Type Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	<u>1,593,399</u>	<u>-</u>	<u>(504,271)</u>	<u>1,089,128</u>
Total capital assets not being depreciated	<u>1,594,399</u>	<u>-</u>	<u>(504,271)</u>	<u>1,090,128</u>
<i>Capital assets being depreciated</i>				
Infrastructure and buildings	5,226,341	1,224,479	-	6,450,820
Vehicles and equipment	<u>404,536</u>	<u>75,795</u>	<u>-</u>	<u>480,331</u>
Total capital assets being depreciated	<u>5,630,877</u>	<u>1,300,274</u>	<u>-</u>	<u>6,931,151</u>
Less accumulated depreciation				
Infrastructure and buildings	(2,032,018)	(148,518)	-	(2,180,536)
Vehicles and equipment	<u>(146,535)</u>	<u>(18,000)</u>	<u>-</u>	<u>(164,535)</u>
Total accumulated depreciation	<u>(2,178,553)</u>	<u>(166,518)</u>	<u>-</u>	<u>(2,345,071)</u>
Total capital assets, being depreciated, net	<u>3,452,324</u>	<u>1,133,756</u>	<u>-</u>	<u>4,586,080</u>
Business-type activities capital assets, net	<u>\$ 5,046,723</u>	<u>\$ 1,133,756</u>	<u>\$(504,271)</u>	<u>\$ 5,676,208</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2008

3. CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2008, was charged as direct expense to programs as follows:

<i>Governmental activities</i>	
General government	\$ 3,693
Protection	42,968
Public works	78,936
Recreation	1,000
Airport	420
Education	<u>106,576</u>
Total depreciation expense – Governmental activities	<u>\$233,593</u>
<i>Business-type activities</i>	
Sewer	\$ 129,265
Ambulance	4,750
Telcenter	<u>32,503</u>
Total depreciation expense – business-type activities	<u>\$166,518</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, 2008 are:

2009	\$ 78,739
2010	76,129
2011	<u>12,101</u>
	166,969
Less amount representing interest	<u>10,355</u>
Present value of minimum lease payments	<u>\$156,614</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2008

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, 2008.

	Original Amount	Balance June 30, 2007	Additions/ (Retired)	Balance June 30, 2008
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	\$ 187,950	\$ (37,590)	\$ 150,360
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 21, 2008, due 2012	736,000	524,858	(105,571)	419,287
General notes				
Machias Savings Bank, 3.29% equipment note, dated August 13, 2003, due 2010	134,000	76,550	(19,150)	57,400
Machias Savings Bank, 3.65% industrial park note, dated December 28, 2007, due 2013	349,481	-	349,481	349,481
Total general obligation bonds and notes payable		<u>789,358</u>	<u>187,170</u>	<u>976,528</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	42,000	(7,000)	35,000
Maine Municipal Bond Bank, 1% sewer rehabilitation project, dated July 26, 2002, due 2008	85,500	17,748	(17,748)	-
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 21, 2008, due 2012	101,000	72,142	(14,429)	57,713
Maine Municipal Bond Bank, 2.19% sewer rehabilitation project, dated July 26, 2002, due 2023	205,000	197,000	(2,000)	195,000
Total sewer bonds and notes		<u>328,890</u>	<u>(41,177)</u>	<u>287,713</u>
Solid waste note payable				
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 4, 2008, due 2013		-	78,000	78,000
Total proprietary bonds and notes payable		<u>328,890</u>	<u>36,823</u>	<u>365,713</u>
Total general obligation and proprietary bonds and notes payable		<u>\$1,118,248</u>	<u>\$ 223,993</u>	<u>\$1,342,241</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2008

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	
2009	\$ 227,028	\$ 29,182	\$ 46,880	\$ 10,444	\$ 313,534
2010	229,672	22,353	47,642	8,879	308,546
2011	232,114	15,679	48,429	7,292	303,514
2012	212,603	8,914	49,233	6,035	276,785
2013	75,111	2,787	35,644	3,710	117,254
2014-2018	-	-	64,667	11,628	76,295
2019-2023	-	-	73,218	4,088	77,306
	<u>\$ 976,528</u>	<u>\$ 78,915</u>	<u>\$ 365,713</u>	<u>\$52,076</u>	<u>\$1,473,234</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, 2008, the Town was in compliance with these limitations.

5. SHORT-TERM NOTE PAYABLE

The Town issued a short term note payable in advance of long term note financing. The notes are necessary to fund a road extension and sewer projects.

	Balance 7/1/07	Increases (decreases)	Balance 6/30/08
Short-term note payable- Sewer Fund	\$ -	\$295,835	\$295,835
Short-term note payable- Capital Projects Fund	165,074	(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, 2008 arising from these transactions were as follows:

	Receivable	Payable
General fund	\$ 790,117	\$1,105,205
Capital projects fund	488,897	-
Proprietary fund	546,062	804,797
Fiduciary fund	-	5,500
Non-major funds	133,240	42,814
	<u>\$1,958,316</u>	<u>\$1,958,316</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2008

6. INTERFUND TRANSACTIONS (CONTINUED)

Interfund transfers during the fiscal year June 30, 2008 were as follows:

		Transfers from		
		General fund	Other governmental fund	Totals
Trans-fer to	General fund	\$ -	\$11,483	\$ 11,483
	Capital projects fund	20,330	-	20,330
	Proprietary funds	-	9,512	9,512
		<u>\$ 20,330</u>	<u>\$20,995</u>	<u>\$ 41,325</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, 2008, the fund balances which are restricted for other purposes were comprised of the following:

Debt service – public safety building	\$32,922
Superintendent's office	<u>10,286</u>
Total general fund	<u>43,208</u>
Special revenue fund- revolving loan reserve	<u>2,623</u>
Total reserved for other purposes	<u>\$45,831</u>

At June 30, 2008, the fund balances which are restricted for capital projects were comprised of the following:

Comprehensive plan	\$ 964
Airport improvement	71,768
Ambulance replacement	26,880
Boat dock	1,547
Economic development	88,733
Fire department ventilation	4,629
Fire truck replacement	3,276
Industrial development	29,896
Recreation building	7,820
Sewer expansion	75,323
Sewer overflow	3,366
Sidewalk repair	5,000
Skatepark	2,967
Storm drain repair and replacement	10,973
Tennis court	7,284
Tree replacement/removal	<u>1,301</u>
	<u>\$341,727</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2008

8. UNRESERVED FUND BALANCES– DESIGNATED

The general fund's designated fund balance at June 30, 2008 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, 2008 consists of:

Roads	\$ 93,664
Town office	88,385
School	<u>(19,980)</u>
	<u>\$162,069</u>

9. RETAINED EARNINGS – RESTRICTED – ENTERPRISE FUNDS

At June 30, 2008, the enterprise fund's restricted fund balance for other purposes was comprised of the following:

Sewer fund	
Reserve for debt/capital	\$381,610
Reserve for debt service	<u>62,775</u>
Total sewer fund	444,385
Solid waste fund	
Restricted for Howe's corner	180,633
Nonmajor proprietary fund- ambulance fund	
Reserve for vehicle replacement	<u>17,536</u>
	<u>\$642,554</u>

10. UNRESTRICTED NET ASSETS (DEFICIT) - ENTERPRISE FUNDS

The solid waste fund has a deficit in its unrestricted net assets of \$372,377 for the year ended June 30, 2008. 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 \$333,297 that will also be reduced with increased fees. In the other enterprise funds the telcenter has a deficit in unrestricted net assets of \$90,171 for the year ended June 30, 2008.

11. RESTATEMENT OF FUND BALANCE

Beginning fiduciary fund balances have been restated by \$106,091 to properly reflect the funds managed and recorded as Town funds.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2008

12. 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, 2008, was approximately \$2,414,187. The State of Maine Department of Education is required, by state statute, to contribute the employer contribution which amounts to \$451,694 (18.71%) of compensation for the year ended June 30, 2008. There is no contribution required by the school department except for federally funded teachers for which the school department contributes 18.71% of their compensation. This cost amounted to \$34,850 for the year ended June 30, 2008, 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 \$10,583 and employees elected to defer \$16,910 for a contribution of \$27,493 for the year ended June 30, 2008.

13. 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, 2008

13. 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.

14. SCHOOL ADMINISTRATIVE REORGANIZATION

On June 6, 2007, the Maine House and Senate enacted the two-year state budget including the school administrative reorganization legislation "School Administrative Reorganization" ("SAR") as Public Law 2007, Chapter 240. The law sets forth state policy to ensure that schools are organized as School Administrative Units (SAUs).

SAU's, not otherwise exempt, that fail to approve a reorganization plan by November 4, 2008 and to implement that plan by July 1, 2009 will face financial penalties, starting July 1, 2010. There are penalties for SAUs that do not form appropriate RSUs by the beginning of FY2010 including reduced subsidies.

The Town's School Department has submitted several plans to the State which includes consolidating with various local school systems. On December 9, 2008, a referendum vote was held on the proposed RSU. This proposal was rejected by the voters.

15. COMMITMENTS

The Town was also committed to four contracts for sewer construction projects with remaining amounts totaling \$1,532,892.

16. CONTINGENCIES

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

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

Town of Machias, Maine
Budget and Actual (with Budget to GAAP Differences)
General Fund
For the year ended June 30, 2008

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
	Original	Final			
REVENUES					
Property Taxes	\$ 2,355,426	\$ 2,355,426	\$ 2,316,441	\$ -	\$ 2,316,441
Excise taxes	242,100	242,100	239,360	-	239,360
Interest and lien costs	12,000	12,000	21,952	-	21,952
Licenses and permits	21,725	21,725	26,998	-	26,998
Intergovernmental					
Education	2,732,003	2,732,003	3,021,013	-	3,021,013
On-behalf payments - State of Maine	-	-	-	451,694	451,694
Town	416,202	416,202	-499,809	-	499,809
Charges for services	16,000	16,000	19,636	-	19,636
Interest earnings	25,000	25,000	40,906	-	40,906
Miscellaneous	18,894	18,894	109,816	-	109,816
Total revenues	<u>5,839,350</u>	<u>5,839,350</u>	<u>6,295,931</u>	<u>451,694</u>	<u>6,747,625</u>
EXPENDITURES					
Current:					
General government	273,634	273,634	248,122	-	248,122
Police department	264,408	264,408	245,293	-	245,293
Fire department	204,955	204,955	204,875	-	204,875
Highways and streets	268,194	265,694	314,490	-	314,490
Education	4,227,666	4,227,666	4,187,618	84,369	4,271,987
Adult education	148,789	148,789	131,480	-	131,480
On-behalf payments - State of Maine	-	-	-	451,694	451,694
Recreation	15,400	9,053	7,521	-	7,521
General assistance	5,000	5,000	962	-	962
Airport	14,600	14,600	7,648	-	7,648
Public safety building	12,720	12,720	12,953	-	12,953
County tax	163,109	163,109	163,109	-	163,109
Third party requests	39,730	39,730	39,730	-	39,730
Other	57,624	57,624	50,556	-	50,556
Debt service:					
Principal	162,311	162,311	162,311	-	162,311
Interest and other charges	82,744	82,744	40,109	-	40,109
Capital outlay	26,500	26,500	16,867	-	16,867
Total expenditures	<u>5,967,384</u>	<u>5,958,537</u>	<u>5,833,644</u>	<u>536,063</u>	<u>6,369,707</u>
Excess (deficiency) of revenues over expenditures	<u>(128,034)</u>	<u>(119,187)</u>	<u>462,287</u>	<u>(84,369)</u>	<u>377,918</u>
OTHER FINANCING SOURCES (USES)					
Transfers out	-	(8,847)	(8,847)	-	(8,847)
Net change in fund balances	(128,034)	(128,034)	453,440	(84,369)	369,071
FUND BALANCES - BEGINNING	<u>677,677</u>	<u>677,677</u>	<u>677,677</u>	<u>(290,370)</u>	<u>387,307</u>
FUND BALANCES - ENDING	<u>\$ 549,643</u>	<u>\$ 549,643</u>	<u>\$ 1,131,117</u>	<u>\$ (374,739)</u>	<u>\$ 756,378</u>

Town of Machias, Maine
Budget and Actual (with Variances)
General Fund
For the year ended June 30, 2008

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 2,355,426	\$ 2,355,426	\$ 2,316,441	\$ (38,985)
Excise taxes	242,100	242,100	239,360	(2,740)
Interest and lien costs	12,000	12,000	21,952	9,952
Licenses and permits	21,725	21,725	26,998	5,273
Intergovernmental				
Education	2,732,003	2,732,003	3,021,013	289,010
Town	416,202	416,202	499,809	83,607
Charges for services	16,000	16,000	19,636	3,636
Investment earnings	25,000	25,000	40,906	15,906
Miscellaneous	18,894	18,894	109,816	90,922
Total revenues	<u>5,839,350</u>	<u>5,839,350</u>	<u>6,295,931</u>	<u>456,581</u>
EXPENDITURES				
Current:				
General government	273,634	273,634	248,122	25,512
Police department	264,408	264,408	245,293	19,115
Fire department	204,955	204,955	204,875	80
Highways and streets	268,194	265,694	314,490	(48,796)
Education	4,227,666	4,227,666	4,187,618	40,048
Adult education	148,789	148,789	131,480	17,309
Recreation	15,400	9,053	7,521	1,532
General assistance	5,000	5,000	962	4,038
Airport	14,600	14,600	7,648	6,952
Public safety building	12,720	12,720	12,953	(233)
County tax	163,109	163,109	163,109	-
Third party requests	39,730	39,730	39,730	-
Other	57,624	57,624	50,556	7,068
Debt service:				
Principal	162,311	162,311	162,311	-
Interest and other charges	82,744	82,744	40,109	42,635
Capital outlay	26,500	26,500	16,867	9,633
Total expenditures	<u>5,967,384</u>	<u>5,958,537</u>	<u>5,833,644</u>	<u>124,893</u>
Excess (deficiency) of revenues over expenditures	<u>(128,034)</u>	<u>(119,187)</u>	<u>462,287</u>	<u>581,474</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(8,847)	(8,847)	-
Net change in fund balances	(128,034)	(128,034)	453,440	\$ 581,474
FUND BALANCES - BEGINNING	<u>677,677</u>	<u>677,677</u>	<u>677,677</u>	
FUND BALANCES - ENDING	<u>\$ 549,643</u>	<u>\$ 549,643</u>	<u>\$ 1,131,117</u>	

Town of Machias, Maine
Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	Special Revenue Fund - Education	Special Revenue Fund - School Lunch	Special Revenue Fund - Town	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,114	\$ 16,396	\$ -	\$ 19,510
Investments	-	-	296,746	296,746
Due from other funds	133,240	-	-	133,240
Receivable from other governments	20,767	18,108	-	38,875
Note receivable	-	-	2,623	2,623
Inventories	-	8,246	-	8,246
Total assets	<u>\$ 157,121</u>	<u>\$ 42,750</u>	<u>\$ 299,369</u>	<u>\$ 499,240</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 8,398	\$ 3,225	\$ -	\$ 11,623
Due to other funds	-	21,160	21,654	42,814
Other accrued expenses	20,614	-	-	20,614
Total liabilities	<u>29,012</u>	<u>24,385</u>	<u>21,654</u>	<u>75,051</u>
Fund balances:				
Reserved for other purposes	-	-	2,623	2,623
Unreserved, Undesignated	128,109	18,365	275,092	421,566
Total fund balances	<u>128,109</u>	<u>18,365</u>	<u>277,715</u>	<u>424,189</u>
Total liabilities and fund balances	<u>\$ 157,121</u>	<u>\$ 42,750</u>	<u>\$ 299,369</u>	<u>\$ 499,240</u>

Town of Machias, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	Special Revenue Fund - Education	Special Revenue Fund - School Lunch	Special Revenue Fund - Town	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental	\$ 522,545	\$ 114,535	\$ -	\$ 637,080
Charges for services	-	41,221	-	41,221
Investment earnings	-	-	10,536	10,536
Total revenues	<u>522,545</u>	<u>155,756</u>	<u>11,561</u>	<u>689,862</u>
EXPENDITURES				
Education	542,346	-	-	542,346
Food and supplies	-	92,065	-	92,065
Labor	-	60,118	-	60,118
Total expenditures	<u>542,346</u>	<u>152,183</u>	<u>-</u>	<u>694,529</u>
Excess (deficiency) of revenues over expenditures	<u>(19,801)</u>	<u>3,573</u>	<u>11,561</u>	<u>(4,667)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(11,483)</u>	<u>-</u>	<u>(9,512)</u>	<u>(20,995)</u>
Net change in fund balances	(31,284)	3,573	2,049	(25,662)
Fund balances - beginning	159,393	14,792	275,666	449,851
Fund balances - ending	<u>\$ 128,109</u>	<u>\$ 18,365</u>	<u>\$ 277,715</u>	<u>\$ 424,189</u>

Town of Machias, Maine
Combining Statement of Net Assets
Other Enterprise Funds
June 30, 2008

	Enterprise Funds		
	Telcenter	Ambulance Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 13,808	\$ -	\$ 13,808
Accounts receivable, net	-	101,019	101,019
Due from other funds	-	502,699	502,699
Total current assets	13,808	603,718	617,526
Non-current assets			
Capital assets			
Buildings	650,068	-	650,068
Equipment and furniture	-	137,397	137,397
Less accumulated depreciation	(211,271)	(113,647)	(324,918)
Total non-current assets	438,797	23,750	462,547
Total assets	452,605	627,468	1,080,073
LIABILITIES			
Current liabilities			
Due to other funds	103,979	35,000	138,979
NET ASSETS			
Invested in capital assets, net of related debt	438,797	23,750	462,547
Restricted for other purposes	-	17,536	17,536
Unrestricted	(90,171)	551,182	461,011
Total net assets	\$ 348,626	\$ 592,468	\$ 941,094

Town of Machias, Maine
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Other Enterprise Funds
For the Year Ended June 30, 2008

	<u>Telcenter</u>	<u>Ambulance Fund</u>	<u>Total Other Enterprise Funds</u>
REVENUES			
Charges for services	\$ 35,005	\$ 218,530	\$ 253,535
OPERATING EXPENSES			
Personal services	693	176,089	176,782
Contractual services	-	10,058	10,058
Utilities	21,379	566	21,945
Repairs and maintenance	16,854	13,140	29,994
Other supplies and expenses	86	17,854	17,940
Insurance claims and expenses	1,572	13,862	15,434
Depreciation	32,503	4,750	37,253
Total operating expenses	<u>73,087</u>	<u>236,319</u>	<u>309,406</u>
Operating income (loss)	(38,082)	(17,789)	(55,871)
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	262	-	262
Miscellaneous revenue	-	513	513
Total non-operating revenue (expenses)	<u>262</u>	<u>513</u>	<u>775</u>
Change in net assets	(37,820)	(17,276)	(55,096)
Total net assets - beginning	<u>386,446</u>	<u>609,744</u>	<u>996,190</u>
Total net assets - ending	<u>\$ 348,626</u>	<u>\$ 592,468</u>	<u>\$ 941,094</u>

Town of Machias, Maine
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCES - AGENCY FUNDS
 June 30, 2008

	Balances July 1, 2007	Receipts	Expenditures	Balances June 30, 2008
Rose Gaffney School	\$ 18,420	\$ 60,874	\$ 57,538	\$ 21,756
Machias High School	51,019	103,355	105,285	49,089
Machias Vocational Center	10,244	14,429	17,269	7,404
Other	7	-	7	-
Total	\$ 79,690	\$ 178,658	\$ 180,099	\$ 78,249

Town of Machias, Maine
TAXES RECEIVABLE, TAX LIENS AND TAX ACQUIRED PROPERTY
GENERAL FUND
June 30, 2008

Taxes receivable	
2007	\$ 154,708
2006	1,159
2005 and prior	<u>12,108</u>
Total taxes receivable	<u>167,975</u>
Tax liens and tax acquired property	
2006	37,079
2005 and prior	<u>1,187</u>
Total tax liens and tax acquired property	<u>38,266</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 206,241</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, 2008, which collectively comprise the Town of Machias, Maine's basic financial statements and have issued our report thereon dated August 26, 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 consider the deficiencies described as #2008-1 and #2008-2 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 deficiencies #2008-1 and #2008-2 noted above to be material weaknesses.

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 August 26, 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 Town selectmen, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Randru Shibodeau & Associates

Bangor, Maine
August 26, 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 the 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, 2008. The Town of Machias, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Machias, Maine's management. Our responsibility is to express an opinion on the Town of Machias, Maine's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Machias, Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Machias, Maine's compliance with those requirements.

In our opinion, the Town of Machias, Maine, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Town of Machias, Maine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Machias, Maine's internal control over compliance with 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 the Town of Machias, Maine's internal control over compliance.

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

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #2008-3 to be a significant deficiency.

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. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

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

Randru Shibodeau & Associates

Bangor, Maine
August 26, 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, 2008, we state the following assurances:

1. The audit has been conducted in accordance with applicable state and federal laws relating to financial and compliance audits.
2. Budgetary controls were in place.
3. The Town has not complied with applicable provisions of the Essential Program and Services Funding Act.
4. The Town is in compliance with the applicable provisions of the Maine School Finance Acts of 1985 and 1995.

Brantner Thibodeau & Associates

Bangor, Maine
August 26, 2009

Town of Machias, Maine
 AUDIT ADJUSTMENTS TO MEDEMS FINANCIAL SYSTEM
 Year ended June 30, 2008

	General		Special Revenue		Totals
	Fund*	Adult Education*	Grants and other	School lunch	
<i>June 30 balance as per MEDEMS</i>	\$ 250,775	\$ -	\$ -	\$ -	\$ 250,775
<i>Beginning balance variance</i>	(13,647)	56,166	180,007	14,792	237,318
Revenues per MEDEMS	2,934,223	191,590	620,097	135,304	3,881,214
Local allocation	1,457,452	62,000	-	-	1,519,452
Change in accounts receivable	-	(79,833)	-	115	(79,718)
Unrecorded receipts	856	(856)	-	20,338	20,338
Expenditures per MEDEMS	(4,207,916)	(155,592)	(636,947)	(149,593)	(5,150,048)
Adjustment to liabilities	(20,298)	-	(2,951)	284	(22,965)
Adjust due to from	40,596	-	(11,483)	(5,459)	23,654
Adjust inventory	-	-	-	2,584	2,584
Accrued summer teacher pay	(374,739)	-	(20,614)	-	(395,353)
Audited GAAP Basis Fund Balance	\$ 67,302	\$ 73,475	\$ 128,109	\$ 18,365	\$ 287,251

* combined on report in designated for education

Town of Machias, Maine
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2008

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>			
<i>Passed through Department of Economic and Community Development</i>			
Public infrastructure grant	14.228	G406050	\$ 9,483
Housing assistance	14.228	G1206043	45,564
Economic development infrastructure	14.228	G305175	<u>3,539</u>
Total U.S. Department of Housing and Urban Development			<u>58,586</u>
<i>U.S. Department of Transportation</i>			
<i>Direct</i>			
FAA grant - airport improvement program	20.106	AIP#3-23-0029-05-2005	33,992
FAA grant - airport improvement program	20.106	AIP#3-23-0029-06-2007	<u>67,620</u>
			<u>101,612</u>
<i>U.S. Environmental Protection Agency</i>			
<i>Passed through Department of Environmental Protection</i>			
Multi-media capacity building grant for states and tribes	66.709	XP97123801-0	<u>411,405</u>
<i>U.S. Department of Homeland Security</i>			
<i>Passed through Maine State Department of Defense, Veterans and Emergency Management</i>			
Homeland security grant program	97.067	GE-T6-0047	14,258
Disaster grants - public assistance	97.036	FEMA-1693-DR-ME	<u>6,255</u>
Total U.S. Department of Homeland Security			<u>20,513</u>
<i>U.S. Department of Education</i>			
<i>Passed through State Department of Education</i>			
Title IA	84.010	13-05A-6334-13	161,145
Career and technical education- basic grants to state	84.048	13-05A-5159-8	49,683
Title V innovative	84.298	13-05A-1072-66	1,338
Adult basic education	84.002	13-05A-6296-64	24,112
Gear - up	84.334	13-05A-6341-13	15,223
Title IIA teacher quality	84.367	13-05A-1138-11	37,543
Title IID education technology	84.318	13-05A-1006-7	3,055
<i>Cluster</i>			
Part B Section 619- Preschool	84.173	13-05A-6241-23	2,135
Title VI, Part B - Local Entitlement	84.027	13-05A-6317-12	142,461
<i>Passed through Office of Substance Abuse</i>			
Title IVA - Safe and Drug Free School Education	84.186	13-05A-6346-57	<u>4,894</u>
Total U.S. Department of Education			<u>441,589</u>
<i>U.S. Department of Agriculture</i>			
<i>Passed through State Department of Education</i>			
National School Lunch Program	10.555	13-05A-8121-05	89,083
Summer food service program	10.559	13-05A-7130-05	5,923
School breakfast program	10.553	13-05A-7127-05	<u>24,695</u>
Total U.S. Department of Agriculture			<u>119,701</u>
Total federal programs			<u>\$ 1,153,406</u>

Town of Machias, Maine
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

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, 2008

Section I — Summary of Auditor's Results

Financial Statements

- Type of auditor's report issued - *Unqualified opinion*
- Internal control over financial reporting
- Material weakness(es) identified? - yes no
 - Significant deficiency(ies) identified that are not considered to be material weaknesses? - yes none reported
- Noncompliance material to financial statements noted? - yes no

Federal Awards

- Internal control over major programs
- Material weakness(es) identified? - yes no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? - yes none reported
- Type of auditor's report issued on compliance for major programs - *Unqualified opinion*
- Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? - yes no

Identification of major programs

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
66.709	Multi-media Capacity Building Grants for States and Tribes
20.106	Airport Improvement Program
10.553, 10.555, 10.559	National School Lunch cluster

- Dollar threshold used to distinguish between Type A and Type B programs - \$300,000
- Auditee qualified as low-risk auditee? - yes no

Town of Machias, Maine
 Schedule of Findings and Questioned Costs (Continued)
 Year ended June 30, 2008

Section II — Financial Statement Findings

#2008-1 (REPEAT)

<i>Criteria or specific requirement Condition</i>	Significant additional services needed Inadequate reviews and approvals of transactions, accounting entries or system outputs leading to significant accounting services.
<i>Questioned costs Effect</i>	None Failure to perform certain management functions could result in misstated information and unreliable reporting
<i>Cause Recommendation</i>	Lack of adequate oversight and fiscal management. Town should have more oversight of its financial reporting and entries, supporting documentation and fixed asset schedules.
<i>Management's response</i>	Due to lack of sufficient training the Town was unable to perform certain functions, however progress was made in 2007-2008 fiscal year.

#2008-2 (REPEAT)

<i>Criteria or specific requirement Condition</i>	Internal control over financial reporting Management does not control the preparation of the financial statements and fixed asset reporting which also results in significant audit adjustments.
<i>Questioned costs Context</i>	None 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, 2008

Section III — Federal Award Findings and Questioned Costs

	#2008-3
<i>Information on the federal program</i>	CFDA# 66.709 – Multi-media Capacity Building Grants for States and Tribes CFDA# 10.553, 10.555, 10.559 National School Lunch cluster
<i>Criteria or specific requirement (including statutory, regulatory, or other citation)</i>	Internal control over reporting. OMB Circular A-133, Subpart C. 300 (a), (b) and (d), and Subpart C. 320. The auditee shall identify, in its accounts, all federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
<i>Condition</i>	Management does not control the preparation of the financial statements and federal grant reporting, including the schedule of expenditures of federal awards and data collection form.
<i>Questioned costs Context</i>	None
<i>Effect</i>	Management has relied on its auditors to prepare the financial statements and the schedule of expenditures of federal awards. Failure to perform certain management functions could result in misstated information and unreliable reporting.
<i>Cause</i>	Lack of training, staffing levels and oversight of the Town's grant activity
<i>Recommendation</i>	Town should obtain the necessary training to alleviate its reliance on its auditor to perform these functions.
<i>Management's response</i>	Due to change in personnel in finance and lack of sufficient staff training in finance, the Town was unable to perform certain functions. This Town will work toward correcting this situation.

**Town of Machias, Maine
Summary Schedule of Prior Audit Findings
Year ended June 30, 2008**

2007-01
Condition

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

Current Status

Not corrected in 2008. Management is currently fixing problems in 2009.

2007-02
Condition

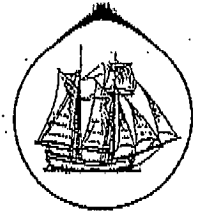
Management does not control the preparation of the financial statements and fixed asset reporting which also results in significant audit adjustments.

Current Status

Management continues to devote more time to fixing problem.



Town of Machias
Town Office
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Corrective Action Plan

August 28, 2009

To Whom It May Concern

The Town of Machias submits this response to the auditor's Schedule of Findings and Questioned Costs for the year ending June 30, 2008:

- #2008-1 Significant accounting services needed: The town is working hard to educate employees to assure adequate review and approval of transactions, accounting entries or system outputs thus providing more oversight to financial reporting and entries, supporting documents and fixed asset schedules.
- #2008-2 Internal control over financial reporting: The town is also working hard to educate employees so they can control the preparation of the financial statements and fixed asset reporting thus being able to recognize an error or misstatement to the financial statements.
- #2008-3 Internal control over OMB circular A-133 reporting: The town is working toward correcting the issue of identifying in its accounts, all federal awards received and expended and Federal programs and award identification shall include the CFDA title and number, award number and year, name of the Federal agency, and the name of the pass-through entity to alleviate reliance on the auditor.

Sincerely,

Meghan Dennison
Finance Director