

Town of Machias, Maine

ANNUAL FINANCIAL STATEMENTS
(with required and other supplementary information)

For the Year Ended June 30, 2013

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Independent Auditor's Report

Board of Selectmen
Town of Machias, Maine

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Change in Accounting Principles

As described in Note 1 to the financial statements, the Town adopted the provisions of GASB Statement 61, *The Financial Reporting Entity: Omnibus and Amendment of GASB Statements No. 14 and No. 34* and GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The opinion is not modified as a result of this matter.

Other Matters

Required Supplementary Information

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 7 through 16 and 47 through 48 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Machias, Maine's basic financial statements. The combining statements for nonmajor governmental and proprietary funds, the schedule of revenues and expenditures - budget and actual (with variances) for the school department, the combining balance sheet for town special revenue funds, the statement of receipts, disbursements and changes in balances for agency funds, and the schedule of taxes receivable, tax liens and tax acquired property for the general fund on Schedules 1 through 8 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining statements for nonmajor governmental and proprietary funds, the schedule of revenues and expenditures - budget and actual (with variances) for the school department, the combining balance sheet for town special revenue funds, the statement of receipts, disbursements and changes in balances for agency funds, and the schedule of taxes receivable, tax liens and tax acquired property for the general fund on Schedules 1 through 8 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1 through 8 and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Other Legal and Regulatory Requirements*

The reconciliation of audit adjustments to annual financial data submitted to the MEDEMS financial system is presented as required by the laws of the State of Maine and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We have applied certain limited procedures, 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. We have also issued a report dated May 1, 2014, on our consideration of the Town of Machias, Maine's compliance with the Maine School Finance Act. The purpose of that report is to describe the Town of Machias, Maine's compliance with requirements established under the laws of the State of Maine.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Machias, Maine's internal control over financial reporting and compliance.

Brantley Hibbard & Associates

Bangor, Maine
May 1, 2014

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, 2013 compared with 2012. 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 an ongoing project and could provide an economic boost to the area as the project moves 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, 2013 was \$3,069,510.
- On a budget basis the Town originally budgeted a deficiency of \$57,727. However, there was a positive budget variance of \$297,891.

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 position 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 position 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 and the special revenue fund for school grants to be major governmental funds.

Notes to Financial Statements

The notes to the financial statements are included in the audit to give specific comment to certain areas. These are a crucial part of the audit and are closely monitored by Town administration. The reason they are monitored is that they provide additional insight into activities of the Town. These can show areas of strength and weakness for continued success and improvement. The notes to the financial statements are included on pages 28-46.

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 47-48.

Town of Machias, Maine

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

The report also presents combining schedules for non-major governmental and proprietary funds and other supplementary information following the required supplementary information.

GOVERNMENT-WIDE ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$18,679,342 as of June 30, 2013.

Net Position for the Period Ending June 30, 2013 and 2012

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 3,141,756	\$ 3,148,304	\$ 1,555,030	\$ 1,091,687	\$ 4,696,786	\$ 4,239,991
Capital assets	<u>5,273,393</u>	<u>5,032,675</u>	<u>11,921,777</u>	<u>10,815,454</u>	<u>17,195,170</u>	<u>15,488,129</u>
Total Assets	<u>8,415,149</u>	<u>8,180,979</u>	<u>13,476,807</u>	<u>11,907,141</u>	<u>21,891,956</u>	<u>20,088,120</u>
Current liabilities	447,316	509,349	552,001	11,249	999,317	520,598
Noncurrent liabilities	<u>1,153,293</u>	<u>1,185,055</u>	<u>1,060,004</u>	<u>1,021,403</u>	<u>2,213,297</u>	<u>2,206,458</u>
Total Liabilities	<u>1,600,609</u>	<u>1,694,404</u>	<u>1,612,005</u>	<u>1,032,652</u>	<u>3,212,614</u>	<u>2,727,056</u>
Net Position						
Investment in capital assets, net of debt	4,175,932	3,872,767	10,874,202	9,808,212	15,050,134	13,680,979
Restricted	883,600	773,443	572,973	575,300	1,456,573	1,348,743
Unrestricted	<u>1,755,008</u>	<u>1,840,365</u>	<u>417,627</u>	<u>490,977</u>	<u>2,172,635</u>	<u>2,331,342</u>
Total Net Position	<u>\$ 6,814,540</u>	<u>\$ 6,486,575</u>	<u>\$11,864,802</u>	<u>\$10,874,489</u>	<u>\$18,679,342</u>	<u>\$17,361,064</u>

The following are significant current year transactions that have had an impact on the Statement of Net Position:

As a result of applying the GASB 34 statement, the Town recorded depreciation expense of \$555,697 and capitalized \$418,992 of new capital assets.

The Town recognized deferred property taxes of (\$72,016) as revenue for the Statement of Net Position.

The Town increased its long term debt by \$75,000 for the financing of vehicles for the public works department.

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, 2013 and 2012.

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
REVENUES						
Charges for services and other	\$ 168,882	\$ 68,469	\$ 1,056,721	\$ 1,045,005	\$ 1,225,603	\$ 1,113,474
Operating grants and contributions	3,935,618	3,779,019	-	-	3,935,618	3,779,019
Capital grants and contributions	20,499	215,479	1,228,779	2,293,852	1,249,278	2,509,331
Property taxes	2,663,742	2,818,197	-	-	2,663,742	2,818,197
Excise and miscellaneous taxes	233,279	231,928	-	-	233,279	231,928
Interest and lien charges	30,851	32,504	-	1,546	30,851	34,050
Grants and contributions not restricted to specific purpose	431,665	330,062	-	-	431,665	330,062
Unrestricted investment and interest income	7,997	17,675	15,622	104,652	23,619	122,327
Miscellaneous	4,320	8,088	100	1,124	4,420	9,212
Total Revenues	<u>7,496,853</u>	<u>7,501,421</u>	<u>2,301,222</u>	<u>3,446,179</u>	<u>9,798,075</u>	<u>10,947,600</u>
EXPENSES						
General government	\$ 350,466	\$ 318,315	-	-	\$ 350,466	\$ 318,315
Public safety	304,025	627,647	-	-	304,025	627,647
Public works	326,339	391,769	-	-	326,339	391,769
General assistance	7,053	4,217	-	-	7,053	4,217
Culture and recreation	40,020	41,329	-	-	40,020	41,329
Education	4,120,150	4,024,355	-	-	4,120,150	4,024,355
Adult education-general	152,832	156,067	-	-	152,832	156,067
On-behalf payments – State of Maine	290,787	324,361	-	-	290,787	324,361
Grants and other contributions	441,089	619,540	-	-	441,089	619,540
Interest on long-term debt	50,025	42,409	-	-	50,025	42,409
Airport	8,513	9,644	-	-	8,513	9,644
Tax incremental financing	21,779	24,219	-	-	21,779	24,219
County tax	189,295	186,608	-	-	189,295	186,608
School lunch program	262,783	220,676	-	-	262,783	220,676
Capital outlay	46,292	1,331	-	-	46,292	1,331
Other	5,080	8,434	-	-	5,080	8,434
Business-type Activities	-	-	1,403,360	1,102,509	1,403,360	1,102,509
Total Expenses	<u>7,000,921</u>	<u>7,000,921</u>	<u>1,403,360</u>	<u>1,102,509</u>	<u>8,443,685</u>	<u>8,103,430</u>
Excess(deficiency) before special items and transfers	456,528	500,500	897,862	2,343,670	1,354,390	2,844,170
Transfers	(128,563)	(27,142)	128,563	27,142	-	-
Special item – DEP fine	-	-	(36,112)	-	(36,112)	-
Change in net position	327,965	473,358	990,313	2,370,812	1,318,278	2,844,170
Net position, beginning of year	6,486,575	6,035,884	10,874,489	8,533,753	17,361,064	14,569,637
Restatement of beginning net position	-	(22,667)	-	(30,076)	-	(52,743)
Net position, end of year	<u>\$ 6,814,540</u>	<u>\$6,486,575</u>	<u>\$ 11,864,802</u>	<u>\$ 10,874,489</u>	<u>\$18,679,342</u>	<u>\$17,361,064</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, 2013, the Town's net position for governmental activities increased by \$327,965.

Expenses of governmental activities include depreciation expense of \$283,331. 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, 2013 totaled \$3,371,854 a decrease of 1.94% from June 30, 2012. Of this amount, \$2,663,742 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, 2013, the Town's net position from business-type activities increased by \$990,313 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 \$2,440,925 \$127,501 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 \$2,735,758. Excise taxes accounted for \$225,732 in total revenue.

On behalf payments amounted to \$290,787 during the year ended June 30, 2013. 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 \$7,387,805, \$423,339 lower than the previous year.

The Town capitalized \$418,992 of capital outlays.

Capital Asset and Debt Administration

Capital Assets

	Balance 6/30/12	Additions/ Completions	Retire- ments/reclass	Balance 6/30/13
Governmental Activities				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	196,558	73,420	-	269,978
Buildings and Improvements	6,272,606	72,409	(58)	6,344,957
Infrastructure	1,310,804	165,688		1,476,492
Equipment, furniture and fixtures	581,558	31,933	132,596	746,087
Vehicles	<u>804,081</u>	<u>75,542</u>	<u>(165,865)</u>	<u>713,758</u>
Total capital assets	<u>9,730,681</u>	<u>418,992</u>	<u>(33,327)</u>	<u>10,116,346</u>
<i>Less accumulated depreciation</i>	<u>(4,698,006)</u>	<u>(283,331)</u>	<u>138,384</u>	<u>(4,842,953)</u>
Total capital assets, net	<u>\$ 5,032,675</u>	<u>\$ 135,661</u>	<u>\$ 105,057</u>	<u>\$ 5,273,393</u>

Town of Machias, Maine

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

	Balance 6/30/12	Additions/ Completions	Retire- ments/reclass	Balance 6/30/13
Business-Type Activities				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	5,551,428	1,225,654	(3,266,445)	3,510,637
Lines and mains and buildings	8,052,565	3,280,445	-	11,333,010
Vehicles and equipment	<u>664,766</u>	<u>139,035</u>	<u>(83,413)</u>	<u>720,388</u>
Total capital assets	<u>14,269,759</u>	<u>4,645,134</u>	<u>(3,349,858)</u>	<u>15,565,035</u>
<i>Less accumulated depreciation</i>	<u>(3,454,305)</u>	<u>(304,769)</u>	<u>83,413</u>	<u>(3,643,258)</u>
Total capital assets, net	<u>\$10,815,454</u>	<u>\$ 4,372,768</u>	<u>\$(3,266,445)</u>	<u>\$11,921,777</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, 2013 is as follows:

	Beginning Balance	Additions	Principal Payments	Ending Balance
Bonds and notes payable	\$2,131,500	\$ 195,000	\$(281,740)	\$2,044,760
Compensated Absences	39,308	61,108	(32,155)	68,261
Capital lease obligations	<u>35,651</u>	<u>105,057</u>	<u>(40,432)</u>	<u>100,276</u>
Total	<u>\$2,206,459</u>	<u>\$ 361,165</u>	<u>\$(354,327)</u>	<u>\$2,213,297</u>

Town of Machias, Maine

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

	<u>Total Interest Paid</u>
Bonds and notes payable	\$ 64,486
Capital lease obligations	<u>7,436</u>
Total	<u>\$ 71,922</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 47 of the financial statements.

During the year, actual revenues exceeded budgeted revenues by \$225,738. Most of this variance resulted from increases in intergovernmental revenues.

The Towns property tax collections were \$11,117 over what was budgeted because of increased collections and fewer discounts and abatements.

Budgeted expenditures exceeded actual expenditures by \$72,116.

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 Position
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and equivalents	\$ 1,903,176	\$ 226,339	\$ 2,129,515
Investments	382,436	557,559	939,995
Taxes receivable	324,224	-	324,224
Accounts receivable	-	281,547	281,547
Internal balances	34,495	(34,495)	-
Due from other governmental agencies	457,749	524,080	981,829
Other receivables	2,621	-	2,621
Inventories	2,424	-	2,424
Other assets	34,631	-	34,631
Capital assets not being depreciated	835,052	3,511,637	4,346,689
Capital assets being depreciated, net of accumulated depreciation	4,438,341	8,410,140	12,848,481
Total assets	<u>8,415,149</u>	<u>13,476,807</u>	<u>21,891,956</u>
LIABILITIES			
Accounts payable and accrued expenses	125,664	515,889	641,553
Due to other governmental agencies	5,289	36,112	41,401
Deferred revenues	2,120	-	2,120
Prepaid taxes	5,754	-	5,754
Accrued summer teacher pay	308,489	-	308,489
Long-term liabilities			
Due within one year			
Bonds and notes payable	161,079	65,955	227,034
Capital leases payable	25,275	14,160	39,435
Due in more than one year			
Bonds and notes payable	855,233	962,493	1,817,726
Capital leases payable	55,874	4,967	60,841
Compensated absences	55,832	12,429	68,261
Total liabilities	<u>1,600,609</u>	<u>1,612,005</u>	<u>3,212,614</u>
NET POSITION			
Invested in capital assets, net of related debt	4,175,932	10,874,202	15,050,134
Restricted for			
Education	555,299	-	555,299
Tax increment financing	10,597	-	10,597
Capital projects	21,734	-	21,734
Machias Water Co.	-	437,544	437,544
School lunch	2,424	-	2,424
Other purposes	293,546	129,173	422,719
Unrestricted	1,755,008	423,883	2,178,891
Total net position	<u>\$ 6,814,540</u>	<u>\$ 11,864,802</u>	<u>\$ 18,679,342</u>

Town of Machias, Maine
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Program Revenue			Net (Expense) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 350,466	\$ 51,109	-	\$ -	\$ (299,357)	-	\$ (299,357)
Police department	304,025	2,497	-	-	(301,528)	-	(301,528)
Fire department	326,339	66,382	-	-	(259,957)	-	(259,957)
Public works	423,797	22,991	18,092	-	(382,714)	-	(382,714)
Education	4,120,150	2,984,173	-	-	(1,135,977)	-	(1,135,977)
Adult education	152,832	-	-	-	(152,832)	-	(152,832)
On-behalf payments - State of Maine	290,787	117	290,787	-	(27,435)	-	(27,435)
Culture and recreation	40,020	-	12,468	-	(3,530)	-	(3,530)
General assistance	7,053	-	3,523	-	(8,513)	-	(8,513)
Airport	8,513	-	-	-	(189,295)	-	(189,295)
County tax	189,295	801	-	-	(20,978)	-	(20,978)
Tax incremental financing	21,779	-	-	-	(5,080)	-	(5,080)
Other	5,080	-	-	-	21,684	-	21,684
Grants and other contributions	441,089	-	462,773	-	(73,996)	-	(73,996)
School lunch program	262,783	24,985	163,802	-	(50,025)	-	(50,025)
Interest on long-term debt	50,025	-	-	-	(25,793)	-	(25,793)
Capital outlay	48,292	-	-	20,499	-	-	-
Total governmental activities	7,040,325	168,882	3,935,618	20,499	(2,915,326)	-	(2,915,326)
Business-type activities							
Sewer fund	584,319	394,303	-	1,228,779	-	1,038,763	1,038,763
Solid waste	350,287	304,062	-	-	-	(46,225)	(46,225)
Ambulance fund	324,143	231,972	-	-	-	(92,171)	(92,171)
Telcenter	71,676	53,449	-	-	-	(18,227)	(18,227)
Total business-type activities	1,330,425	983,786	-	1,228,779	-	882,140	882,140
Total government	\$ 8,370,750	\$ 1,152,668	\$ 3,935,618	\$ 1,249,278	(2,915,326)	882,140	(2,033,186)
General revenues:							
Taxes							
Property taxes					2,663,742	-	2,663,742
Excise taxes, licenses, permits and fees					233,279	-	233,279
Interest and lien charges					30,851	-	30,851
Grants and contributions not restricted to specific programs					431,665	-	431,665
Unrestricted investment and interest earnings					7,997	15,622	23,619
Miscellaneous					4,320	100	4,420
Special item - DEP wastewater discharge fine					-	(36,112)	(36,112)
Transfers					(128,563)	128,563	-
Total general revenues and transfers					3,243,291	108,173	3,351,464
Change in net position					327,965	990,313	1,318,278
NET POSITION - BEGINNING					6,486,575	10,874,489	17,361,064
NET POSITION - ENDING					\$ 6,814,540	\$ 11,864,802	\$ 18,679,342

Town of Machias, Maine
Balance Sheet
Governmental Funds
June 30, 2013

	<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	\$ 1,825,447	\$ 2,445	\$ 75,284	\$ 1,903,176
Investments	114,595	-	267,841	382,436
Taxes receivable, net	324,224	-	-	324,224
Due from other funds	805,821	-	538,686	1,344,507
Receivable from other governments	264,630	149,025	44,094	457,749
Other receivables	-	-	2,621	2,621
Inventories	-	-	2,424	2,424
Prepaid expenses	34,631	-	-	34,631
Total assets	<u>\$ 3,369,348</u>	<u>\$ 151,470</u>	<u>\$ 930,950</u>	<u>\$ 4,451,768</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 84,822	\$ 9,239	\$ 28,417	\$ 122,478
Due to other funds	1,015,488	102,742	191,782	1,310,012
Payable to other governments	5,289	-	-	5,289
Deferred property taxes	253,515	-	-	253,515
Deferred grant revenue	-	2,120	-	2,120
Prepaid property taxes	5,754	-	-	5,754
Accrued summer teacher pay	275,994	32,495	-	308,489
Other payables	3,186	-	-	3,186
Total liabilities	<u>1,644,048</u>	<u>146,596</u>	<u>220,199</u>	<u>2,010,843</u>
Fund balances				
Nonspendable for				
Inventories	-	-	2,424	2,424
Restricted for				
Education	550,425	4,874	-	555,299
Tax increment financing	10,597	-	-	10,597
Capital projects	-	-	21,734	21,734
Town grants and other purposes	-	-	293,546	293,546
Committed for				
Other purposes	58,416	-	-	58,416
Capital projects	-	-	519,687	519,687
Unassigned (deficit)	1,105,862	-	(126,640)	979,222
Total fund balances	<u>1,725,300</u>	<u>4,874</u>	<u>710,751</u>	<u>2,440,925</u>
Total liabilities and fund balances	<u>\$ 3,369,348</u>	<u>\$ 151,470</u>	<u>\$ 930,950</u>	<u>\$ 4,451,768</u>

Town of Machias, Maine
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2013

Total fund balance, governmental funds	\$ 2,440,925
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Amounts reported for governmental activities in the Statement of Net Position 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 Position.	5,273,393
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Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	
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Deferred revenue related to property taxes	253,515
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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 Position.	<u>(1,153,293)</u>
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Net Position of Governmental Activities in the Statement of Net Position	<u><u>\$ 6,814,540</u></u>
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Town of Machias, Maine
Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds
For the Year Ended June 30, 2013

	General Fund	Special Revenue Fund - School Categorical Grants	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 2,735,758	\$ -	\$ -	\$ 2,735,758
Excise taxes	225,732	-	-	225,732
Interest and lien charges	30,851	-	-	30,851
Licenses, permits and fees	20,720	-	-	20,720
Intergovernmental				
Town	458,438	-	184,301	642,739
Education	2,984,088	462,753	-	3,446,841
On-behalf payments - State of Maine	290,787	-	-	290,787
Charges for services	30,124	-	24,985	55,109
Interfund charges for services	81,744	-	-	81,744
Investment and interest earnings	7,443	-	554	7,997
Miscellaneous	30,506	85	-	30,591
Total revenues	<u>6,896,191</u>	<u>462,838</u>	<u>209,840</u>	<u>7,568,869</u>
EXPENDITURES				
Current				
General government	339,719	-	-	339,719
Police department	287,353	-	-	287,353
Fire department	302,155	-	-	302,155
Public works	299,819	-	-	299,819
Education	4,081,986	-	-	4,081,986
Adult education	152,832	-	-	152,832
On-behalf payments - State of Maine	290,787	-	-	290,787
Recreation	48,143	-	-	48,143
General assistance	7,053	-	-	7,053
Airport	8,093	-	-	8,093
County tax	189,295	-	-	189,295
Tax increment financing	21,779	-	-	21,779
Other services	7,464	-	-	7,464
Federal, state and local grants	-	460,814	-	460,814
School lunch program	-	-	262,783	262,783
Debt service				
Principal	242,504	-	-	242,504
Interest and other charges	50,025	-	-	50,025
Capital outlay	275,172	-	60,029	335,201
Total expenditures	<u>6,604,179</u>	<u>460,814</u>	<u>322,812</u>	<u>7,387,805</u>
Excess (deficiency) of revenues over expenditures	<u>292,012</u>	<u>2,024</u>	<u>(112,972)</u>	<u>181,064</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from bond	75,000	-	-	75,000
Transfers in	10,972	-	2,698	13,670
Transfers out	(131,261)	-	(10,972)	(142,233)
Total other financing sources and uses	<u>(45,289)</u>	<u>-</u>	<u>(8,274)</u>	<u>(53,563)</u>
Net change in fund balances	246,723	2,024	(121,246)	127,501
FUND BALANCES - BEGINNING	<u>1,478,577</u>	<u>2,850</u>	<u>831,997</u>	<u>2,313,424</u>
FUND BALANCES - ENDING	<u>\$ 1,725,300</u>	<u>\$ 4,874</u>	<u>\$ 710,751</u>	<u>\$ 2,440,925</u>

Town of Machias, Maine
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
For the Year Ended June 30, 2013

Net change in fund balances - total governmental funds: \$ 127,501

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	418,992	
Depreciation	<u>(283,331)</u>	135,661

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 (72,016)

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	(75,000)	
Debt repayments	<u>242,504</u>	167,504

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>(30,685)</u>
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Change in net position of governmental activities		<u>\$ 327,965</u>
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Town of Machias, Maine
Statement of Net Position
Proprietary Funds
June 30, 2013

	Enterprise Funds			Total
	Sewer Fund	Solid Waste Facility	Other Proprietary Funds	
ASSETS				
Current assets				
Cash and cash equivalents	\$ -	\$ 211,959	\$ 14,380	\$ 226,339
Investments	557,559	-	-	557,559
Accounts receivable, net	210,746	-	70,801	281,547
Due from other funds	9,512	-	627,613	637,125
Receivables from other governments	513,191	10,889	-	524,080
Total current assets	<u>1,291,008</u>	<u>222,848</u>	<u>712,794</u>	<u>2,226,650</u>
Non-current assets				
Capital assets not being depreciated	3,511,637	-	-	3,511,637
Capital assets being depreciated, net of accumulated depreciation	7,854,477	154,877	400,786	8,410,140
Total non-current assets	<u>11,366,114</u>	<u>154,877</u>	<u>400,786</u>	<u>11,921,777</u>
Total assets	<u>12,657,122</u>	<u>377,725</u>	<u>1,113,580</u>	<u>14,148,427</u>
LIABILITIES				
Current liabilities				
Accounts payable	513,191	2,698	-	515,889
Due to other funds	180,961	452,300	38,359	671,620
Payable to other governments	36,112	-	-	36,112
Capital leases payable	-	14,160	-	14,160
Bonds and notes payable	42,837	-	23,118	65,955
Total current liabilities	<u>773,101</u>	<u>469,158</u>	<u>61,477</u>	<u>1,303,736</u>
Non-current liabilities				
Compensated absences	7,478	4,951	-	12,429
Capital lease obligation	-	4,967	-	4,967
Bonds and notes payable	865,611	-	96,882	962,493
Total non-current liabilities	<u>873,089</u>	<u>9,918</u>	<u>96,882</u>	<u>979,889</u>
Total liabilities	<u>1,646,190</u>	<u>479,076</u>	<u>158,359</u>	<u>2,283,625</u>
NET POSITION				
Invested in capital assets, net of related debt	10,457,666	135,750	280,786	10,874,202
Restricted for other purposes	115,722	-	13,451	129,173
Restricted for Machias Water Co.	437,544	-	-	437,544
Unrestricted (deficit)	-	(237,101)	660,984	423,883
Total net position (deficit)	<u>\$11,010,932</u>	<u>\$ (101,351)</u>	<u>\$ 955,221</u>	<u>\$11,864,802</u>

Town of Machias, Maine
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	Enterprise Funds			Total
	Sewer Fund	Solid Waste Facility	Other Proprietary Funds	
REVENUES				
Charges for services and interest	\$ 394,303	\$ 304,062	\$ 285,421	\$ 983,786
Total operating revenues	<u>394,303</u>	<u>304,062</u>	<u>285,421</u>	<u>983,786</u>
OPERATING EXPENSES				
Personal services	142,745	93,120	251,007	486,872
Contractual services	5,865	200,139	12,347	218,351
Utilities	77,727	10,470	21,239	109,436
Repairs and maintenance	50,987	17,617	31,570	100,174
Other supplies and expenses	72,047	9,811	21,068	102,926
Insurance claims and expenses	12,250	1,919	4,234	18,403
Depreciation	202,824	15,188	54,354	272,366
Total operating expenses	<u>564,445</u>	<u>348,264</u>	<u>395,819</u>	<u>1,308,528</u>
Operating income (loss)	<u>(170,142)</u>	<u>(44,202)</u>	<u>(110,398)</u>	<u>(324,742)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	10,758	4,819	45	15,622
Donations	-	-	100	100
Capital grants and contributions	1,228,779	-	-	1,228,779
Interest expense	(19,874)	(2,023)	-	(21,897)
Total non-operating revenue	<u>1,219,663</u>	<u>2,796</u>	<u>145</u>	<u>1,222,604</u>
Income (loss) before transfers and special item	<u>1,049,521</u>	<u>(41,406)</u>	<u>(110,253)</u>	<u>897,862</u>
Transfers in	69,224	59,339	-	128,563
Special item - DEP wastewater discharge fine	(36,112)	-	-	(36,112)
Total transfers and special item	<u>33,112</u>	<u>59,339</u>	<u>-</u>	<u>92,451</u>
Change in net position	<u>1,082,633</u>	<u>17,933</u>	<u>(110,253)</u>	<u>990,313</u>
Total net position (deficit) - beginning	<u>9,928,299</u>	<u>(119,284)</u>	<u>1,065,474</u>	<u>10,874,489</u>
Total net position (deficit) - ending	<u>\$11,010,932</u>	<u>\$ (101,351)</u>	<u>\$ 955,221</u>	<u>\$ 11,864,802</u>

See accompanying notes to basic financial statements.

Town of Machias, Maine
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2013

	Proprietary Fund Types - Enterprise			Totals
	Sewer	Solid Waste Facility	Other Proprietary Funds	
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from user charges and tenants	\$ 404,113	\$ 303,072	\$ 442,275	\$ 1,149,460
Payments for administrative services	(147,334)	(90,263)	(251,007)	(488,604)
Payments to suppliers for goods and services	(220,056)	(237,258)	(90,458)	(547,772)
Interfund activity	(33,897)	11,449	(87,824)	(110,272)
Net cash provided (used) by operating activities	<u>2,826</u>	<u>(13,000)</u>	<u>12,986</u>	<u>2,812</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interest paid	(19,874)	(2,023)	-	(21,897)
Interest income	-	4,819	45	4,864
Donation	-	-	100	100
Transfers in (out)	69,224	59,339	-	128,563
Net cash provided by noncapital financing activities	<u>49,350</u>	<u>62,135</u>	<u>145</u>	<u>111,630</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on bonds and leases	(49,350)	(30,316)	-	(79,666)
Bond and short term note proceeds	-	-	120,000	120,000
Capital grants and contributions	1,228,778	-	-	1,228,778
Acquisition and construction of capital assets	(1,231,604)	(14,000)	(133,085)	(1,378,689)
Net cash (used) by capital and related financial activities	<u>(52,176)</u>	<u>(44,316)</u>	<u>(13,085)</u>	<u>(109,577)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	4,819	46	4,865
CASH AND CASH EQUIVALENTS, BEGINNING	-	207,140	14,334	221,474
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ -</u>	<u>\$ 211,959</u>	<u>\$ 14,380</u>	<u>\$ 226,339</u>
Reconciliation of operating income to net cash used by operating activities				
Operating income (loss)	\$ (170,142)	\$ (44,202)	\$ (110,398)	\$ (324,742)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	202,824	15,188	54,354	272,366
(Increase) decrease in the following assets				
Accounts receivable	9,810	(990)	156,854	165,674
Interfund receivables	-	-	(73,890)	(73,890)
Due from other agencies	-	-	-	-
Increase (decrease) in the following liabilities				
Compensated absences payable	(4,589)	2,857	-	(1,732)
Interfund payables	(33,897)	11,449	(13,934)	(36,382)
Accounts payable and other accrued liabilities	(1,180)	2,698	-	1,518
Net cash provided (used) by operating activities	<u>\$ 2,826</u>	<u>\$ (13,000)</u>	<u>\$ 12,986</u>	<u>\$ 2,812</u>

See accompanying notes to basic financial statements.

**Town of Machias, Maine
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013**

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 775,411	\$ 63,179
LIABILITIES		
Due to student groups	-	63,179
NET POSITION		
Held in trust for scholarships and other purposes	<u>\$ 775,411</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

Town of Machias, Maine
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2013

	Private Purpose Trust Fund
ADDITIONS	
Interest	\$ 12,408
Contributions	2,000
Total additions	14,408
DEDUCTIONS	
Scholarships	2,780
Change in net position	11,628
NET POSITION - BEGINNING	763,783
NET POSITION - ENDING	\$ 775,411

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

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. The more significant accounting policies of the Town are described below.

A. FINANCIAL REPORTING ENTITY

In evaluating the Town as a reporting entity, management has addressed all potential component units for which the Town may be financially accountable and, as such, should be included within the Town's financial statements. In accordance with Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Town is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits or to impose specific financial burdens on the Town. Additionally, the Town is required to consider other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on the application of these criteria, there are no entities that should be included as part of these financial statements.

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements report information of all activities of the Town, except for 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.

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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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, in essentially the same manner as a private entity. The accounting objectives are determinations of net income, financial position and cash flow.

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.

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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 the 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 position and the operating statements present increases, revenues, and decreases, expenses, in net total position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. 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, as well as expenditures related to compensated absences 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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 funds 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 statements of net position and 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.

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 government-wide statement of net position. 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".

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

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

The Town elected to utilize the infrastructure transition option in the implementation of GASB Statement #34 which does not require the Town to retroactively capitalize certain infrastructure assets.

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

6. Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

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

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

6. Long-term Debt (Continued)

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.

7. Government-wide Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements.

Net position 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 position is reported as restricted when there are limitations imposed on its 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.

The remaining net position is reported as unrestricted. For expenditures that qualify for either classification, amounts will be first spent from restricted net position then from unrestricted net position.

8. Governmental Fund Balances

Fund balance represents the difference between assets and liabilities in the fund financial statements. Fund balance must 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.

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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

8. Governmental Fund Balances (Continued)

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.

9. Revenue Recognition - Property Taxes

Property taxes were levied on assessed values of April 1, 2012 and were due on October 15, 2012 and March 15, 2013, respectively. Interest was charged at 5% 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 15, 2012 a 3% discount was applied.

For purposes of the fund financial statements, property taxes assessed and collected during the year ended June 30, 2013, and during the first sixty days of the next fiscal year are recognized as revenue in 2013. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue in the general fund.

Assessed value	
Real estate	\$130,757,744
Personal property	<u>5,474,300</u>
	\$136,232,044
Tax rate (per \$1,000)	<u>20.00</u>
Commitment	\$ 2,724,641
Supplemental	2,772
Less collections, discounts and abatements	<u>(2,509,546)</u>
Receivable at June 30, 2013	<u>\$ 217,867</u>
Collection rate	92.0%

10. New Governmental Accounting Standard

During the fiscal year ended June 30, 2013, the Town implemented Governmental Accounting Standards Board (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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

11. Recent Accounting Pronouncements

In March, 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement is effective for periods beginning after December 15, 2012. The Town does not believe the adoption of this statement will have a material effect on the Town's financial statements.

In March, 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 66, Technical Corrections – 2012. This statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting by amending GASB Statement No. 10 Accounting and Financial Reporting for Risk Financing and Related Insurance Issues and GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The statement is effective for periods beginning after December 15, 2012. The Town does not believe the adoption of this statement will have a material effect on the Town's 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, 2013, the Town reported deposits of \$2,968,105 with bank balances of \$3,543,765. Of the Town's total bank balance of \$3,543,765, \$847,396 was exposed to custodial credit risk. The entire exposed amount was uncollateralized.

Deposits have been reported as follows:

Reported in governmental funds	\$ 1,903,176
Reported in proprietary funds	<u>226,339</u>
Total reported on the Statement of Net Position	2,129,515
Reported in fiduciary funds	<u>838,590</u>
Total deposits	<u>\$ 2,968,105</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, 2013

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

The Town's investments are as follows:

Money market accounts	\$ 404,048
U.S. Agency notes	98,403
Common stock, Machias Water Co.	<u>437,544</u>
Total investments	<u>\$ 939,995</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, 2013 the Town's investments of \$939,995, invested in money market accounts, 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 \$437,544 in the Machias Water Company makes up approximately 47% 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	\$25,042	\$73,351

Investments have been reported as follows:

Reported in governmental funds	\$ 382,436
Reported in proprietary funds	<u>557,559</u>
Total investments	<u>\$ 939,995</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, 2012 the Town's interest has been valued at \$437,544.

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, 2013 is \$6,969 based on an estimate of 9% of total receivables. The Town has established an allowance for uncollectible taxes in the amount of \$14,265 reflected in the general fund and an allowance for uncollectible sewer assessments in the amount of \$5,041, reflected in the sewer proprietary fund.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance 6/30/12	Additions/ Completions	Retirements/ Reclassifications	Balance 6/30/13
Governmental Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	196,558	73,420	-	269,978
Total capital assets not being depreciated	<u>761,632</u>	<u>73,420</u>	<u>-</u>	<u>835,052</u>
<i>Capital assets being depreciated</i>				
Buildings and land improvements	6,272,606	72,409	(58)	6,344,957
Infrastructure	1,310,804	165,688	-	1,476,492
Equipment, furniture and fixtures *	714,096	31,933	58	746,087
Vehicles	804,081	75,542	(165,865)	713,758
Total capital assets being depreciated	<u>9,101,645</u>	<u>345,572</u>	<u>(165,865)</u>	<u>9,281,294</u>
Less accumulated depreciation for:				
Buildings and land improvements	(3,406,750)	(120,860)	-	(3,527,610)
Infrastructure	(135,065)	(47,091)	-	(182,156)
Equipment, furniture and fixtures *	(529,474)	(55,937)	-	(585,411)
Vehicles	(654,198)	(59,443)	165,865	(547,776)
Total accumulated depreciation	<u>(4,725,487)</u>	<u>(283,331)</u>	<u>165,865</u>	<u>(4,842,953)</u>
Total capital assets being depreciated, net	<u>4,376,158</u>	<u>62,241</u>	<u>-</u>	<u>4,438,341</u>
Governmental activities capital assets, net	<u>\$ 5,137,790</u>	<u>\$ 135,661</u>	<u>\$ -</u>	<u>\$ 5,273,393</u>
Business-Type Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	5,551,428	1,225,654	(3,266,445)	3,510,637
Total capital assets not being depreciated	<u>5,552,428</u>	<u>1,225,654</u>	<u>(3,266,445)</u>	<u>3,511,637</u>
<i>Capital assets being depreciated</i>				
Infrastructure and buildings	8,052,565	3,280,445	-	11,333,010
Vehicles and equipment	664,766	139,035	(83,412)	720,389
Total capital assets being depreciated	<u>8,717,331</u>	<u>3,419,480</u>	<u>(83,412)</u>	<u>12,053,399</u>
Less accumulated depreciation				
Infrastructure and buildings	(3,087,242)	(228,657)	-	(3,315,889)
Vehicles and equipment	(367,063)	(43,709)	83,412	(327,360)
Total accumulated depreciation	<u>(3,454,305)</u>	<u>(272,366)</u>	<u>83,412</u>	<u>(3,643,259)</u>
Total capital assets being depreciated, net	<u>5,263,026</u>	<u>3,147,114</u>	<u>-</u>	<u>8,410,140</u>
Business-type activities capital assets, net	<u>\$ 10,815,454</u>	<u>\$ 4,372,768</u>	<u>\$(3,266,445)</u>	<u>\$ 11,921,777</u>

*The equipment, furniture and fixtures and related accumulated depreciation balances were restated from the prior year financial statements. Additional information is presented in Note 18.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 4. CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2013, was charged as direct expense to programs as follows:

<i>Governmental activities</i>	
General government	\$ 3,693
Police	13,023
Fire	24,294
Public works	112,514
Recreation	3,503
Airport	420
Education	<u>125,884</u>
Total depreciation expense – Governmental activities	<u>\$ 283,331</u>
<i>Business-type activities</i>	
Sewer	\$ 202,824
Ambulance	21,851
Telcenter	32,503
Solid waste	<u>15,188</u>
Total depreciation expense – business-type activities	<u>\$ 272,366</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 5. LONG-TERM LIABILITIES

The following is a summary of long term liabilities transactions of the Town for the year ended June 30, 2013.

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Portion due within one year
Governmental Liabilities					
General Obligation Bonds and Notes					
General Bonds					
Maine Municipal Bond Bank, 4.6% school renovation bond, dated December 22, 2009, due 2020	\$ 593,277	\$ -	\$ (62,083)	\$ 531,194	\$ 65,415
General Notes					
Machias Savings Bank, 3.65% industrial park note, dated December 28, 2007, due 2013	75,168	-	(75,168)	-	-
Machias Savings Bank, 3.12% vehicle note, dated December 2, 2008, due 2015	68,049	-	(16,224)	51,825	16,742
Machias Savings Bank, 1.25% vehicle note, dated June 5, 2012, due 2014	20,000	-	(9,938)	10,062	10,062
Machias Savings Bank, 2.50% road projects note, dated December 2, 2008, due 2015	400,000	-	(51,769)	348,231	54,470
Machias Savings Bank, 1.95% vehicles note, dated October 23, 2012, due 2018	-	<u>75,000</u>	-	<u>75,000</u>	<u>14,390</u>
Total general obligation bonds and notes	1,156,494	75,000	(215,182)	1,016,312	161,079
Capital Leases *	108,471	-	(27,322)	81,149	25,275
Compensated Absences	<u>25,147</u>	<u>47,944</u>	<u>(17,259)</u>	<u>55,832</u>	<u>N/A</u>
Total governmental activities liabilities	<u>1,290,112</u>	<u>122,944</u>	<u>(259,763)</u>	<u>\$ 1,153,293</u>	<u>\$ 186,354</u>

*The capital leases beginning balance was restated from the prior year financial statements. Additional information is presented in Note 18.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	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	\$ 7,000	\$ -	\$ (7,000)	\$ -	\$ -
Maine Municipal Bond Bank, 2.19% sewer rehabilitation project, dated July 26, 2002, due 2023	149,883	-	(11,998)	137,885	12,298
Maine Municipal Bond Bank, 1.40% sewer rehabilitation project, dated May 15, 2010, due 2029	293,700	-	(15,423)	278,277	15,638
Maine Municipal Bond Bank, 1.00% sewer rehabilitation project, dated January 21, 2011, due 2016	3,216	-	(792)	2,424	800
Maine Municipal Bond Bank, 1.00% sewer rehabilitation project, dated December 21, 2011, due 2017	4,000	-	(784)	3,216	792
Rural Development Bond, 2.25% sewer rehabilitation project, dated January 25, 2012, due 2040	500,000	-	(13,354)	486,646	13,308
Solid Waste Note Payable					
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 4, 2010, due 2013	17,207	-	(17,207)	-	-
Ambulance Note Payable					
Machias Savings Bank, 1.75% vehicle note, dated November 21, 2012, due 2018	-	120,000	-	120,000	23,118
Total proprietary fund bonds and notes payable	975,006	120,000	(66,558)	1,028,448	65,955
Capital Leases	32,237	-	(13,110)	19,127	14,160
Compensated Absences	14,161	13,164	(14,896)	12,429	N/A
Total proprietary activities liabilities	1,021,404	133,164	(94,564)	1,060,004	80,115
Total general obligation and proprietary liabilities	<u>\$ 2,311,516</u>	<u>\$ 256,108</u>	<u>\$ (354,327)</u>	<u>\$ 2,213,297</u>	<u>\$ 266,469</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

General obligation 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	
2014	\$ 161,079	\$ 36,699	\$ 65,955	\$ 20,991	\$ 284,724
2015	156,300	31,289	67,267	19,716	274,572
2016	161,739	25,843	68,546	18,474	274,602
2017	148,963	20,244	69,025	17,172	255,404
2018	154,305	14,903	69,526	15,890	548,530
2019-2013	233,926	13,418	237,210	63,976	548,530
2024-2028	-	-	179,350	44,527	223,877
2029-2033	-	-	116,442	25,393	141,835
2034-2038	-	-	108,614	12,711	121,325
2039-2041	-	-	46,513	1,926	48,439
	<u>\$ 1,016,312</u>	<u>\$ 142,396</u>	<u>\$ 1,028,448</u>	<u>\$ 240,776</u>	<u>\$ 2,427,932</u>

In accordance with Maine law, no municipality shall incur debt for specific purposes in excess of certain percentages of State valuation of such municipality. At June 30, 2013, 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, 2015, 2016, and 2017. 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, 2013, the Town had recorded \$132,538 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, 2013 is \$53,989 and \$8,615, respectively.

Minimum future lease payments under capital leases as of June 30, 2013 are:

2014	\$ 44,331
2015	34,235
2016	28,424
2017	1,669
2018	-
	<u>108,659</u>
Less amount representing interest	<u>(8,383)</u>
Present value of minimum lease payments	<u>\$ 100,276</u>

The amount of principal due within one year for the above capital leases is \$39,435.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

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, 2013 arising from these transactions and interfund transfers were as follows:

	Receivable	Payable	Transfers in	Transfers out
General fund	\$ 805,821	\$1,015,488	\$ 10,972	\$ 131,261
Special revenue- school	-	102,742	-	-
Sewer fund	9,512	180,961	69,224	-
Solid waste fund	-	452,300	59,339	-
Non-major proprietary funds	627,613	38,359	-	-
Non-major governmental funds	<u>538,686</u>	<u>191,782</u>	<u>2,698</u>	<u>10,972</u>
	<u>\$1,981,632</u>	<u>\$1,981,632</u>	<u>\$ 142,233</u>	<u>\$ 142,233</u>

The outstanding balances between funds result mainly from short-term cash flow needs that are funded by the general fund, as it hold the Town's checking account. Transfers were used to move funds from the general fund in accordance with budgetary authorizations, including debt payments of the proprietary funds and a \$27,000 transfer to the Solid Waste Facility proprietary fund to cover deficits.

NOTE 7. NET POSITION INVESTED IN CAPITAL ASSETS

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds payable, adding back any unspent proceeds. The Town's net position invested in capital assets, net of related debt was calculated as follows at June 30, 2013:

	Governmental Activities	Business-type Activities
Capital assets	\$ 10,116,346	\$ 15,565,036
Accumulated depreciation	(4,842,953)	(3,643,259)
Related bonds payable	(1,016,312)	(1,028,448)
Related capital leases payable	<u>(81,149)</u>	<u>(19,127)</u>
Total balance	<u>\$ 4,175,932</u>	<u>\$ 10,874,202</u>

NOTE 8. NET POSITION – RESTRICTED – EDUCATION

At June 30, 2013, the net position restricted for education was comprised of the following:

General education	\$ 505,676
General education restricted grants	4,874
Adult education- regular	<u>44,749</u>
Total	<u>\$ 555,299</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 9. NET POSITION – RESTRICTED – OTHER PURPOSES

At June 30, 2013, the net position restricted for Town grants and other purposes was comprised of the following:

Mill account	\$ 243,331
Revolving loan fund	8,024
Sewer grant	86
State and local roads	16,345
Maine Waste Management-transfer station	4,990
Station 98	10,429
Thermal imaging camera	1,383
Downtown planning-donations	8,783
Scholarship funds	<u>175</u>
 Total	 <u>\$ 293,546</u>

NOTE 10. FUND BALANCES – COMMITTED FOR CAPITAL PROJECTS

At June 30, 2013, the fund balances committed for capital projects were comprised of the following:

Airport improvement	\$ 60,442
Ambulance replacement	26,879
Basketball court	1,233
Boat dock	1,980
Comprehensive plan	5,385
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	11,172
Skate park	5,967
Tennis court	14,549
Town office	<u>88,385</u>
 Total committed for capital projects	 <u>\$ 519,687</u>

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

NOTE 11. FUND BALANCES – COMMITTED FOR OTHER PURPOSES

At June 30, 2013, the fund balances committed for other purposes were comprised of the following:

Recreation – facilities and activities	\$ 895
Recreation – softball field	961
4 th of July	4,600
250 th Anniversary celebration	2,655
Debt service – public safety building	35,886
Superintendent’s office	<u>13,419</u>
Total	<u>\$ 58,416</u>

NOTE 12. NET POSITION – RESTRICTED – ENTERPRISE FUNDS

At June 30, 2013, the enterprise fund’s restricted net position for other purposes was comprised of the following:

Sewer fund	
Reserve for debt/capital	\$ 115,722
Nonmajor proprietary fund- ambulance fund	
Reserve for vehicle replacement	<u>13,451</u>
Total	<u>\$ 129,173</u>

NOTE 13. UNRESTRICTED FUND BALANCE (DEFICIT) – NON-MAJOR FUNDS

The Town had a deficit fund balance in its unrestricted fund balance of its non-major school lunch fund of \$126,640 at June 30, 2013 that is to be funded through future changes in program and additional contributions from the general fund.

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, 2013

NOTE 14. PENSION PLANS (CONTINUED)

Maine Public Employees Retirement Systems - School Employees (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, 2013, was approximately \$2,260,733. The State of Maine Department of Education is required, by state statute, to contribute the employer contribution which amounts to approximately \$290,787 (13.85%) of compensation for non-federally funded teachers for the year ended June 30, 2013. The school department is required to contribute 14.32% of compensation for federally funded teachers. This cost amounted to \$23,082 for the year ended June 30, 2013, and is chargeable to the applicable grant.

Starting July 1, 2013, the school department is required to contribute 2.65% of compensation to cover the normal costs for all teachers.

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 10%, depending on the years of employment, monthly elections, and contributions of participants. Employees may elect to contribute up to 25% of earnings, but the Town limits its match to a maximum of 10%. The Town made matching contributions of \$21,490 and employees elected to defer \$21,837 for a contribution of \$43,327 for the year ended June 30, 2013.

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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2013

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

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.

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. COMMITMENTS

The Town was committed to contracts for sewer projects with a remaining amount totaling approximately \$197,000 at June 30, 2013.

NOTE 17. CONTINGENCIES

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

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

NOTE 18. RESTATEMENT OF CAPITAL ASSETS AND LEASES

The Town restated its capital assets by \$132,538, accumulated depreciation by (\$27,481), and capital leases by (\$105,057) on the government-wide statement of net position to reflect leased copiers previously unrecorded. The net of this restatement is \$0, therefore the restatement is not reflected on the government-wide statement of activities.

NOTE 19. ENVIRONMENTAL LIABILITIES

The Town has been fined by the Department of Environmental Protection \$36,112 for a wastewater discharge violation which occurred on June 12, 2013. This liability has been recorded in both the government-wide and the fund financial statements.

Town of Machias, Maine
Budget and Actual (with Budget to GAAP Differences)
General Fund
For the year ended June 30, 2013

	Budgeted Amounts			Actual Amounts, Budgetary Basis	Budget to GAAP Differences**	Actual Amounts, GAAP Basis
	Original	Changes	Final*			
REVENUES						
Property taxes, net	\$ 2,724,641	\$ -	\$ 2,724,641	\$ 2,735,758	\$ -	\$ 2,735,758
Excise taxes	201,850	-	201,850	225,732	-	225,732
Interest and lien costs	30,000	-	30,000	30,851	-	30,851
Licenses and permits	21,075	-	21,075	20,720	-	20,720
Intergovernmental						
Education	2,782,471	67,277	2,849,748	2,984,088	-	2,984,088
On-behalf payments - State of Maine	-	-	-	-	290,787	290,787
Town	438,737	-	438,737	458,438	-	458,438
Charges for services	16,450	-	16,450	30,124	-	30,124
Interfund charges for services	91,492	-	91,492	94,851	(13,107)	81,744
Interest earnings	14,000	-	14,000	7,443	-	7,443
Miscellaneous	4,780	-	4,780	30,506	-	30,506
Total revenues	<u>6,325,496</u>	<u>67,277</u>	<u>6,392,773</u>	<u>6,618,511</u>	<u>277,660</u>	<u>6,896,191</u>
EXPENDITURES						
Current						
General government	362,404	-	362,404	339,719	-	339,719
Police department	323,687	-	323,687	280,799	6,554	287,353
Fire department	291,070	-	291,070	289,048	13,107	302,155
Public safety building	24,370	-	24,370	32,768	(32,768)	-
Highways and streets	304,100	-	304,100	299,819	-	299,819
Education	4,202,967	-	4,202,967	4,208,461	(97,288)	4,111,173
Adult education	85,555	67,277	152,832	152,832	-	152,832
On-behalf payments - State of Maine	-	-	-	-	290,787	290,787
Recreation	52,300	(2,698)	49,602	48,143	-	48,143
General assistance	4,800	-	4,800	7,053	-	7,053
Airport	15,000	-	15,000	8,093	-	8,093
County tax	189,295	-	189,295	189,295	-	189,295
Tax increment financing	22,037	-	22,037	21,779	-	21,779
Other services	15,000	-	15,000	7,464	-	7,464
Debt service						
Principal	154,963	-	154,963	154,963	63,633	218,596
Interest and other charges	17,817	-	17,817	17,850	27,096	44,746
Capital outlay	240,323	34,907	275,230	275,172	-	275,172
Total expenditures	<u>6,305,688</u>	<u>99,486</u>	<u>6,405,174</u>	<u>6,333,058</u>	<u>271,121</u>	<u>6,604,179</u>
Excess (deficiency) of revenues over expenditures	<u>19,808</u>	<u>(32,209)</u>	<u>(12,401)</u>	<u>285,453</u>	<u>6,559</u>	<u>292,012</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from debt	75,000	-	75,000	75,000	-	75,000
Transfers in	10,972	-	10,972	10,972	-	10,972
Transfers out	(128,600)	(2,698)	(131,298)	(131,261)	-	(131,261)
Total other financing sources and uses	<u>(42,628)</u>	<u>(2,698)</u>	<u>(45,326)</u>	<u>(45,289)</u>	<u>-</u>	<u>(45,289)</u>
Net change in fund balances	(22,820)	(34,907)	(57,727)	240,164	6,559	246,723
FUND BALANCES - BEGINNING	<u>1,761,130</u>	<u>-</u>	<u>1,761,130</u>	<u>1,761,130</u>	<u>(282,553)</u>	<u>1,478,577</u>
FUND BALANCES - ENDING	<u>\$ 1,738,310</u>	<u>\$ (34,907)</u>	<u>\$ 1,703,403</u>	<u>\$ 2,001,294</u>	<u>\$ (275,994)</u>	<u>\$ 1,725,300</u>

* - Includes additional adult education budgeted revenues, reclassifications, and use of committed funds

** - 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	\$ 240,164
On behalf payments revenue	290,787
On behalf payments expenditures	(290,787)
Change in accrued summer teacher pay	6,559
Net change in fund balances - GAAP basis	<u>\$ 246,723</u>

Town of Machias, Maine
Budget and Actual (with Variances)
General Fund
For the year ended June 30, 2013

	Budgeted Amounts			Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Changes	Final*		
REVENUES					
Property taxes, net	\$ 2,724,641	\$ -	\$ 2,724,641	\$ 2,735,758	\$ 11,117
Excise taxes	201,850	-	201,850	225,732	23,882
Interest and lien costs	30,000	-	30,000	30,851	851
Licenses and permits	21,075	-	21,075	20,720	(355)
Intergovernmental					
Education	2,782,471	67,277	2,849,748	2,984,088	134,340
Town	438,737	-	438,737	458,438	19,701
Charges for services	16,450	-	16,450	30,124	13,674
Interfund charges for services	91,492	-	91,492	94,851	3,359
Investment earnings	14,000	-	14,000	7,443	(6,557)
Miscellaneous	4,780	-	4,780	30,506	25,726
Total revenues	<u>6,325,496</u>	<u>67,277</u>	<u>6,392,773</u>	<u>6,618,511</u>	<u>225,738</u>
EXPENDITURES					
Current					
General government	362,404	-	362,404	339,719	22,685
Police department	323,687	-	323,687	280,799	42,888
Fire department	291,070	-	291,070	289,048	2,022
Public safety building	24,370	-	24,370	32,768	(8,398)
Highways and streets	304,100	-	304,100	299,819	4,281
Education	4,202,967	-	4,202,967	4,208,461	(5,494)
Adult education	85,555	67,277	152,832	152,832	-
Recreation	52,300	(2,698)	49,602	48,143	1,459
General assistance	4,800	-	4,800	7,053	(2,253)
Airport	15,000	-	15,000	8,093	6,907
County tax	189,295	-	189,295	189,295	-
Tax increment financing	22,037	-	22,037	21,779	258
Other services	15,000	-	15,000	7,464	7,536
Debt service					
Principal	154,963	-	154,963	154,963	-
Interest and other charges	17,817	-	17,817	17,650	167
Capital outlay	240,323	34,907	275,230	275,172	58
Total expenditures	<u>6,305,688</u>	<u>99,486</u>	<u>6,405,174</u>	<u>6,333,058</u>	<u>72,116</u>
Excess (deficiency) of revenues over expenditures	<u>19,808</u>	<u>(32,209)</u>	<u>(12,401)</u>	<u>285,453</u>	<u>297,854</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from debt	75,000	-	75,000	75,000	-
Transfers in	10,972	-	10,972	10,972	-
Transfers out	(128,600)	(2,698)	(131,298)	(131,261)	37
Total other financing sources and uses	<u>(42,628)</u>	<u>(2,698)</u>	<u>(45,326)</u>	<u>(45,289)</u>	<u>37</u>
Net change in fund balances	(22,820)	(34,907)	(57,727)	240,164	<u>\$ 297,891</u>
FUND BALANCES - BEGINNING	<u>1,761,130</u>	<u>-</u>	<u>1,761,130</u>	<u>1,761,130</u>	
FUND BALANCES - ENDING	<u>\$ 1,738,310</u>	<u>\$ (34,907)</u>	<u>\$ 1,703,403</u>	<u>\$ 2,001,294</u>	

* - Includes additional adult education budgeted revenues, reclassifications, and use of committed funds

**Town of Machias, Maine
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013**

	Special Revenue Fund - School Lunch	Special Revenue Fund - Town	Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 25,108	\$ -	\$ 50,176	\$ 75,284
Investments	-	267,841	-	267,841
Due from other funds	-	36,307	502,379	538,686
Receivable from other governments	26,811	-	17,283	44,094
Note receivable	-	2,621	-	2,621
Inventories	2,424	-	-	2,424
Total assets	<u>\$ 54,343</u>	<u>\$ 306,769</u>	<u>\$ 569,838</u>	<u>\$ 930,950</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 28,417	\$ 28,417
Due to other funds	178,559	13,223	-	191,782
Total liabilities	<u>178,559</u>	<u>13,223</u>	<u>28,417</u>	<u>220,199</u>
Fund balances				
Nonspendable for inventory	2,424	-	-	2,424
Restricted for				
Capital projects	-	-	21,734	21,734
Town grants and other purposes	-	293,546	-	293,546
Committed for capital projects	-	-	519,687	519,687
Unassigned (deficit)	(126,640)	-	-	(126,640)
Total fund balances	<u>(124,216)</u>	<u>293,546</u>	<u>541,421</u>	<u>710,751</u>
Total liabilities and fund balances	<u>\$ 54,343</u>	<u>\$ 306,769</u>	<u>\$ 569,838</u>	<u>\$ 930,950</u>

Town of Machias, Maine
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	<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	\$ 163,802	\$ -	\$ 20,499	\$ 184,301
Charges for services	24,985	-	-	24,985
Investment earnings	-	438	116	554
Total revenues	<u>188,787</u>	<u>438</u>	<u>20,615</u>	<u>209,840</u>
EXPENDITURES				
Current				
Food and supplies	154,909	-	-	154,909
Labor	107,874	-	-	107,874
Capital outlay	-	-	60,029	60,029
Total expenditures	<u>262,783</u>	<u>-</u>	<u>60,029</u>	<u>322,812</u>
Excess (deficiency) of revenues over expenditures	<u>(73,996)</u>	<u>438</u>	<u>(39,414)</u>	<u>(112,972)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	2,698	2,698
Transfers out	-	-	(10,972)	(10,972)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(8,274)</u>	<u>(8,274)</u>
Net change in fund balances	(73,996)	438	(47,688)	(121,246)
FUND BALANCES (DEFICIT) - BEGINNING	<u>(50,220)</u>	<u>293,108</u>	<u>589,109</u>	<u>831,997</u>
FUND BALANCES (DEFICIT) - ENDING	<u>\$ (124,216)</u>	<u>\$ 293,546</u>	<u>\$ 541,421</u>	<u>\$ 710,751</u>

Town of Machias, Maine
Combining Statement of Net Position
Nonmajor Proprietary Funds
June 30, 2013

	<u>Proprietary Funds</u>		<u>Total Nonmajor Proprietary Funds</u>
	<u>Telcenter</u>	<u>Ambulance Fund</u>	
ASSETS			
Current assets			
Cash and cash equivalents	\$ 14,380	\$ -	\$ 14,380
Accounts receivable, net	341	70,460	70,801
Due from other funds	-	627,613	627,613
Total current assets	<u>14,721</u>	<u>698,073</u>	<u>712,794</u>
Non-current assets			
Capital assets being depreciated, net of accumulated depreciation	<u>276,281</u>	<u>124,505</u>	<u>400,786</u>
Total assets	<u>291,002</u>	<u>822,578</u>	<u>1,113,580</u>
LIABILITIES			
Current liabilities			
Due to other funds	3,359	35,000	38,359
Bonds, notes and loans payable	-	23,118	23,118
Total current liabilities	<u>3,359</u>	<u>58,118</u>	<u>61,477</u>
Non-current liabilities:			
Bonds, notes and loans payable	-	96,882	96,882
Total liabilities	<u>3,359</u>	<u>155,000</u>	<u>158,359</u>
NET POSITION			
Invested in capital assets, net of related debt	276,281	4,505	280,786
Restricted for other purposes	-	13,451	13,451
Unrestricted	11,362	649,622	660,984
Total net position	<u>\$ 287,643</u>	<u>\$ 667,578</u>	<u>\$ 955,221</u>

Town of Machias, Maine
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Nonmajor Proprietary Funds
For the Year Ended June 30, 2013

	<u>Telcenter</u>	<u>Ambulance Fund</u>	<u>Total Nonmajor Proprietary Funds</u>
REVENUES			
Charges for services	\$ 53,449	\$ 231,972	\$ 285,421
OPERATING EXPENSES			
Personal services	12,596	238,411	251,007
Contractual services	200	12,147	12,347
Utilities	7,374	13,865	21,239
Repairs and maintenance	18,063	13,507	31,570
Other supplies and expenses	-	21,068	21,068
Insurance claims and expenses	940	3,294	4,234
Depreciation	32,503	21,851	54,354
Total operating expenses	<u>71,676</u>	<u>324,143</u>	<u>395,819</u>
Operating income (loss)	<u>(18,227)</u>	<u>(92,171)</u>	<u>(110,398)</u>
NON-OPERATING REVENUES			
Interest and investment revenue	45	-	45
Miscellaneous revenue	-	100	100
Total non-operating revenue	<u>45</u>	<u>100</u>	<u>145</u>
Change in net position	(18,182)	(92,071)	(110,253)
TOTAL NET POSITION - BEGINNING	<u>305,825</u>	<u>759,649</u>	<u>1,065,474</u>
TOTAL NET POSITION - ENDING	<u>\$ 287,643</u>	<u>\$ 667,578</u>	<u>\$ 955,221</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, 2013

	Adjusted Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Local assessments	\$ 1,385,496	\$ 1,385,496	\$ -
State subsidy	1,761,157	1,745,864	(15,293)
Intergovernmental	-	203	203
Tuition and fees	1,000,400	1,215,392	214,992
Other	20,914	23,008	2,094
	<u>4,167,967</u>	<u>4,369,963</u>	<u>201,996</u>
EXPENDITURES			
Regular instruction			
Elementary	1,230,134	1,255,814	(25,680)
Early childhood	112,944	58,477	54,467
Secondary	577,490	623,938	(46,448)
Instruction improvement	4,620	1,124	3,496
Special education			
Elementary	247,437	218,122	29,315
Secondary	126,694	96,589	30,105
Administrative	28,889	28,756	133
Tutoring	3,305	1,143	2,162
Evaluation	18,495	9,803	8,692
Speech therapy	19,352	16,798	2,554
Gifted and talented	72,395	62,907	9,488
Career and technical education	226,496	195,305	31,191
Other Instruction			
Co-curricular - athletic elementary	22,034	17,406	4,628
Co-curricular - athletic secondary	55,011	50,012	4,999
Co-curricular - elementary	14,929	28,911	(13,982)
Co-curricular - secondary	29,435	43,693	(14,258)
Student and staff support			
Guidance and counseling - elementary	71,183	64,842	6,341
Guidance and counseling - secondary	109,400	103,877	5,523
Health services	40,679	43,787	(3,108)
Library and media - elementary	22,183	14,650	7,533
Library and media - secondary	39,481	43,074	(3,593)
System administration			
Office of superintendent	101,302	101,302	-
School board	20,650	21,926	(1,276)
School administration			
Office of principal - elementary	176,110	170,775	5,335
Office of principal - secondary	135,598	145,058	(9,460)
Transportation and buses	135,522	166,579	(31,057)
Facilities and maintenance			
Operation and maintenance of plant	456,999	506,306	(49,307)
Debt service	90,000	87,184	2,816
Vehicle Maintenance & Operation	3,700	4,301	(601)
Site improvement	500	0	500
Other			
After school program	-	9,443	(9,443)
Contingency	10,000	10,000	-
	<u>4,202,967</u>	<u>4,201,902</u>	<u>1,065</u>
Excess (deficiency) of revenues over expenditures	<u>(35,000)</u>	<u>168,061</u>	<u>203,061</u>
OTHER FINANCING SOURCES (USES)			
Utilization of prior year surplus	35,000	-	(35,000)
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 168,061</u>	<u>\$ 168,061</u>

Town of Machias, Maine
COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS - TOWN
 June 30, 2013

	Downtown Revolving Loan Fund	Station 98	Economic Development (Mill)	State		Maine		Downtown planning	Thermal imaging camera	Scholarship	Totals
				Local Road Assistance	Sewer Grant	Waste Management Grant					
Investments	\$ -	\$ 11,065	\$ 254,995	\$ -	\$ -	\$ -	\$ -	\$ 1,781	\$ -	\$ -	\$ 267,841
Loans receivable	2,621	-	-	-	-	-	-	-	-	-	2,621
Due from other funds	5,401	-	-	16,345	86	4,990	8,784	526	175	175	36,307
Total assets	\$ 8,022	\$ 11,065	\$ 254,995	\$ 16,345	\$ 86	\$ 4,990	\$ 8,784	\$ 2,307	\$ 175	\$ 175	\$ 306,769
LIABILITIES											
Due to other funds	\$ -	\$ 637	\$ 11,663	\$ -	\$ -	\$ -	\$ -	\$ 923	\$ -	\$ -	\$ 13,223
FUND EQUITY											
Fund Balance Restricted	8,022	10,428	243,332	16,345	86	4,990	8,784	1,384	175	175	293,546
Total fund equity	8,022	10,428	243,332	16,345	86	4,990	8,784	1,384	175	175	293,546
Total liabilities and fund equity	\$ 8,022	\$ 11,065	\$ 254,995	\$ 16,345	\$ 86	\$ 4,990	\$ 8,784	\$ 2,307	\$ 175	\$ 175	\$ 306,769

Town of Machias, Maine
Statement of Receipts, Disbursements, and Changes in Balances
Agency Funds
June 30, 2013

	Balances July 1, 2012	Receipts	Disbursements	Balances June 30, 2013
Rose Gaffney School	\$ 22,556	\$ 66,869	\$ 57,475	\$ 31,950
Machias High School	36,272	91,794	102,927	25,139
Machias Vocational Center	4,396	10,018	8,324	6,090
Total	\$ 63,224	\$ 168,681	\$ 168,726	\$ 63,179

Town of Machias, Maine
Taxes receivable, Tax liens and Tax Acquired Property
General Fund
June 30, 2013

Taxes receivable	
2012	\$ 217,867
2011	765
2010 and prior	<u>17,745</u>
Total taxes receivable	<u>236,377</u>
Tax liens and tax acquired property	
2011	99,304
2010 and prior	<u>2,808</u>
Total tax liens and tax acquired property	<u>102,112</u>
Less allowance for doubtful accounts	<u>(14,265)</u>
Total taxes receivable, tax liens and tax acquired property, net	<u>\$ 324,224</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, 2013, and have issued our report thereon dated May 1, 2014.

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
May 1, 2014

Town of Machias, Maine
Reconciliation of Audit Adjustments to Annual
Financial Data Submitted to MEDMS Financial System
Year ended June 30, 2013

	General		Special Revenue		Totals
	Fund	Grants and other	School lunch		
June 30 balance as per MEDMS	\$ 65,777	\$ -	\$ 3,625	\$ 69,402	
Beginning balance variance	423,017	2,850	(148,319)	277,548	
Reclass activity	(31,956)	31,956	-	-	
Revenues adjustments					
Net revenue adjustments	98,928	(53,064)	22,748	68,612	
Additional adjustment to school trial balance	-	-	1,036	1,036	
Expenditures adjustments					
Adjustment to expenses	(5,341)	23,132	-	17,791	
Adjust inventory	-	-	(3,306)	(3,306)	
Audited GAAP Basis Fund Balance	<u>\$ 550,425</u>	<u>\$ 4,874</u>	<u>\$ (124,216)</u>	<u>\$ 431,083</u>	

**Independent Auditor's 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, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Town of Machias, Maine's basic financial statements and have issued our report thereon dated May 1, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Machias, Maine's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Town of Machias, Maine's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of finding and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness and others that we consider to be significant deficiencies.

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 #2013-001, described in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies, #2013-002, #2013-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Machias, Maine's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item #2013-002.

We noted certain other matters that we have reported to management of the Town of Machias, Maine, in the letter dated May 1, 2014.

Town of Machias, Maine's Response to Findings

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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Barbara Stibodian & Associates

Bangor, Maine
May 1, 2014

**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**

Board of Selectmen
Town of Machias, Maine

Report on Compliance for Each Major Federal Program

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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Town of Machias, Maine's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination on the Town of Machias, Maine's compliance.

Opinion on Each Major Federal Program

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, 2013.

Report on Internal Control Over Compliance

Management of the Town of Machias, Maine is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, 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 the auditing procedures for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Machias, Maine's internal control over compliance.

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 is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Brantron Shibodeau & Associates

Bangor, Maine
May 1, 2014

Town of Machias, Maine
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2013

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>			
<i>Fresh fruit and vegetable program Cluster</i>	10.559	13-05A-3028-05	\$ 15,507
National School Lunch Program	10.555	13-05A-3024-05	112,637
After school snack	10.555	13-05A-8121-05	6,767
School breakfast program	10.553	13-05A-7127-05	<u>30,741</u>
Total U.S. Department of Agriculture			<u>165,652</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	873,050
ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	unknown	<u>355,853</u>
Total U.S. Environmental Protection Agency			<u>1,228,903</u>
<i>U.S. Department of Education</i>			
<i>Passed through State Department of Education</i>			
<i>Title IA Cluster</i>			
Title IA Grants to Local Educational Agencies	84.010	13-05A-3057-13	191,267
Career and technical education- Perkins Title IC	84.048	13-05A-3030-8	43,991
Title IIA teacher quality	84.367	13-05A-3042-11	32,670
<i>Cluster</i>			
Part B Section 619- Preschool	84.173	13-05A-6241-23	1,024
Title VI, Part B - Local Entitlement	84.027	13-05A-3046-12	175,128
Rural Education Achievement Program	84.358	13-05A-1078-03	<u>10,669</u>
Total U.S. Department of Education			<u>454,749</u>
<i>U.S. Department of Homeland Security</i>			
<i>Passed through Maine State Department of Defense, Veterans and Emergency Management</i>			
Disaster grants - public assistance	97.036	FEMA-1693-DR-ME	<u>8,455</u>
<i>U.S. Department of Transportation</i>			
<i>Direct</i>			
FAA grant - airport improvement program	20.106	AIP#3-23-0029-06-2007	<u>19,974</u>
Total federal program expenditures			<u>\$ 1,877,733</u>

Town of Machias, Maine
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

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, 2013. 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 Town 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, 2013**

Section I — Summary of Auditor's Results

Financial Statements

Type of auditor's report issued - *Unmodified 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? - X yes 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
66.458	ARRA - Capitalization grant for clean water state revolving loan fund

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, 2013

Section II — Financial Statement Findings

#2013-001 (REPEAT)	
<i>Criteria or specific requirement</i>	Internal control over financial reporting with significant adjustments.
<i>Condition</i>	Management does not have appropriate controls over year end closing procedures, the preparation of the financial statements, and project reporting, which results in significant audit adjustments. Reconciliations required for financial statement preparation and information required for conversion of fund financial statements to government-wide financial statements and other adjusting entries are not being performed appropriately and effectively.
<i>Context</i>	The Town and the school department maintain independent accounting records, which are not reconciled throughout the year and at the end of the year. Significant accounting services are required to attempt to reconcile these sets of records. The Town and school do not maintain subsidiary records for capital assets additions and disposals, including ongoing capital projects, and for current outstanding capital leases. 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 year end reconciliation of Town and school records and lack of maintaining appropriate subsidiary records for year end adjusting entries. Lack of knowledge and training necessary to permit the Town to understand its own financial statements and required footnotes.
<i>Recommendation</i>	Management should reconcile the Town and school records throughout the year and at year end, and maintain controls to ensure these records are in agreement. Management should maintain better subsidiary records for capital outlays made throughout the year, including ongoing capital projects. 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.

Town of Machias, Maine
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2013

Section II — Financial Statement Findings (Continued)

#2013-002

<i>Criteria or specific requirement</i>	Internal control over grants expenditures.
<i>Condition</i>	Management does not have appropriate controls over grants expenditures to prevent or detect and correct significant or material misstatements.
<i>Context</i>	The school department does not require an appropriate approval for expenditures of federal grant funds. These grants require appropriate review and approval of transactions by someone with knowledge of the grants' compliance requirements.
<i>Effect</i>	There is a risk of unauthorized transactions or unallowable costs being charged to federal grant programs.
<i>Cause</i>	Lack of appropriate review and approval of transactions by grant administrators may not prevent or detect a misstatement that is material to the financial statements.
<i>Recommendation</i>	Management should require grant administrators to review and approve all transactions charged to federal grant programs. Grant administrators should be responsible for ensuring grant expenditures are allowable in their particular programs and that all applicable compliance requirements are met for each transaction.
<i>Management's response</i>	Management will implement procedures to strengthen internal controls over grants expenditures.

#2013-003

<i>Criteria or specific requirement</i>	Internal control over agency funds.
<i>Condition</i>	Management does not have appropriate controls over agency funds to prevent or detect and correct significant or material misstatements.
<i>Context</i>	The school department maintains agency funds for student activities funds held at individual schools. Account reconciliations for these accounts are not performed on a timely basis and are not reviewed for accuracy, unusual activity or outstanding items, and are not approved by management. Transactions are processed without appropriate documentation of authorization and approval.
<i>Effect</i>	Accounting records are not maintained appropriately and reconciled at the end of the year for inclusion in the financial statements. Adjustments are posted to the financial records after reconciliations are performed. Misstatement of the financial statements is a risk because of errors left undetected and cash funds at risk of misappropriation.
<i>Cause</i>	Lack of appropriate reconciliation of school accounts and oversight over the reconciliations of and adjustments to these accounts may not prevent or detect a misstatement that is material to the financial statements.
<i>Recommendation</i>	Management should reconcile school accounts throughout the year and at year end, and maintain appropriate and consistent controls over these accounts, including review and approval of bank reconciliations, and requiring documentation and authorization for all disbursements.
<i>Management's response</i>	Management will implement procedures to strengthen internal controls over agency funds.

Town of Machias, Maine
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2013

Section III — Federal Award Findings and Questioned Costs

<i>Criteria or specific requirement (including statutory, regulatory, or other citation)</i>	None
<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, 2013**

#2012-1
Condition

Management does not control the preparation of the financial statements including required reconciliations and information required for conversion of fund financial statements to government-wide financial statements and other adjusting entries, which results in significant audit adjustments.

Current Status

Management continues to devote more time to fixing problem, but issues are ongoing.