
Town of Machias, Maine

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

For the Year Ended June 30, 2009

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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, 2009, 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, 2009, 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 24, 2010 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.

Board of Selectmen
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Machias, Maine's basic financial statements. The other supplementary information described in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Town of Machias, Maine. The other supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Prantra Chibodeau & Associates

Bangor, Maine
August 24, 2010

Town of Machias, Maine

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

August 23, 2010

The Management Discussion and Analysis ("MD&A") is a report of the Town of Machias' fiscal activity for the year ending June 30, 2009 compared with 2008. 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.

GENERAL INFORMATION

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

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

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

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, 2009 was \$2,495,566.
- On a budget basis the Town originally budgeted a deficiency of \$205,919. However, there was a positive budget variance of \$153,377.

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is an introduction to the Town's basic financial statements. The basic financial statements are prepared and are part of the town's annual audit. The MD&A serves as a subjective explanation by the town of the data contained in the audit. The three areas that the financial statements are broken into include: 1. Government-Wide statements, 2. Fund Financial statements, and 3. Notes to the financial statements. Subjective analyses of the statements are also made and other supplementary information to better explain the statements.

Government-Wide Financial Statements

The government-wide statements are a total overview of the Town's financial status. They include all assets, liabilities, and activities in a manner similar to private sector accounting. The purpose is to show town 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 Fund to be a major governmental fund.

Notes to Financial Statements

The notes to the financial statements are included in the audit to give specific comment to certain areas. These are a crucial part of the audit and are closely monitored by town administration. The reason they are monitored is that they provide additional insight into activities of the town. These can show areas of strength and weakness for continued success and improvement. The notes to the financial statements are included on pages 27-43.

Other Information

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

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 \$10,915,443 as of June 30, 2009.

Net Assets for the Period Ending June 30, 2009 and 2008

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 2,302,491	\$ 2,319,894	\$ 732,343	\$ 698,216	\$ 3,018,110	\$ 3,018,110
Capital assets	<u>4,338,383</u>	<u>4,453,502</u>	<u>5,793,144</u>	<u>5,676,208</u>	<u>10,131,527</u>	<u>10,129,710</u>
Total Assets	<u>6,640,874</u>	<u>6,773,396</u>	<u>6,525,487</u>	<u>6,374,424</u>	<u>13,166,361</u>	<u>13,147,820</u>
Current liabilities	577,690	477,371	16,193	318,311	593,883	795,682
Noncurrent liabilities	<u>999,502</u>	<u>1,133,142</u>	<u>657,533</u>	<u>365,713</u>	<u>1,657,035</u>	<u>1,498,855</u>
Total Liabilities	<u>1,577,192</u>	<u>1,610,513</u>	<u>673,726</u>	<u>684,024</u>	<u>2,250,918</u>	<u>2,294,537</u>
Net Assets (Accumulated Deficit)						
Investment in capital assets, net of debt	3,373,867	3,389,756	5,135,611	5,014,660	8,509,478	8,345,320
Restricted	401,758	387,558	935,599	920,403	641,574	1,307,961
Unrestricted	<u>1,288,057</u>	<u>1,385,569</u>	<u>(219,449)</u>	<u>(244,663)</u>	<u>1,068,608</u>	<u>1,200,002</u>
Total Net Assets	<u>\$ 5,063,682</u>	<u>\$ 5,162,883</u>	<u>\$ 5,851,761</u>	<u>\$ 5,690,400</u>	<u>\$ 10,915,443</u>	<u>\$ 10,853,283</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 \$237,563.

The Town recognized deferred property taxes of \$44,518 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, 2009 and 2008.

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
REVENUES						
Charges for services and other	\$ 99,551	\$ 84,561	\$ 1,018,086	\$ 862,520	\$ 1,117,637	\$ 947,081
Operating grants and contributions	4,382,412	4,140,969	-	-	4,382,412	4,140,969
Capital grants and contributions	482,268	267,999	111,216	394,968	593,484	662,967
Property Taxes	2,423,621	2,329,161	-	-	2,423,621	2,329,161
Excise and miscellaneous taxes	231,706	247,183	-	-	231,706	247,183
Interest and lien charges	25,251	21,952	-	-	25,251	21,952
Grants and contributions not restricted to specific purpose	428,048	483,579	-	-	428,048	483,579
Unrestricted investment and interest income	27,273	51,929	20,842	10,804	48,115	51,929
Miscellaneous	45,042	100,762	1	494	45,043	100,762
Special item- gain on sale of assets	-	-	-	-	-	-
Transfers	<u>(30,652)</u>	<u>(9,512)</u>	<u>30,652</u>	<u>9,512</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>8,114,520</u>	<u>7,718,583</u>	<u>1,180,797</u>	<u>1,278,298</u>	<u>9,295,317</u>	<u>8,996,881</u>

EXPENSES AND TRANSFERS						
General Government	\$ 277,740	\$ 299,428	-	-	\$ 277,740	\$ 299,428
Public safety	584,031	493,059	-	-	584,031	493,059
Public works	441,967	409,426	-	-	441,967	409,426
General assistance	1,393	962	-	-	1,393	962
Culture and recreation	47,649	48,251	-	-	47,649	48,251
Education	4,619,824	4,268,679	-	-	4,619,824	4,268,679
Adult education-general	178,013	131,480	-	-	178,013	131,480
On-behalf payments – State of Maine	456,516	451,694	-	-	456,516	451,694
Grants and other contributions	527,759	542,345	-	-	527,759	542,345
Interest on long-term debt	60,349	77,699	-	-	60,349	77,699
Airport	16,325	8,068	-	-	16,325	8,068
County tax	167,744	163,109	-	-	167,744	163,109
School lunch program	176,976	152,183	-	-	176,976	152,183
Capital outlay	554,112	304,865	-	-	554,112	304,865
Other	-	-	-	-	-	-
Business-type Activities	-	-	1,122,759	1,117,937	1,122,759	1,117,937
Total Expenses	8,110,398	7,351,248	1,122,759	1,117,937	9,233,157	8,469,185
Change in net assets	4,122	367,335	58,037	765,355	62,160	527,696
Net assets, beginning of year	5,162,883	4,795,548	5,690,400	5,530,039	10,583,283	10,325,587
Restatement of beginning capital assets	(103,323)	-	103,323	-	-	-
Net assets, end of year	\$5,063,682	\$5,162,883	\$5,851,760	\$5,690,400	\$10,915,443	\$10,583,283

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

Governmental Activities

For the year ended June 30, 2009, the Town's net assets for governmental activities increased by \$4,122.

Expenses of governmental activities include depreciation expense of \$237,563. 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, 2009 totaled \$3,150,289, an decrease of 3% from June 30, 2008. Of this amount, \$2,423,621 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, 2009, the Town's net assets from business-type activities increased by \$58,037 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 \$1,522,123, \$162,241 lower than the previous year. An analysis of transactions affecting the change in the combined fund balance of the Town's governmental funds is as follows:

Revenues include property taxes totaling \$2,379,103. Excise taxes accounted for \$224,138 in total revenue.

On behalf payments amounted to \$456,516 during the year ended June 30, 2009. 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 \$8,397,576, \$885,671 higher than the year before.

The Town paid \$775,949 in governmental funds capital outlays during the year. Of this, \$221,837 was capitalized.

Capital Asset and Debt Administration

Capital Assets

	Balance 7/1/08	Additions/ Completions	Retire- ments/reclass	Balance 6/30/09
Governmental Activities				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Buildings and improvements	6,504,303	31,788	(345,250)	6,190,841
Infrastructure	780,804	17,897	-	798,701
Equipment, furniture and fixtures	584,025	15,354	(8,000)	591,379
Vehicles	<u>850,063</u>	<u>160,727</u>	<u>-</u>	<u>1,010,790</u>
Total capital assets	<u>9,284,269</u>	<u>225,766</u>	<u>(353,250)</u>	<u>9,156,785</u>
<i>Less accumulated depreciation</i>	<u>(4,830,767)</u>	<u>(237,563)</u>	<u>249,928</u>	<u>(4,818,402)</u>
Total capital assets, net	<u>\$ 4,453,502</u>	<u>\$ (11,797)</u>	<u>\$ (103,322)</u>	<u>\$ 4,338,383</u>
	Balance 7/1/08	Additions/ Completions	Retire- ments/reclass	Balance 6/30/09
Business-Type Activities				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	1,089,128	167,367	-	1,256,495
Lines and mains and buildings	6,450,820	-	345,250	6,796,070
Vehicles and equipment	<u>480,331</u>	<u>28,380</u>	<u>8,000</u>	<u>516,711</u>
Total capital assets	<u>8,021,279</u>	<u>195,747</u>	<u>353,250</u>	<u>8,570,276</u>
<i>Less accumulated depreciation</i>	<u>(2,345,071)</u>	<u>(182,133)</u>	<u>(249,928)</u>	<u>(2,777,132)</u>
Total capital assets, net	<u>\$ 5,676,208</u>	<u>\$ (153,754)</u>	<u>\$ 103,322</u>	<u>\$ 5,793,144</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	\$1,342,241	\$490,927	\$(273,908)	\$1,559,260
Capital lease obligations	<u>156,614</u>	<u>13,104</u>	<u>(71,943)</u>	<u>97,775</u>
Total	<u>\$1,498,855</u>	<u>\$504,031</u>	<u>\$(345,851)</u>	<u>\$1,657,035</u>

	<u>Total Interest Paid</u>
Bonds and notes payable	\$ 39,626
Capital lease obligations	<u>6,796</u>
Total	<u>\$ 46,422</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, 2009.

During the year, budgeted revenues exceeded actual revenues by \$4,973. Most of this variance resulted from reduction in property tax collections and reduction in interest income.

Budgeted expenditures exceeded actual expenditures by \$157,956.

The only major budget variances for the year ended June 30, 2009 is as follows:

1. Highways and streets were overspent by \$50,989 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, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and equivalents	\$ 833,519	\$ 201,150	\$ 1,034,669
Investments	361,263	403,057	764,320
Taxes and fees receivable	260,650	496,854	757,504
Internal balances	423,667	(423,667)	-
Due from fiduciary funds	5,500	-	5,500
Due from other governmental agencies	401,379	54,949	456,328
Other receivables	12,623	-	12,623
Inventories	3,890	-	3,890
Capital assets, net	4,338,383	5,793,144	10,131,527
Total assets	<u>6,640,874</u>	<u>6,525,487</u>	<u>13,166,361</u>
LIABILITIES			
Accounts payable and accrued expenses	154,996	16,193	171,189
Due to other governmental agencies	3,987	-	3,987
Prepaid taxes	3,294	-	3,294
Accrued summer teacher pay	415,413	-	415,413
Long-term liabilities			
Due within one year			
Bonds payable	263,570	62,434	326,004
Capital leases payable	76,408	-	76,408
Due in more than one year			
Bonds payable	638,157	595,099	1,233,256
Capital leases payable	21,367	-	21,367
Total liabilities	<u>1,577,192</u>	<u>673,726</u>	<u>2,250,918</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,373,867	5,135,611	8,509,478
Restricted for			
Capital projects	351,896	-	351,896
Machias Water Co.	-	289,678	289,678
Other purposes	49,862	645,921	695,783
Unrestricted (deficit)	1,288,057	(219,449)	1,068,608
Total net assets	<u>\$ 5,063,682</u>	<u>\$ 5,851,761</u>	<u>\$ 10,915,443</u>

Town of Machias, Maine
Statement of Activities
For the Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities	\$ 277,740	\$ 10,961	\$ -	\$ -	\$ (266,779)	\$ -	\$ (266,779)
General government	584,031	36,151	-	-	(547,880)	-	(547,880)
Public works	441,967	3,166	30,318	-	(408,483)	-	(408,483)
General assistance	1,393	-	41	-	(1,352)	-	(1,352)
Culture and recreation	47,649	173	191	-	(47,285)	-	(47,285)
Education	4,619,824	-	3,149,918	-	(1,469,906)	-	(1,469,906)
Adult education	178,013	-	99,559	-	(78,454)	-	(78,454)
On-behalf payments - State of Maine	456,516	-	456,516	-	-	-	-
Grants and other contributions	527,759	-	523,533	-	(4,226)	-	(4,226)
Interest on long-term debt	60,349	-	-	-	(60,349)	-	(60,349)
Airport	16,325	723	-	-	(15,602)	-	(15,602)
County tax	167,744	-	-	-	(167,744)	-	(167,744)
School lunch program	176,976	48,377	122,336	-	(6,263)	-	(6,263)
Capital outlay	554,112	-	-	482,268	(71,844)	-	(71,844)
Total governmental activities	8,110,398	99,551	4,382,412	482,268	(3,146,167)	-	(3,146,167)
Business-type activities							
Sewer fund	462,914	308,655	-	111,216	-	(43,043)	(43,043)
Solid waste	372,798	318,814	-	-	-	(53,984)	(53,984)
Ambulance fund	215,534	335,503	-	-	-	119,969	119,969
Telecenter	71,513	55,114	-	-	-	(16,399)	(16,399)
Total business-type activities	1,122,759	1,018,086	-	111,216	-	6,543	6,543
	\$ 9,233,157	\$ 1,117,637	\$ 4,382,412	\$ 593,484	(3,146,167)	6,543	(3,139,624)
General revenues:							
Taxes:							
Property taxes					2,423,621		2,423,621
Excise taxes, licenses, permits and fees					231,706		231,706
Interest and lien costs					25,251		25,251
Grants and contributions not restricted to specific programs					428,048		428,048
Unrestricted investment and interest earnings					27,273	20,842	48,115
Miscellaneous					45,042	1	45,043
Transfers					(30,652)	30,652	-
Total general revenues					3,150,289	51,495	3,201,784
Change in net assets					4,122	58,038	62,160
Net assets - beginning					5,162,883	5,690,400	10,853,283
Reclassification of capital assets					(103,323)	103,323	-
Net assets - beginning, restated					5,059,560	5,793,723	10,853,283
Net assets - ending					\$ 5,063,682	\$ 5,851,761	\$ 10,915,443

See accompanying notes to basic financial statements.

Town of Machias, Maine
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 771,541	\$ 61,978	\$ 833,519
Investments	107,952	253,311	361,263
Taxes receivable, net	260,650	-	260,650
Due from other funds	996,323	493,617	1,489,940
Receivable from other governments	236,175	165,204	401,379
Other receivables	-	12,623	12,623
Inventories	-	3,890	3,890
Total assets	<u>\$ 2,372,641</u>	<u>\$ 990,623</u>	<u>\$ 3,363,264</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 93,237	\$ 56,469	\$ 149,706
Due to other funds	985,580	75,193	1,060,773
Payable to other governments	5,040	-	5,040
Deferred property taxes	202,677	-	202,677
Prepaid property taxes	3,294	-	3,294
Accrued summer teacher pay	392,596	22,817	415,413
Other payables	4,238	-	4,238
Total liabilities	<u>1,686,662</u>	<u>154,479</u>	<u>1,841,141</u>
Fund balances			
Reserved for			
Capital projects	-	351,896	351,896
Other purposes	47,239	2,623	49,862
Unreserved (deficit),			
Designated for education	(60,228)	-	(60,228)
Designated for town	5,895	-	5,895
Undesignated	693,073	-	693,073
Unreserved, reported in non-major			
Designated capital projects funds	-	62,767	62,767
Undesignated special revenue funds	-	418,858	418,858
Total fund balances	<u>685,979</u>	<u>836,144</u>	<u>1,522,123</u>
Total liabilities and fund balances	<u>\$ 2,372,641</u>	<u>\$ 990,623</u>	<u>\$ 3,363,264</u>

Town of Machias, Maine
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2009

Total fund balance, governmental funds	\$ 1,522,123
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.	4,338,383
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	202,677
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.	(999,501)
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 5,063,682</u>

Town of Machias, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 2,379,103	\$ -	\$ 2,379,103
Excise taxes	224,138	-	224,138
Interest and lien charges	25,251	-	25,251
Licenses, permits and fees	22,789	-	22,789
Intergovernmental	3,704,708	1,143,866	4,848,574
On-behalf payments - State of Maine	456,516	-	456,516
Charges for services	35,465	48,378	83,843
Investment and interest earnings	19,489	7,783	27,272
Miscellaneous	33,170	-	33,170
Total revenues	<u>6,900,629</u>	<u>1,200,027</u>	<u>8,100,656</u>
EXPENDITURES			
Current			
General government	273,758	-	273,758
Police department	253,317	-	253,317
Fire department	276,222	-	276,222
Highways and streets	345,449	-	345,449
Education	4,641,880	527,760	5,169,640
Adult education	162,282	15,731	178,013
On-behalf payments - State of Maine	456,516	-	456,516
Recreation	7,125	-	7,125
General assistance	1,393	-	1,393
Airport	15,905	-	15,905
Public safety building	10,052	-	10,052
County tax	167,744	-	167,744
Third party requests	39,730	-	39,730
Tax increment financing	31,217	-	31,217
School lunch program	-	176,976	176,976
Debt service			
Principal	189,438	-	189,438
Interest and other charges	29,132	-	29,132
Capital outlay	190,047	585,902	775,949
Total expenditures	<u>7,091,207</u>	<u>1,306,369</u>	<u>8,397,576</u>
Excess (deficiency) of revenues over expenditures	<u>(190,578)</u>	<u>(106,342)</u>	<u>(296,920)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from debt	165,331	-	165,331
Transfers in	26,854	14,500	41,354
Transfers out	(72,006)	-	(72,006)
Total other financing sources and uses	<u>120,179</u>	<u>14,500</u>	<u>134,679</u>
Net change in fund balances	(70,399)	(91,842)	(162,241)
FUND BALANCES - BEGINNING	<u>756,378</u>	<u>927,986</u>	<u>1,684,364</u>
FUND BALANCES - ENDING	<u>\$ 685,979</u>	<u>\$ 836,144</u>	<u>\$ 1,522,123</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, 2009

Net change in fund balances - total governmental funds: \$ (162,241)

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	225,768	
Depreciation	<u>(237,563)</u>	(11,795)

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

44,518

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

Debt proceeds	(165,331)	
Debt repayments	<u>298,971</u>	

Change in net assets of governmental activities

\$ 4,122

Town of Machias, Maine
Statement of Net Assets
Proprietary Funds
June 30, 2009

	Enterprise Funds			Total
	Sewer Fund	Solid Waste Facility	Other Proprietary Funds	
ASSETS				
Current assets				
Cash and cash equivalents	\$ -	\$ 187,143	\$ 14,007	\$ 201,150
Investments	403,057	-	-	403,057
Accounts receivable, net	315,564	-	181,290	496,854
Due from other funds	9,513	-	499,452	508,965
Due from Maine Bond Bank	18,163	-	-	18,163
Receivables from other governments	36,786	-	-	36,786
Total current assets	<u>783,083</u>	<u>187,143</u>	<u>694,749</u>	<u>1,664,975</u>
Non-current assets				
Capital assets				
Land and improvements	1,000	-	-	1,000
Infrastructure and buildings	5,800,752	345,250	650,068	6,796,070
Construction in progress	1,256,495	-	-	1,256,495
Vehicles and equipment	302,630	52,368	161,713	516,711
Less accumulated depreciation	<u>(2,149,418)</u>	<u>(262,069)</u>	<u>(365,645)</u>	<u>(2,777,132)</u>
Total non-current assets	<u>5,211,459</u>	<u>135,549</u>	<u>446,136</u>	<u>5,793,144</u>
Total assets	<u>5,994,542</u>	<u>322,692</u>	<u>1,140,885</u>	<u>7,458,119</u>
LIABILITIES				
Current liabilities				
Accounts payable	16,194	-	-	16,194
Due to other funds	394,091	415,664	122,876	932,631
Bonds and notes payable	47,356	15,078	-	62,434
Non-current liabilities				
Bonds and notes payable	546,765	48,334	-	595,099
Total liabilities	<u>1,004,406</u>	<u>479,076</u>	<u>122,876</u>	<u>1,606,358</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,617,338	72,137	446,136	5,135,611
Reserved for other purposes	432,243	187,143	26,536	645,922
Reserved for Machias Water Co.	289,678	-	-	289,678
Unrestricted (deficit)	(349,123)	(415,664)	-	(764,787)
Unrestricted, reported in nonmajor fund	-	-	545,337	545,337
Total net assets (deficit)	<u>\$ 4,990,136</u>	<u>\$ (156,384)</u>	<u>\$ 1,018,009</u>	<u>\$ 5,851,761</u>

Town of Machias, Maine
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2009

	Enterprise Funds			Total
	Sewer Fund	Solid Waste Facility	Other Proprietary Funds	
REVENUES				
Charges for services and interest	\$ 308,656	\$ 318,814	\$ 390,466	\$ 1,017,936
OPERATING EXPENSES				
Personal services	112,591	107,918	168,373	388,882
Contractual services	30,741	205,686	9,464	245,891
Utilities	86,110	10,545	21,898	118,553
Repairs and maintenance	22,619	7,549	16,790	46,958
Other supplies and expenses	50,719	13,171	11,552	75,442
Insurance claims and expenses	8,416	6,395	18,242	33,053
Capital outlay	14,446	6,773	-	21,219
Depreciation	129,265	12,142	40,727	182,134
Total operating expenses	<u>454,907</u>	<u>370,179</u>	<u>287,046</u>	<u>1,112,132</u>
Operating income (loss)	<u>(146,251)</u>	<u>(51,365)</u>	<u>103,420</u>	<u>(94,196)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	14,133	6,510	199	20,842
Donations	-	-	150	150
Capital grants and contributions	111,216	-	-	111,216
Interest expense	<u>(8,007)</u>	<u>(2,619)</u>	<u>-</u>	<u>(10,626)</u>
Total non-operating revenue	<u>117,342</u>	<u>3,891</u>	<u>349</u>	<u>121,582</u>
Income (loss) before contributions and transfers	<u>(28,909)</u>	<u>(47,474)</u>	<u>103,769</u>	<u>27,386</u>
Transfers in	40,299	17,207	-	57,506
Transfers out	<u>-</u>	<u>-</u>	<u>(26,854)</u>	<u>(26,854)</u>
Total transfers	<u>40,299</u>	<u>17,207</u>	<u>(26,854)</u>	<u>30,652</u>
Change in net assets	<u>11,390</u>	<u>(30,267)</u>	<u>76,915</u>	<u>58,038</u>
Total net assets (deficit) - beginning	4,978,746	(229,440)	941,094	5,690,400
Reclassification of capital assets	<u>-</u>	<u>103,323</u>	<u>-</u>	<u>103,323</u>
Total net assets (deficit) - beginning, restated	<u>4,978,746</u>	<u>(126,117)</u>	<u>941,094</u>	<u>5,793,723</u>
Total net assets (deficit) - ending	<u>\$ 4,990,136</u>	<u>\$ (156,384)</u>	<u>\$ 1,018,009</u>	<u>\$ 5,851,761</u>

Town of Machias, Maine
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2009

	Proprietary Fund Types - Enterprise			Totals
	Sewer	Solid Waste Facility	Other Proprietary Funds	
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from user charges and tenants	\$ 280,337	\$ 318,814	\$ 310,195	\$ 909,346
Payments for administrative services	(151,748)	(319,999)	(196,079)	(667,826)
Payments to suppliers for goods and services	(173,894)	(41,341)	(50,240)	(265,475)
Interfund activity	131,197	46,590	(12,856)	164,931
Net cash provided by operating activities	<u>85,892</u>	<u>-4,064</u>	<u>51,020</u>	<u>140,976</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Investment in Machias Water Co.	11,829	-	-	11,829
Interest paid	(8,007)	-	-	(8,007)
Interest income	2,304	6,510	199	9,013
Donation	-	-	150	150
Transfers in (out)	40,299	14,588	(26,854)	28,033
Net cash provided (used) by noncapital financing activities	<u>46,425</u>	<u>21,098</u>	<u>(26,505)</u>	<u>41,018</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on bonds	(32,292)	(14,588)	-	(46,880)
Bond proceeds	42,865	-	-	42,865
Capital grants and contributions	75,440	-	-	75,440
Capital asset purchases	(170,346)	(4,064)	(24,316)	(198,726)
Net cash provided (used) by capital and related financial activities	<u>(84,333)</u>	<u>(18,652)</u>	<u>(24,316)</u>	<u>(127,301)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(47,984)	-	-	(47,984)
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	6,510	199	6,709
CASH AND CASH EQUIVALENTS, BEGINNING	-	180,633	13,808	194,441
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ -</u>	<u>\$ 187,143</u>	<u>\$ 14,007</u>	<u>\$ 201,150</u>
Supplemental Information				
Interest charged to expense	<u>\$ 8,007</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,007</u>
Reconciliation of operating income to net cash used by operating activities				
Operating income (loss)	\$ (146,251)	\$ (51,365)	\$ 103,420	\$ (94,196)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	129,265	12,142	40,727	182,134
(Increase) decrease in the following assets				
Accounts receivable	(28,319)	-	(80,271)	(108,590)
Interfund receivables	33,850	-	3,247	37,097
Increase (decrease) in the following liabilities				
Interfund payables	97,347	46,590	(16,103)	127,834
Accounts payable and other accrued liabilities	-	(3,303)	-	(3,303)
Net cash provided (used) by operating activities	<u>\$ 85,892</u>	<u>\$ -4,064</u>	<u>\$ 51,020</u>	<u>\$ 140,976</u>

Town of Machias, Maine
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 21,222	\$ 71,148
LIABILITIES		
Due to student groups	-	71,148
Due to other funds	5,500	-
Total liabilities	5,500	71,148
NET ASSETS		
Held in trust for scholarships and other purposes	\$ 15,722	\$ -

Town of Machias, Maine
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2009

	Private Purpose Trust Fund
ADDITIONS	
Interest	\$ 77
DEDUCTIONS	
Scholarships	6,130
Change in net assets	(6,053)
Net assets - beginning	127,866
Restate beginning balances	(106,091)
Net assets - beginning, restated	21,775
Net assets - ending	\$ 15,722

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and the Financial Accounting Standards Board, when applicable. As allowed in section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Town has elected not to apply Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued after November 30, 1989. The more significant accounting policies of the Town are described below.

Financial Reporting Entity

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

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

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

Basis of Presentation

Government-wide Financial Statements

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2009

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 fund:

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.

Proprietary Funds

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2009

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, 2009

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, 2009

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

Deposits and Investments

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

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

Inventories

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

Interfund Activity

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

Capital Assets

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

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

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

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2009

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, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - Property Taxes

Property taxes were levied on assessed values of April 1, 2008 were due on December 15, 2008 and March 15, 2009, 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, 2008 a 3% discount was applied.

Property taxes assessed and collected during the year ended June 30, 2009, and during the first sixty days of the next fiscal year are recognized as revenue in 2009. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue.

Assessed value	
Real estate	\$84,180,850
Personal property	<u>8,078,800</u>
	\$92,259,650
Tax rate (per \$1,000)	<u>26.50</u>
Commitment	\$ 2,444,882
Less collections, discounts and abatements	<u>2,261,573</u>
Receivable at June 30, 2009	<u>\$ 183,309</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:

Net change in fund balances – budget basis	\$ (52,542)
On behalf payments revenue	456,516
On behalf payments expenditures	(456,516)
End of year adjustment for accrued wages not recognized as expenditures	<u>(17,857)</u>
Net change in fund balances – GAAP basis	<u>\$ (70,399)</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2009

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, 2009, the Town reported deposits of \$1,127,039 with bank balances of \$1,442,614. Of the Town's total bank balance of \$1,442,614, \$0 was exposed to custodial credit risk as all balances were insured or collateralized by underlying securities held by the related bank, which were not in the Town's name.

Deposits have been reported as follows:

Reported in governmental funds	\$ 833,519
Reported in proprietary funds	<u>201,150</u>
Total reported on the Statement of Net Assets	1,034,669
Reported in fiduciary funds	<u>92,370</u>
Total deposits	<u>\$1,127,039</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, 2009 the Town's investments of \$764,320, invested in U.S. Treasury notes, U.S. Agency notes, company stock and money market funds, are not exposed to custodial credit risk as the investments are in the Town's name.

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

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2009

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	\$40,110	\$318,103

Investments have been reported as follows:

Reported in governmental funds	\$ 361,263
Reported in proprietary funds	<u>403,057</u>
Total investments	<u>\$ 764,320</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, 2008 the Town's interest has been valued at \$289,678.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2009

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance 6/30/08	Additions/ Completions	Retirements/ Reclassifications*	Balance 6/30/09
Governmental Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
<i>Capital assets being depreciated</i>				
Buildings and land improvements	6,504,303	31,789	(345,251)	6,190,841
Infrastructure	780,804	17,897	-	798,701
Equipment, furniture and fixtures	584,025	15,354	(8,000)	591,379
Vehicles	850,063	160,727	-	1,010,790
Total capital assets being depreciated	<u>8,719,195</u>	<u>225,767</u>	<u>(353,251)</u>	<u>8,591,711</u>
Less accumulated depreciation for:				
Buildings and land improvements	(3,690,812)	(105,698)	249,928	(3,546,582)
Infrastructure	(32,112)	(9,502)	-	(41,614)
Equipment, furniture and fixtures	(444,532)	(69,361)	-	(513,893)
Vehicles	(663,311)	(53,002)	-	(716,313)
Total accumulated depreciation	<u>(4,830,767)</u>	<u>(237,563)</u>	<u>249,928</u>	<u>(4,818,402)</u>
Total capital assets, being depreciated, net	<u>3,888,428</u>	<u>(11,796)</u>	<u>(103,323)</u>	<u>3,773,309</u>
Governmental activities capital assets, net	<u>\$ 4,453,502</u>	<u>\$ (11,796)</u>	<u>\$ (103,323)</u>	<u>\$ 4,338,383</u>
Business-Type Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	1,089,128	167,367	-	1,256,495
Total capital assets not being depreciated	<u>1,090,128</u>	<u>167,367</u>	<u>-</u>	<u>1,257,495</u>
<i>Capital assets being depreciated</i>				
Infrastructure and buildings	6,450,820	-	345,251	6,796,071
Vehicles and equipment	480,331	28,379	8,000	516,710
Total capital assets being depreciated	<u>6,931,151</u>	<u>28,379</u>	<u>353,250</u>	<u>7,312,781</u>
Less accumulated depreciation				
Infrastructure and buildings	(2,180,536)	(150,623)	(249,928)	(2,581,087)
Vehicles and equipment	(164,535)	(31,510)	-	(196,045)
Total accumulated depreciation	<u>(2,345,071)</u>	<u>(182,133)</u>	<u>(249,928)</u>	<u>(2,777,132)</u>
Total capital assets, being depreciated, net	<u>4,586,080</u>	<u>(153,754)</u>	<u>103,323</u>	<u>4,535,649</u>
Business-type activities capital assets, net	<u>\$ 5,676,208</u>	<u>\$ 13,613</u>	<u>\$ 103,323</u>	<u>\$ 5,793,144</u>

*Assets were reclassified from the general fund to solid waste business-type activity.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2009

3. CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2009, was charged as direct expense to programs as follows:

<i>Governmental activities</i>	
General government	\$ 3,982
Protection	46,689
Public works	77,110
Recreation	795
Airport	420
Education	<u>108,567</u>
Total depreciation expense – Governmental activities	<u>\$237,563</u>
<i>Business-type activities</i>	
Sewer	\$ 129,265
Ambulance	8,224
Telcenter	32,503
Solid waste	<u>12,141</u>
Total depreciation expense – business-type activities	<u>\$182,133</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, 2009 are:

2010	\$ 79,664
2011	15,636
2012	3,535
2013	<u>3,535</u>
	102,370
Less amount representing interest	<u>4,595</u>
Present value of minimum lease payments	<u>\$ 97,775</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2009

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, 2009.

	Original Amount	Balance June 30, 2008	Additions/ (Retired)	Balance June 30, 2009
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	\$150,360	\$ (37,590)	\$ 112,770
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 21, 2009, due 2012	736,000	419,287	(105,571)	313,716
General Notes				
Machias Savings Bank, 3.29% equipment note, dated August 13, 2003, due 2010	134,000	57,400	(19,150)	38,250
Machias Savings Bank, 3.65% industrial park note, dated December 28, 2007, due 2013	349,481	349,481	(64,717)	284,764
Machias Savings Bank, 3.12% vehicle note, dated December 2, 2008, due 2015	113,979	-	113,979	113,979
Machias Savings Bank, 1.95% vehicle note, dated December 2, 2008, due 2010	38,248	-	38,248	38,248
Total general obligation bonds and notes payable		<u>976,528</u>	<u>(74,801)</u>	<u>901,727</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	35,000	(7,000)	28,000
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 21, 2009, due 2012	101,000	57,713	(14,429)	43,284
Maine Municipal Bond Bank, 2.19% sewer rehabilitation project, dated July 26, 2002, due 2023	205,000	195,000	(10,863)	184,137
Maine Municipal Bond Bank, 1.40% sewer rehabilitation project, dated May 15, 2009, due 2029	338,700	-	338,700	338,700
Total sewer bonds and notes		<u>287,713</u>	<u>306,408</u>	<u>594,121</u>
Solid Waste Note Payable				
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 4, 2009, due 2013	78,000	78,000	(14,588)	63,412
Total proprietary bonds and notes payable		<u>365,713</u>	<u>291,820</u>	<u>657,533</u>
Total general obligation and proprietary bonds and notes payable		<u>\$1,342,241</u>	<u>\$ 217,019</u>	<u>\$1,559,260</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2009

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	
2010	\$ 263,570	\$ 26,511	\$ 62,434	\$ 14,699	\$ 367,214
2011	266,657	19,193	63,427	13,123	362,400
2012	228,334	11,565	64,442	11,336	315,677
2013	91,334	4,946	51,067	8,798	156,145
2014	16,742	1,640	27,937	7,758	54,077
2015-2019	35,090	1,673	147,829	31,211	215,803
2020-2024	-	-	146,698	17,785	164,483
2025-2029	-	-	93,699	8,854	102,553
	<u>\$ 901,727</u>	<u>\$ 65,528</u>	<u>\$ 657,533</u>	<u>\$113,564</u>	<u>\$1,738,352</u>

In accordance with 30-A MRSA Section 5702 of the Maine law, no municipality shall incur debt for specific purposes in excess of 15 percent of the State valuation of such municipality. At June 30, 2009, 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 7/1/08	Increases (decreases)	Balance 6/30/09
Short-term note payable- sewer fund	<u>\$295,835</u>	<u>\$(295,835)</u>	<u>\$ -</u>

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, 2009 arising from these transactions were as follows:

	Receivable	Payable
General fund	\$ 996,323	\$ 985,580
Major proprietary funds	9,513	809,755
Fiduciary fund	-	5,500
Non-major proprietary funds	499,452	122,876
Non-major governmental funds	<u>493,517</u>	<u>75,194</u>
	<u>\$1,998,905</u>	<u>\$1,998,905</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2009

6. INTERFUND TRANSACTIONS (CONTINUED)

Interfund transfers during the fiscal year June 30, 2009 were as follows:

		Transfers from		
		General fund	Other proprietary funds	Totals
Transfers to	General fund	\$ -	\$26,854	\$ 26,854
	Other governmental fund	14,500	-	14,500
	Proprietary funds	<u>57,506</u>	<u>-</u>	<u>57,506</u>
		<u>\$72,006</u>	<u>\$26,854</u>	<u>\$ 98,860</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, 2009, the fund balances which are restricted for other purposes were comprised of the following:

Debt service – public safety building	\$33,897
Superintendent's office	<u>13,342</u>
Total general fund	<u>47,239</u>
Special revenue fund- revolving loan reserve	<u>2,623</u>
Total reserved for other purposes	<u>\$49,862</u>

At June 30, 2009, the fund balances which are restricted for capital projects were comprised of the following:

Airport improvement	\$ 72,134
Ambulance replacement	26,880
Basketball court	500
Boat dock	1,547
Comprehensive plan	3,964
Economic development	88,733
Fire department ventilation	4,629
Fire truck replacement	3,276
Industrial development	24,099
Recreation building	7,820
Sewer expansion	75,323
Sewer overflow	3,366
Sidewalk repair	7,500
Skate park	4,467
Storm drain repair and replacement	10,972
Tennis court	11,284
Town dock project	4,101
Tree replacement/removal	1,301
	<u>\$351,896</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2009

8. UNRESERVED FUND BALANCES—DESIGNATED

The general fund's designated fund balance at June 30, 2009 consists of:

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

The capital project fund's designated fund balance at June 30, 2009 consists of:

Roads	\$ 93,664
Town office	88,385
School	<u>(119,282)</u>
	<u>\$ 62,767</u>

9. RETAINED EARNINGS – RESTRICTED – ENTERPRISE FUNDS

At June 30, 2009, the enterprise fund's restricted fund balance for other purposes was comprised of the following:

Sewer fund	\$367,163
Reserve for debt/capital	65,080
Reserve for debt service	<u>432,243</u>
Total sewer fund	
 Solid waste fund	
Restricted for Howe's corner	187,143
 Nonmajor proprietary fund- ambulance fund	
Reserve for vehicle replacement	<u>26,536</u>
	<u>\$645,922</u>

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

In the non-major proprietary funds the telcenter fund has a deficit in unrestricted net assets of \$73,869 for the year ended June 30, 2009 to be funded through future Town funding.

11. SUBSEQUENT EVENTS

The Town entered into permanent financing on its school renovation bond anticipation note for \$708,605 in December, 2009.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2009

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, 2009, was approximately \$2,433,454. The State of Maine Department of Education is required, by state statute, to contribute the employer contribution which amounts to \$456,516 (18.76%) of compensation for the year ended June 30, 2009. There is no contribution required by the school department except for federally funded teachers for which the school department contributes 18.76% of their compensation. This cost amounted to \$41,544 for the year ended June 30, 2009, 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 \$11,924 and employees elected to defer \$26,332 for a contribution of \$38,257 for the year ended June 30, 2009.

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, 2009

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 and on April 18, 2008 Public Law 2007, Chapter 668 (enacted by passage of LD 2323, An Act to Remove Barriers to the Reorganization of School Administrative Units. The law sets forth state policy to ensure that schools are organized as School Administrative Units (SAUs) or Alternative Organizational Structures (AOS).

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

15. RESTATEMENT

The Town restated its beginning governmental activities and business-type activities nets assets by \$103,323 to reclassify capital assets. The Town also restated its beginning private purpose trust fund balance by \$106,091 to reflect proper control of accounts.

16. COMMITMENTS

The Town was also committed to a contract for high school renovations with a remaining amount totaling \$508,301.

17. 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, 2009

	Budgeted Amounts		Actual Amounts,	Budget to GAAP	Actual Amounts,
	Original	Final	Budgetary Basis	Differences	GAAP Basis
REVENUES					
Property Taxes	\$ 2,444,882	\$ 2,444,882	\$ 2,379,103	\$ -	\$ 2,379,103
Excise taxes	227,800	227,800	224,138	-	224,138
Interest and lien costs	15,000	15,000	25,251	-	25,251
Licenses and permits	19,725	19,725	22,789	-	22,789
Intergovernmental					
Education	3,180,593	3,180,593	3,233,746	-	3,233,746
On-behalf payments - State of Maine	-	-	-	456,516	456,516
Town	506,086	506,086	470,962	-	470,962
Charges for services	13,300	13,300	35,465	-	35,465
Interest earnings	35,000	35,000	19,489	-	19,489
Miscellaneous	6,700	6,700	33,170	-	33,170
Total revenues	<u>6,449,086</u>	<u>6,449,086</u>	<u>6,444,113</u>	<u>456,516</u>	<u>6,900,629</u>
EXPENDITURES					
Current:					
General government	290,054	290,054	273,758	-	273,758
Police department	287,410	287,410	253,317	-	253,317
Fire department	304,800	304,800	276,222	-	276,222
Highways and streets	294,460	294,460	345,449	-	345,449
Education	4,733,143	4,733,143	4,624,023	17,857	4,641,880
Adult education	157,097	157,097	162,282	-	162,282
On-behalf payments - State of Maine	-	-	-	456,516	456,516
Recreation	8,400	8,400	7,075	-	7,075
General assistance	4,800	4,300	1,393	-	1,393
Airport	16,600	16,600	15,905	-	15,905
Public safety building	14,484	14,484	10,052	-	10,052
County tax	167,744	167,744	167,744	-	167,744
Third party requests	39,780	39,780	39,780	-	39,780
Tax increment financing	33,060	33,060	31,217	-	31,217
Debt service:					
Principal	189,438	189,438	189,438	-	189,438
Interest and other charges	29,189	29,189	29,132	-	29,132
Capital outlay	42,500	191,727	176,943	-	176,943
Total expenditures	<u>6,612,959</u>	<u>6,761,686</u>	<u>6,603,730</u>	<u>474,373</u>	<u>7,078,103</u>
Excess (deficiency) of revenues over expenditures	<u>(163,873)</u>	<u>(312,600)</u>	<u>(159,617)</u>	<u>(17,857)</u>	<u>(177,474)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from long term debt	-	152,227	152,227	-	152,227
Transfers in	26,854	26,854	26,854	-	26,854
Transfers out	(68,900)	(72,400)	(72,006)	-	(72,006)
Total other financing sources and uses	<u>(42,046)</u>	<u>106,681</u>	<u>107,075</u>	<u>-</u>	<u>107,075</u>
Net change in fund balances	(205,919)	(205,919)	(52,542)	(17,857)	(70,399)
FUND BALANCES - BEGINNING	<u>1,131,117</u>	<u>1,131,117</u>	<u>1,131,117</u>	<u>(374,739)</u>	<u>756,378</u>
FUND BALANCES - ENDING	<u>\$ 925,198</u>	<u>\$ 925,198</u>	<u>\$ 1,078,575</u>	<u>\$ (392,596)</u>	<u>\$ 685,979</u>

Town of Machias, Maine
Budget and Actual (with Variances)
General Fund
For the year ended June 30, 2009

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 2,444,882	\$ 2,444,882	\$ 2,379,103	\$ (65,779)
Excise taxes	227,800	227,800	224,138	(3,662)
Interest and lien costs	15,000	15,000	25,251	10,251
Licenses and permits	19,725	19,725	22,789	3,064
Intergovernmental				
Education	3,180,593	3,180,593	3,233,746	53,153
Town	506,086	506,086	470,962	(35,124)
Charges for services	13,300	13,300	35,465	22,165
Investment earnings	35,000	35,000	19,489	(15,511)
Miscellaneous	6,700	6,700	33,170	26,470
Total revenues	6,449,086	6,449,086	6,444,113	(4,973)
EXPENDITURES				
Current:				
General government	290,054	290,054	273,758	16,296
Police department	287,410	287,410	253,317	34,093
Fire department	304,800	304,800	276,222	28,578
Highways and streets	294,460	294,460	345,449	(50,989)
Education	4,733,143	4,733,143	4,624,023	109,120
Adult education	157,097	157,097	162,282	(5,185)
Recreation	8,400	8,400	7,075	1,325
General assistance	4,800	4,300	1,393	2,907
Airport	16,600	16,600	15,905	695
Public safety building	14,484	14,484	10,052	4,432
County tax	167,744	167,744	167,744	-
Third party requests	39,780	39,780	39,780	-
Tax increment financing	33,060	33,060	31,217	1,843
Debt service:				
Principal	189,438	189,438	189,438	-
Interest and other charges	29,189	29,189	29,132	57
Capital outlay	42,500	191,727	176,943	14,784
Total expenditures	6,612,959	6,761,686	6,603,730	157,956
Excess (deficiency) of revenues over expenditures	(163,873)	(312,600)	(159,617)	152,983
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	-	152,227	152,227	-
Transfers in	26,854	26,854	26,854	-
Transfers out	(68,900)	(72,400)	(72,006)	394
Total other financing sources and uses	(42,046)	106,681	107,075	394
Net change in fund balances	(205,919)	(205,919)	(52,542)	\$ 153,377
FUND BALANCES - BEGINNING	1,131,117	1,131,117	1,131,117	
FUND BALANCES - ENDING	\$ 925,198	\$ 925,198	\$ 1,078,575	

Town of Machias, Maine
Balance Sheet
Nonmajor Governmental Funds
June 30, 2009

	Special Revenue Fund - Education	Special Revenue Fund - School Lunch	Special Revenue Fund - Town	Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,562	\$ 59,416	\$ -	\$ -	\$ 61,978
Investments	-	-	253,311	-	253,311
Due from other funds	129,440	-	39,076	325,101	493,617
Receivable from other governments	26,775	19,758	-	118,671	165,204
Note receivable	-	-	2,623	10,000	12,623
Inventories	-	3,890	-	-	3,890
Total assets	<u>\$ 158,777</u>	<u>\$ 83,064</u>	<u>\$ 295,010</u>	<u>\$ 453,772</u>	<u>\$ 990,623</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 12,080	\$ 5,280	\$ -	\$ 39,109	\$ 56,469
Due to other funds	-	65,681	9,512	-	75,193
Other accrued expenses	22,817	-	-	-	22,817
Total liabilities	<u>34,897</u>	<u>70,961</u>	<u>9,512</u>	<u>39,109</u>	<u>154,479</u>
Fund balances:					
Reserved for other purposes	-	-	2,623	-	2,623
Capital projects	-	-	-	351,896	351,896
Unreserved,					
Designated	-	-	-	62,767	62,767
Undesignated	123,880	12,103	282,875	-	418,858
Total fund balances	<u>123,880</u>	<u>12,103</u>	<u>285,498</u>	<u>414,663</u>	<u>836,144</u>
Total liabilities and fund balances	<u>\$ 158,777</u>	<u>\$ 83,064</u>	<u>\$ 295,010</u>	<u>\$ 453,772</u>	<u>\$ 990,623</u>

Town of Machias, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2009

	Special Revenue Fund - Education	Special Revenue Fund - School Lunch	Special Revenue Fund - Town	Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES					
Intergovernmental	\$ 539,262	\$ 122,336	\$ -	\$ 482,268	\$ 1,143,866
Charges for services	-	48,378	-	-	48,378
Investment earnings	-	-	7,783	-	7,783
Total revenues	<u>539,262</u>	<u>170,714</u>	<u>7,783</u>	<u>482,268</u>	<u>1,200,027</u>
EXPENDITURES					
Current					
Education	543,491	-	-	-	543,491
Food and supplies	-	109,067	-	-	109,067
Labor	-	67,909	-	-	67,909
Capital outlay	-	-	-	585,902	585,902
Total expenditures	<u>543,491</u>	<u>176,976</u>	<u>-</u>	<u>585,902</u>	<u>1,306,369</u>
Excess (deficiency) of revenues over expenditures	<u>(4,229)</u>	<u>(6,262)</u>	<u>7,783</u>	<u>(103,634)</u>	<u>(106,342)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	14,500	14,500
Net change in fund balances	<u>(4,229)</u>	<u>(6,262)</u>	<u>7,783</u>	<u>(89,134)</u>	<u>(91,842)</u>
Fund balances - beginning	128,109	18,365	277,715	503,797	927,986
Fund balances - ending	<u>\$ 123,880</u>	<u>\$ 12,103</u>	<u>\$ 285,498</u>	<u>\$ 414,663</u>	<u>\$ 836,144</u>

Town of Machias, Maine
Combining Statement of Net Assets
Other Proprietary Funds
June 30, 2009

	<u>Proprietary Funds</u>		
	<u>Telcenter</u>	<u>Ambulance Fund</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 14,007	\$ -	\$ 14,007
Accounts receivable, net	-	181,290	181,290
Due from other funds	-	499,452	499,452
Total current assets	<u>14,007</u>	<u>680,742</u>	<u>694,749</u>
Non-current assets			
Capital assets			
Buildings	650,068	-	650,068
Equipment and furniture	-	161,713	161,713
Less accumulated depreciation	<u>(243,774)</u>	<u>(121,871)</u>	<u>(365,645)</u>
Total non-current assets	<u>406,294</u>	<u>39,842</u>	<u>446,136</u>
Total assets	<u>420,301</u>	<u>720,584</u>	<u>1,140,885</u>
LIABILITIES			
Current liabilities			
Due to other funds	<u>87,876</u>	<u>35,000</u>	<u>122,876</u>
NET ASSETS			
Invested in capital assets, net of related debt	406,294	39,842	446,136
Restricted for other purposes	-	26,536	26,536
Unrestricted (deficit)	<u>(73,869)</u>	<u>619,206</u>	<u>545,337</u>
Total net assets	<u>\$ 332,425</u>	<u>\$ 685,584</u>	<u>\$ 1,018,009</u>

Town of Machias, Maine
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Other Proprietary Funds
For the Year Ended June 30, 2009

	<u>Telcenter</u>	<u>Ambulance Fund</u>	<u>Total Other Proprietary Funds</u>
REVENUES			
Charges for services	\$ 55,113	\$ 335,353	\$ 390,466
OPERATING EXPENSES			
Personal services	19,894	148,479	168,373
Contractual services	-	9,464	9,464
Utilities	12,269	9,629	21,898
Repairs and maintenance	5,640	11,150	16,790
Other supplies and expenses	-	11,552	11,552
Insurance claims and expenses	1,207	17,035	18,242
Depreciation	32,503	8,224	40,727
Total operating expenses	<u>71,513</u>	<u>215,533</u>	<u>287,046</u>
Operating income (loss)	(16,400)	119,820	103,420
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	199	-	199
Miscellaneous revenue	-	150	150
Total non-operating revenue (expenses)	<u>199</u>	<u>150</u>	<u>349</u>
Income (loss) before contributions and transfers	(16,201)	119,970	103,769
Transfers out	-	(26,854)	(26,854)
Change in net assets	(16,201)	93,116	76,915
Total net assets - beginning	<u>348,626</u>	<u>592,468</u>	<u>941,094</u>
Total net assets - ending	<u>\$ 332,425</u>	<u>\$ 685,584</u>	<u>\$ 1,018,009</u>

Town of Machias, Maine
Statement of Revenues, Expenditures and Changes in Fund
Balances - Agency Funds
June 30, 2009

	Balances July 1, 2008	Receipts	Expenditures	Balances June 30, 2009
Rose Gaffney School	\$ 21,756	\$ 49,905	\$ 53,929	\$ 17,732
Machias High School	49,089	95,845	98,912	46,022
Machias Vocational Center	7,404	9,905	9,915	7,394
Total	<u>\$ 78,249</u>	<u>\$ 155,655</u>	<u>\$ 162,756</u>	<u>\$ 71,148</u>

Town of Machias, Maine
Taxes receivable, Tax liens and Tax Acquired Property
General Fund
June 30, 2009

Taxes receivable	
2008	\$ 183,309
2007	2,121
2006 and prior	<u>13,046</u>
Total taxes receivable	<u>198,476</u>
Tax liens and tax acquired property	
2007	59,869
2006 and prior	<u>2,305</u>
Total tax liens and tax acquired property	<u>62,174</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 260,650</u>

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

Board of Selectmen
Town of Machias, Maine

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Machias, Maine as of and for the year ended June 30, 2009, which collectively comprise the Town of Machias, Maine's basic financial statements and have issued our report thereon dated August 24, 2010. 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 #2009-1 and #2009-2 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 #2009-1 and #2009-2 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 24, 2010.

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.

Chantrelle Whibodeau, F. Associate

Bangor, Maine
August 24, 2010

**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, 2009. 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.

As described in item #2009-4 in the accompanying schedule of findings and questioned costs, the Town of Machias, Maine, did not comply with the requirements regarding documentation of time and effort that are applicable to its Title IA program. Compliance with such requirements is necessary, in our opinion, for the Town of Machias, Maine, to comply with the requirements applicable to that program.

In our opinion, except for the non-compliance described in the preceding paragraph, 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, 2009.

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 discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency and another that we consider to be a material weakness.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #2009-3 and #2009-04 to be significant deficiencies.

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. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item #2009-03 to be a material weakness.

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.

Brenton Hibbard & Associates

Bangor, Maine
August 24, 2010

**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, 2009, 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 24, 2010

Town of Machias, Maine
 Audit Adjustments to MEDEMS Financial System
 Year ended June 30, 2009

	General Fund*	Adult Education*	Special Revenue Grants and other	School lunch	Totals
<i>June 30 balance as per MEDEMS</i>	\$ (1,030,994)	\$ -	\$ -	\$ -	\$ (1,030,994)
<i>Beginning balance variance</i>	1,473,035	73,475	148,723	18,365	1,713,598
Revenues per MEDEMS	3,220,486	-	483,546	154,991	3,859,023
Local allocation	1,384,002	67,000	-	-	1,451,002
Change in accounts receivable	(76,458)	-	39,963	-	(36,495)
Unrecorded receipts	2,767	-	22	15,723	18,512
Reclass revenue	(97,274)	81,543	15,731	-	-
Expenditures per MEDEMS	(4,762,371)	(37,196)	(506,797)	(177,757)	(5,484,121)
Adjustment to liabilities	18,622	-	-	-	18,622
Unrecorded activity	-	-	(18,760)	5,137	(13,623)
Adjust inventory	-	-	-	(4,356)	(4,356)
Reclass expense	140,816	(125,085)	(15,731)	-	-
Accrued summer teacher pay	(392,596)	-	(22,817)	-	(415,413)
Audited GAAP Basis Fund Balance	<u>\$ (119,965)</u>	<u>\$ 59,737</u>	<u>\$ 123,880</u>	<u>\$ 12,103</u>	<u>\$ 75,755</u>

Town of Machias, Maine
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	Disbursements/ Expenditures
<i>U.S. Department of Housing and Urban Development</i> Passed through Department of Economic and Community Development Housing assistance	14.228	G1206043	\$ 256,036
<i>U.S. Department of Transportation</i> Direct FAA grant - airport improvement program	20.106	AIP#3-23-0029-06-2007	178,341
<i>U.S. Environmental Protection Agency</i> Passed through Maine Department of Environmental Protection Multi-media capacity building grant for states and tribes	66.709	XP97123801-0	108,759
<i>U.S. Department of Homeland Security</i> Passed through Maine State Department of Defense, Veterans and Emergency Management Homeland security grant program Disaster grants - public assistance	97.067 97.036	2008-GS-T8-0037 FEMA-1693-DR-ME	4,820 27,662
Total U.S. Department of Homeland Security			<u>32,482</u>
<i>U.S. Department of Education</i> Passed through State Department of Education			
Title IA	84.010	13-05A-6334-13	181,971
Career and technical education- Perkins Title IC	84.048	13-05A-5159-8	45,481
Adult basic education	84.002	13-05A-6296-64	15,731
Gear - up	84.334	13-05A-6341-13	19,400
Title IIA teacher quality	84.367	13-05A-1138-11	41,497
Title IID education technology	84.318	13-05A-1086-2	2,509
<i>Cluster</i>			
Part B Section 619- Preschool	84.173	13-05A-6241-23	1,790
Title VI, Part B - Local Entitlement	84.027	13-05A-6317-12	141,778
Passed through Office of Substance Abuse			
Title IVA - Safe and Drug Free School Education	84.186	13-05A-6346-57	3,625
Total U.S. Department of Education			<u>453,782</u>
<i>U.S. Department of Agriculture</i> Passed through State Department of Education			
National School Lunch Program	10.555	13-05A-8121-05	98,305
After school snack	10.555	13-05A-8121-05	1,314
Summer food service program	10.559	13-05A-7130-05	5,361
School breakfast program	10.553	13-05A-7127-05	29,156
Total U.S. Department of Agriculture			<u>134,136</u>
Total federal programs			<u>\$ 1,163,536</u>

Town of Machias, Maine
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2009

PURPOSE OF THE SCHEDULE

Office of Management and Budget (OMB) Circular A-133, requires a Schedule of Expenditures of Federal Awards showing total expenditures for each federal award program as identified in the catalog of Federal Domestic Assistance (CFDA).

SIGNIFICANT ACCOUNTING POLICIES

1. REPORTING ENTITY

The accompanying schedule includes all federal award programs of the Town for the fiscal year ended June 30, 2009. The reporting entity is defined in the Notes to the Financial Statements of the Town of Machias, Maine.

2. BASIS OF PRESENTATION

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

- a. Pursuant to OMB Circular A-133, federal financial assistance is defined as assistance provided by federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations.
- b. OMB Circular A-133 establishes the level of expenditures to be used in defining major federal financial award programs. Major programs for the Town have been identified in the Schedule of Findings and Questioned Costs.

3. BASIS OF ACCOUNTING

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

**Town of Machias, Maine
Schedule of Findings and Questioned Costs
Year-ended June 30, 2009**

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 - *Qualified 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

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grants
20.106	Airport Improvement Program
84.010	Title IA

- 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, 2009

Section II — Financial Statement Findings

#2009-1 (REPEAT)

<i>Criteria or specific requirement</i>	Significant additional services needed
<i>Condition</i>	Inadequate reviews and approvals of transactions, accounting entries or system outputs leading to significant accounting services.
<i>Questioned costs</i>	None
<i>Effect</i>	Failure to perform certain management functions could result in misstated information and unreliable reporting
<i>Cause</i>	Lack of adequate oversight and fiscal management.
<i>Recommendation</i>	Town should have more oversight of its financial reporting and entries, supporting documentation and fixed asset schedules.
<i>Management's response</i>	Due to lack of sufficient training the Town was unable to perform certain functions, however progress was made in 2008-2009 fiscal year.

#2009-2 (REPEAT)

<i>Criteria or specific requirement</i>	Internal control over financial reporting
<i>Condition</i>	Management does not control the preparation of the financial statements and fixed asset reporting which also results in significant audit adjustments.
<i>Questioned costs</i>	None
<i>Context</i>	Management has relied on its auditors to prepare the financial statements
<i>Effect</i>	Management may not be able to identify an error or misstatement in the financial statements. In addition, management may not be able to recognize that a required footnote had been omitted or an inappropriate footnote was included in the footnotes
<i>Cause</i>	Lack of knowledge and training in financial statement preparation (including required note disclosures)
<i>Recommendation</i>	Management should obtain the training necessary to permit the Town to understand its own financial statements and required footnotes
<i>Management's response</i>	Management will attempt to obtain training that will provide the knowledge necessary to assist more in the preparation of the financial statements

Town of Machias, Maine
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2009

Section III — Federal Award Findings and Questioned Costs

#2009-3 (REPEAT)

<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>	The Town will work toward correcting this situation.

#2009-4

<i>Information on the federal program</i>	CFDA# 84.010 — Title IA, Department of Education, Federal Award Number - #13-05A-6334-13
<i>Pass-through entity</i>	State of Maine, Department of Education
<i>Finding type</i>	Significant deficiency
<i>Criteria or specific requirement (including statutory, regulatory, or other citation)</i>	In accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(4), Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5). Personnel activity reports or equivalent documentation must meet the certain standards. They must reflect an after the fact distribution of the actual activity of each employee, must account for the total activity for which each employee is compensated, must be prepared at least monthly and must coincide with one or more pay periods, they must be signed by the employee.
<i>Condition</i>	Personnel costs paid with federal grant funds were not properly supported by proper documentation.
<i>Questioned costs Context</i>	Approximately \$181,000.
<i>Cause and effect</i>	All employees were required to submit semi-annual certifications did not complete any.
<i>Recommendation</i>	Required semi-annual certifications were not completed for the all employees that were charged to the federal program.
<i>Management's response</i>	The Town should ensure that documentation requirements are done on all employees charged to the federal programs. All Title IA salaried staff are now required to maintain documentation on a monthly basis to support their charge to the grant.

Town of Machias, Maine
Summary Schedule of Prior Audit Findings
Year-ended June 30, 2009

2008-01
Condition

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

Current Status

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

2008-02
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.

2008-03
Condition

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

Current Status

Management continues to devote more time to fixing problem.