

Town of Machias, Maine

ANNUAL FINANCIAL STATEMENTS
(with required and other supplementary information)

For the Year Ended June 30, 2012

CONTENTS

	Statement	Page
Independent Auditor's Report		4-5
Required Supplementary Information		
Management's Discussion and Analysis		6-15
Basic Financial Statements		
Government-wide Financial Statements		
Statement of net assets	1	16
Statement of activities	2	17
Fund Financial Statements		
Balance sheet – governmental funds	3	18
Reconciliation of the governmental funds balance sheet to the statement of net assets	3A	19
Statement of revenues, expenditures and changes in fund balances – governmental funds	4	20
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities	4A	21
Statement of net assets – proprietary fund	5	22
Statement of revenues, expenses and changes in fund net assets – proprietary fund	6	23
Statement of cash flows – proprietary fund	7	24
Statement of fiduciary net assets – fiduciary funds	8	25
Statement of changes in fiduciary net assets – fiduciary funds	9	26
Notes to basic financial statements		27-45
	Exhibit	
Required Supplementary Information		
Budget and actual (with budget to GAAP differences) – general fund	1	46
Budget and actual (with variances) – general fund	2	47

CONTENTS

	Schedule	Page
Other Supplementary Information		
Combining balance sheet – nonmajor governmental funds	1	48
Combining statement of revenues, expenditures and changes in fund balances – nonmajor governmental funds	2	49
Combining statement of net assets – nonmajor proprietary funds	3	50
Combining statement of revenues, expenditures and changes in fund net assets – nonmajor proprietary funds	4	51
Schedule of revenues and expenditures - budget and actual (with variances) – general fund- school department	5	52
Combining balance sheet – special revenue funds - town	6	53
Statement of revenues, expenditures and changes in fund balances – agency funds	7	54
Taxes receivable, tax liens and tax acquired property – general fund	8	55
Other Reports		
Audit adjustments to MEDMS Financial System		56
Report on compliance with the requirements of the Maine School Finance Act		57
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Governmental Auditing Standards</i>		58-59
Independent auditor's report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133		60-61
Schedule of expenditures of federal awards		62
Notes to the schedule of expenditures of federal awards		63
Schedule of findings and questioned costs		64-65
Summary schedule of prior audit findings		66

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, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Machias, Maine's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Machias, Maine as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2013 on our consideration of the Town of Machias, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 6 through 15 and 46 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Machias, Maine's financial statements as a whole. The other supplementary information in Schedules 1 through 8 described in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Shantree Shibodeau & Associates

Bangor, Maine
April 29, 2013

Town of Machias, Maine

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

The Management Discussion and Analysis ("MD&A") is a report of the Town of Machias' fiscal activity for the year ending June 30, 2012 compared with 2011. The report is presented in a manner that fairly represents the Town's present financial position in respect to all funds and accounts. Included is all the information to accurately understand the Town's financial position, and the data is correct to the best of our knowledge and belief.

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

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

GENERAL INFORMATION

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

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

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

Town of Machias, Maine

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

FINANCIAL INFORMATION

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

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

- The balance of the Town's cash and investments as of June 30, 2012 was \$3,670,322.
- On a budget basis the Town originally budgeted a deficiency of \$155,827. However, there was a positive budget variance of \$145,930.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide statements are a total overview of the Town's financial status. They include all assets, liabilities, and activities in a manner similar to private sector accounting. The purpose is to show Town finances in a format that is familiar to the common person.

The statement of net assets is used to express the financial data required for the government-wide financials. This shows the total assets which now include land, buildings, inventory, and other capital assets. These are then reduced by the liabilities

Town of Machias, Maine

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

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

Government-wide statements distinguish business type activities from governmental activities. Business type activities are those that are funded through use fees or user based revenue, no tax dollars being the key separation from governmental activities. It then follows that governmental activities are those that are primarily funded through taxes and governmental fees. The business-type activities of Machias are sewer, solid waste disposal, ambulance and the telcenter.

Fund Financial Statements

Governmental Funds

Most of the Town's basic services are reported in governmental funds, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed shorter-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement. The Town considers the general fund to be a major governmental fund.

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning financial performance (budget and actual with budget to GAAP differences and budget and actual with variances). Required supplementary information can be found on pages 46-47.

Town of Machias, Maine

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

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

GOVERNMENT-WIDE ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$17,361,064 as of June 30, 2012.

Net Assets for the Period Ending June 30, 2012 and 2011

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$3,148,304	\$3,029,025	\$1,091,687	\$1,266,927	\$4,239,991	\$4,295,952
Capital assets	<u>5,032,675</u>	<u>4,511,294</u>	<u>10,815,454</u>	<u>8,721,325</u>	<u>15,488,129</u>	<u>13,232,619</u>
Total Assets	<u>8,180,979</u>	<u>7,540,319</u>	<u>11,907,141</u>	<u>9,988,252</u>	<u>20,088,120</u>	<u>17,528,571</u>
Current liabilities	509,349	473,202	11,249	873,511	520,598	1,346,713
Noncurrent liabilities	<u>1,185,055</u>	<u>1,031,233</u>	<u>1,021,403</u>	<u>580,988</u>	<u>2,206,458</u>	<u>1,612,221</u>
Total Liabilities	<u>1,694,404</u>	<u>1,504,435</u>	<u>1,032,652</u>	<u>1,454,499</u>	<u>2,727,056</u>	<u>2,958,934</u>
Net Assets (Accumulated Deficit)						
Investment in capital assets, net of debt	3,872,767	3,480,061	9,808,212	8,140,337	13,680,979	11,620,398
Restricted	773,443	765,412	575,300	772,694	1,348,743	1,538,106
Unrestricted	<u>1,840,365</u>	<u>1,790,411</u>	<u>490,977</u>	<u>(379,278)</u>	<u>2,331,342</u>	<u>1,411,133</u>
Total Net Assets	<u>\$ 6,486,575</u>	<u>\$ 6,035,884</u>	<u>\$ 10,874,489</u>	<u>\$ 8,533,753</u>	<u>\$17,361,064</u>	<u>\$14,569,637</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 \$424,834.

The Town recognized deferred property taxes of \$1,643 as revenue for the Statement of Net Assets.

Town of Machias, Maine

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

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2012 and 2011.

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
REVENUES						
Charges for services and other	\$ 68,469	\$ 102,345	\$ 1,045,005	\$1,044,788	\$ 1,113,474	1,147,133
Operating grants and contributions	3,779,019	4,137,491	-	-	3,779,019	4,137,491
Capital grants and contributions	215,479	35,753	2,293,852	2,298,168	2,509,331	2,333,921
Property taxes	2,818,197	2,839,354	-	-	2,818,197	2,839,354
Excise and miscellaneous taxes	231,928	219,051	-	-	231,928	219,051
Interest and lien charges	32,504	31,073	1,546	2,159	34,050	33,232
Grants and contributions not restricted to specific purpose	330,062	294,047	-	-	330,062	294,047
Unrestricted investment and interest income	17,675	21,870	104,652	26,269	122,327	48,139
Miscellaneous	8,088	15,298	1,124	-	9,212	15,298
Total Revenues	<u>7,501,421</u>	<u>7,696,282</u>	<u>3,446,179</u>	<u>3,371,384</u>	<u>10,947,600</u>	<u>11,067,666</u>
EXPENSES						
General government	\$ 318,315	\$ 331,126	-	-	\$ 318,315	\$ 331,126
Public safety	627,647	593,960	-	-	627,647	593,960
Public works	391,769	363,239	-	-	391,769	363,239
General assistance	4,217	3,870	-	-	4,217	3,870
Culture and recreation	41,329	47,716	-	-	41,329	47,716
Education	4,024,355	3,853,703	-	-	4,024,355	3,853,703
Adult education-general	156,067	149,181	-	-	156,067	149,181
On-behalf payments – State of Maine	324,361	404,265	-	-	324,361	404,265
Grants and other contributions	619,540	810,813	-	-	619,540	810,813
Interest on long-term debt	42,409	53,950	-	-	42,409	53,950
Airport	9,644	8,156	-	-	9,644	8,156
Tax incremental financing	24,219	24,757	-	-	24,219	24,757
County tax	186,608	164,930	-	-	186,608	164,930
School lunch program	220,676	201,817	-	-	220,676	201,817
Capital outlay	1,331	39,084	-	-	1,331	39,084
Other	8,434	-	-	-	8,434	-
Business-type Activities	-	-	1,102,509	1,221,954	1,102,509	1,221,954
Total Expenses	<u>7,000,921</u>	<u>7,050,567</u>	<u>1,102,509</u>	<u>1,221,954</u>	<u>8,103,430</u>	<u>8,272,521</u>
Excess(deficiency) before transfers	500,500	645,715	2,343,670	2,149,430	2,844,170	2,795,145
Transfers	<u>(27,142)</u>	<u>5,165</u>	<u>27,142</u>	<u>91,891</u>	=	<u>97,056</u>
Change in net assets	473,358	650,880	2,370,812	2,241,321	2,844,170	2,892,201
Net assets, beginning of year	6,035,884	5,384,902	8,533,753	6,286,056	14,569,637	11,670,958
Restatement of beginning debt	-	55,608	-	(55,608)	-	-
Restatement of beginning net assets	(22,667)	-	(30,076)	-	(52,743)	-
Restatement of beginning capital assets	-	(55,506)	-	61,984	-	6,478
Net assets, end of year	<u>\$6,486,575</u>	<u>\$6,035,884</u>	<u>\$ 10,874,489</u>	<u>\$8,533,753</u>	<u>\$17,361,064</u>	<u>\$14,569,637</u>

Town of Machias, Maine

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

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

Governmental Activities

For the year ended June 30, 2012, the Town's net assets for governmental activities increased by \$450,691 after restatement.

Expenses of governmental activities include depreciation expense of \$231,737. 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, 2012 totaled \$3,438,454 an increase of 0.52% from June 30, 2011. Of this amount, \$2,818,197 was from local property taxes.

Business-type Activities

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

During the year ended June 30, 2012, the Town's net assets from business-type activities increased by \$2,340,736 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 \$2,313,424 \$81,492 higher than the previous year. An analysis of transactions affecting the change in the combined fund balance of the Town's governmental funds is as follows:

Town of Machias, Maine

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

Revenues include property taxes totaling \$2,816,554. Excise taxes accounted for \$224,154 in total revenue.

On behalf payments amounted to \$324,361 during the year ended June 30, 2012. Additional information on these "on-behalf" payments can be found in the notes to the basic financial statements.

The intergovernmental revenues include federal and state subsidies and contributions and the school department.

Total governmental fund expenditures for the year were \$7,811,144, \$606,904 higher than the previous year.

The Town capitalized \$753,117 of capital outlays.

Capital Asset and Debt Administration

Capital Assets

	Balance 6/30/11	Additions/ Completions	Retire- ments/reclass	Balance 6/30/12
Governmental Activities				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	-	196,558	-	196,558
Buildings and improvements	6,814,949	7,715	(550,058)	6,272,606
Infrastructure	804,632	506,172		1,310,804
Equipment, furniture and fixtures	583,472	14,172	(16,086)	581,558
Vehicles	<u>840,931</u>	<u>28,500</u>	<u>(65,350)</u>	<u>804,081</u>
Total capital assets	<u>9,609,058</u>	<u>753,117</u>	<u>(631,494)</u>	<u>9,730,681</u>
<i>Less accumulated depreciation</i>				
	<u>(5,097,764)</u>	<u>(231,736)</u>	<u>631,494</u>	<u>(4,698,006)</u>
Total capital assets, net	<u>\$ 4,511,294</u>	<u>\$ 521,381</u>	<u>\$ -</u>	<u>\$ 5,032,675</u>

Town of Machias, Maine

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

	Balance 6/30/11	Additions/ Completions	Retire- ments/reclass	Balance 6/30/12
Business-Type Activities				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	3,635,364	2,284,983	(368,919)	5,551,428
Lines and mains and buildings	7,516,279	-	536,286	8,052,565
Vehicles and equipment	<u>662,523</u>	<u>2,243</u>		<u>664,766</u>
Total capital assets	<u>11,815,166</u>	<u>2,287,226</u>	<u>167,367</u>	<u>14,269,759</u>
<i>Less accumulated depreciation</i>	<u>(3,093,841)</u>	<u>(193,097)</u>	<u>(167,367)</u>	<u>(3,454,305)</u>
Total capital assets, net	<u>\$ 8,721,325</u>	<u>\$ 2,094,129</u>	<u>\$ -</u>	<u>\$10,815,454</u>

Additional information on the Town's capital assets can be found in Note 4.

Debt Administration

The Town's debt consists of bonds, notes, capital leases obligations, and compensated absences. A summary of the Town's debt activity for the year ended June 30, 2012 is as follows:

	Beginning Balance	Additions	Principal Payments	Ending Balance
Bonds and notes payable	\$1,561,136	\$ 924,000	\$(353,636)	\$2,131,500
Compensated Absences	34,886	5,577	(1,155)	39,308
Capital lease obligations	<u>51,085</u>	<u>-</u>	<u>(15,434)</u>	<u>35,651</u>
Total	<u>\$1,647,107</u>	<u>\$ 929,577</u>	<u>\$(370,225)</u>	<u>\$2,206,459</u>

Town of Machias, Maine

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

	Total Interest Paid
Bonds and notes payable	\$ 39,164
Capital lease obligations	<u>3,245</u>
Total	<u>\$ 42,409</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 Discussions

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

Additional information about this difference can be found on page 46 of the financial statements.

During the year, actual revenues exceeded budgeted revenues by \$71,128. Most of this variance resulted from increases in intergovernmental revenues.

The Towns property tax collections were \$63,803 under what was budgeted because of discounts and abatements.

Budgeted expenditures exceeded actual expenditures by \$136,643.

Town of Machias, Maine

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

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the Town's finances. If you have questions about this report or need any additional information, contact the Town Manager or the Finance Director, at PO Box 418, Machias, Maine 04654 or call (207) 255-6621.

Town of Machias, Maine
Statement of Net Assets
June 30, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and equivalents	\$ 1,688,126	\$ 221,474	\$ 1,909,600
Investments	381,414	546,801	928,215
Taxes receivable	429,757	-	429,757
Accounts receivable	-	428,591	428,591
Internal balances	144,767	(144,767)	-
Due from fiduciary funds	5,500	-	5,500
Due from other governmental agencies	490,389	39,588	529,977
Other receivables	2,621	-	2,621
Inventories	5,730	-	5,730
Capital assets not being depreciated	761,632	5,552,428	6,314,060
Capital assets being depreciated, net	4,271,043	5,263,026	9,534,069
Total assets	<u>8,180,979</u>	<u>11,907,141</u>	<u>20,088,120</u>
LIABILITIES			
Accounts payable and accrued expenses	155,580	11,249	166,829
Due to other governmental agencies	5,692	-	5,692
Deferred revenues	23,704	-	23,704
Prepaid taxes	4,467	-	4,467
Accrued summer teacher pay	319,906	-	319,906
Long-term liabilities			
Due within one year			
Bonds and notes payable	215,527	66,218	281,745
Capital leases payable	3,414	13,109	16,523
Due in more than one year			
Bonds and notes payable	940,967	908,787	1,849,754
Capital leases payable	-	19,128	19,128
Compensated absences	25,147	14,161	39,308
Total liabilities	<u>1,694,404</u>	<u>1,032,652</u>	<u>2,727,056</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,872,767	9,808,212	13,680,979
Restricted for			
Education	452,871	-	452,871
Capital projects	21,734	-	21,734
Machias Water Co.	-	427,100	427,100
School lunch	5,730	-	5,730
Other purposes	293,108	148,200	441,308
Unrestricted	1,840,365	490,977	2,331,342
Total net assets	<u>\$ 6,486,575</u>	<u>\$ 10,874,489</u>	<u>\$ 17,361,064</u>

See accompanying notes to basic financial statements.

Town of Machias, Maine
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Program Revenue				Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 318,315	\$ 11,521	\$ -	\$ -	\$ (306,794)	\$ -	\$ (306,794)
Police department	301,607	5,230	-	-	(296,377)	-	(296,377)
Fire department	297,769	12,000	-	-	(285,769)	-	(285,769)
Public safety building	28,271	641	-	-	(27,630)	-	(27,630)
Public works	391,769	2,735	18,560	-	(370,474)	-	(370,474)
Education	4,024,355	-	2,707,674	-	(1,316,681)	-	(1,316,681)
Adult education	156,067	-	-	-	(156,067)	-	(156,067)
On-behalf payments - State of Maine	324,361	-	324,361	-	-	-	-
Culture and recreation	41,329	117	452	-	(40,760)	-	(40,760)
General assistance	4,217	-	2,080	-	(2,137)	-	(2,137)
Airport	9,644	-	-	-	(9,644)	-	(9,644)
County tax	186,608	-	-	-	(186,608)	-	(186,608)
Tax incremental financing	24,219	650	-	-	(23,569)	-	(23,569)
Other	8,434	-	-	-	(8,434)	-	(8,434)
Grants and other contributions	619,540	-	591,147	-	(28,393)	-	(28,393)
School lunch program	220,676	35,575	134,745	-	(50,356)	-	(50,356)
Interest on long-term debt	42,409	-	-	-	(42,409)	-	(42,409)
Capital outlay	1,331	-	-	215,479	214,148	-	214,148
Total governmental activities	<u>7,000,921</u>	<u>66,469</u>	<u>3,779,019</u>	<u>215,479</u>	<u>(2,937,954)</u>	<u>-</u>	<u>(2,937,954)</u>
Business-type activities							
Sewer fund	480,150	366,955	-	2,293,852	-	2,180,657	2,180,657
Solid waste	348,099	332,911	-	-	-	(15,188)	(15,188)
Ambulance fund	213,313	280,696	-	-	-	67,383	67,383
Telcenter	60,947	64,443	-	-	-	3,496	3,496
Total business-type activities	<u>1,102,509</u>	<u>1,045,005</u>	<u>-</u>	<u>2,293,852</u>	<u>-</u>	<u>2,236,348</u>	<u>2,236,348</u>
	<u>\$ 8,103,430</u>	<u>\$ 1,113,474</u>	<u>\$ 3,779,019</u>	<u>\$ 2,509,331</u>	<u>(2,937,954)</u>	<u>2,236,348</u>	<u>(701,606)</u>
General revenues:							
Taxes							
Property taxes					2,818,197	-	2,818,197
Excise taxes, licenses, permits and fees					231,928	-	231,928
Interest and lien charges					32,504	1,546	34,050
Grants and contributions not restricted to specific programs					330,062	-	330,062
Unrestricted investment and interest earnings					17,875	104,652	122,527
Miscellaneous					8,068	1,124	9,212
Transfers					(27,142)	27,142	-
Total general revenues and transfers					<u>3,411,312</u>	<u>134,464</u>	<u>3,545,776</u>
Change in net assets					473,358	2,370,812	2,844,170
Net assets - beginning					6,035,884	8,533,753	14,569,637
Restatement of beginning net assets					(22,667)	(30,076)	(52,743)
Net assets - beginning, restated					6,013,217	8,503,677	14,516,894
Net assets - ending					<u>\$ 6,486,575</u>	<u>\$ 10,874,489</u>	<u>\$ 17,361,064</u>

See accompanying notes to basic financial statements.

**Town of Machias, Maine
Balance Sheet
Governmental Funds
June 30, 2012**

	<u>General Fund</u>	<u>Special Revenue Fund - School Categorical Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,599,846	\$ 2,851	\$ 85,429	\$ 1,688,126
Investments	114,011	-	267,403	381,414
Taxes receivable, net	429,757	-	-	429,757
Due from other funds	756,067	-	575,356	1,331,423
Receivable from other governments	274,145	212,181	4,063	490,389
Other receivables	-	-	2,621	2,621
Inventories	-	-	5,730	5,730
Total assets	<u>\$ 3,173,826</u>	<u>\$ 215,032</u>	<u>\$ 940,602</u>	<u>\$ 4,329,460</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 125,681	\$ 26,624	\$ -	\$ 152,305
Due to other funds	948,050	127,459	105,647	1,181,156
Payable to other governments	5,692	-	-	5,692
Deferred property taxes	325,531	-	-	325,531
Deferred grant revenue	-	23,704	-	23,704
Prepaid property taxes	4,467	-	-	4,467
Accrued summer teacher pay	282,553	34,395	2,958	319,906
Other payables	3,275	-	-	3,275
Total liabilities	<u>1,695,249</u>	<u>212,182</u>	<u>108,605</u>	<u>2,016,036</u>
Fund balances				
Nonspendable for				
Inventories	-	-	5,730	5,730
Restricted for				
Education	450,021	2,850	-	452,871
Capital projects	-	-	21,734	21,734
Town grants and other purposes	-	-	293,108	293,108
Committed for				
Other purposes	113,437	-	-	113,437
Capital projects	-	-	567,375	567,375
Unassigned (deficit)	915,119	-	(55,950)	859,169
Total fund balances	<u>1,478,577</u>	<u>2,850</u>	<u>831,997</u>	<u>2,313,424</u>
Total liabilities and fund balances	<u>\$ 3,173,826</u>	<u>\$ 215,032</u>	<u>\$ 940,602</u>	<u>\$ 4,329,460</u>

Town of Machias, Maine
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2012

Total fund balance, governmental funds	\$ 2,313,424
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.	5,032,675
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	325,531
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	(1,185,055)
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 6,486,575</u>

Town of Machias, Maine
Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds
For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>Special Revenue Fund - School Categorical Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 2,816,554	\$ -	\$ -	\$ 2,816,554
Excise taxes	224,154	-	-	224,154
Interest and lien charges	32,504	-	-	32,504
Licenses, permits and fees	21,230	-	-	21,230
Intergovernmental		603,781	300,224	904,005
Town	353,215	-	-	353,215
Education	2,695,039	-	-	2,695,039
On-behalf payments - State of Maine	324,361	-	-	324,361
Charges for services	18,741	-	35,575	54,316
Investment and interest earnings	14,163	-	3,512	17,675
Miscellaneous	6,725	-	50,000	56,725
Total revenues	<u>6,506,686</u>	<u>603,781</u>	<u>389,311</u>	<u>7,499,778</u>
EXPENDITURES				
Current				
General government	313,861	-	-	313,861
Police department	290,302	-	-	290,302
Fire department	280,873	-	-	280,873
Public safety building	24,326	-	-	24,326
Highways and streets	296,891	-	-	296,891
Education	3,954,139	-	-	3,954,139
Adult education	157,473	-	-	157,473
On-behalf payments - State of Maine	324,361	-	-	324,361
Recreation	37,863	-	-	37,863
General assistance	4,217	-	-	4,217
Airport	13,753	-	-	13,753
County tax	186,608	-	-	186,608
Tax increment financing	24,219	-	-	24,219
Other services	14,434	-	-	14,434
Federal, state and local grants	-	626,785	-	626,785
School lunch program	-	-	220,676	220,676
Debt service				
Principal	291,325	-	-	291,325
Interest and other charges	42,409	-	-	42,409
Capital outlay	530,003	-	176,626	706,629
Total expenditures	<u>6,787,057</u>	<u>626,785</u>	<u>397,302</u>	<u>7,811,144</u>
Excess (deficiency) of revenues over expenditures	<u>(280,371)</u>	<u>(23,004)</u>	<u>(7,991)</u>	<u>(311,366)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from bond	420,000	-	-	420,000
Transfers in	126,880	-	-	126,880
Transfers out	(120,579)	(32,748)	(695)	(154,022)
Total other financing sources and uses	<u>426,301</u>	<u>(32,748)</u>	<u>(695)</u>	<u>392,858</u>
Net change in fund balances	<u>145,930</u>	<u>(55,752)</u>	<u>(8,686)</u>	<u>81,492</u>
FUND BALANCES - BEGINNING	<u>1,332,647</u>	<u>58,602</u>	<u>840,683</u>	<u>2,231,932</u>
FUND BALANCES - ENDING	<u>\$ 1,478,577</u>	<u>\$ 2,850</u>	<u>\$ 831,997</u>	<u>\$ 2,313,424</u>

See accompanying notes to basic financial statements.

Town of Machias, Maine
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds: \$ 81,492

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	753,117	
Depreciation	<u>(231,737)</u>	521,380

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

1,643

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	(420,000)	
Debt repayments	<u>291,325</u>	(128,675)

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Compensated absences not reflected on Governmental funds		<u>(2,482)</u>
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Change in net assets of governmental activities		<u><u>\$ 473,358</u></u>
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Town of Machias, Maine
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Enterprise Funds			Total
	Sewer Fund	Solid Waste Facility	Other Proprietary Funds	
ASSETS				
Current assets				
Cash and cash equivalents	\$ -	\$ 207,140	\$ 14,334	\$ 221,474
Investments	546,801	-	-	546,801
Accounts receivable, net	200,936	-	227,655	428,591
Due from other funds	9,512	-	553,723	563,235
Receivables from other governments	29,689	9,899	-	39,588
Total current assets	<u>786,938</u>	<u>217,039</u>	<u>795,712</u>	<u>1,799,689</u>
Non-current assets				
Capital assets				
Land and improvements	1,000	-	-	1,000
Infrastructure and buildings	7,057,247	345,250	650,068	8,052,565
Construction in progress	5,551,428	-	-	5,551,428
Vehicles and equipment	387,651	115,403	161,713	664,767
Less accumulated depreciation	<u>(2,659,992)</u>	<u>(304,588)</u>	<u>(489,726)</u>	<u>(3,454,306)</u>
Total non-current assets	<u>10,337,334</u>	<u>156,065</u>	<u>322,055</u>	<u>10,815,454</u>
Total assets	<u>11,124,272</u>	<u>373,104</u>	<u>1,117,767</u>	<u>12,615,143</u>
LIABILITIES				
Current liabilities				
Accounts payable	11,249	-	-	11,249
Due to other funds	214,858	440,851	52,293	708,002
Capital leases payable	-	13,109	-	13,109
Bonds and notes payable	49,012	17,206	-	66,218
Total current liabilities	<u>275,119</u>	<u>471,166</u>	<u>52,293</u>	<u>798,578</u>
Non-current liabilities				
Compensated absences	12,067	2,094	-	14,161
Capital lease obligation	-	19,128	-	19,128
Bonds and notes payable	908,787	-	-	908,787
Total non-current liabilities	<u>920,854</u>	<u>21,222</u>	<u>-</u>	<u>942,076</u>
Total liabilities	<u>1,195,973</u>	<u>492,388</u>	<u>52,293</u>	<u>1,740,654</u>
NET ASSETS				
Invested in capital assets, net of related debt	9,379,535	106,622	322,055	9,808,212
Restricted for other purposes	121,664	-	26,536	148,200
Restricted for Machias Water Co.	427,100	-	-	427,100
Unrestricted (deficit)	-	(225,906)	716,883	490,977
Total net assets (deficit)	<u>\$ 9,928,299</u>	<u>\$ (119,284)</u>	<u>\$ 1,065,474</u>	<u>\$ 10,874,489</u>

Town of Machias, Maine
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

	Enterprise Funds			Total
	Sewer Fund	Solid Waste Facility	Other Proprietary Funds	
REVENUES				
Charges for services and interest	\$ 366,955	\$ 332,911	\$ 345,139	\$ 1,045,005
Total operating revenues	<u>366,955</u>	<u>332,911</u>	<u>345,139</u>	<u>1,045,005</u>
OPERATING EXPENSES				
Personal services	119,741	82,249	164,004	365,994
Contractual services	23,361	206,595	11,024	240,980
Utilities	69,269	10,743	9,111	89,123
Repairs and maintenance	25,642	6,901	18,513	51,056
Other supplies and expenses	68,362	14,769	16,041	99,172
Insurance claims and expenses	8,745	5,922	13,890	28,557
Capital outlay	8,216	2,530	-	10,746
Depreciation	136,757	14,663	41,677	193,097
Total operating expenses	<u>460,093</u>	<u>344,372</u>	<u>274,260</u>	<u>1,078,725</u>
Operating income (loss)	<u>(93,138)</u>	<u>(11,461)</u>	<u>70,879</u>	<u>(33,720)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	99,851	6,281	64	106,196
Donations	-	-	1,124	1,124
Capital grants and contributions	2,293,852	-	-	2,293,852
Interest expense	(20,055)	(3,727)	-	(23,782)
Total non-operating revenue	<u>2,373,648</u>	<u>2,554</u>	<u>1,188</u>	<u>2,377,390</u>
Income (loss) before transfers	<u>2,280,510</u>	<u>(8,907)</u>	<u>72,067</u>	<u>2,343,670</u>
Transfers in	58,923	59,351	-	118,274
Transfers out	(6,305)	(3,132)	(81,695)	(91,132)
Total transfers	<u>52,618</u>	<u>56,219</u>	<u>(81,695)</u>	<u>27,142</u>
Change in net assets	<u>2,333,128</u>	<u>47,312</u>	<u>(9,628)</u>	<u>2,370,812</u>
Total net assets (deficit) - beginning	7,744,368	(164,082)	953,467	8,533,753
Reclassification of accrued compensated absences	(9,707)	(2,514)	-	(12,221)
Restatement of prior year receivables	(139,490)	-	121,635	(17,855)
Total net assets (deficit) - beginning, restated	<u>7,595,171</u>	<u>(166,596)</u>	<u>1,075,102</u>	<u>8,503,677</u>
Total net assets (deficit) - ending	<u>\$ 9,928,299</u>	<u>\$ (119,284)</u>	<u>\$ 1,065,474</u>	<u>\$ 10,874,489</u>

See accompanying notes to basic financial statements.

Town of Machias, Maine
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2012

	Proprietary Fund Types - Enterprise			Totals
	Sewer	Solid Waste Facility	Other Proprietary Funds	
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from user charges and tenants	\$ 351,081	\$ 332,433	\$ 356,085	\$ 1,039,599
Payments for administrative services	(195,395)	(99,334)	(187,005)	(481,734)
Payments to suppliers for goods and services	(125,581)	(230,795)	(45,578)	(401,954)
Interfund activity	40,581	(26,173)	(42,931)	(28,523)
Net cash provided (used) by operating activities	<u>70,686</u>	<u>(23,869)</u>	<u>80,571</u>	<u>127,388</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interest paid	(20,055)	(3,727)	-	(23,782)
Interest income	-	6,281	64	6,345
Donation	-	-	1,124	1,124
Transfers in (out)	52,618	56,219	(81,695)	27,142
Net cash provided (used) by noncapital financing activities	<u>32,563</u>	<u>58,773</u>	<u>(80,507)</u>	<u>10,829</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on bonds and leases	(45,122)	(28,624)	-	(73,746)
Capital grants and contributions	2,591,361	-	-	2,591,361
Acquisition and construction of capital assets	(2,649,488)	-	-	(2,649,488)
Net cash provided (used) by capital and related financial activities	<u>(103,249)</u>	<u>(28,624)</u>	<u>-</u>	<u>(131,873)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>-</u>	<u>6,280</u>	<u>64</u>	<u>6,344</u>
CASH AND CASH EQUIVALENTS, BEGINNING	<u>-</u>	<u>200,860</u>	<u>14,270</u>	<u>215,130</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ -</u>	<u>\$ 207,140</u>	<u>\$ 14,334</u>	<u>\$ 221,474</u>
Supplemental Information				
Interest charged to expense	<u>\$ 20,055</u>	<u>\$ 3,727</u>	<u>\$ -</u>	<u>\$ 23,782</u>
Reconciliation of operating income to net cash used by operating activities				
Operating income (loss)	\$ (93,138)	\$ (11,461)	\$ 70,879	\$ (33,720)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	136,757	14,663	41,677	193,097
(Increase) decrease in the following assets				
Accounts receivable	(15,874)	(478)	10,946	(5,406)
Interfund receivables	-	-	(18,751)	(18,751)
Increase (decrease) in the following liabilities				
Compensated absences payable	2,360	(420)	-	1,940
Interfund payables	40,581	(26,173)	(24,180)	(9,772)
Net cash provided (used) by operating activities	<u>\$ 70,686</u>	<u>\$ (23,869)</u>	<u>\$ 80,571</u>	<u>\$ 127,388</u>

See accompanying notes to basic financial statements.

Town of Machias, Maine
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 769,283	\$ 63,224
LIABILITIES		
Due to student groups	-	63,224
Due to other funds	5,500	-
Total liabilities	<u>5,500</u>	<u>63,224</u>
NET ASSETS		
Held in trust for scholarships and other purposes	<u>\$ 763,783</u>	<u>\$ -</u>

Town of Machias, Maine
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2012

	Private Purpose Trust Fund
ADDITIONS	
Interest	\$ 6,017
Contributions	614,556
Total additions	620,573
 DEDUCTIONS	
Scholarships	3,550
Change in net assets	617,023
 NET ASSETS - BEGINNING	146,760
 NET ASSETS - ENDING	\$ 763,783

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 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.

A. 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.

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

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

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIC FINANCIAL STATEMENTS – 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, proprietary, and fiduciary activities. The governmental and proprietary 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, when applicable. The fiduciary statements aggregate and present each fund type as a separate column on the fund financial statements.

1. Governmental Funds

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

The Town has presented the following major governmental funds:

General Fund

The general fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Fund- School Categorical Grants

The special revenue fund – school categorical grants is used to account for the proceeds of specific revenue sources that are legally or contractually restricted to expenditures for specified purposes. This fund includes federal and state grants for specific education purposes.

2. 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:

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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS (CONTINUED)

2. Proprietary Funds (Continued)

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

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

The Town has presented the following fiduciary funds:

Private Purpose Trust Fund

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. Private purpose trusts for the Town account for various scholarship accounts. 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.

D. 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.

The government-wide statements and fund financial statements for proprietary funds and fiduciary 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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using 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.

E. 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.

F. FINANCIAL STATEMENT AMOUNTS

1. Deposits and Investments

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

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

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.

3. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets, except for amounts owed to fiduciary funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Any residual balances between the governmental activities and fiduciary funds are reported in the government-wide financial statements as due from fiduciary funds.

4. Interfund Transfers

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of the governmental funds on the fund financial statements. For the purposes of the government-wide statement of activities, all interfund transfers between individual funds within governmental activities and individual funds within business-type activities have been eliminated.

5. 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, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

6. Long-term Liabilities

The accounting treatment of long-term liabilities 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 liabilities to be repaid from governmental and business-type resources are reported as liabilities in government-wide statements. The long-term liabilities consist primarily of notes, bonds and capital leases payable and compensated absences liability.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. 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.

7. Compensated Absences

The Town's policy regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick leave. The liability for these governmental compensated absences is recorded on the government-wide financial statements. 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.

8. Government-wide Net Assets

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

9. Governmental Fund Balances

The Governmental Accounting Standards Board (GASB) has issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance to be properly reported within one of the five fund balance categories listed below:

Nonspendable, such as fund balances associated with inventories or prepaid expenses. The nonspendable fund balance may also include amounts that are required to be maintained intact, such as the corpus of an endowment fund.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

9. Governmental Fund Balances (Continued)

Restricted fund balance category includes amounts that can be used only for the specific purposes stipulated by constitution, grantors or through enabling legislation.

Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Town's highest level of decision making authority, which is the passage of a resolution by simple majority vote of the Town Meeting.

Assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Funds may be assigned by simple majority vote of the Town Meeting, upon passage of a budget ordinance in which fund balances are used to balance the budget, or by the Board of Selectmen, under authority granted by the Town's fund balance policy.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The Town has formally adopted a fund balance policy that addresses the requirements of GASB 54. For expenditures that qualify for multiple categories, amounts will be first spent from restricted fund balance, followed by committed fund balance, then assigned fund balance, and finally unassigned fund balance.

10. Revenue Recognition - Property Taxes

Property taxes were levied on assessed values of April 1, 2011 and were due on October 17, 2011 and March 15, 2012, respectively. Interest was charged at 7% per annum as authorized by Maine Law on amounts not paid by the due date. Upon the expiration of eight months, and within one year from the date of original commitment, a tax lien is recorded for all delinquent taxes on real estate. If taxes were paid in full by October 17, 2011 a 3% discount was applied.

For purposes of the fund financial statements, property taxes assessed and collected during the year ended June 30, 2012, and during the first sixty days of the next fiscal year are recognized as revenue in 2012. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue in the general fund.

Assessed value	
Real estate	\$130,973,280
Personal property	<u>8,879,000</u>
	\$139,852,280
Tax rate (per \$1,000)	<u>20.60</u>
Commitment	\$ 2,880,957
Supplemental	14,276
Less collections, discounts and abatements	<u>(2,617,822)</u>
Receivable at June 30, 2012	<u>\$ 277,411</u>
Collection rate	90.4%

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

11. Recent Accounting Pronouncements

In June 2011, the Governmental Accounting Standards Council (GASB) issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The intent of this statement is to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. The Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. The new Statement is effective for financial statement periods beginning after December 15, 2011. The Town is currently assessing the impact of this Statement on its financial statements.

NOTE 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, 2012, the Town reported deposits of \$2,742,107 with bank balances of \$4,055,593. Of the Town's total bank balance of \$4,055,593, \$0 was exposed to custodial credit risk as all balances were insured or collateralized by underlying securities held by the related bank, which were not in the Town's name.

Deposits have been reported as follows:

Reported in governmental funds	\$1,688,126
Reported in proprietary funds	<u>221,474</u>
Total reported on the Statement of Net Assets	1,909,600
Reported in fiduciary funds	<u>832,507</u>
Total deposits	<u>\$2,742,107</u>

Investments

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

The Town's investments are as follows:

U.S. Treasury notes	\$ 164,924
U.S. Agency notes	336,191
Common stock, Machias Water Co.	<u>427,100</u>
Total investments	<u>\$ 928,215</u>

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, 2012 the Town's investments of \$928,215, invested in U.S. Treasury notes, U.S. Agency notes, and company stock, are not exposed to custodial credit risk as the investments are in the Town's name.

Concentration of Credit Risk: The Town's investment in common stock meets the criteria to be classified as a concentration of credit risk investment. The investment of \$427,100 in the Machias Water Company makes up approximately 46% of the Town's total investments. 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:

	Due in less than one year	Due in 1-5 years
U.S. Agency notes	\$162,788	\$173,403

Investments have been reported as follows:

Reported in governmental funds	\$ 381,414
Reported in proprietary funds	<u>546,801</u>
Total investments	<u>\$ 928,215</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, 2011 the Town's interest has been valued at \$427,100.

NOTE 3. ACCOUNTS RECEIVABLE

The non-major proprietary fund - ambulance fund records an allowance for uncollectible receivables based on a percentage of Medicaid covered charges for services. The allowance for the year ended June 30, 2012 is \$22,515 based on an estimate of 9% of total receivables.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance 6/30/11	Additions/ Completions	Retirements/ Reclassifications	Balance 6/30/12
Governmental Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	-	196,558	-	196,558
Total capital assets not being depreciated	<u>565,074</u>	<u>196,558</u>	<u>-</u>	<u>761,632</u>
<i>Capital assets being depreciated</i>				
Buildings and land improvements	6,814,949	7,715	(550,058)	6,272,606
Infrastructure	804,632	506,172	-	1,310,804
Equipment, furniture and fixtures	583,472	14,172	(16,086)	581,558
Vehicles	840,931	28,500	(65,350)	804,081
Total capital assets being depreciated	<u>9,043,984</u>	<u>556,559</u>	<u>(631,494)</u>	<u>8,969,049</u>
Less accumulated depreciation for:				
Buildings and land improvements	(3,840,305)	(116,503)	550,058	(3,406,750)
Infrastructure	(96,565)	(38,500)	-	(135,065)
Equipment, furniture and fixtures	(491,282)	(26,797)	16,086	(501,993)
Vehicles	(669,612)	(49,936)	65,350	(654,198)
Total accumulated depreciation	<u>(5,097,764)</u>	<u>(231,736)</u>	<u>631,494</u>	<u>(4,698,006)</u>
Total capital assets being depreciated, net	<u>3,946,220</u>	<u>324,823</u>	<u>-</u>	<u>4,271,043</u>
Governmental activities capital assets, net	<u>\$ 4,511,294</u>	<u>\$ 521,381</u>	<u>\$ -</u>	<u>\$ 5,032,675</u>
Business-Type Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	3,635,364	2,284,983	(368,919)	5,551,428
Total capital assets not being depreciated	<u>3,636,364</u>	<u>2,284,983</u>	<u>(368,919)</u>	<u>5,552,428</u>
<i>Capital assets being depreciated</i>				
Infrastructure and buildings	7,516,279	-	536,286	8,052,565
Vehicles and equipment	662,523	2,243	-	664,766
Total capital assets being depreciated	<u>8,178,802</u>	<u>2,243</u>	<u>536,286</u>	<u>8,717,331</u>
Less accumulated depreciation				
Infrastructure and buildings	(2,757,073)	(162,802)	(167,367)	(3,087,242)
Vehicles and equipment	(336,768)	(30,295)	-	(367,063)
Total accumulated depreciation	<u>(3,093,841)</u>	<u>(193,097)</u>	<u>(167,367)</u>	<u>(3,454,305)</u>
Total capital assets being depreciated, net	<u>5,084,961</u>	<u>(190,854)</u>	<u>368,919</u>	<u>5,263,026</u>
Business-type activities capital assets, net	<u>\$ 8,721,325</u>	<u>\$ 2,094,129</u>	<u>\$ -</u>	<u>\$ 10,815,454</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 4. CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2012, was charged as direct expense to programs as follows:

<i>Governmental activities</i>	
General government	\$ 3,982
Police	12,040
Fire	19,358
Public safety building	3,945
Public works	94,416
Recreation	3,466
Airport	420
Education	<u>94,109</u>
Total depreciation expense – Governmental activities	<u>\$ 231,736</u>
<i>Business-type activities</i>	
Sewer	\$ 136,757
Ambulance	9,173
Telcenter	32,504
Solid waste	<u>14,663</u>
Total depreciation expense – business-type activities	<u>\$ 193,097</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 5. LONG-TERM LIABILITIES

The following is a summary of long term liabilities transactions of the Town for the year ended June 30, 2012.

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Portion due within one year
Governmental Liabilities					
General Obligation Bonds and Notes					
General Bonds					
Maine Municipal Bond Bank, 0% school renovation bond, dated August 21, 2001, due 2011	\$ 37,590	\$ -	\$ (37,590)	\$ -	\$ -
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 21, 2010, due 2012	102,574	-	(102,574)	-	-
Maine Municipal Bond Bank, 4.6% school renovation bond, dated December 22, 2009, due 2020	652,996	-	(59,719)	593,277	62,429
General Notes					
Machias Savings Bank, 3.65% industrial park note, dated December 28, 2007, due 2013	147,577	-	(72,409)	75,168	75,168
Machias Savings Bank, 3.12% vehicle note, dated December 2, 2008, due 2015	83,784	-	(15,735)	68,049	16,223
Machias Savings Bank, 1.25% vehicle note, dated June 5, 2012, due 2014	-	20,000	-	20,000	9,938
Machias Savings Bank, 2.50% road projects note, dated December 2, 2008, due 2015	-	400,000	-	400,000	51,769
Total general obligation bonds and notes	<u>1,024,521</u>	<u>420,000</u>	<u>(288,027)</u>	<u>1,156,494</u>	<u>215,527</u>
Capital Leases	6,712	-	(3,298)	3,414	3,414
Compensated Absences	<u>22,666</u>	<u>3,217</u>	<u>(735)</u>	<u>25,147</u>	<u>N/A</u>
Total governmental activities liabilities	<u>1,053,898</u>	<u>423,217</u>	<u>(292,060)</u>	<u>1,185,055</u>	<u>218,941</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Portion due within one year
Business-type Liabilities					
Proprietary Fund Bonds and Notes Payable					
Sewer Bonds					
Farmers Home Administration, 5% sewer rehabilitation project, dated April 21, 1983, due 2013	\$ 14,000	\$ -	\$ (7,000)	\$ 7,000	\$ 7,000
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 21, 2010, due 2012	14,426	-	(14,426)	-	-
Maine Municipal Bond Bank, 2.19% sewer rehabilitation project, dated July 26, 2002, due 2023	161,586	-	(11,703)	149,883	11,997
Maine Municipal Bond Bank, 1.40% sewer rehabilitation project, dated May 15, 2010, due 2029	308,909	-	(15,209)	293,700	15,423
Maine Municipal Bond Bank, 1.00% sewer rehabilitation project, dated January 21, 2011, due 2016	4,000	-	(784)	3,216	792
Maine Municipal Bond Bank, 1.00% sewer rehabilitation project, dated December 21, 2011, due 2017	-	4,000	-	4,000	784
Rural Development Bond, 2.25% sewer rehabilitation project, dated January 25, 2012, due 2040	-	500,000	-	500,000	13,015
Solid Waste Note Payable					
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 4, 2010, due 2013	<u>33,694</u>	-	<u>(16,487)</u>	<u>17,207</u>	<u>17,207</u>
Total proprietary fund bonds and notes payable	536,615	504,000	(65,609)	975,006	66,218
Capital Leases	44,373	-	(12,136)	32,237	13,109
Compensated Absences	<u>12,221</u>	<u>2,360</u>	<u>(420)</u>	<u>14,161</u>	<u>N/A</u>
Total proprietary activities liabilities	<u>593,209</u>	<u>506,360</u>	<u>(78,165)</u>	<u>1,021,404</u>	<u>79,327</u>
Total general obligation and proprietary liabilities	<u>\$ 1,647,107</u>	<u>\$ 929,577</u>	<u>\$ (370,225)</u>	<u>\$ 2,206,459</u>	<u>\$ 298,268</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

General obligation fund and proprietary fund bonds and notes payable

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	
2013	\$ 215,527	\$ 44,307	\$ 66,218	\$ 20,152	\$ 346,204
2014	146,689	35,179	42,837	18,804	243,509
2015	141,589	30,091	43,681	17,997	233,358
2016	146,738	24,936	44,542	17,173	233,389
2017	133,666	19,632	44,597	16,295	214,190
2018-2012	372,285	28,012	232,510	68,461	701,268
2023-2027	-	-	191,542	47,885	239,427
2028-2032	-	-	133,302	29,044	162,346
2033-2037	-	-	106,224	15,101	121,325
2038-2040	-	-	69,553	3,151	72,704
	<u>\$ 1,156,494</u>	<u>\$ 182,157</u>	<u>\$ 975,006</u>	<u>\$ 254,063</u>	<u>\$ 2,567,720</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, 2012, the Town was in compliance with these limitations.

Capital Leases Payable

The Town is the lessee of photocopiers and a truck scale under capital leases expiring in fiscal years ending June 30, 2013 and 2015. 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.

As of June 30, 2012, the Town had recorded \$13,104 in governmental activities equipment and \$63,035 in business-type activities equipment related to outstanding capital leases. Amortization of these assets is included with depreciation expense. Accumulated depreciation for these assets at June 30, 2012 is \$10,483 and \$6,093, respectively.

Minimum future lease payments under capital leases as of June 30, 2012 are:

2013	\$ 18,679
2014	15,144
2015	<u>5,049</u>
	38,872
Less amount representing interest	<u>(3,221)</u>
Present value of minimum lease payments	<u>\$ 35,651</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 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, 2012 arising from these transactions were as follows:

	Receivable	Payable	Transfers in	Transfers out
General fund	\$ 756,067	\$ 948,050	\$126,880	\$ 120,579
Special revenue- school	-	127,459	-	32,748
Sewer fund	9,512	214,858	58,923	6,305
Solid waste fund	-	440,851	59,351	3,132
Private purpose trust fund	-	5,500	-	-
Non-major proprietary funds	553,723	52,293	-	81,695
Non-major governmental funds	<u>575,356</u>	<u>105,647</u>	<u>-</u>	<u>695</u>
	<u>\$1,894,658</u>	<u>\$1,894,658</u>	<u>\$ 245,154</u>	<u>\$ 245,154</u>

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

NOTE 7. FUND BALANCES – COMMITTED FOR CAPITAL PROJECTS

At June 30, 2012, the fund balances which are committed for capital projects were comprised of the following:

Airport improvement	\$ 60,968
Ambulance replacement	26,879
Basketball court	1,233
Boat dock	1,980
Comprehensive plan	2,687
Economic development	88,733
E-911 signs	1,271
Fire department homeland security	314
Fire department ventilation	4,629
Fire truck replacement	3,276
Industrial development	24,099
Lawnmower	700
Recreation building	7,819
Roads	93,664
Sewer expansion	75,323
Sewer overflow	3,367
Sidewalk repair	500
School renovations	50,060
Skate park	5,967
Storm drain repair and replacement	10,972
Tennis court	14,549
Town office	<u>88,385</u>
Total committed for capital projects	<u>\$ 567,375</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 8. FUND BALANCES – COMMITTED FOR OTHER PURPOSES

At June 30, 2012, the fund balances which are committed for other purposes were comprised of the following:

Recreation – facilities and activities	\$ 4,217
Recreation – softball field	1,677
Road projects	58,351
Debt service – public safety building	35,788
Superintendent's office	<u>13,404</u>
Total	<u>\$113,437</u>

NOTE 9. NET ASSETS – RESTRICTED – EDUCATION

At June 30, 2012, the net assets restricted fund balance for education was comprised of the following:

General education	\$ 422,331
Adult education- regular	<u>27,690</u>
Total	<u>\$ 450,021</u>

NOTE 10. NET ASSETS – RESTRICTED – OTHER PURPOSES

At June 30, 2012, the net assets restricted fund balance for Town grants and other purposes was comprised of the following:

Mill account	\$ 242,914
Revolving loan fund	8,024
Sewer grant	86
State and local roads	16,345
Maine Waste Management-transfer station	4,990
Station 98	10,411
Thermal imaging camera	1,380
Downtown planning-donations	8,783
Scholarship funds	<u>175</u>
Total	<u>\$ 293,108</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 11. NET ASSETS – RESTRICTED – ENTERPRISE FUNDS

At June 30, 2012, the enterprise fund's restricted fund balance for other purposes was comprised of the following:

Sewer fund	
Reserve for debt/capital	\$ 121,664
Nonmajor proprietary fund- ambulance fund	
Reserve for vehicle replacement	<u>26,536</u>
Total	<u>\$ 148,200</u>

NOTE 12. UNRESTRICTED NET ASSETS (DEFICIT) – NON-MAJOR FUNDS

The Town had a deficit fund balance in its unrestricted fund balance of its non-major school lunch fund of \$55,950 at June 30, 2012 that is to be funded through future changes in program and additional contributions from the general fund.

In the non-major proprietary funds the Telcenter fund has a deficit in unrestricted net assets of \$2,959 for the year ended June 30, 2012 to be funded through future Town funding.

NOTE 13. RESTATEMENT OF BEGINNING NET ASSETS

The Town restated its beginning governmental activities net assets by (\$22,667) and beginning proprietary net assets by (\$12,221) to record compensated absences liabilities for accrued but unused vacation amounts.

The Town also restated its sewer fund beginning sewer fund unrestricted net assets by (\$139,490) to reflect the write-off of old accounts receivables.

The Town also restated its non-major fund - ambulance fund beginning unrestricted net assets by \$121,635 to reflect the recognition of old accounts receivables.

NOTE 14. 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 multiple employer defined benefit plan with a special funding situation, established by the Maine State legislature. The Maine Public Employees Retirement System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the state legislature.

The Maine Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the teacher's group. That report may be obtained by calling 1-800-451-9800.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 14. PENSION PLANS (CONTINUED)

Plan members are required to contribute 7.65% of their compensation to the retirement system. The school department's payroll for employees covered by this group, for the fiscal year ended June 30, 2012, was approximately \$2,265,091. The State of Maine Department of Education is required, by state statute, to contribute the employer contribution which amounts to \$324,361 (14.32%) of compensation for the year ended June 30, 2012. There is no contribution required by the school department except for federally funded teachers for which the school department contributes 14.32% of their compensation. This cost amounted to \$23,292 for the year ended June 30, 2012, 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 \$17,516 and employees elected to defer \$17,637 for a contribution of \$35,153 for the year ended June 30, 2012.

NOTE 15. PARTICIPATION IN PUBLIC ENTITY RISK POOL

The Town is exposed to various risks of losses related to torts, theft, damage, and destruction of assets, injuries to employees, and natural disasters.

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

The Town is also a member of the Maine Municipal Association - Property and Casualty Pool ("Pool"). As with the Fund above, the Pool was created to obtain lower rates for its members. The Town pays an annual premium for its property and liability coverage. Under the property coverage portion of the Pool, coverage is provided after the deductible is met, to \$2,000,000. Under the liability portion of the Pool, coverage is provided after the deductible is met, to \$1,000,000.

The Town is also a member of the Maine Municipal Association - Unemployment Compensation Fund ("Fund"). The fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain lower costs for unemployment compensation coverage and develop a comprehensive loss control program. The Town contributes to MSMA based on the first \$12,000 of wages for unemployment compensation. Each member has its reserve, which is determined by the actuary. The annual rate set by the Fund's actuary is based on the member's reserve and on estimated future claims. Each member is responsible for its own excess of claims over reserve.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 15. PARTICIPATION IN PUBLIC ENTITY RISK POOL (CONTINUED)

The School Department is a member of the Maine School Management Association - Unemployment Compensation Trust Fund ("MSMA"). MSMA was created to formulate, develop and administer a program of modified self-funding for MSMA's membership, obtain lower costs for unemployment compensation coverage and develop a comprehensive loss control program. The School Department contributes to MSMA based on the first \$12,000 of wages for unemployment compensation. Each member has its reserve, which is determined by the actuary. If the reserve is higher than is determined by the actuary, excess contributions are returned to the member. The annual rate set by MSMA's actuary is based on the member's reserve and on estimated future claims. Each member is responsible for its own excess of claims over reserve.

NOTE 16. SCHOOL ADMINISTRATIVE REORGANIZATION

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

NOTE 17. COMMITMENTS

The Town was committed to contracts for sewer projects with a remaining amount totaling approximately \$1,427,797 at June 30, 2012.

NOTE 18. 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, 2012

	Budgeted Amounts			Actual Amounts, Budgetary Basis	Budget to GAAP Differences**	Actual Amounts, GAAP Basis
	Original	Changes	Final*			
REVENUES						
Property taxes, net	\$ 2,880,357	\$ -	\$ 2,880,357	\$ 2,816,554	\$ -	\$ 2,816,554
Excise taxes	201,850	-	201,850	224,154	-	224,154
Interest and lien costs	25,000	-	25,000	32,504	-	32,504
Licenses and permits	20,550	-	20,550	21,230	-	21,230
Intergovernmental						
Education	2,622,467	(17,837)	2,604,630	2,695,039	-	2,695,039
On-behalf payments - State of Maine	-	-	-	-	324,361	324,361
Town	345,825	-	345,825	353,215	-	353,215
Charges for services	16,295	-	16,295	18,741	-	18,741
Interest earnings	12,000	-	12,000	14,163	-	14,163
Miscellaneous	4,690	-	4,690	6,725	-	6,725
Total revenues	<u>6,129,034</u>	<u>(17,837)</u>	<u>6,111,197</u>	<u>6,182,325</u>	<u>324,361</u>	<u>6,506,686</u>
EXPENDITURES						
Current						
General government	348,010	-	348,010	313,861	-	313,861
Police department	309,327	(531)	308,796	295,167	(4,865)	290,302
Fire department	288,743	(1,062)	287,681	290,603	(1,062)	289,541
Public safety building	21,670	2,656	24,326	24,326	-	24,326
Highways and streets	290,397	-	290,397	296,891	-	296,891
Education	4,158,390	(138,614)	4,019,776	4,129,726	(175,587)	3,954,139
Adult education	160,707	-	160,707	157,473	-	157,473
On-behalf payments - State of Maine	-	-	-	-	324,361	324,361
Recreation	42,300	-	42,300	37,863	-	37,863
General assistance	4,800	-	4,800	4,217	-	4,217
Airport	12,575	-	12,575	13,753	-	13,753
County tax	186,608	-	186,608	186,608	-	186,608
Tax increment financing	23,983	-	23,983	24,219	-	24,219
Other services	28,140	695	28,835	14,434	-	14,434
Debt service						
Principal	192,912	98,743	291,655	192,582	98,743	291,325
Interest and other charges	12,843	29,566	42,409	12,843	29,566	42,409
Capital outlay	523,500	64,854	588,354	530,003	-	530,003
Total expenditures	<u>6,604,905</u>	<u>56,307</u>	<u>6,661,212</u>	<u>6,524,569</u>	<u>271,156</u>	<u>6,795,725</u>
Excess (deficiency) of revenues over expenditures	<u>(475,871)</u>	<u>(74,144)</u>	<u>(550,015)</u>	<u>(342,244)</u>	<u>53,205</u>	<u>(289,039)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from debt	420,000	-	420,000	420,000	-	420,000
Transfers in	90,070	4,062	94,132	141,475	(5,927)	135,548
Transfers out	(117,640)	(2,304)	(119,944)	(120,579)	-	(120,579)
Total other financing sources and uses	<u>392,430</u>	<u>1,758</u>	<u>394,188</u>	<u>440,896</u>	<u>(5,927)</u>	<u>434,969</u>
Net change in fund balances	(83,441)	(72,386)	(155,827)	98,852	47,278	145,930
FUND BALANCES - BEGINNING	<u>1,662,478</u>	<u>-</u>	<u>1,662,478</u>	<u>1,662,478</u>	<u>(329,831)</u>	<u>1,332,647</u>
FUND BALANCES - ENDING	<u>\$ 1,579,037</u>	<u>\$ (72,386)</u>	<u>\$ 1,506,651</u>	<u>\$ 1,761,130</u>	<u>\$ (282,553)</u>	<u>\$ 1,478,577</u>

* - Includes additional adult education budgeted revenues, additional funding sources including debt and restricted funds and use of carryover

** - Adjustments necessary to convert the general fund's net change in fund balances on the budget basis to a GAAP basis are provided below:

Net change in fund balances - budget basis	\$ 98,852
On behalf payments revenue	324,361
On behalf payments expenditures	(324,361)
Change in accrued summer teacher pay	47,278
Net change in fund balances - GAAP basis	<u>\$ 145,930</u>

Town of Machias, Maine
Budget and Actual (with Variances)
General Fund
For the year ended June 30, 2012

	Budgeted Amounts			Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original		Final*		
REVENUES					
Property taxes, net	\$ 2,880,357	\$ -	\$ 2,880,357	\$ 2,816,554	\$ (63,803)
Excise taxes	201,850	-	201,850	224,154	22,304
Interest and lien costs	25,000	-	25,000	32,504	7,504
Licenses and permits	20,550	-	20,550	21,230	680
Intergovernmental					
Education	2,622,467	(17,837)	2,604,630	2,695,039	90,409
Town	345,825	-	345,825	353,215	7,390
Charges for services	16,295	-	16,295	18,741	2,446
Investment earnings	12,000	-	12,000	14,163	2,163
Miscellaneous	4,690	-	4,690	6,725	2,035
Total revenues	<u>6,129,034</u>	<u>(17,837)</u>	<u>6,111,197</u>	<u>6,182,325</u>	<u>71,128</u>
EXPENDITURES					
Current					
General government	348,010	-	348,010	313,861	34,149
Police department	309,327	(531)	308,796	295,167	13,629
Fire department	288,743	(1,062)	287,681	290,603	(2,922)
Public safety building	21,670	2,656	24,326	24,326	-
Highways and streets	290,397	-	290,397	296,891	(6,494)
Education	4,158,390	(10,305)	4,148,085	4,129,726	18,359
Adult education	160,707	-	160,707	157,473	3,234
Recreation	42,300	-	42,300	37,863	4,437
General assistance	4,800	-	4,800	4,217	583
Airport	12,575	-	12,575	13,753	(1,178)
County tax	186,608	-	186,608	186,608	-
Tax increment financing	23,983	-	23,983	24,219	(236)
Other services	28,140	695	28,835	14,434	14,401
Debt service					
Principal	192,912	-	192,912	192,582	330
Interest and other charges	12,843	-	12,843	12,843	-
Capital outlay	523,500	64,854	588,354	530,003	58,351
Total expenditures	<u>6,604,905</u>	<u>56,307</u>	<u>6,661,212</u>	<u>6,524,569</u>	<u>136,643</u>
Excess (deficiency) of revenues over expenditures	<u>(475,871)</u>	<u>(74,144)</u>	<u>(550,015)</u>	<u>(342,244)</u>	<u>207,771</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from debt	420,000	-	420,000	420,000	-
Transfers in	90,070	4,062	94,132	141,475	47,343
Transfers out	(117,640)	(2,304)	(119,944)	(120,579)	(635)
Total other financing sources and uses	<u>392,430</u>	<u>1,758</u>	<u>394,188</u>	<u>440,896</u>	<u>46,708</u>
Net change in fund balances	(83,441)	(72,386)	(155,827)	98,652	\$ 254,479
FUND BALANCES - BEGINNING	<u>1,662,478</u>	<u>-</u>	<u>1,662,478</u>	<u>1,662,478</u>	
FUND BALANCES - ENDING	<u>\$ 1,579,037</u>	<u>\$ (72,386)</u>	<u>\$ 1,506,651</u>	<u>\$ 1,761,130</u>	

* - Includes additional adult education budgeted revenues

**Town of Machias, Maine
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012**

	Special Revenue Fund - School Lunch	Special Revenue Fund - Town	Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 35,369	\$ -	\$ 50,060	\$ 85,429
Investments	-	267,403	-	267,403
Due from other funds	-	36,307	539,049	575,356
Receivable from other governments	4,063	-	-	4,063
Note receivable	-	2,621	-	2,621
Inventories	5,730	-	-	5,730
Total assets	<u>\$ 45,162</u>	<u>\$ 306,331</u>	<u>\$ 589,109</u>	<u>\$ 940,602</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to other funds	\$ 92,424	\$ 13,223	\$ -	\$ 105,647
Other accrued expenses	2,958	-	-	2,958
Total liabilities	<u>95,382</u>	<u>13,223</u>	<u>-</u>	<u>108,605</u>
Fund balances				
Nonspendable for inventory	5,730	-	-	5,730
Restricted for				
Capital projects	-	-	21,734	21,734
Town grants and other purposes	-	293,108	-	293,108
Committed for capital projects	-	-	567,375	567,375
Unassigned (deficit)	(55,950)	-	-	(55,950)
Total fund balances	<u>(50,220)</u>	<u>293,108</u>	<u>589,109</u>	<u>831,997</u>
Total liabilities and fund balances	<u>\$ 45,162</u>	<u>\$ 306,331</u>	<u>\$ 589,109</u>	<u>\$ 940,602</u>

Town of Machias, Maine
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	<u>Special Revenue Fund - School Lunch</u>	<u>Special Revenue Fund - Town</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES				
Intergovernmental	\$ 134,745	\$ -	\$ 165,479	\$ 300,224
Donations	-	-	50,000	50,000
Charges for services	35,575	-	-	35,575
Investment earnings	-	3,452	60	3,512
Total revenues	<u>170,320</u>	<u>3,452</u>	<u>215,539</u>	<u>389,311</u>
EXPENDITURES				
Current				
Food and supplies	115,322	-	-	115,322
Labor	105,354	-	-	105,354
Capital outlay	-	-	176,626	176,626
Total expenditures	<u>220,676</u>	<u>-</u>	<u>176,626</u>	<u>397,302</u>
Excess (deficiency) of revenues over expenditures	<u>(50,356)</u>	<u>3,452</u>	<u>38,913</u>	<u>(7,991)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Net change in fund balances	(50,356)	3,452	38,218	(8,686)
FUND BALANCES - BEGINNING	136	289,656	550,891	840,683
FUND BALANCES (DEFICIT) - ENDING	<u>\$ (50,220)</u>	<u>\$ 293,108</u>	<u>\$ 589,109</u>	<u>\$ 831,997</u>

Town of Machias, Maine
Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2012

	<u>Proprietary Funds</u>		<u>Total Nonmajor Proprietary Funds</u>
	<u>Telcenter</u>	<u>Ambulance Fund</u>	
ASSETS			
Current assets			
Cash and cash equivalents	\$ 14,334	\$ -	\$ 14,334
Accounts receivable, net	-	227,655	227,655
Due from other funds	-	553,723	553,723
Total current assets	<u>14,334</u>	<u>781,378</u>	<u>795,712</u>
Non-current assets			
Capital assets			
Buildings	650,068	-	650,068
Equipment and furniture	-	161,713	161,713
Less accumulated depreciation	(341,284)	(148,442)	(489,726)
Total non-current assets	<u>308,784</u>	<u>13,271</u>	<u>322,055</u>
Total assets	<u>323,118</u>	<u>794,649</u>	<u>1,117,767</u>
LIABILITIES			
Current liabilities			
Due to other funds	<u>17,293</u>	<u>35,000</u>	<u>52,293</u>
NET ASSETS			
Invested in capital assets, net of related debt	308,784	13,271	322,055
Restricted for other purposes	-	26,536	26,536
Unrestricted (deficit)	(2,959)	719,842	716,883
Total net assets	<u>\$ 305,825</u>	<u>\$ 759,649</u>	<u>\$ 1,065,474</u>

Town of Machias, Maine
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2012

	<u>Telcenter</u>	<u>Ambulance Fund</u>	<u>Total Nonmajor Proprietary Funds</u>
REVENUES			
Charges for services	\$ 64,443	\$ 280,696	\$ 345,139
OPERATING EXPENSES			
Personal services	9,979	154,025	164,004
Contractual services	200	10,824	11,024
Utilities	9,111	-	9,111
Repairs and maintenance	7,902	10,611	18,513
Other supplies and expenses	-	16,041	16,041
Insurance claims and expenses	1,251	12,639	13,890
Depreciation	32,504	9,173	41,677
Total operating expenses	<u>60,947</u>	<u>213,313</u>	<u>274,260</u>
Operating income	<u>3,496</u>	<u>67,383</u>	<u>70,879</u>
NON-OPERATING REVENUES			
Interest and investment revenue	64	-	64
Miscellaneous revenue	-	1,124	1,124
Total non-operating revenue	<u>64</u>	<u>1,124</u>	<u>1,188</u>
Income before contributions and transfers	3,560	68,507	72,067
Transfers out	<u>(11,820)</u>	<u>(69,875)</u>	<u>(81,695)</u>
Change in net assets	(8,260)	(1,368)	(9,628)
TOTAL NET ASSETS - BEGINNING	314,085	639,382	953,467
Restatement of prior year receivables	<u>-</u>	<u>121,635</u>	<u>121,635</u>
TOTAL NET ASSETS - BEGINNING, RESTATED	<u>314,085</u>	<u>761,017</u>	<u>1,075,102</u>
TOTAL NET ASSETS - ENDING	<u>\$ 305,825</u>	<u>\$ 759,649</u>	<u>\$ 1,065,474</u>

Town of Machias, Maine

TOWN OF MACHIAS SCHOOL DEPARTMENT
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND

Year ended June 30, 2012

	Adjusted Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Local assessments	\$ 1,485,496	\$ 1,485,496	\$ -
State subsidy	1,468,079	1,480,437	12,358
Intergovernmental	-	3,994	3,994
Tuition and fees	1,039,930	1,155,421	115,491
Other	20,914	15,625	(5,289)
Total revenues	<u>4,014,419</u>	<u>4,140,973</u>	<u>126,554</u>
EXPENDITURES			
Regular instruction			
Elementary	1,206,304	1,206,304	-
Early childhood	93,525	93,525	-
Secondary	600,059	600,059	-
Instruction improvement	3,910	3,910	-
Special education			
Elementary	239,425	221,244	18,181
Secondary	100,137	102,005	(1,868)
Administrative	28,598	28,598	-
Tutoring	3,305	2,109	1,196
Evaluation	18,160	20,068	(1,908)
Speech therapy	18,166	18,166	-
Gifted and talented	64,740	57,892	6,848
Career and technical education	234,989	238,547	(3,558)
Other instruction			
Co-curricular - athletic elementary	22,034	13,744	8,290
Co-curricular - athletic secondary	52,826	46,967	5,859
Co-curricular - elementary	14,929	15,248	(319)
Co-curricular - secondary	27,661	28,011	(350)
Student and staff support			
Guidance and counseling - elementary	68,896	67,524	1,372
Guidance and counseling - secondary	103,847	94,566	9,281
Health services	26,433	40,184	(13,751)
Library and media - elementary	26,701	18,183	8,518
Library and media - secondary	36,294	36,636	(342)
System administration			
Office of superintendent	100,745	100,745	-
School board	21,539	21,539	-
School administration			
Office of principal - elementary	171,343	165,497	5,846
Office of principal - secondary	139,539	137,511	2,028
Transportation and buses	134,189	114,325	19,864
Facilities and maintenance			
Operation and maintenance of plant	464,158	464,158	-
Debt service	87,184	87,184	-
Vehicle Maintenance & Operation	4,487	4,487	-
Site improvement	500	-	500
Other			
After school program	23,512	23,512	-
Contingency	10,000	10,000	-
Total expenditures	<u>4,148,135</u>	<u>4,082,448</u>	<u>65,687</u>
Excess (deficiency) of revenues over expenditures	<u>(133,716)</u>	<u>58,525</u>	<u>192,241</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	32,748	32,748
Utilization of prior year program carryover	7,582	-	(7,582)
Utilization of prior year surplus	126,134	-	(126,134)
Total other financing sources	<u>133,716</u>	<u>32,748</u>	<u>(100,968)</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 91,273</u>	<u>\$ 91,273</u>

Town of Machias, Maine
COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS - TOWN
 June 30, 2012

	Downtown Revolving Loan Fund	Station 98	Economic Development (Mill)	State Local Road Assistance	Sewer Grant	Maine Waste Management Grant	Downtown planning	Thermal imaging camera	Scholarship	Totals
ASSETS										
Investments	\$ -	\$ 11,048	\$ 254,578	\$ -	\$ -	\$ -	\$ -	\$ 1,777	\$ -	\$ 267,403
Loans receivable	2,621	-	-	-	-	-	-	-	-	2,621
Due from other funds	5,401	-	-	16,345	86	4,990	8,784	526	175	36,307
Total assets	\$ 8,022	\$ 11,048	\$ 254,578	\$ 16,345	\$ 86	\$ 4,990	\$ 8,784	\$ 2,303	\$ 175	\$ 306,331
LIABILITIES										
Due to other funds	\$ -	\$ 637	\$ 11,663	\$ -	\$ -	\$ -	\$ -	\$ 923	\$ -	\$ 13,223
FUND EQUITY										
Fund Balance Restricted	8,022	10,411	242,915	16,345	86	4,990	8,784	1,380	175	283,108
Total fund equity	8,022	10,411	242,915	16,345	86	4,990	8,784	1,380	175	283,108
Total liabilities and fund equity	\$ 8,022	\$ 11,048	\$ 254,578	\$ 16,345	\$ 86	\$ 4,990	\$ 8,784	\$ 2,303	\$ 175	\$ 306,331

Town of Machias, Maine
Statement of Revenues, Expenditures and Changes in Fund
Balances - Agency Funds
June 30, 2012

	Balances				Balances
	July 1,	Receipts	Expenditures		June 30,
	2011				2012
Rose Gaffney School	\$ 27,224	\$ 78,100	\$ 82,768		\$ 22,556
Machias High School	45,850	94,530	104,108		36,272
Machias Vocational Center	357	4,488	449		4,396
	<u>357</u>	<u>4,488</u>	<u>449</u>		<u>4,396</u>
Total	\$ 73,431	\$ 177,118	\$ 187,325		\$ 63,224

Town of Machias, Maine
Taxes receivable, Tax liens and Tax Acquired Property
General Fund
June 30, 2012

Taxes receivable	
2011	\$ 277,411
2010	879
2009 and prior	<u>16,897</u>
Total taxes receivable	<u>295,187</u>
Tax liens and tax acquired property	
2010	130,943
2009 and prior	<u>3,627</u>
Total tax liens and tax acquired property	<u>134,570</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 429,757</u>

Town of Machias, Maine
 Audit Adjustments to MEDMS Financial System
 Year ended June 30, 2012

	General		Special Revenue		Totals
	Fund*	Grants and other	School lunch		
June 30 balance as per MEDMS	\$ 338,350	\$ -	\$ -	\$ -	\$ 338,350
Beginning balance variance	6,835	2,509	3,761		13,105
Reclass activity	51,462	-	(51,462)		-
Revenues adjustments					
Due from other governments	-	-	(4,488)		(4,488)
Additional adjustment to school trial balance	-	1,456	-		1,456
Expenditures adjustments					
Adjustment to expenses	53,374	(1,115)	-		52,259
Adjust inventory	-	-	1,969		1,969
Audited GAAP Basis Fund Balance	<u>\$ 450,021</u>	<u>\$ 2,850</u>	<u>\$ (50,220)</u>		<u>\$ 402,651</u>

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**Report on Compliance
With the Requirements of the
Maine School Finance Act**

Board of Selectmen
Town of Machias, Maine

We audited the financial statements of the Town of Machias, Maine as of and for the year ended June 30, 2012, and have issued our report thereon dated April 29, 2013.

The management of the Town of Machias, Maine is responsible for the Town's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Town's compliance with laws and regulations, noncompliance with which could have a material effect on the financial statements of the Town of Machias, Maine.

Title 20-A Sec 6051 requires certain written assurances with respect to school audits. Our audit of compliance with laws and regulations consisted of, at a minimum, the following:

1. The audit has been conducted in accordance with applicable state and federal laws relating to financial and compliance audits as indicated in federal Office of Management and Budget circulars.
2. Budgetary controls were in place.
3. A determination of whether or not the annual financial data submitted to the department is correct.
4. A determination of whether or not the School Department has exceeded its authority to expend funds as provided by the total budget summary article.
5. The School Department has complied with applicable provisions of the Essential Services and Program Funding Act.
6. A determination of whether the School Department has complied with the applicable provisions of the unexpended balances requirements established under Section 15004.
7. The School Department has complied with transfer limitations between budget cost centers pursuant to section 1485, subsection 4.
8. The School Department has complied with budget content requirements pursuant to section 15693, subsection 1 and cost center summary budget format requirements pursuant to sections 1305C, 1485, 1701C and 2307.

The results of our tests indicate that, for the items tested, the Town of Machias, Maine complied with those provisions of Maine laws and regulations. Nothing came to our attention that caused us to believe that, for the items not tested, the Town of Machias, Maine was not in compliance with Maine laws and regulations.

Brantner Thibodeau & Associates

Bangor, Maine
April 29, 2013

**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, 2012, which collectively comprise the Town of Machias, Maine's basic financial statements and have issued our report thereon dated April 29, 2013. 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

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency #2012-1 described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

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

We noted certain other matters that we have reported to management of the Town of Machias, Maine, in the letter dated April 29, 2013.

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 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.

Charlene Whibodan & Associates

Bangor, Maine
April 29, 2013



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

Board of Selectmen
Town of Machias, Maine

Compliance

We have audited the Town of Machias, Maine's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Machias, Maine's major federal programs for the year ended June 30, 2012. The Town of Machias, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Machias, Maine's management. Our responsibility is to express an opinion on the Town of Machias, Maine's compliance based on our audit.

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

In our opinion, the Town of Machias, Maine, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there that is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, detected or corrected, on a timely basis.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Brantley Hibbard & Associates

Bangor, Maine
April 29, 2013

Town of Machias, Maine
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	Disbursements/ Expenditures
<i>U.S. Department of Agriculture</i>			
<i>Passed through State Department of Education</i>			
National School Lunch Program	10.555	13-05A-8121-05	\$ 106,092
After school snack	10.555	13-05A-8121-05	2,440
School breakfast program	10.553	13-05A-7127-05	33,129
<i>Direct</i>			
ARRA - Waste and waste disposal systems for rural communities	10.781	ME-92-08	<u>1,172,802</u>
Total U.S. Department of Agriculture			<u>1,314,463</u>
<i>U.S. Department of Environmental Protection</i>			
<i>Passed through Maine Department of Environmental Protection</i>			
Capitalization Grants for Clean Water State Revolving Funds	66.458	EM96154201	\$ 63,013
ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	unknown	<u>1,010,404</u>
Total U.S. Environmental Protection Agency			<u>1,073,417</u>
<i>U.S. Department of Education</i>			
<i>Passed through State Department of Education</i>			
Title IA Grants to Local Educational Agencies	84.010	13-05A-3057-13	176,185
Career and technical education- Perkins Title IC	84.048	13-05A-3030-8	42,806
Adult basic education	84.002	13-05A-6296-64	11,179
Gear - up	84.334	13-05A-6341-13	1,735
Title IIA teacher quality	84.367	13-05A-3042-11	31,016
Education jobs fund	84.410	13-05A-3099-10	33,767
Title VI, Part B - Local Entitlement	84.027	13-05A-3046-12	289,036
Rural Education Achievement Program	84.358	unknown	<u>10,019</u>
Total U.S. Department of Education			<u>595,743</u>
Total federal program expenditures			<u>\$ 2,983,623</u>

Town of Machias, Maine
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2012

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, 2012. 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.

4. NONCASH AWARDS

The amount reported on the schedule is the value of commodities received by the Unit during the current year and priced as prescribed by USDA and is included in the National School Lunch Program total.

**Town of Machias, Maine
Schedule of Findings and Questioned Costs
Year ended June 30, 2012**

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

Noncompliance material to financial statements noted? - yes X no

Federal Awards

Internal control over major programs

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

Type of auditor's report issued on compliance for major programs - *Unqualified opinion*

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

Identification of major programs

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
66.458	Capitalization grant for clean water state revolving loan fund
10.781	Waste and waste disposal systems for rural communities

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

Auditee qualified as low-risk auditee? - yes X no

**Town of Machias, Maine
 Schedule of Findings and Questioned Costs (Continued)
 Year ended June 30, 2012**

Section II — Financial Statement Findings

	#2012-1 (REPEAT)
<i>Criteria or specific requirement</i>	Internal control over financial reporting with significant adjustments.
<i>Condition</i>	Management does not control the preparation of the financial statements and project reporting which also results in significant audit adjustments to several funds and restatements to the financial statements. Inappropriate reviews of accounting entries or system inputs lead to significant accounting services.
<i>Context</i>	Management has relied on its auditors to prepare the financial statements and footnote disclosures for them to review and approve as well as some components of supporting schedules.
<i>Effect</i>	As a result of various ongoing construction projects and the inclusion of the Town's School Department and the related required reporting, 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 has been omitted or an inappropriate footnote has been included in the footnotes.
<i>Cause</i>	Lack of knowledge and training necessary to permit the Town to understand its own financial statements and required footnotes.
<i>Recommendation</i>	Management should obtain the training necessary to permit the Town to identify any errors or misstatements in its own financial statements and required footnotes.
<i>Management's response</i>	Management will implement procedures to strengthen internal controls over construction projects by reviewing project information to ensure activity is properly recorded. Management is putting into operation a new accounting software package that will automatically record due to/from. This will prohibit large balancing adjustments from occurring. Management will work with the School Department toward having the School Department also use auditor financial schedules to assist in the preparation of the audit report. Until then, management will use school data available at the time that the Town prepares the financial schedules for the audit. Management will continue to work with the School Department to ensure that the information required to be reported by the School Department will be provided at audit.

Section III — Federal Award Findings and Questioned Costs

<i>Criteria or specific requirement (including statutory, regulatory, or other citation)</i>	N/A
<i>Condition</i>	
<i>Questioned costs</i>	
<i>Context</i>	
<i>Effect</i>	
<i>Cause</i>	
<i>Recommendation</i>	
<i>Management's response</i>	

Town of Machias, Maine
Summary Schedule of Prior Audit Findings
Year ended June 30, 2012

#2011-1

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.

#2011-2

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 corrected the finding in 2012.



Town of Machias
Town Office
7 Court Street, Suite #1
P.O. Box 418
Machias, ME 04654



Corrective Action Plan

May 21, 2013

To Whom It May Concern

The Town of Machias submits this response to the auditor's Schedule of Findings and Questioned Costs for the year ending June 30, 2012:

Name and address of independent
public accounting firm:

Branter, Thibodeau & Association
674 Mt. Hope Avenue, Suite 1
Bangor, ME 04401

Audit Period:

June 30, 2012

The findings from the June 30, 2012 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Financial Statement Findings

#2012-1

Internal control over financial reporting with significant adjustment:
Management continues to try implementing procedures to strengthen internal control over projects to ensure activity is properly recorded, and working toward achieving the training necessary to permit the Town and School to identify errors and misstatements in its own financial statements and required footnotes. Management is also working with the School Department to reconcile and to use the financial schedules to assist in the preparation of the audit report.

Sincerely,

Meghan Dennison
Finance Director