

Town of Machias, Maine

**ANNUAL FINANCIAL STATEMENTS**  
**(with required and other supplementary information)**

For the Year Ended June 30, 2015

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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, 2015, 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 did not audit the Schedules of Pension Amounts by Employer reported by the State of Maine Public Employees Retirement System, which provides information used to calculate the amounts recognized in the financial statements of the Town of Machias, Maine as deferred outflows and deferred inflows related to pensions, net pension liability, pension expense, and pension revenue of governmental activities. Those schedules were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Machias, Maine, is based solely on the report of the other auditors and certain other procedures related to the allocation percentage and the amounts allocated to the Town of Machias, Maine based on the allocation percentage. 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, based on our audit and the report of other auditors, 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, 2015 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.

### ***Change in Accounting Principle***

As discussed in Note 1 to the financial statements, in the year ended June 30, 2015, the Unit adopted new accounting guidance, Statement of Governmental Accounting Standards (GASB Statement) No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion, analysis, budgetary comparison information and pension information on pages 7 through 16 and 52 through 55 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 other supplementary information on Schedules 1 through 6 is presented for purposes of additional analysis and is 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 reconciliation of audit adjustments to annual financial data submitted to MEDMS financial system is presented as required by the laws of the State of Maine and is also not a required part of the basic financial statements.

The other supplementary information on Schedules 1 through 6, the schedule of expenditures of federal awards, and the reconciliation of audit adjustments to annual financial data submitted to MEDMS financial system 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 6, the schedule of expenditures of federal awards, and the reconciliation of audit adjustments to annual financial data submitted to MEDMS financial system are fairly stated in all material respects in relation to the basic financial statements as a whole.

*Brantley Hibodan & Associates*

May 2, 2016

## **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, 2015 compared with 2014. 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 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.

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.

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.

## Town of Machias, Maine

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

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, 2015 was \$3,197,342.
- On a budget basis the Town ended the year with a positive budget variance of \$351,157.

### **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 which now include total bonds and leases due over their entire lives and deferred inflows of resources, such as prepaid taxes. 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.

## Town of Machias, Maine

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

#### 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 28-51.

#### 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 52-55.

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

**Town of Machias, Maine**

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

**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 \$18,613,852 as of June 30, 2015.

**Net Position for the Period Ending June 30, 2015 and 2014**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 3,438,200	\$ 3,344,456	\$ 1,082,128	\$ 1,093,711	\$ 4,520,328	\$ 4,438,167
Capital assets	<u>5,325,527</u>	<u>5,388,869</u>	<u>11,357,812</u>	<u>11,637,334</u>	<u>16,683,339</u>	<u>17,026,203</u>
Total Assets	<u>8,763,727</u>	<u>8,733,325</u>	<u>12,439,940</u>	<u>12,731,045</u>	<u>21,203,667</u>	<u>21,464,370</u>
Deferred Outflows of resources	<u>122,440</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,440</u>	<u>-</u>
Current liabilities	691,612	407,272	96,998	34,229	788,610	441,501
Noncurrent liabilities	<u>1,002,355</u>	<u>1,218,678</u>	<u>829,908</u>	<u>982,822</u>	<u>1,832,263</u>	<u>2,201,500</u>
Total Liabilities	<u>1,693,967</u>	<u>1,625,950</u>	<u>926,906</u>	<u>1,017,051</u>	<u>2,620,873</u>	<u>2,643,001</u>
Deferred inflows of resources	<u>91,382</u>	<u>3,375</u>	<u>-</u>	<u>-</u>	<u>91,382</u>	<u>3,375</u>
Net Position						
Net investment in capital assets	4,275,458	4,240,005	10,471,565	10,672,350	14,747,023	14,912,355
Restricted	1,019,959	1,012,541	627,884	566,176	1,647,843	1,578,717
Unrestricted	<u>1,805,401</u>	<u>1,851,454</u>	<u>413,585</u>	<u>475,468</u>	<u>2,218,986</u>	<u>2,326,922</u>
Total Net Position	<u>\$ 7,100,818</u>	<u>\$ 7,104,000</u>	<u>\$11,513,034</u>	<u>\$11,713,994</u>	<u>\$18,613,852</u>	<u>\$18,817,994</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 \$626,817 and record capital asset additions of \$283,953.

The Town recognized deferred property taxes of \$5,806 as a reduction revenue for the Statement of Net Position.

The Town recognized changes in net pension liability, deferred inflows and deferred outflows related to pensions for a net effect of \$62,709.

## 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, 2015 and 2014.

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
<b>REVENUES</b>						
Charges for services and other	\$ 214,673	\$ 187,821	\$ 1,190,526	\$ 1,188,446	\$ 1,405,199	\$ 1,376,267
Operating grants and contributions	4,080,101	4,154,316	-	-	4,080,101	4,154,316
Capital grants and contributions	37,901	56,020	47,503	50,501	85,404	106,521
Property taxes	2,678,613	2,691,278	-	-	2,678,613	2,691,278
Excise and miscellaneous taxes	258,194	242,681	-	-	258,194	242,681
Interest and lien charges	22,653	17,145	-	-	22,653	17,145
Grants and contributions not restricted to specific purpose	290,709	337,369	-	-	290,709	337,369
State portion of pension contribution	112,948	-	-	-	112,948	-
Unrestricted investment and interest income	6,119	5,042	43,752	13,748	49,871	18,790
Miscellaneous	5,221	6,831	195	177	5,417	7,008
Total Revenues	<u>7,707,132</u>	<u>7,698,503</u>	<u>1,281,976</u>	<u>1,252,872</u>	<u>8,979,109</u>	<u>8,951,375</u>
<b>EXPENSES</b>						
General government	\$ 425,106	\$ 358,052	-	-	\$ 425,106	\$ 358,052
Police	343,216	344,959	-	-	337,818	344,959
Fire	376,312	368,878	-	-	381,711	368,878
Public works	441,929	426,288	-	-	441,929	426,288
Education	4,396,521	4,199,168	-	-	4,395,774	4,199,168
Adult education-general	103,745	169,352	-	-	103,745	169,352
On-behalf payments – State of Maine	282,863	273,571	-	-	282,863	273,571
Culture and recreation	43,124	43,890	-	-	43,124	43,890
General assistance	11,149	4,831	-	-	11,149	4,831
Airport	12,198	12,886	-	-	12,198	12,886
County tax	203,508	202,572	-	-	203,508	202,572
Tax incremental financing	18,557	19,902	-	-	18,557	19,902
Other	34,425	14,833	-	-	34,425	14,833
Grants and other contributions	392,703	346,246	-	-	392,703	346,246
School lunch program	271,041	271,835	-	-	271,041	271,835
Interest on long-term debt	68,753	43,449	-	-	68,753	43,449
Capital outlay	35,396	196,277	-	-	35,396	196,277
Business-type Activities	-	-	1,583,650	1,536,859	1,583,650	1,536,859
Total Expenses	<u>7,459,799</u>	<u>7,296,989</u>	<u>1,571,518</u>	<u>1,536,859</u>	<u>9,043,450</u>	<u>8,833,848</u>
Excess(deficiency) before special items and transfers	247,333	401,514	(301,674)	(283,987)	(54,341)	117,527
Transfers	(100,714)	(112,054)	100,714	112,054	-	-
Special item – sale of assets	-	-	-	8,000	-	8,000
Special item – DEP fine/ fine adjustments	-	-	-	13,125	-	13,125
Change in net position	146,619	289,460	(200,960)	(158,808)	143,734	138,652
Net position, beginning of year	<u>7,104,000</u>	<u>6,814,540</u>	<u>11,713,994</u>	<u>11,864,802</u>	<u>18,817,994</u>	<u>18,679,342</u>
Restatement for pension reporting	<u>(149,801)</u>	-	-	-	<u>(149,801)</u>	-
Net positions, beginning, restated	<u>6,954,199</u>	<u>6,814,540</u>	<u>11,713,994</u>	<u>11,864,802</u>	<u>18,668,193</u>	<u>18,679,342</u>
Net position, end of year	<u>\$ 7,100,818</u>	<u>\$ 7,104,000</u>	<u>\$ 11,513,034</u>	<u>\$ 11,713,994</u>	<u>\$ 18,613,852</u>	<u>\$ 18,817,994</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, 2015, the Town's net position for governmental activities increased by \$146,619.

Expenses of governmental activities include depreciation expense of \$275,492. 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, 2015 totaled \$3,374,457 an increase\* of 2.20% from June 30, 2015. Of this amount, \$2,678,613 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, 2015, the Town's net position from business-type activities decreased by \$200,960 with the depreciation of assets 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 \$2,670,799, \$46,710 higher than the previous year. An analysis of transactions affecting the change in the combined fund balance of the Town's governmental funds is as follows:

Revenues include property taxes totaling \$2,684,419. Excise taxes accounted for \$250,770 in total revenue.

**Town of Machias, Maine**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)**

On behalf payments amounted to \$282,863 during the year ended June 30, 2015. 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 \$7,562,567, \$184,307 lower than the previous year.

The Town capitalized \$212,150 of capital outlays in governmental activities.

**Capital Asset and Debt Administration**

**Capital Assets**

	<b>Balance 6/30/14</b>	<b>Additions/ Completions</b>	<b>Retire- ments/reclass</b>	<b>Balance 6/30/15</b>
<b>Governmental Activities</b>				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	263,221	9,893	-	273,114
Buildings and Improvements	6,673,538	17,809	-	6,691,347
Infrastructure	1,520,492	164,448	-	1,684,940
Equipment, furniture and fixtures	786,201	20,000	-	806,201
Vehicles	<u>713,758</u>	<u>-</u>	<u>-</u>	<u>713,758</u>
Total capital assets	<u>10,522,284</u>	<u>212,150</u>	<u>-</u>	<u>10,734,434</u>
<i>Less accumulated depreciation</i>	<i>(5,133,415)</i>	<i>(275,492)</i>	<i>-</i>	<i>(5,408,907)</i>
Total capital assets, net	<u>\$ 5,388,869</u>	<u>\$ 199,879</u>	<u>\$(263,221)</u>	<u>\$ 5,325,527</u>

**Town of Machias, Maine**

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

	<b>Balance 6/30/14</b>	<b>Additions/ Completions</b>	<b>Retire- ments/reclass</b>	<b>Balance 6/30/15</b>
<b>Business-Type Activities</b>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	962,138	47,503	-	1,009,641
Lines and mains and buildings	13,932,710	-	-	13,932,710
Vehicles and equipment	<u>706,386</u>	<u>24,300</u>	-	<u>730,686</u>
Total capital assets	<u>15,602,234</u>	<u>71,803</u>	-	<u>15,674,037</u>
<i>Less accumulated depreciation</i>	<u>(3,964,900)</u>	<u>(351,325)</u>	-	<u>(4,316,225)</u>
Total capital assets, net	<u>\$11,637,334</u>	<u>\$ (279,522)</u>	<u>\$ -</u>	<u>\$11,357,812</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, 2015 is as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Bonds and notes payable	\$2,038,470	\$ 110,000	\$(246,101)	\$1,902,589
Compensated Absences	85,183	-	(19,685)	65,498
Capital lease obligations	<u>77,847</u>	<u>-</u>	<u>(35,148)</u>	<u>42,699</u>
Total	<u>\$2,201,500</u>	<u>\$ 110,000</u>	<u>\$(300,934)</u>	<u>\$2,010,786</u>

**Town of Machias, Maine**

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

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 principles (GAAP).

Additional information about this difference can be found on pages 52 and 53 of the financial statements.

During the year, actual revenues exceeded budgeted revenues by \$336,226. Most of this variance resulted from increases in intergovernmental revenues.

The Town's property tax collections were \$20,447 under what was budgeted because of increased receivables, increase in deferred revenue and more discounts and abatements.

Budgeted expenditures exceeded actual expenditures by \$2,650.

The Town overspent its Highway and Streets budget as a result of increased gas and plowing expenses.

The school department overspent its budget by \$41,803 over various cost centers.

**Town of Machias, Maine**

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

**Economic Factors and Next Year's Budgets and Rates**

The Machias Board of Selectmen and the Town Manager do not anticipate any significant economic factors during the next fiscal year that would have an adverse effect upon the Town's financial position. The proposed municipal budget for the 2016-2017 fiscal year has a total projected increase of \$12,248.00 assuming that all warrant articles are adopted as presented to the voters. It is expected that this increase will be offset by a decrease in the school funding by the exact same amount, resulting in a zero dollar increase to the taxpayers.

**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, 2015**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and equivalents	\$ 1,557,113	\$ 233,805	\$ 1,790,918
Investments	383,174	607,504	990,678
Taxes receivable	407,719	-	407,719
Accounts receivable	-	345,935	345,935
Internal balances	147,057	(147,057)	-
Due from other governmental agencies	922,426	41,941	964,367
Other receivables	14,591	-	14,591
Inventories	4,298	-	4,298
Other assets	1,822	-	1,822
Capital assets not being depreciated	838,188	1,010,641	1,848,829
Capital assets being depreciated, net of accumulated depreciation	4,487,339	10,347,171	14,834,510
Total assets	<u>8,763,727</u>	<u>12,439,940</u>	<u>21,203,667</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	<u>122,440</u>	<u>-</u>	<u>122,440</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	103,438	5,464	108,902
Due to other governmental agencies	5,490	22,987	28,477
Unearned revenues	3,305	-	3,305
Accrued summer teacher pay	342,453	-	342,453
Long-term liabilities			
Due within one year			
Bonds and notes payable	205,758	68,547	274,305
Capital leases payable	31,168	-	31,168
Due in more than one year			
Bonds and notes payable	801,612	826,672	1,628,284
Capital leases payable	11,531	-	11,531
Net pension liability	126,950	-	126,950
Compensated absences	62,262	3,236	65,498
Total liabilities	<u>1,693,967</u>	<u>926,906</u>	<u>2,620,873</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	82,582	-	82,582
Prepaid taxes	8,800	-	8,800
Total deferred inflows of resources	<u>91,382</u>	<u>-</u>	<u>91,382</u>
<b>NET POSITION</b>			
Net investment in capital assets	4,275,458	10,471,565	14,747,023
Restricted for			
Education	666,853	-	666,853
Capital projects	21,735	-	21,735
Machias Water Co.	-	487,258	487,258
School lunch	4,298	-	4,298
Other purposes	327,073	140,626	467,699
Unrestricted	1,805,401	413,585	2,218,986
Total net position	<u>\$ 7,100,818</u>	<u>\$ 11,513,034</u>	<u>\$ 18,613,852</u>

**Town of Machias, Maine  
Statement of Activities  
For the Year Ended June 30, 2015**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenues and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities							
General government	\$ 425,106	\$ 55,340	\$ -	\$ -	\$ (369,766)	\$ -	\$ (369,766)
Police department	343,216	24,171	3,883	-	(315,162)	-	(315,162)
Fire department	376,312	77,128	-	-	(299,184)	-	(299,184)
Public works	441,929	120	17,032	-	(424,777)	-	(424,777)
Education	4,396,521	-	3,184,325	-	(1,212,196)	-	(1,212,196)
Adult education	103,745	-	-	-	(103,745)	-	(103,745)
On-behalf payments - State of Maine	282,863	-	282,863	-	-	-	-
Culture and recreation	43,124	99	7,326	-	(35,699)	-	(35,699)
General assistance	11,149	-	5,575	-	(5,574)	-	(5,574)
Airport	11,451	-	-	-	(11,451)	-	(11,451)
County tax	203,508	-	-	-	(203,508)	-	(203,508)
Tax incremental financing	18,557	590	-	-	(17,967)	-	(17,967)
Other	34,425	-	-	-	(34,425)	-	(34,425)
Grants and other contributions	392,703	-	392,342	-	(361)	-	(361)
School lunch program	271,041	57,225	186,755	-	(27,061)	-	(27,061)
Interest on long-term debt	68,753	-	-	-	(68,753)	-	(68,753)
Capital outlay	35,396	-	-	37,901	2,505	-	2,505
Total governmental activities	<u>7,459,799</u>	<u>214,673</u>	<u>4,080,101</u>	<u>37,901</u>	<u>(3,127,124)</u>	<u>-</u>	<u>(3,127,124)</u>
Business-type activities							
Sewer fund	732,406	430,257	-	47,503	-	(254,646)	(254,646)
Solid waste	380,372	362,039	-	-	-	(18,333)	(18,333)
Ambulance fund	396,490	351,999	-	-	-	(44,491)	(44,491)
Telcenter	74,382	46,231	-	-	-	(28,151)	(28,151)
Total business-type activities	<u>1,583,650</u>	<u>1,190,526</u>	<u>-</u>	<u>47,503</u>	<u>-</u>	<u>(345,621)</u>	<u>(345,621)</u>
Total government	<u>\$ 9,043,449</u>	<u>\$ 1,405,199</u>	<u>\$ 4,080,101</u>	<u>\$ 85,404</u>	<u>(3,127,124)</u>	<u>(345,621)</u>	<u>(3,472,745)</u>
<b>General revenues</b>							
Taxes							
Property taxes					2,678,613	-	2,678,613
Excise taxes, licenses, permits and fees					258,194	-	258,194
Interest and lien charges					22,653	-	22,653
Grants and contributions not restricted to specific programs					290,709	-	290,709
State portion of pension contribution					112,948	-	112,948
Unrestricted investment and interest earnings					6,119	43,752	49,871
Miscellaneous					5,221	195	5,416
<b>Transfers</b>					(100,714)	100,714	-
Total general revenues and transfers					<u>3,273,743</u>	<u>144,661</u>	<u>3,418,404</u>
Change in net position					<u>146,619</u>	<u>(200,960)</u>	<u>(54,341)</u>
<b>NET POSITION - BEGINNING</b>					<u>7,104,000</u>	<u>11,713,994</u>	<u>18,817,994</u>
Restatement for pension reporting					<u>(149,801)</u>	<u>-</u>	<u>(149,801)</u>
<b>NET POSITION - BEGINNING, RESTATED</b>					<u>6,954,199</u>	<u>11,713,994</u>	<u>18,668,193</u>
<b>NET POSITION - ENDING</b>					<u>\$ 7,100,818</u>	<u>\$ 11,513,034</u>	<u>\$ 18,613,852</u>

**Town of Machias, Maine  
Balance Sheet  
Governmental Funds  
June 30, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund - School Categorical Grants</u>	<u>Special Revenue Fund - School Lunch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,462,982	\$ -	\$ 43,792	\$ 50,339	\$ 1,557,113
Investments	114,827	-	-	268,347	383,174
Taxes receivable, net	407,719	-	-	-	407,719
Due from other funds	1,002,131	-	-	536,097	1,538,228
Receivable from other governments	793,308	115,899	13,219	-	922,426
Other receivables	-	-	11,971	2,620	14,591
Inventories	-	-	4,298	-	4,298
Prepaid expenses	1,822	-	-	-	1,822
Total assets	<u>\$ 3,782,789</u>	<u>\$ 115,899</u>	<u>\$ 73,280</u>	<u>\$ 857,403</u>	<u>\$ 4,829,371</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
Liabilities					
Accounts payable	\$ 100,253	\$ -	\$ -	\$ -	\$ 100,253
Due to other funds	1,022,147	89,610	266,191	13,223	1,391,171
Payable to other governments	5,490	-	-	-	5,490
Unearned grant revenue	-	-	3,305	-	3,305
Accrued summer teacher pay	320,769	20,506	1,178	-	342,453
Other payables	3,186	-	-	-	3,186
Total liabilities	<u>1,451,845</u>	<u>110,116</u>	<u>270,674</u>	<u>13,223</u>	<u>1,845,858</u>
Deferred inflows of resources					
Prepaid property taxes	8,800	-	-	-	8,800
Unavailable property taxes	303,914	-	-	-	303,914
Total deferred inflows of resources	<u>312,714</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>312,714</u>
Fund balances					
Nonspendable for					
Inventories	-	-	4,298	-	4,298
Restricted for					
Education	661,070	5,783	-	-	666,853
Capital projects	-	-	-	21,735	21,735
Town grants and other purposes	33,022	-	-	294,051	327,073
Committed for					
Other purposes	45,615	-	-	-	45,615
Capital projects	-	-	-	528,394	528,394
Unassigned (deficit)	1,278,523	-	(201,692)	-	1,076,831
Total fund balances	<u>2,018,230</u>	<u>5,783</u>	<u>(197,394)</u>	<u>844,180</u>	<u>2,670,799</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,782,789</u>	<u>\$ 115,899</u>	<u>\$ 73,280</u>	<u>\$ 857,403</u>	<u>\$ 4,829,371</u>

**Town of Machias, Maine**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
**June 30, 2015**

Total fund balance, governmental funds	\$ 2,670,799
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.	5,325,528
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds.	
Deferred inflows related to property taxes	303,914
Certain deferred outflows of resources, deferred inflows of resources, and internal balances related to pensions are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	
Deferred outflows related to pensions	122,440
Deferred inflows related to pensions	(82,582)
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Bonds Payable and Net Pension Liability), 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>(1,239,281)</u>
Net Position of Governmental Activities in the Statement of Net Position	<u><u>\$ 7,100,818</u></u>

**Town of Machias, Maine**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds**  
**For the Year Ended June 30, 2015**

	General Fund	Special Revenue Fund - School Categorical Grants	Special Revenue Fund - School Lunch	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes	\$ 2,684,419	\$ -	\$ -	\$ -	\$ 2,684,419
Excise taxes	250,770	-	-	-	250,770
Interest and lien charges	22,653	-	-	-	22,653
Licenses, permits and fees	36,478	-	-	-	36,478
Intergovernmental					
Town	324,450	-	-	37,901	362,351
Education	3,184,325	392,316	186,755	-	3,763,396
On-behalf payments - State of Maine	282,863	-	-	-	282,863
Charges for services	30,339	-	57,225	-	87,564
Interfund charges for services	98,397	-	-	-	98,397
Investment and interest earnings	5,336	-	-	783	6,119
Miscellaneous	4,981	-	-	-	4,981
Total revenues	<u>6,925,011</u>	<u>392,316</u>	<u>243,980</u>	<u>38,684</u>	<u>7,599,991</u>
<b>EXPENDITURES</b>					
Current					
General government	368,284	-	-	-	368,284
Police department	323,617	-	-	-	323,617
Fire department	371,092	-	-	-	371,092
Public works	342,944	-	-	-	342,944
Education	4,315,359	-	-	-	4,315,359
Adult education	103,745	-	-	-	103,745
On-behalf payments - State of Maine	282,863	-	-	-	282,863
Recreation	39,030	-	-	-	39,030
General assistance	11,149	-	-	-	11,149
Airport	6,660	-	-	-	6,660
County tax	203,508	-	-	-	203,508
Tax increment financing	18,557	-	-	-	18,557
Other services	54,691	-	-	-	54,691
Federal, state and local grants	-	392,703	-	33,135	425,838
School lunch program	-	-	271,040	-	271,040
Debt service					
Principal	178,835	-	-	-	178,835
Interest and other charges	68,753	-	-	-	68,753
Capital outlay	171,586	-	-	5,016	176,602
Total expenditures	<u>6,860,673</u>	<u>392,703</u>	<u>271,040</u>	<u>38,151</u>	<u>7,562,567</u>
Excess (deficiency) of revenues over expenditures	<u>64,338</u>	<u>(387)</u>	<u>(27,060)</u>	<u>533</u>	<u>37,424</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from bond	110,000	-	-	-	110,000
Transfers in	69,679	-	2,657	3,607	75,943
Transfers out	(106,978)	-	-	(69,679)	(176,657)
Total other financing sources and uses	<u>72,701</u>	<u>-</u>	<u>2,657</u>	<u>(66,072)</u>	<u>9,286</u>
Net change in fund balances	137,039	(387)	(24,403)	(65,539)	46,710
<b>FUND BALANCES (DEFICIT)- BEGINNING</b>	<u>1,881,191</u>	<u>6,170</u>	<u>(172,991)</u>	<u>909,719</u>	<u>2,624,089</u>
<b>FUND BALANCES (DEFICIT) - ENDING</b>	<u>\$ 2,018,230</u>	<u>\$ 5,783</u>	<u>\$ (197,394)</u>	<u>\$ 844,180</u>	<u>\$ 2,670,799</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, 2015**

Net change in fund balances - total governmental funds: \$ 46,710

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	\$ 212,151	
Depreciation	<u>(275,493)</u>	(63,342)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. More specifically, this amount represents the change in deferred property taxes. (5,806)

Some deferred outflows of resources and deferred inflows of resources related to pensions reported in the statement of activities do not require the use of current financial resources and these are not reported in governmental funds:

Deferred outflows related to pensions		75,753
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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	\$ (110,000)	
Debt repayments	<u>208,795</u>	98,795

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:

Net pension expense		(13,044)
Compensated absences not reflected on Governmental funds		<u>7,553</u>

Change in net position of governmental activities	\$	<u><u>146,619</u></u>
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**Town of Machias, Maine**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2015**

	Enterprise Funds				Total
	Sewer Fund	Solid Waste Facility	Ambulance Fund	Other Proprietary Fund - Telcenter	
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ -	\$ 219,336	\$ -	\$ 14,469	\$ 233,805
Investments	607,504	-	-	-	607,504
Accounts receivable, net	197,103	-	148,832	-	345,935
Due from other funds	9,512	-	623,729	7,849	641,090
Receivables from other governments	12,727	29,214	-	-	41,941
Total current assets	<u>826,846</u>	<u>248,550</u>	<u>772,561</u>	<u>22,318</u>	<u>1,870,275</u>
Non-current assets					
Capital assets not being depreciated	1,010,641	-	-	-	1,010,641
Capital assets being depreciated, net of accumulated depreciation	9,939,665	131,908	64,324	211,274	10,347,171
Total non-current assets	<u>10,950,306</u>	<u>131,908</u>	<u>64,324</u>	<u>211,274</u>	<u>11,357,812</u>
Total assets	<u>11,777,152</u>	<u>380,458</u>	<u>836,885</u>	<u>233,592</u>	<u>13,228,087</u>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	450	5,014	-	-	5,464
Due to other funds	285,523	467,624	35,000	-	788,147
Payable to other governments	22,987	-	-	-	22,987
Bonds and notes payable	44,542	-	24,005	-	68,547
Total current liabilities	<u>353,502</u>	<u>472,638</u>	<u>59,005</u>	<u>-</u>	<u>885,145</u>
Non-current liabilities					
Compensated absences	-	3,236	-	-	3,236
Bonds and notes payable	777,381	-	49,291	-	826,672
Total non-current liabilities	<u>777,381</u>	<u>3,236</u>	<u>49,291</u>	<u>-</u>	<u>829,908</u>
Total liabilities	<u>1,130,883</u>	<u>475,874</u>	<u>108,296</u>	<u>-</u>	<u>1,715,053</u>
<b>NET POSITION</b>					
Net investment in capital assets	10,128,383	131,908	-	211,274	10,471,565
Restricted capital replacement	102,526	-	13,451	-	115,977
Restricted for USDA debt requirements	24,649	-	-	-	24,649
Restricted for Machias Water Co.	487,258	-	-	-	487,258
Unrestricted (deficit)	(96,547)	(227,324)	715,138	22,318	413,585
Total net position (deficit)	<u>\$ 10,646,269</u>	<u>\$ (95,416)</u>	<u>\$ 728,589</u>	<u>\$ 233,592</u>	<u>\$ 11,513,034</u>

**Town of Machias, Maine**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2015**

	<b>Enterprise Funds</b>				<b>Total</b>
	<b>Sewer Fund</b>	<b>Solid Waste Facility</b>	<b>Ambulance Fund</b>	<b>Other Proprietary Fund - Telcenter</b>	
<b>REVENUES</b>					
Charges for services and interest	\$ 434,834	\$ 327,040	\$ 386,999	\$ 46,230	\$ 1,195,103
Total operating revenues	<u>434,834</u>	<u>327,040</u>	<u>386,999</u>	<u>46,230</u>	<u>1,195,103</u>
<b>OPERATING EXPENSES</b>					
Personal services	132,893	97,558	292,547	12,883	535,881
Contractual services	30,543	233,123	10,866	200	274,732
Utilities	104,133	11,218	11,041	7,515	133,907
Repairs and maintenance	61,516	9,889	14,767	20,095	106,267
Other supplies and expenses	98,323	12,066	31,725	-	142,114
Insurance claims and expenses	12,737	1,782	3,734	1,186	19,439
Bad debt	4,577	-	-	-	4,577
Depreciation	273,996	14,736	30,091	32,503	351,326
Total operating expenses	<u>718,718</u>	<u>380,372</u>	<u>394,771</u>	<u>74,382</u>	<u>1,568,243</u>
Operating income (loss)	<u>(283,884)</u>	<u>(53,332)</u>	<u>(7,772)</u>	<u>(28,152)</u>	<u>(373,140)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Interest and investment revenue	40,591	3,116	-	45	43,752
Miscellaneous revenue	-	-	195	-	195
Capital grants and contributions	47,503	-	-	-	47,503
Interest expense	(18,265)	-	(1,719)	-	(19,984)
Total non-operating revenue	<u>69,829</u>	<u>3,116</u>	<u>(1,524)</u>	<u>45</u>	<u>71,466</u>
Income (loss) before transfers and special item	<u>(214,055)</u>	<u>(50,216)</u>	<u>(9,296)</u>	<u>(28,107)</u>	<u>(301,674)</u>
Transfers in	61,946	38,768	-	-	100,714
Change in net position	(152,109)	(11,448)	(9,296)	(28,107)	(200,960)
Total net position (deficit) - beginning	<u>10,798,378</u>	<u>(83,968)</u>	<u>737,885</u>	<u>261,699</u>	<u>11,713,994</u>
Total net position (deficit) - ending	<u>\$ 10,646,269</u>	<u>\$ (95,416)</u>	<u>\$ 728,589</u>	<u>\$ 233,592</u>	<u>\$ 11,513,034</u>

**Town of Machias, Maine**  
**Statement of Cash Flows - Proprietary Funds**  
**For the Year Ended June 30, 2015**

	Proprietary Fund Types - Enterprise				Totals
	Sewer	Solid Waste Facility	Ambulance Fund	Other Proprietary Fund-Telcenter	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Received from user charges and tenants	\$ 423,032	\$ 309,114	\$ 369,703	\$ 46,230	\$ 1,148,079
Payments for administrative services	(174,837)	(100,072)	(296,281)	(14,069)	(585,259)
Payments to suppliers for goods and services	(276,709)	(265,642)	(68,399)	(27,810)	(638,560)
Interfund activity	65,091	22,799	20,088	(4,352)	103,626
Net cash provided (used) by operating activities	36,577	(33,801)	25,111	(1)	27,886
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Interest paid	(18,265)	-	(1,719)	-	(19,984)
Interest income	-	3,116	-	45	3,161
Donation	-	-	195	-	195
Transfers in (out)	61,946	38,768	-	-	100,714
Net cash provided (used) by noncapital financing activities	43,681	41,884	(1,524)	45	84,086
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Principal paid on bonds and leases	(43,681)	(4,967)	(23,587)	-	(72,235)
Capital grants and contributions	41,658	-	-	-	41,658
Acquisition and construction of capital assets	(78,235)	-	-	-	(78,235)
Net cash (used) by capital and related financial activities	(80,258)	(4,967)	(23,587)	-	(108,812)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	-	3,116	-	44	3,160
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	-	216,220	-	14,425	230,645
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	\$ -	\$ 219,336	\$ -	\$ 14,469	\$ 233,805
<b>Reconciliation of operating income to net cash used by operating activities</b>					
Operating income (loss)	\$ (283,884)	\$ (53,332)	\$ (7,772)	\$ (28,152)	\$ (373,140)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	273,996	14,736	30,091	32,503	351,326
(Increase) decrease in the following assets					
Accounts receivable	(7,225)	(17,926)	(17,296)	-	(42,447)
Interfund receivables	-	-	20,088	(4,352)	15,736
Increase (decrease) in the following liabilities					
Compensated absences payable	(11,401)	(732)	-	-	(12,133)
Interfund payables	65,091	22,799	-	-	87,890
Accounts payable and other accrued liabilities	-	654	-	-	654
Net cash provided (used) by operating activities	\$ 36,577	\$ (33,801)	\$ 25,111	\$ (1)	\$ 27,886

**Town of Machias, Maine**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2015**

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,333,621	\$ 72,803
<b>LIABILITIES</b>		
Due to student groups	-	72,803
<b>NET POSITION</b>		
Held in trust for scholarships and other purposes	<u>\$ 1,333,620</u>	<u>\$ -</u>

**Town of Machias, Maine**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2015**

	<b>Private Purpose Trust Funds</b>
<b>ADDITIONS</b>	
Interest	\$ 15,408
Contributions	562,597
Total additions	578,005
 <b>DEDUCTIONS</b>	
Scholarships	13,531
Change in net position	564,474
 <b>NET POSITION - BEGINNING</b>	769,146
 <b>NET POSITION - ENDING</b>	\$ 1,333,620

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**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 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 business-type activities of the Town include the sewer fund, solid waste facility fund, the ambulance fund, and the Telcenter fund, a property held for leasing to businesses for the purpose of economic development.

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, 2015**

**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.

*Special Revenue Fund- School Lunch*

The special revenue fund – school lunch is used to account for the proceeds of specific revenue sources that are legally or contractually restricted to expenditures for school lunch 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.

*Ambulance Fund*

Activities of the fund include medical transportation services and repairs and maintenance of vehicles. Costs are financed from user charges and Town contributions.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

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

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

**2. Proprietary Funds (Continued)**

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

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

The Town has presented the following fiduciary funds:

*Private Purpose Trust Funds*

Private purpose funds are funds held by the Town in a trustee capacity and are accounted for in essentially the same manner as a proprietary fund. 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 include 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.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

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

**D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING (CONTINUED)**

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

**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.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

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

**F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)**

**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 financial statement of net position. Any residual balances between the governmental activities and fiduciary funds are reported in the statement of net position as "due to/from fiduciary funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position as "internal balances".

**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 \$5,000 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.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

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

**F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)**

**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, net pension liability, 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.

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. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employees and Teachers (SET) Plan and additions to/deductions from the SET Plan's fiduciary net position have been determined on the same basis as they are reported by the SET Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**8. Use of Estimates**

Preparation of the Town's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

**9. Government-wide Net Position**

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

Net investment in capital assets 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.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

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

**F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)**

**10. Government-wide Net Position (Continued)**

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.

**11. 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.

*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.

**12. Revenue Recognition - Property Taxes**

Property taxes were levied on assessed values of April 1, 2014 and were due on October 15, 2014 and March 15, 2015, 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, 2014 a 2% discount was applied.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

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

**F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)**

**11. Revenue Recognition - Property Taxes (Continued)**

For purposes of the fund financial statements, property taxes assessed and collected during the year ended June 30, 2015, and during the first sixty days of the next fiscal year are recognized as revenue in 2015. Receivables estimated to be collectible after the sixty day period are recorded as deferred inflows of resources in the general fund.

Assessed value	
Real estate	\$128,787,500
Personal property	<u>6,455,800</u>
	\$135,243,300
Tax rate (per \$1,000)	<u>20.00</u>
Commitment	\$ 2,704,866
Supplemental	4,534
Less collections, discounts and abatements	<u>(2,436,746)</u>
Receivable at June 30, 2015	<u>\$ 272,654</u>
Collection rate	89%

**12. New Governmental Accounting Standards**

During the year ended June 30, 2015, the Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

During the year ended June 30, 2015, the Town implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This statement provides guidance on the reporting of pension contributions made between the time of the measurement of the government's net pension obligation, and the end of the government's fiscal reporting year.

**13. Recent Accounting Pronouncements**

In February 2015, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 72, *Fair Value Measurement and Application*. This statement improves accounting and financial reporting by state and local governments by enhancing comparability of financial statements among governments and providing information to financial statement users about the impact of fair value measurements on a government's financial position. The statement is effective for periods beginning after June 15, 2015. The effect of this Statement on the Town's financial statements is not known at this time.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**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, 2015, the Town reported deposits of \$3,197,342 with bank balances of \$3,484,438. Of the Town's total bank balance of \$3,484,438, \$1,151,707 was exposed to custodial credit risk. The entire exposed amount was uncollateralized.

Deposits have been reported as follows:

Reported in governmental funds	\$ 1,557,113
Reported in proprietary funds	233,805
Total reported on the Statement of Net Position	1,790,918
Reported in fiduciary funds	1,406,424
Total deposits	\$ 3,197,342

**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.

The Town's investments are as follows:

Money market accounts	\$ 337,422
U.S. Agency notes	165,998
Common stock, Machias Water Co.	487,258
Total investments	\$ 990,678

*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, 2015 the Town's investments of \$990,678, 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 \$487,258 in the Machias Water Company makes up approximately 49% of the Town's total investments. The Town does not have a policy related to concentration of credit risk.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments (Continued)**

*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:

	<b>Due in less than one year</b>	<b>-</b>	<b>Due in 1-5 years</b>
U.S. Agency notes	\$	-	\$ 165,998

Investments have been reported as follows:

Reported in governmental funds	\$ 383,174
Reported in proprietary funds	<u>607,504</u>
Total investments	<u>\$ 990,678</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, 2014 the Town's interest has been valued at \$487,258 and is included in the proprietary funds.

**NOTE 3. ACCOUNTS RECEIVABLE**

The 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, 2015 is \$14,720 based on an estimate of 9% of total receivables.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015, was as follows:

	<b>Balance 6/30/14</b>	<b>Additions/ Completions</b>	<b>Retirements/ Reclassifications</b>	<b>Balance 6/30/15</b>
<b>Governmental Activities</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	263,221	9,893	-	273,114
Total capital assets not being depreciated	<u>828,295</u>	<u>9,893</u>	<u>-</u>	<u>838,188</u>
<i>Capital assets being depreciated</i>				
Buildings and land improvements	6,673,538	17,809	-	6,691,347
Infrastructure	1,520,492	164,448	-	1,684,940
Equipment, furniture and fixtures	786,201	20,000	-	806,201
Vehicles	713,758	-	-	713,758
Total capital assets being depreciated	<u>9,693,989</u>	<u>202,257</u>	<u>-</u>	<u>9,896,246</u>
Less accumulated depreciation for:				
Buildings and land improvements	(3,656,677)	(129,983)	-	(3,786,660)
Infrastructure	(232,473)	(55,909)	-	(288,382)
Equipment, furniture and fixtures	(646,218)	(57,074)	-	(703,292)
Vehicles	(598,047)	(32,526)	-	(630,573)
Total accumulated depreciation	<u>(5,133,415)</u>	<u>(275,492)</u>	<u>-</u>	<u>(5,408,907)</u>
Total capital assets being depreciated, net	<u>4,560,574</u>	<u>(73,235)</u>	<u>-</u>	<u>4,487,339</u>
Governmental activities capital assets, net	<u>\$ 5,388,869</u>	<u>\$ (63,342)</u>	<u>\$ -</u>	<u>\$ 5,325,527</u>
<b>Business-Type Activities</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	962,138	47,503	-	1,009,641
Total capital assets not being depreciated	<u>963,138</u>	<u>47,503</u>	<u>-</u>	<u>1,010,641</u>
<i>Capital assets being depreciated</i>				
Infrastructure and buildings	13,932,710	-	-	13,932,710
Vehicles and equipment	706,386	24,300	-	730,686
Total capital assets being depreciated	<u>14,639,096</u>	<u>24,300</u>	<u>-</u>	<u>14,663,396</u>
Less accumulated depreciation				
Infrastructure and buildings	(3,614,476)	(298,156)	-	(3,912,632)
Vehicles and equipment	(350,424)	(53,169)	-	(403,593)
Total accumulated depreciation	<u>(3,964,900)</u>	<u>(351,325)</u>	<u>-</u>	<u>(4,316,225)</u>
Total capital assets being depreciated, net	<u>10,674,196</u>	<u>(327,025)</u>	<u>-</u>	<u>10,347,171</u>
Business-type activities capital assets, net	<u>\$ 11,637,334</u>	<u>\$ (279,522)</u>	<u>\$ -</u>	<u>\$ 11,357,812</u>

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**NOTE 4. CAPITAL ASSETS (CONTINUED)**

Depreciation expense for the year ended June 30, 2015, was charged as direct expense to programs as follows:

<i>Governmental activities</i>	
General government	\$ 4,032
Police	12,305
Fire	7,723
Public works	113,613
Recreation	4,095
Airport	4,791
Education grants	4,484
Education	<u>124,449</u>
Total depreciation expense – Governmental activities	<u>\$ 275,492</u>
<i>Business-type activities</i>	
Sewer	\$ 273,996
Solid waste	30,090
Ambulance	14,736
Telcenter	<u>32,503</u>
Total depreciation expense – business-type activities	<u>\$ 351,325</u>

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**NOTE 5. LONG-TERM LIABILITIES**

The following is a summary of long term liabilities for the year ended June 30, 2015:

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015	Portion due within one year
<b>Governmental Liabilities</b>					
<b>General Obligation Bonds and Notes</b>					
<b>General Bonds</b>					
Maine Municipal Bond Bank, 4.6% school renovation bond, dated December 22, 2009, due 2020	\$ 465,944	\$ -	\$ (68,246)	\$ 397,698	\$ 71,660
<b>General Notes</b>					
Machias Savings Bank, 3.12% vehicle note, dated December 2, 2008, due 2015	35,083	-	(17,272)	17,811	17,811
Machias Savings Bank, 2.50% road projects note, dated December 2, 2008, due 2015	293,757	-	(55,851)	237,906	57,267
Machias Savings Bank, 1.95% vehicles note, dated October 23, 2012, due 2018	60,610	-	(14,711)	45,899	15,002
Machias Savings Bank, 2.06% school renovations note, dated July 10, 2013, due 2023	220,590	-	(22,534)	198,056	23,005
Machias Savings Bank, 1.75% road projects note, dated September 10, 2014 due 2023	-	110,000	-	110,000	21,013
Total general obligation bonds and notes	1,075,984	110,000	(178,614)	1,007,370	205,758
<b>Capital Leases</b>	72,880	-	(30,181)	42,699	31,168
<b>Net Pension Liability</b>	228,255		(101,305)	126,950	
<b>Compensated Absences</b>	69,814	-	(7,552)	62,262	N/A
Total governmental activities liabilities	<u>\$ 1,446,933</u>	<u>\$ 110,000</u>	<u>\$ (317,652)</u>	<u>\$ 1,239,281</u>	<u>\$ 236,926</u>
<b>Business-type Liabilities</b>					
<b>Proprietary Fund Bonds and Notes Payable</b>					
<b>Sewer Bonds</b>					
Maine Municipal Bond Bank, 2.19% sewer rehabilitation project, dated July 26, 2002, due 2023	\$ 125,587	\$ -	\$ (12,609)	\$ 112,978	\$ 12,925
Maine Municipal Bond Bank, 1.40% sewer rehabilitation project, dated May 15, 2010, due 2029	262,639	-	(15,857)	246,782	16,079
Maine Municipal Bond Bank, 1.00% sewer rehabilitation project, dated January 21, 2011, due 2016	1,624	-	(808)	816	816
Maine Municipal Bond Bank, 1.00% sewer rehabilitation project, dated December 21, 2011, due 2017	2,424	-	(800)	1,624	808
Rural Development Bond, 2.25% sewer rehabilitation project, dated January 25, 2012, due 2040	473,330	-	(13,607)	459,723	13,913
<b>Ambulance Note Payable</b>					
Machias Savings Bank, 1.75% vehicle note, dated November 21, 2012, due 2018	96,882	-	(23,586)	73,296	24,006
Total proprietary fund bonds and notes payable	962,486	-	(67,267)	895,219	68,547

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**NOTE 5. LONG-TERM LIABILITIES (CONTINUED)**

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015	Portion due within one year
<b>Capital Leases</b>	4,967	-	(4,967)	-	-
<b>Compensated Absences</b>	<u>15,369</u>	-	<u>(12,133)</u>	<u>3,236</u>	N/A
Total proprietary activities liabilities	<u>982,822</u>	-	<u>(84,367)</u>	<u>898,455</u>	<u>68,546</u>
Total general obligation and proprietary liabilities	<u>\$ 2,201,500</u>	<u>\$ 110,000</u>	<u>\$ (300,954)</u>	<u>\$ 2,010,926</u>	<u>\$ 283,458</u>

**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	
2016	\$ 205,758	\$ 32,209	\$ 68,547	\$ 18,473	\$ 324,987
2017	194,099	25,494	69,025	17,172	305,790
2018	200,329	19,263	69,526	15,890	305,008
2019	190,804	12,875	45,563	14,589	263,831
2020	138,247	6,569	46,482	13,711	205,009
2021-2025	78,133	3,291	214,978	55,412	351,815
2026-2030	-	-	166,379	36,989	203,368
2031-2035	-	-	101,600	19,725	121,325
2036-2040	-	-	<u>113,119</u>	<u>8,115</u>	<u>121,234</u>
	<u>\$ 1,007,370</u>	<u>\$ 99,701</u>	<u>\$ 895,219</u>	<u>\$ 200,076</u>	<u>\$ 2,202,366</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, 2015, the Town was in compliance with these limitations.

**Capital Leases Payable**

The Town is the lessee of photocopiers under capital leases expiring in fiscal years ending June 30, 2016, 2017, and 2019. 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, 2015, the Town had recorded \$152,269 in governmental activities equipment related to outstanding capital leases. Amortization of these assets is included with depreciation expense. Accumulated depreciation for these assets at June 30, 2015 is \$113,910, respectively.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**NOTE 5. LONG-TERM LIABILITIES (CONTINUED)**

**Capital Leases Payable (Continued)**

Minimum future lease payments under capital leases as of June 30, 2015 are:

2016	32,828
2017	6,073
2018	4,404
2019	<u>1,835</u>
	83,779
Less amount representing interest	<u>(2,440)</u>
Present value of minimum lease payments	<u>\$ 42,699</u>

**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, 2015 arising from these transactions and interfund transfers were as follows:

	Receivable	Payable	Transfers in	Transfers out
General fund	\$1,002,131	\$1,022,147	\$ 69,679	\$ 106,978
Special revenue- school grants	-	89,610	-	-
Special revenue- school lunch	-	266,191	2,657	-
Sewer fund	9,512	285,523	61,946	-
Solid waste fund	-	467,624	38,768	-
Ambulance fund	623,729	35,000	-	-
Non-major proprietary funds	7,849	-	-	-
Non-major governmental funds	<u>536,097</u>	<u>13,223</u>	<u>3,607</u>	<u>69,679</u>
	<u>\$2,179,318</u>	<u>\$2,179,318</u>	<u>\$ 176,657</u>	<u>\$ 176,657</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 \$35,000 transfer to the Solid Waste Facility proprietary fund to cover deficits. Additionally, \$69,679 was moved from the non-major capital projects fund to the general fund cover budget authorized capital outlay expenditures.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**NOTE 7. NET INVESTMENT IN CAPITAL ASSETS**

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 investment in capital assets was calculated as follows at June 30, 2015:

	Governmental Activities	Business-type Activities
Capital assets	\$ 10,734,434	\$ 15,674,037
Accumulated depreciation	(5,408,907)	(4,316,225)
Related bonds payable	(1,007,370)	(895,219)
Related capital leases payable	(42,699)	-
Non-major proprietary fund deficit reported in unrestricted fund balance	-	8,972
Total balance	\$ 4,275,458	\$ 10,471,565

**NOTE 8. FUND BALANCE – RESTRICTED – EDUCATION**

At June 30, 2015 the Town's restricted for education was comprised as follows:

General education	\$ 646,136
Adult education	14,934
MELMAC grant	5,383
Total	\$ 666,853

**NOTE 9. FUND BALANCE – RESTRICTED – OTHER PURPOSES**

At June 30, 2015 the Town's general fund balance restricted for other purposes was comprised as follows:

Tax increment financing	\$ 21,986
Healthy Maine Streets grant	8,828
Boxcar office	49
Station 98	2,159
Total	\$ 33,022

**NOTE 10. FUND BALANCE – RESTRICTED – CAPITAL PROJECTS**

At June 30, 2015 the Town's capital projects restricted fund balance was comprised as follows:

School renovations	\$ 9,765
School roof repairs	11,970
Total	\$ 21,735

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**NOTE 11. FUND BALANCE – RESTRICTED – OTHER PURPOSES**

At June 30, 2015 the Town's special revenue fund balance restricted for Town grants and other purposes was comprised as follows:

Mill account	\$ 243,812
Revolving loan fund	8,024
Sewer grant	86
State and local roads	16,344
Maine Waste Management-transfer station	4,990
Station 98	10,450
Thermal imaging camera	1,387
Downtown planning-donations	8,783
Scholarship funds	<u>175</u>
 Total	 <u>\$ 294,051</u>

**NOTE 12. FUND BALANCES – COMMITTED FOR CAPITAL PROJECTS**

At June 30, 2015, the fund balances committed for capital projects were comprised of the following:

Airport improvement	\$ 404
Ambulance replacement	26,879
Basketball court	1,233
Boat dock	1,980
Comprehensive plan	7,820
Downtown revitalization	8,438
Economic development	88,733
E-911 signs	1,271
Fire department homeland security	314
Fire department ventilation	20,000
Fire truck replacement	3,276
Industrial development	24,099
Lawnmower	700
Regional Airport	66,221
Roads	48,664
Sewer expansion	75,323
Sewer overflow	3,367
Sidewalk repair	3,500
School renovations	61,911
Skate park	5,967
Tennis court	14,549
Town office	<u>63,705</u>
 Total committed for capital projects	 <u>\$ 528,394</u>

**NOTE 13. FUND BALANCES – COMMITTED FOR OTHER PURPOSES**

At June 30, 2015, the fund balances committed for other purposes were comprised of the following:

Recreation – facilities and activities	\$ 895
Recreation – softball field	1,205
4 <sup>th</sup> of July	6,508
250 <sup>th</sup> Anniversary celebration	1,052
Debt service – public safety building	<u>35,955</u>
 Total	 <u>\$ 45,615</u>

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**NOTE 14. DEFINED BENEFIT PENSION PLAN**

**Maine Public Employees Retirement System**

All School teachers, plus other qualified educators, participate in the Maine Public Employees Retirement System's State Employee and Teacher (SET) Plan. The SET plan is a cost-sharing multiple employer defined benefit plan with a special funding situation, established by the Maine State legislature. The State of Maine is a non-employer contributing entity in that the State pays the initial unfunded actuarial liability on behalf of teachers, while school districts contribute the normal cost, calculated actuarially, for their teacher members. The Maine Public Employees Retirement System (MainePERS) 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 MainePERS issues a publicly available financial report that includes financial statements and required supplementary information for the SET plan. That report may be obtained by calling 1-800-451-9800.

**SET Plan - Contributions**

Contribution requirements are established and may be amended by the state legislature. Plan members are required to contribute 7.65% of their compensation to the retirement system. The State of Maine Department of Education (DOE) is required to contribute 13.03% of compensation for non-federally funded employees. The Town is required to contribute 2.65% of compensation to cover the normal costs for non-federally funded employees. The Town is also required to contribute 16.15% of compensation for federally funded employees.

The contributions for the year ended June 30, 2015 were as follows:

	<u>Covered Payroll</u>	<u>Contribution Percentage</u>	<u>Contribution Amount</u>
Employee contribution	\$ 2,310,728	7.65%	\$ 176,771
State DOE contribution for non-federally funded employees	2,170,859	13.03%	282,863
Employer contribution for normal costs of non-federally funded employees	2,170,859	2.65%	57,528
Employer contribution for federally funded employees	139,869	16.15%	22,589

**Net Pension Liability**

The collective net pension liability for the SET Plan, measured as of June 30, 2014 was as follows:

SET Plan collective total pension liability	\$ 12,320,158,783
Less plan net position	<u>(10,337,615,927)</u>
SET Plan collective net pension liability	<u>\$ 1,982,542,856</u>

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**NOTE 14. DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Net Pension Liability (Continued)**

At June 30, 2015, the Town reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Town. The amount recognized by the Town as its proportionate share of the net pension liability and the total portion of the net pension liability that was associated with the Town were as follows:

Town's proportionate share of the net pension liability		\$ 126,950
State's proportionate share of the net pension liability associated with the Town		<u>3,057,002</u>
Total		<u>\$ 3,183,952</u>

The net pension liability was measured as of June 30, 2014, and the total collective pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportionate share percentage of the collective net pension liability was 0.026057%, allocated based on Unfunded Actuarial Liability (UAL) contributions to the plan. This percentage was 0.027348% at the prior measurement date of June 30, 2013.

**Pension Expense and Revenue**

For the year ended June 30, 2015, the Town recognized pension expense of \$13,044, made up of the Town's proportionate share of plan pension expense \$7,883, and net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions \$5,161, and recognized revenue of \$112,948 for support provided by the State.

**Deferred Outflows and Inflows of Resources**

For the year ended June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SET Plan	
	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ -	\$ 635
Changes of assumptions	8,743	-
Net difference between projected and actual investment earnings on pension plan investments	-	54,326
Changes in proportion and differences between employer contributions and proportionate share of contributions	37,944	27,621
Employer's contributions to plan subsequent to measurement date of collective net pension liability	<u>75,753</u>	<u>-</u>
Total	<u>\$ 122,440</u>	<u>\$ 82,582</u>

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**NOTE 14. DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Deferred Outflows and Inflows of Resources (continued)**

\$75,753 reported as deferred outflows related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows and outflows will be recognized as pension expense as follows:

Year ended June 30	Amount
2016	\$ (4,366)
2017	(4,365)
2018	(13,582)
2019	<u>(13,582)</u>
	<u>\$ (35,895)</u>

**Actuarial Assumptions**

*Actuarial Cost Method*

The Entry Age Normal actuarial funding method is used to determine costs. Under this funding method, the total employer contribution rate consists of two elements, the normal cost rate and the unfunded actuarial liability (UAL) rate.

The individual entry age normal method is used to determine liabilities. Under the individual entry age normal method, a normal cost rate is calculated for each employee. This rate is determined by taking the value, as of age at entry into the plan, of the member's projected future benefits, and dividing it by the value, also as of the member's entry age, of his expected future salary. The normal cost for each employee is the product of his pay and his normal cost rate. The normal cost for the group is the sum of the normal costs for all members.

Experience gains and losses, i.e., decreases or increases in liabilities and/or in assets when actual experience differs from the actuarial assumptions, affect the unfunded actuarial accrued liability.

*Asset Valuation Method*

The actuarial valuation employs a technique for determining the actuarial value of assets which dampens the swing in the market value. The specific technique adopted in this valuation recognizes in a given year one-third of the investment return that is different from the actuarial assumption for investment return.

*Amortization*

The net pension liability of the SET Plan is amortized on a level percentage of payroll over the amortization period then in effect under statutory and constitutional requirements.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2014 and June 30, 2013 are as follows:

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**NOTE 14. DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

Investment Rate of Return – For the SET Plan, 7.125% per annum for the year ended June 30, 2014 and 7.25% for the year ended June 30, 2013, compounded annually.

Salary Increases, Merit and Inflation – Teachers, 3.50% to 13.5% per year.

Mortality Rates – For active State employee members and non-disabled retirees of the State employee plan, the RP2000 Tables projected forward to 2015 using Scale AA are used; for active members and non-disabled retirees of the teachers' plan, the ages are set back two years; for all recipients of disability benefits, the Revenue Ruling 96-7 Disabled Mortality Table for Males and Females is used.

Cost of Living Benefit Increases – 2.55% per annum.

*Expected Rate of Return on Plan Assets*

The long-term expected rate of return on pension plan assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S Equities	20%	5.2%
Non-U.S. Equities	20%	5.5%
Private Equity	10%	7.6%
Real Assets:		
Real Estate	10%	3.7%
Infrastructure	10%	4.0%
Hard Assets	5%	4.8%
Fixed Income	25%	0.0%

*Changes in Assumptions*

Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. For the SET Plan, the change in the discount rate from 7.25% to 7.125% was the only change in assumption in the 2014 valuation.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**NOTE 14. DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Discount Rate**

The discount rate used to measure the collective total pension liability was 7.125% for 2014 and 7.25% for 2013 for the SET Plan. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Discount Rate Sensitivity*

The following table shows how the collective net pension liability/(asset) as of June 30, 2014 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rate is 7.125% for the SET Plan.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
SET Plan	\$ 3,463,277,129	\$ 1,982,542,856	\$ 738,715,359

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in a separately issued MainePERS financial report that includes financial statements and required supplementary information for the SET plan. That report may be obtained by calling 1-800-451-9800.

**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 maintains membership in various risk pools to mitigate these risks to an acceptable level and to limit the Town's exposure to losses.

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, 2015**

**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**

At June 30, 2015, the Town was committed to the remaining Axiom contract totaling approximately \$148,393 and a severance payment totaling approximately \$27,850.

**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. ENVIRONMENTAL LIABILITIES**

The Town was fined by the Department of Environmental Protection \$22,987 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**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**NOTE 19. RESTATEMENT OF BEGINNING NET POSITION**

During the year ended June 30, 2015, the Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. As a result of implementing these new principles, the Town restated its beginning net position on the government-wide statements by (\$149,801), to record net pension liability of (\$228,255) and deferred outflows of \$78,454.

**Town of Machias, Maine**  
**Budget and Actual (with Budget to GAAP Differences)**  
**General Fund**  
**For the year ended June 30, 2015**

	Budgeted Amounts			Actual Amounts, Budgetary Basis	Budget to GAAP Differences**	Actual Amounts, GAAP Basis
	Original	Changes	Final*			
<b>REVENUES</b>						
Property taxes, net	\$ 2,704,866	\$ -	\$ 2,704,866	\$ 2,684,419	\$ -	\$ 2,684,419
Excise taxes	221,650	-	221,650	250,770	-	250,770
Interest and lien costs	25,000	-	25,000	22,653	-	22,653
Licenses and permits	20,270	-	20,270	36,478	-	36,478
Intergovernmental						
Education	2,825,356	73,745	2,899,101	3,184,325	-	3,184,325
On-behalf payments - State of Maine	-	-	-	-	282,863	282,863
Town	305,875	9,850	315,725	324,450	-	324,450
Charges for services	22,725	-	22,725	30,339	-	30,339
Interfund charges for services	101,280	-	101,280	113,842	(15,445)	98,397
Interest earnings	6,500	-	6,500	5,336	-	5,336
Miscellaneous	4,250	-	4,250	4,981	-	4,981
Total revenues	<u>6,237,772</u>	<u>83,595</u>	<u>6,321,367</u>	<u>6,657,593</u>	<u>267,418</u>	<u>6,925,011</u>
<b>EXPENDITURES</b>						
<b>Current</b>						
General government	374,250	-	374,250	368,284	-	368,284
Police department	341,216	-	341,216	321,558	2,059	323,617
Fire department	361,015	-	361,015	362,854	8,238	371,092
Public safety building	32,950	-	32,950	25,742	(25,742)	-
Highways and streets	321,097	-	321,097	342,944	-	342,944
Education	4,416,692	-	4,416,692	4,458,495	(143,136)	4,315,359
Adult education	30,000	73,745	103,745	103,745	-	103,745
On-behalf payments - State of Maine	-	-	-	-	282,863	282,863
Recreation	41,150	(607)	40,543	39,030	-	39,030
General assistance	5,450	2,850	8,300	11,149	-	11,149
Airport	15,075	(3,000)	12,075	6,660	-	6,660
County tax	203,508	-	203,508	203,508	-	203,508
Tax increment financing	18,879	-	18,879	18,557	-	18,557
Other services	20,000	45,006	65,006	54,691	-	54,691
Debt service						
Principal	60,530	-	60,530	60,530	118,305	178,835
Interest and other charges	40,065	-	40,065	39,875	28,878	68,753
Capital outlay	25,000	166,987	191,987	171,586	-	171,586
Total expenditures	<u>6,306,877</u>	<u>284,981</u>	<u>6,591,858</u>	<u>6,589,208</u>	<u>271,465</u>	<u>6,860,673</u>
Excess (deficiency) of revenues over expenditures	<u>(69,105)</u>	<u>(201,386)</u>	<u>(270,491)</u>	<u>68,385</u>	<u>(4,047)</u>	<u>64,338</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Use of unrestricted carryover fund balances	261,000	-	261,000	-	-	-
Use of committed carryover fund balances	-	38,006	38,006	-	-	-
Overlay	(88,935)	-	(88,935)	-	-	-
Proceeds from debt	-	110,000	110,000	110,000	-	110,000
Transfers in	-	56,987	56,987	69,679	-	69,679
Transfers out	(102,960)	(3,607)	(106,567)	(106,978)	-	(106,978)
Total other financing sources and uses	<u>69,105</u>	<u>201,386</u>	<u>270,491</u>	<u>72,701</u>	<u>-</u>	<u>72,701</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	141,086	(4,047)	137,039
<b>FUND BALANCES - BEGINNING</b>				<u>2,197,913</u>	<u>(316,722)</u>	<u>1,881,191</u>
<b>FUND BALANCES - ENDING</b>				<u>\$ 2,338,999</u>	<u>\$ (320,769)</u>	<u>\$ 2,018,230</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	\$ 141,086
On behalf payments revenue	282,863
On behalf payments expenditures	(282,863)
Change in accrued summer teacher pay	(4,047)
Net change in fund balances - GAAP basis	<u>\$ 137,039</u>

**Town of Machias, Maine**  
**Budget and Actual (with Variances)**  
**General Fund**  
**For the year ended June 30, 2015**

	Budgeted Amounts			Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Changes	Final*		
<b>REVENUES</b>					
Property taxes, net	\$ 2,704,866	\$ -	\$ 2,704,866	\$ 2,684,419	\$ (20,447)
Excise taxes	221,650	-	221,650	250,770	29,120
Interest and lien costs	25,000	-	25,000	22,653	(2,347)
Licenses and permits	20,270	-	20,270	36,478	16,208
Intergovernmental					
Education	2,825,356	73,745	2,899,101	3,184,325	285,224
Town	305,875	9,850	315,725	324,450	8,725
Charges for services	22,725	-	22,725	30,339	7,614
Interfund charges for services	101,280	-	101,280	113,842	12,562
Investment earnings	6,500	-	6,500	5,336	(1,164)
Miscellaneous	4,250	-	4,250	4,981	731
Total revenues	6,237,772	83,595	6,321,367	6,657,593	336,226
<b>EXPENDITURES</b>					
Current					
General government	374,250	-	374,250	368,284	5,966
Police department	341,216	-	341,216	321,558	19,658
Fire department	361,015	-	361,015	362,854	(1,839)
Public safety building	32,950	-	32,950	25,742	7,208
Highways and streets	321,097	-	321,097	342,944	(21,847)
Education	4,416,692	-	4,416,692	4,458,495	(41,803)
Adult education	30,000	73,745	103,745	103,745	-
Recreation	41,150	(607)	40,543	39,030	1,513
General assistance	5,450	2,850	8,300	11,149	(2,849)
Airport	15,075	(3,000)	12,075	6,660	5,415
County tax	203,508	-	203,508	203,508	-
Tax increment financing	18,879	-	18,879	18,557	322
Other services	20,000	45,006	65,006	54,691	10,315
Debt service					
Principal	60,530	-	60,530	60,530	-
Interest and other charges	40,065	-	40,065	39,875	190
Capital outlay	25,000	166,987	191,987	171,586	20,401
Total expenditures	6,306,877	284,981	6,591,858	6,589,208	2,650
Excess (deficiency) of revenues over expenditures	(69,105)	(201,386)	(270,491)	68,385	338,876
<b>OTHER FINANCING SOURCES (USES)</b>					
Use of unrestricted carryover fund balances	261,000	-	261,000	-	261,000
Use of committed carryover fund balances	-	38,006	38,006	-	38,006
Overlay	(88,935)	-	(88,935)	-	(88,935)
Proceeds from debt	-	110,000	110,000	110,000	-
Transfers in	-	56,987	56,987	69,679	12,692
Transfers out	(102,960)	(3,607)	(106,567)	(106,978)	(411)
Total other financing sources and uses	69,105	201,386	270,491	72,701	222,352
Net change in fund balances	\$ -	\$ -	\$ -	141,086	\$ 141,086
<b>FUND BALANCES - BEGINNING</b>				2,197,913	
<b>FUND BALANCES - ENDING</b>				\$ 2,338,999	

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

**Town of Machias, Maine**  
**Schedule of the Town's Proportionate Share of the Net Pension Liability**  
**State Employees and Teachers Plan**  
**Last 10 Fiscal Years\***  
**For the years ended June 30,**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Unit's proportion of the net pension liability	0.011751%	0.014357%								
Unit's proportionate share of the net pension liability	\$ 126,950	\$ 228,255								
State's proportionate share of the net pension liability associated with the Unit	<u>2,086,549</u>	<u>3,057,002</u>								
<b>Total</b>	<u><u>\$ 2,213,499</u></u>	<u><u>\$ 3,285,257</u></u>								
Unit's covered-employee payroll	\$ 2,310,728	\$ 2,260,733								
Unit's proportionate share of the net pension liability as a percentage of its covered-employee payroll	5.49%	10.10%								
Plan fiduciary net position as a percentage of the total pension liability	83.91%	76.85%								

\* The amounts presented for each fiscal year available were determined as of June 30 of the previous year

**Town of Machias, Maine**  
**Schedule of Town Contributions**  
**State Employees and Teachers Plan**  
**Last 10 Fiscal Years\***  
**For the years ended June 30,**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 78,454	\$ 22,528								
Contributions in relation to the contractually required contribution	<u>(78,454)</u>	<u>(22,528)</u>								
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>								
Unit's covered-employee payroll	\$ 2,310,728	\$ 2,260,733								
Contributions as a percentage of covered-employee payroll	3.40%	1.00%								

\* The amounts presented for each fiscal year available were determined as of June 30 of the previous year

**Town of Machias, Maine  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2015**

	<u>Special Revenue Fund - Town</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 50,339	\$ 50,339
Investments	268,347	-	268,347
Due from other funds	36,307	499,790	536,097
Note receivable	2,620	-	2,620
Total assets	<u>\$ 307,274</u>	<u>\$ 550,129</u>	<u>\$ 857,403</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Due to other funds	<u>\$ 13,223</u>	<u>\$ -</u>	<u>\$ 13,223</u>
Fund balances			
Restricted for			
Capital projects	-	21,735	21,735
Town grants and other purposes	294,051	-	294,051
Committed for capital projects	-	528,394	528,394
Total fund balances	<u>294,051</u>	<u>550,129</u>	<u>844,180</u>
Total liabilities and fund balances	<u>\$ 307,274</u>	<u>\$ 550,129</u>	<u>\$ 857,403</u>

**Town of Machias, Maine**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2015**

	<u>Special Revenue Fund - Town</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>REVENUES</b>			
Intergovernmental	\$ 33,135	\$ 4,766	\$ 37,901
Investment earnings	708	75	783
Total revenues	<u>33,843</u>	<u>4,841</u>	<u>38,684</u>
<b>EXPENDITURES</b>			
Grant expenses	33,135	-	33,135
Capital outlay	-	5,016	5,016
Total expenditures	<u>33,135</u>	<u>5,016</u>	<u>38,151</u>
Excess (deficiency) of revenues over expenditures	<u>708</u>	<u>(175)</u>	<u>533</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	3,607	3,607
Transfers out	-	(69,679)	(69,679)
Total other financing sources and uses	<u>-</u>	<u>(66,072)</u>	<u>(66,072)</u>
Net change in fund balances	708	(66,247)	(65,539)
<b>FUND BALANCES - BEGINNING</b>	<u>293,343</u>	<u>616,376</u>	<u>909,719</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 294,051</u>	<u>\$ 550,129</u>	<u>\$ 844,180</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, 2015

	Adjusted Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Local assessments	\$ 1,441,335	\$ 1,441,335	\$ -
State subsidy	1,660,149	1,660,149	-
Intergovernmental	6,500	52,485	45,985
Tuition and fees	1,156,707	1,413,512	256,805
Other	2,000	9,217	7,217
	<u>4,266,691</u>	<u>4,576,698</u>	<u>310,007</u>
Total revenues			
<b>EXPENDITURES</b>			
Regular instruction			
Elementary	1,269,216	1,256,802	12,414
Early childhood	129,601	130,401	(800)
Secondary	616,721	637,423	(20,702)
Instruction improvement	7,720	5,101	2,619
Special education			
Elementary	331,796	306,464	25,332
Secondary	147,118	135,609	11,509
Administrative	31,433	31,433	-
Tutoring	3,305	1,842	1,463
Evaluation	20,021	15,662	4,359
Speech therapy	20,413	18,565	1,848
Gifted and talented	77,916	70,439	7,477
Career and technical education	192,576	188,887	3,689
Other Instruction			
Co-curricular - athletic elementary	15,282	22,008	(6,726)
Co-curricular - athletic secondary	63,697	63,738	(41)
Co-curricular - elementary	24,103	22,704	1,399
Co-curricular - secondary	32,957	33,967	(1,010)
Student and staff support			
Guidance and counseling - elementary	75,343	70,001	5,342
Guidance and counseling - secondary	93,550	84,870	8,680
Health services	44,151	43,026	1,125
Library and media - elementary	19,741	13,003	6,738
Library and media - secondary	37,755	39,733	(1,978)
System administration			
Office of superintendent	118,879	118,879	-
School board	20,650	21,641	(991)
School administration			
Office of principal - elementary	184,660	186,091	(1,431)
Office of principal - secondary	126,440	142,659	(16,219)
Transportation and buses	141,166	150,906	(9,740)
Facilities and maintenance			
Operation and maintenance of plant	463,594	557,816	(94,222)
Debt service	90,000	87,184	2,816
Vehicle Maintenance & Operation	3,700	2,029	1,671
Site improvement	500	0	500
Other			
After school program	-	1,000	(1,000)
Contingency	10,030	-	10,030
	<u>4,414,034</u>	<u>4,459,883</u>	<u>(45,849)</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>(147,343)</u>	<u>116,815</u>	<u>264,158</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(2,657)	(2,657)	-
Utilization of prior year surplus	150,000	-	(150,000)
	<u>147,343</u>	<u>(2,657)</u>	<u>(150,000)</u>
Total other financing sources			
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 114,158</u>	<u>\$ 114,158</u>

**Town of Machias, Maine**  
**Combining Balance Sheet - Special Revenue Funds - Town**  
**June 30, 2015**

	<b>Downtown Revolving Loan Fund</b>	<b>Station 98</b>	<b>Economic Development (Mill)</b>	<b>State Local Road Assistance</b>	<b>Sewer Grant</b>	<b>Maine Waste Management Grant</b>	<b>Downtown planning</b>	<b>Thermal imaging camera</b>	<b>Scholar- ship</b>	<b>Totals</b>
<b>ASSETS</b>										
Investments	\$ -	\$ 11,087	\$ 255,476	\$ -	\$ -	\$ -	\$ -	\$ 1,784	\$ -	\$ 268,347
Loans receivable	2,620	-	-	-	-	-	-	-	-	2,620
Due from other funds	5,401	-	-	16,345	86	4,990	8,784	526	175	36,307
Total assets	<u>\$ 8,021</u>	<u>\$ 11,087</u>	<u>\$ 255,476</u>	<u>\$ 16,345</u>	<u>\$ 86</u>	<u>\$ 4,990</u>	<u>\$ 8,784</u>	<u>\$ 2,310</u>	<u>\$ 175</u>	<u>\$ 307,274</u>
<b>LIABILITIES</b>										
Due to other funds	\$ -	\$ 637	\$ 11,663	\$ -	\$ -	\$ -	\$ -	\$ 923	\$ -	\$ 13,223
<b>FUND EQUITY</b>										
Fund Balance										
Restricted	8,021	10,450	243,813	16,345	86	4,990	8,784	1,387	175	294,051
Total fund equity	<u>8,021</u>	<u>10,450</u>	<u>243,813</u>	<u>16,345</u>	<u>86</u>	<u>4,990</u>	<u>8,784</u>	<u>1,387</u>	<u>175</u>	<u>294,051</u>
Total liabilities and fund equity	<u>\$ 8,021</u>	<u>\$ 11,087</u>	<u>\$ 255,476</u>	<u>\$ 16,345</u>	<u>\$ 86</u>	<u>\$ 4,990</u>	<u>\$ 8,784</u>	<u>\$ 2,310</u>	<u>\$ 175</u>	<u>\$ 307,274</u>

**Town of Machias, Maine**  
**Statement of Receipts, Disbursements, and Changes in Balances**  
**Agency Funds**  
**June 30, 2015**

	<b>Balances</b>			<b>Balances</b>
	<b>July 1,</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>June 30,</b>
	<b>2014</b>			<b>2015</b>
Rose Gaffney School	\$ 25,628	\$ 60,081	\$ 60,834	\$ 24,875
Machias High School	35,412	95,818	88,814	42,416
Machias Vocational Center	6,415	934	1,837	5,512
<b>Total</b>	<b>\$ 67,455</b>	<b>\$ 156,833</b>	<b>\$ 151,485</b>	<b>\$ 72,803</b>

**Town of Machias, Maine**  
**Taxes receivable, Tax liens and Tax acquired property**  
**General Fund**  
**June 30, 2015**

Taxes receivable	
2014	\$ 272,654
2013	1,700
2012 and prior	<u>5,055</u>
Total taxes receivable	<u>279,409</u>
Tax liens and tax acquired property	
2013	125,753
2012 and prior	<u>2,557</u>
Total tax liens and tax acquired property	<u>128,310</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 407,719</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 Town of Machias, Maine as of and for the year ended June 30, 2015, and have issued our report thereon dated May 2, 2016.

The management of 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 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, Town of Machias, Maine exceeded its authority to spend funds under the total budgetary summary article provisions of Maine laws and regulations. Nothing came to our attention that caused us to believe that, for the items not tested, Town of Machias, Maine was not in compliance with Maine laws and regulations.

*Brantner Thibodeau & Associates*

May 2, 2016

**Town of Machias, Maine**  
**Reconciliation of Audit Adjustments to Annual Financial Data**  
**Submitted to MEDMS Financial System**  
**Year ended June 30, 2015**

	General	Special Revenue		Totals
	Fund	Grants and other	School lunch	
<b>June 30 balance as per MEDMS</b>	\$ (1,427,892)	\$ 27,690	\$ (50,220)	\$ (1,450,422)
<b>Beginning balance adjustments</b>	2,023,326	(21,520)	(122,771)	1,879,035
<b>Reclass activity</b>	<u>149,319</u>	<u>(116,321)</u>	<u>(32,998)</u>	<u>-</u>
<b>Revenues adjustments</b>				
Due from other governments	-	(35,015)		(35,015)
Other adjustments	(76,276)	138,400	2,657	64,781
<b>Expenditures adjustments</b>				
Adjustment to expenses	(7,407)	12,549	7,569	12,711
Adjust inventory	<u>-</u>	<u>-</u>	<u>(1,631)</u>	<u>(1,631)</u>
<b>GAAP Basis Fund Balance</b>	<u>\$ 661,070</u>	<u>\$ 5,783</u>	<u>\$ (197,394)</u>	<u>\$ 469,459</u>



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**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 Town of Machias, Maine as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Town of Machias, Maine's basic financial statements and have issued our report thereon dated May 2, 2016. Our report includes a reference to other auditors who audited the Schedules of Pension Amounts by Employer reported by the State of Maine Public Employees Retirement System, as described in our report on the Town of Machias, Maine's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Town of Machias, Maine's internal control over financial reporting (internal control) to determine the audit 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 Town of Machias, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 #2015-001, 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 deficiency described in the accompany schedule of findings and questioned costs to be a significant deficiency, #2015-002.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item #2015-003.

We noted certain other matters that we have reported to management of Town of Machias, Maine, in the letter dated May 2, 2016.

### **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. Town of Machias, Maine's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **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.

*Barthru Shibodan & Associates*

May 2, 2016

**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 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 Town of Machias, Maine's major federal programs for the year ended June 30, 2015. 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 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 of Town of Machias, Maine's compliance.

***Opinion on Each Major Federal Program***

In our opinion, 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, 2015.

### Report on Internal Control Over Compliance

Management of 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 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 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.

*Brantley Thibodeau & Associates*

May 2, 2016

**Town of Machias, Maine**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended June 30, 2015

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>			
Fresh fruit and vegetable program	10.582	13-05A-3028-05	\$ 17,311
<i>Cluster</i>			
National School Lunch Program	10.555	13-05A-8025-05	118,178
After school snack	10.555	13-05A-3020-05	11,592
Summer food service program	10.559	13-05A-3016-05	3,695
School breakfast program	10.553	13-05A-3014-05	40,531
<i>Total Child Nutrition Cluster</i>			<u>173,996</u>
Total U.S. Department of Agriculture			<u>191,307</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	24,640
ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	unknown	22,863
Total U.S. Environmental Protection Agency			<u>47,503</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	192,595
Career and technical education- Perkins Title IC	84.048	13-05A-3030-8	32,226
Title IIA teacher quality	84.367	13-05A-3042-11	29,843
Rural Education Achievement Program	84.358	13-05A-1078-03	3,910
<i>Cluster</i>			
Part B Section 619- Preschool	84.173	13-05A-6241-23	1,919
Title VI, Part B - Local Entitlement	84.027	13-05A-3046-12	81,750
<i>Total Special Education Cluster</i>			<u>83,669</u>
Total U.S. Department of Education			<u>342,243</u>
<i>U.S. Department of Health and Human Services</i>			
<i>Passed through Maine Development Foundation</i>			
Community transformation program- Healthy Maine Streets	93.737	unknown	14,360
<i>U.S. Housing and Urban Development</i>			
<i>Passed through State Department of Economic and Community Development</i>			
Workforce Development Grant	14.228	015-19A-0587-012-6331	33,135
<i>U.S. Department of Justice</i>			
<i>Passed through Town of Baileyville, Maine</i>			
Edward Byrne Memorial Justice Assistance Grant	16.738	BAI-01-13	1,610
<i>U.S. Department of Transportation</i>			
<i>Direct</i>			
FAA grant - airport improvement program	20.106	AIP#3-23-0029-06-2011	4,515
<i>Passed through the State Bureau of Highway Safety</i>			
2013 "Drive Sober, Maine!" Impaired Driving Project	20.600	AL14-045	934
Total U.S. Department of Transportation			<u>5,449</u>
Total expenditures of federal awards			<u>\$ 635,607</u>

**Town of Machias, Maine**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year ended June 30, 2015**

**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, 2015. The reporting entity is defined in the Notes to the Financial Statements of 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, 2015**

**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? -  X  yes   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 - *Unmodified 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

<b><i>CFDA Number(s)</i></b>	<b><i>Name of Federal Program or Cluster</i></b>
84.010	Title IA Grants to Local Educational Agencies
10.555,10.553	National School Lunch Program Cluster

- 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, 2015**

**Section II — Financial Statement Findings**

**#2015-001**

<i>Criteria or specific requirement</i>	Internal control over financial reporting and closing process.
<i>Condition</i>	The Town does not have appropriate controls over year end closing procedures and the preparation of the financial statements, 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 overall year-end financial closing process and reconciliations to financial statements are not being performed timely and additionally the Town and the School department maintain independent accounting records, which get reconciled at the end of the year. Additional adjustments were needed to reconcile these sets of records.
<i>Effect</i>	The Town 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 reconciliations and analysis of the overall reporting requirements including a 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>	The Town should establish a system of control and records at year end as wells as throughout the years to ensure these records are in agreement and financial statements are adjusted appropriately. The Town will need to take additional time in the year end closing process to identify any errors or misstatements in its own financial statements and required footnotes.
<i>Management's response</i>	Management will put in place a process for more timely and accurate year-end closing and financial statement preparation. Management will work with the auditor to identify and correct ongoing problematic areas. 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 timely and accurate in advance of audit and closing process.

**Town of Machias, Maine  
Schedule of Findings and Questioned Costs (Continued)  
Year ended June 30, 2015**

**Section II — Financial Statement Findings (Continued)**

<b>#2015-002</b>	
<i>Criteria or specific requirement</i>	Internal control over budget and tax commitment.
<i>Condition</i>	The Town did not perform the necessary review of its budget and tax commitment reconciliation to recognize an error that resulted in a loss of \$81,000 of revenues.
<i>Context</i>	The Town's assessor's incorrectly calculated the tax commitment amount and the error went undetected.
<i>Effect</i>	The effect on the Town is a loss of revenues.
<i>Cause</i>	Lack of appropriate review and reconciliation of the tax commitment to supporting records and approved budget articles.
<i>Recommendation</i>	Management should require that the assessor's commitment is reviewed and reconciled for accuracy prior to completion.
<i>Management's response</i>	Management has implemented procedures to strengthen internal controls over this process.

<b>#2015-003</b>	
<i>Criteria or specific requirement</i>	Compliance with Maine laws and regulations over authorized spending.
<i>Condition</i>	The school department is exceeded its authority to spend funds under the total budgetary summary article provisions of Maine laws and regulations.
<i>Context</i>	The school department lacked appropriate budget controls over spending to allow for total expenses to exceed the authorized amount.
<i>Effect</i>	The effect is unknown to the school department at this time.
<i>Cause</i>	Lack of appropriate spending controls to prevent spending above authorized budget summary article provisions.
<i>Recommendation</i>	The school department should maintain appropriate oversight over its spending and budget controls to ensure that they will stay in compliance with Maine laws and authorized budget article limits.
<i>Management's response</i>	The school department will implement procedures to strengthen budget controls and spending limits.

**Section III — Federal Award Findings and Questioned Costs**

None reported

**Town of Machias, Maine**  
**Summary Schedule of Prior Audit Findings**  
**Year ended June 30, 2015**

**#2014-001**

*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.

**#2014-002**

*Condition*

Management does not have appropriate controls over grants expenditures to prevent or detect and correct misstatements.

*Current Status*

The finding was corrected in 2014-2015.

**#2014-003**

*Condition*

Management does not have appropriate controls over agency funds to prevent or detect and correct misstatements.

*Current Status*

The finding was corrected in 2014-2015.