

**Town of Machias, Maine**

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

**For the Year Ended June 30, 2011**

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## Independent Auditor's Report

Board of Selectmen  
Town of Machias, Maine

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Machias, Maine as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Machias, Maine's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Machias, Maine as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2012 on our consideration of the Town of Machias, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 6 through 15 and 45 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Bangor, Maine  
April 9, 2012

**Town of Machias, Maine**  
**Statement of Net Assets**  
**June 30, 2011**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and equivalents	\$ 1,811,205	\$ 215,130	\$ 2,026,335
Investments	376,489	446,950	823,439
Taxes receivable	450,334	-	450,334
Accounts receivable	-	441,518	441,518
Internal balances	173,290	(173,290)	-
Due from fiduciary funds	5,500	-	5,500
Due from other governmental agencies	205,823	336,619	542,442
Other receivables	2,623	-	2,623
Inventories	3,761	-	3,761
Capital assets not being depreciated	565,074	3,636,364	4,201,438
Capital assets being depreciated, net	3,946,220	5,084,961	9,031,181
Total assets	<u>7,540,319</u>	<u>9,988,252</u>	<u>17,528,571</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	123,995	373,511	497,506
Due to other governmental agencies	10,565	-	10,565
Prepaid taxes	5,007	-	5,007
Accrued summer teacher pay	333,635	-	333,635
Short-term line of credit payable	-	500,000	500,000
Long-term liabilities			
Due within one year			
Bonds and notes payable	288,077	65,226	353,303
Capital leases payable	3,298	12,136	15,434
Due in more than one year			
Bonds and notes payable	736,444	471,389	1,207,833
Capital leases payable	3,414	32,237	35,651
Total liabilities	<u>1,504,435</u>	<u>1,454,499</u>	<u>2,958,934</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,480,061	8,140,337	11,620,398
Restricted for			
Education	450,260	-	450,260
Capital projects	21,735	-	21,735
Machias Water Co.	-	328,794	328,794
School lunch	3,761	-	3,761
Other purposes	289,656	443,900	733,556
Unrestricted (deficit)	1,790,411	(379,278)	1,411,133
Total net assets	<u>\$ 6,035,884</u>	<u>\$ 8,533,753</u>	<u>\$ 14,569,637</u>

Town of Machias, Maine  
Statement of Activities  
For the Year Ended June 30, 2011

Functions/Programs	Program Revenue			Net (Expense) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities</b>							
General government	\$ 331,126	\$ 10,480	\$ -	\$ -	\$ (320,646)	\$ -	\$ (320,646)
Public safety	593,960	44,982	-	-	(548,978)	-	(548,978)
Public works	363,239	3,969	20,868	-	(338,402)	-	(338,402)
General assistance	3,870	-	2,112	-	(1,758)	-	(1,758)
Culture and recreation	47,716	138	709	-	(46,869)	-	(46,869)
Education	3,853,703	-	2,853,033	-	(1,000,670)	-	(1,000,670)
Adult education	149,181	-	-	-	(149,181)	-	(149,181)
On-behalf payments - State of Maine	404,265	-	404,265	-	(91,282)	-	(91,282)
Grants and other contributions	810,813	-	719,531	-	(53,950)	-	(53,950)
Interest on long-term debt	53,950	-	-	-	(8,156)	-	(8,156)
Airport	8,156	-	-	-	(24,194)	-	(24,194)
Tax incremental financing	24,757	563	-	-	(164,930)	-	(164,930)
County tax	164,930	-	-	-	(22,681)	-	(22,681)
School lunch program	201,817	42,213	136,973	-	(3,331)	-	(3,331)
Capital outlay	39,084	-	-	35,753	-	-	(3,331)
Total governmental activities	<u>7,050,567</u>	<u>102,345</u>	<u>4,137,491</u>	<u>35,753</u>	<u>(2,774,978)</u>	<u>-</u>	<u>(2,774,978)</u>
<b>Business-type activities</b>							
Sewer fund	515,767	403,462	-	2,298,168	-	2,185,863	2,185,863
Solid waste	366,951	355,078	-	-	-	(11,873)	(11,873)
Ambulance fund	263,234	218,747	-	-	-	(44,487)	(44,487)
Telcenter	78,002	67,501	-	-	-	(8,501)	(8,501)
Total business-type activities	<u>1,223,954</u>	<u>1,044,788</u>	<u>-</u>	<u>2,298,168</u>	<u>-</u>	<u>2,121,002</u>	<u>2,121,002</u>
	<u>\$ 8,272,521</u>	<u>\$ 1,147,133</u>	<u>\$ 4,137,491</u>	<u>\$ 2,333,921</u>	<u>(2,774,978)</u>	<u>2,121,002</u>	<u>(653,976)</u>
<b>General revenues:</b>							
<b>Taxes</b>							
Property taxes					2,839,354	-	2,839,354
Excise taxes, licenses, permits and fees					219,051	-	219,051
Interest and lien costs					31,073	2,159	33,232
Grants and contributions not restricted to specific programs					294,047	-	294,047
Unrestricted investment and interest earnings					21,870	26,269	48,139
Miscellaneous					15,298	-	15,298
Transfers					5,165	91,891	97,056
Total general revenues and transfers					<u>3,425,858</u>	<u>120,319</u>	<u>3,546,177</u>
Change in net assets					650,880	2,241,321	2,892,201
Net assets - beginning					5,384,902	6,286,056	11,670,958
Reclassification of long term debt					55,808	(55,808)	-
Reclassification of capital assets					(55,506)	61,984	6,478
Net assets - beginning, restated					5,385,004	6,292,432	11,677,436
Net assets - ending					<u>\$ 6,035,884</u>	<u>\$ 8,533,753</u>	<u>\$ 14,569,637</u>

See accompanying notes to basic financial statements.

**Town of Machias, Maine**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

	<u>General Fund</u>	<u>Special Revenue Fund - School Categorical Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,767,573	\$ 2,509	\$ 41,123	\$ 1,811,205
Investments	112,539	-	263,950	376,489
Taxes receivable, net	450,334	-	-	450,334
Due from other funds	723,028	18,697	587,198	1,328,923
Receivable from other governments	144,694	52,458	8,670	205,822
Other receivables	-	-	2,623	2,623
Inventories	-	-	3,761	3,761
Total assets	<u>\$ 3,198,168</u>	<u>\$ 73,664</u>	<u>\$ 907,325</u>	<u>\$ 4,179,157</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 105,747	\$ 15,062	\$ -	\$ 120,809
Due to other funds	1,087,295	-	62,838	1,150,133
Payable to other governments	10,565	-	-	10,565
Deferred property taxes	323,890	-	-	323,890
Prepaid property taxes	5,007	-	-	5,007
Accrued summer teacher pay	329,831	-	3,804	333,635
Other payables	3,186	-	-	3,186
Total liabilities	<u>1,865,521</u>	<u>15,062</u>	<u>66,642</u>	<u>1,947,225</u>
<b>Fund balances</b>				
<b>Nonspendable for</b>				
Inventories	-	-	3,761	3,761
<b>Restricted for</b>				
Education	391,658	58,602	-	450,260
Capital projects	-	-	21,735	21,735
Town grants and other purposes	-	-	289,656	289,656
<b>Committed for</b>				
Other purposes	54,613	-	-	54,613
Capital projects	-	-	529,156	529,156
Unassigned (deficit)	886,376	-	(3,625)	882,751
Total fund balances	<u>1,332,647</u>	<u>58,602</u>	<u>840,683</u>	<u>2,231,932</u>
Total liabilities and fund balances	<u>\$ 3,198,168</u>	<u>\$ 73,664</u>	<u>\$ 907,325</u>	<u>\$ 4,179,157</u>

**Town of Machias, Maine**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**June 30, 2011**

Total fund balance, governmental funds	\$ 2,231,932
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	4,511,294
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	
Deferred revenue related to property taxes	323,890
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, and Bonds Payable ), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	(1,031,232)
	<hr/>
Net Assets of Governmental Activities in the Statement of Net Assets	<u><u>\$ 6,035,884</u></u>

**Town of Machias, Maine**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds**  
**For the Year Ended June 30, 2011**

	<u>General Fund</u>	<u>Special Revenue Fund - School Categorical Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ 2,776,522	\$ -	\$ -	\$ 2,776,522
Excise taxes	211,388	-	-	211,388
Interest and lien charges	31,073	-	-	31,073
Licenses, permits and fees	20,735	-	-	20,735
Intergovernmental	3,127,239	760,754	172,726	4,060,719
On-behalf payments - State of Maine	404,265	-	-	404,265
Charges for services	42,973	-	42,213	85,186
Investment and interest earnings	17,070	-	4,800	21,870
Miscellaneous	20,616	1,078	-	21,694
Total revenues	<u>6,651,881</u>	<u>761,832</u>	<u>219,739</u>	<u>7,633,452</u>
<b>EXPENDITURES</b>				
Current				
General government	320,714	-	-	320,714
Police department	271,550	-	-	271,550
Fire department	264,474	-	-	264,474
Highways and streets	286,039	-	-	286,039
Education	3,749,529	-	-	3,749,529
Adult education	149,181	-	-	149,181
On-behalf payments - State of Maine	404,265	-	-	404,265
Recreation	44,363	-	-	44,363
General assistance	3,870	-	-	3,870
Airport	7,736	-	-	7,736
Public safety building	11,730	-	-	11,730
County tax	164,930	-	-	164,930
Third party requests	-	-	-	-
Tax increment financing	24,757	-	-	24,757
Other services	4,715	-	-	4,715
Federal, state and local grants	-	810,813	-	810,813
School lunch program	-	-	201,817	201,817
Debt service				
Principal	337,506	-	-	337,506
Interest and other charges	53,950	-	-	53,950
Capital outlay	42,374	-	49,927	92,301
Total expenditures	<u>6,141,683</u>	<u>810,813</u>	<u>251,744</u>	<u>7,204,240</u>
Excess (deficiency) of revenues over expenditures	<u>510,198</u>	<u>(48,981)</u>	<u>(32,005)</u>	<u>429,212</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	128,057	-	18,100	146,157
Transfers out	(109,991)	(50,552)	-	(160,543)
Total other financing sources and uses	<u>18,066</u>	<u>(50,552)</u>	<u>18,100</u>	<u>(14,386)</u>
Net change in fund balances	528,264	(99,533)	(13,905)	414,826
<b>FUND BALANCES - BEGINNING</b>	<u>804,383</u>	<u>158,135</u>	<u>854,588</u>	<u>1,817,106</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 1,332,647</u>	<u>\$ 58,602</u>	<u>\$ 840,683</u>	<u>\$ 2,231,932</u>

See accompanying notes to basic financial statements.

**Town of Machias, Maine**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental**  
**Funds to the Statement of Activities**  
**For the Year Ended June 30, 2011**

Net change in fund balances - total governmental funds: \$ 414,826

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	46,850	
Depreciation	<u>(211,134)</u>	(164,284)

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

62,832

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 repayments	<u>337,506</u>	
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Change in net assets of governmental activities	<u>\$ 650,880</u>	
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**Town of Machias, Maine**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2011**

	Enterprise Funds			Total
	Sewer Fund	Solid Waste Facility	Other Proprietary Funds	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ -	\$ 200,860	\$ 14,270	\$ 215,130
Investments	446,950	-	-	446,950
Accounts receivable, net	324,552	-	116,966	441,518
Due from other funds	9,512	-	534,972	544,484
Receivables from other governments	327,198	9,421	-	336,619
Total current assets	<u>1,108,212</u>	<u>210,281</u>	<u>666,208</u>	<u>1,984,701</u>
Non-current assets				
Capital assets				
Land and improvements	1,000	-	-	1,000
Infrastructure and buildings	7,057,247	345,250	650,068	8,052,565
Construction in progress	3,266,445	-	-	3,266,445
Vehicles and equipment	385,408	115,403	161,713	662,524
Less accumulated depreciation	<u>(2,523,235)</u>	<u>(289,925)</u>	<u>(448,049)</u>	<u>(3,261,209)</u>
Total non-current assets	<u>8,186,865</u>	<u>170,728</u>	<u>363,732</u>	<u>8,721,325</u>
Total assets	<u>9,295,077</u>	<u>381,009</u>	<u>1,029,940</u>	<u>10,706,026</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	373,511	-	-	373,511
Due to other funds	174,277	467,024	76,473	717,774
Short term bond anticipation note payable	500,000	-	-	500,000
Capital leases payable	-	12,136	-	12,136
Bonds and notes payable	49,122	16,104	-	65,226
Total current liabilities	<u>1,096,910</u>	<u>495,264</u>	<u>76,473</u>	<u>1,668,647</u>
Non-current liabilities				
Capital lease obligation	-	32,237	-	32,237
Bonds and notes payable	453,799	17,590	-	471,389
Total non-current liabilities	<u>453,799</u>	<u>49,827</u>	<u>-</u>	<u>503,626</u>
Total liabilities	<u>1,550,709</u>	<u>545,091</u>	<u>76,473</u>	<u>2,172,273</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	7,683,943	92,662	363,732	8,140,337
Restricted for other purposes	417,364	-	26,536	443,900
Restricted for Machias Water Co.	328,794	-	-	328,794
Unrestricted (deficit)	<u>(685,733)</u>	<u>(256,744)</u>	<u>563,199</u>	<u>(379,278)</u>
Total net assets (deficit)	<u>\$ 7,744,368</u>	<u>\$ (164,082)</u>	<u>\$ 953,467</u>	<u>\$ 8,533,753</u>

**Town of Machias, Maine**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2011**

	<b>Enterprise Funds</b>			<b>Total</b>
	<b>Sewer Fund</b>	<b>Solid Waste Facility</b>	<b>Other Proprietary Funds</b>	
<b>REVENUES</b>				
Charges for services and interest	\$ 403,462	\$ 355,078	\$ 285,987	\$ 1,044,527
<b>OPERATING EXPENSES</b>				
Personal services	132,258	77,243	149,424	358,925
Contractual services	34,657	217,394	12,169	264,220
Utilities	76,354	9,290	20,635	106,279
Repairs and maintenance	13,233	12,330	19,038	44,601
Other supplies and expenses	54,022	17,405	13,076	84,503
Insurance claims and expenses	28,450	6,620	14,527	49,597
Capital outlay	4,514	3,849	-	8,363
Depreciation	154,396	14,663	41,677	210,736
Total operating expenses	<u>497,884</u>	<u>358,794</u>	<u>270,546</u>	<u>1,127,224</u>
Operating income (loss)	<u>(94,422)</u>	<u>(3,716)</u>	<u>15,441</u>	<u>(82,697)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest and investment revenue	21,324	6,982	123	28,429
Donations	-	-	261	261
Capital grants and contributions	2,298,168	-	-	2,298,168
Interest expense	(11,699)	(5,527)	-	(17,226)
Total non-operating revenue	<u>2,307,793</u>	<u>1,455</u>	<u>384</u>	<u>2,309,632</u>
Income (loss) before transfers	<u>2,213,371</u>	<u>(2,261)</u>	<u>15,825</u>	<u>2,226,935</u>
Transfers in	59,540	32,351	-	91,891
Transfers out	(6,185)	(2,630)	(68,690)	(77,505)
Total transfers	<u>53,355</u>	<u>29,721</u>	<u>(68,690)</u>	<u>14,386</u>
Change in net assets	2,266,726	27,460	(52,865)	2,241,321
Total net assets (deficit) - beginning	<u>5,477,642</u>	<u>(197,918)</u>	<u>1,006,332</u>	<u>6,286,056</u>
Reclassification of long term debt	-	(55,608)	-	(55,608)
Reclassification of capital assets	-	61,984	-	61,984
Total net assets (deficit) - beginning, restated	<u>5,477,642</u>	<u>(191,542)</u>	<u>1,006,332</u>	<u>6,292,432</u>
Total net assets (deficit) - ending	<u>\$ 7,744,368</u>	<u>\$ (164,082)</u>	<u>\$ 953,467</u>	<u>\$ 8,533,753</u>

See accompanying notes to basic financial statements.

**Town of Machias, Maine**  
**Statement of Cash Flows - Proprietary Funds**  
**For the Year Ended June 30, 2011**

	<b>Proprietary Fund Types - Enterprise</b>			<b>Totals</b>
	<b>Sewer</b>	<b>Solid Waste Facility</b>	<b>Other Proprietary Funds</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Received from user charges and tenants	\$ 457,003	\$ 345,657	\$ 314,674	\$ 1,117,334
Payments for administrative services	(291,085)	(110,558)	(197,662)	(599,305)
Payments to suppliers for goods and services	(52,404)	(233,573)	(31,207)	(317,184)
Interfund activity	(97,929)	155	(17,376)	(115,150)
Net cash provided by operating activities	<u>15,585</u>	<u>1,681</u>	<u>68,429</u>	<u>85,695</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Investment in Machias Water Co.	19,164	-	-	19,164
Interest paid	(11,699)	(5,527)	-	(17,226)
Interest income	2,160	6,982	123	9,265
Donation	-	-	261	261
Transfers in (out)	53,355	29,721	(68,690)	14,386
Net cash provided by noncapital financing activities	<u>62,980</u>	<u>31,176</u>	<u>(68,306)</u>	<u>25,850</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal paid on bonds and leases	(43,844)	(25,875)	-	(69,719)
Bond and short term note proceeds	500,000	-	-	500,000
Capital grants and contributions	2,122,874	-	-	2,122,874
Acquisition and construction of capital assets	(2,636,272)	-	-	(2,636,272)
Net cash provided (used) by capital and related financial activities	<u>(57,242)</u>	<u>(25,875)</u>	<u>-</u>	<u>(83,117)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(21,323)	-	-	(21,323)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	-	6,982	123	7,105
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	-	193,878	14,147	208,025
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ -</u>	<u>\$ 200,860</u>	<u>\$ 14,270</u>	<u>\$ 215,130</u>
<b>Supplemental Information</b>				
Interest charged to expense	<u>\$ 11,699</u>	<u>\$ 5,527</u>	<u>\$ -</u>	<u>\$ 17,226</u>
<b>Reconciliation of operating income to net cash used by operating activities</b>				
Operating income (loss)	\$ (94,422)	\$ (3,716)	\$ 15,441	\$ (82,697)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	154,396	14,663	41,677	210,736
(Increase) decrease in the following assets				
Accounts receivable	53,540	(9,421)	28,687	72,806
Interfund receivables	-	-	6,626	6,626
Increase (decrease) in the following liabilities				
Interfund payables	(97,929)	155	(24,002)	(121,776)
Net cash provided by operating activities	<u>\$ 15,585</u>	<u>\$ 1,681</u>	<u>\$ 68,429</u>	<u>\$ 85,695</u>

See accompanying notes to basic financial statements.

**Town of Machias, Maine**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2011**

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 152,260	\$ 73,431
<b>LIABILITIES</b>		
Due to student groups	-	73,431
Due to other funds	5,500	-
Total liabilities	<u>5,500</u>	<u>73,431</u>
<b>NET ASSETS</b>		
Held in trust for scholarships and other purposes	<u>\$ 146,760</u>	<u>\$ -</u>

**Town of Machias, Maine**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2011**

	<b>Private Purpose Trust Fund</b>
<b>ADDITIONS</b>	
Interest	\$ 6,014
Contributions	3,900
Total additions	9,914
 <b>DEDUCTIONS</b>	
Scholarships	7,200
Change in net assets	2,714
<b>NET ASSETS - BEGINNING</b>	15,787
Restate beginning balances	128,259
<b>NET ASSETS - BEGINNING, RESTATED</b>	144,046
<b>NET ASSETS - ENDING</b>	\$ 146,760

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**A. FINANCIAL REPORTING ENTITY**

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

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

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

**B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS**

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

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

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

**C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS**

The Town segregates transactions related to certain functions or activities in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

**1. Governmental Funds**

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

The Town has presented the following major governmental funds:

*General Fund*

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

*Special Revenue Fund- School Categorical Grants*

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

**2. Proprietary Funds**

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the statement of net assets.

The Town has presented the following major proprietary funds:

*Sewer Fund*

Activities of the fund include administration, operations and maintenance of the sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of long-term debt for the sewer fund. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

*Solid Waste Fund*

Activities of the fund include solid waste disposal and maintenance of the facility. Costs are financed from user charges and Town contributions.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

**D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

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

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

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

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

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

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

**E. BUDGETS AND BUDGETARY ACCOUNTING**

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

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

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

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

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

**F. FINANCIAL STATEMENT AMOUNTS**

**1. Deposits and Investments**

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

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

**2. Inventories**

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

**3. Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets, except for amounts owed to fiduciary funds. Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Any residual balances between the governmental activities and fiduciary funds are reported in the government-wide financial statements as due from fiduciary funds.

**4. Interfund Transfers**

Transfers between governmental funds or between proprietary funds are eliminated in the government-wide financial statements.

**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.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

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

**5. Capital Assets (Continued)**

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

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

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

**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 are reported as liabilities in government-wide statements. The long-term debt consists primarily of notes, bonds and capital leases payable.

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.

**7. Compensated Absences**

The Town's policy regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick leave. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

**8. Government-wide Net Assets**

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

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

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

**9. Governmental Fund Balances**

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

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

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

*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 voter approval in the Selectmen form of government.

*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. The Board of Selectmen and the Superintendent are authorized to assign funds for a particular purpose, under authority granted by voter approval.

*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 not formally adopted a fund balance policy, but has implemented GASB 54 based on the definitions above. For expenditures that qualify for multiple categories, amounts will be first spent from restricted fund balance, followed by committed fund balance, then assigned fund balance, and finally unassigned fund balance.

**10. Revenue Recognition - Property Taxes**

Property taxes were levied on assessed values of April 1, 2010 and were due on October 15, 2010 and March 15, 2011, respectively. Interest was charged at 7% per annum as authorized by Maine Law on amounts not paid by the due date. Upon the expiration of eight months, and within one year from the date of original commitment, a tax lien is recorded for all delinquent taxes on real estate. If taxes were paid in full by October 15, 2010 a 3% discount was applied.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

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

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

Property taxes assessed and collected during the year ended June 30, 2011, and during the first sixty days of the next fiscal year are recognized as revenue in 2011. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue.

Assessed value	
Real estate	\$131,313,500
Personal property	<u>8,705,000</u>
	\$140,018,500
Tax rate (per \$1,000)	<u>20.60</u>
Commitment	\$ 2,884,381
Less collections, discounts and abatements	<u>2,566,740</u>
Receivable at June 30, 2011	<u>\$ 317,641</u>
Collection rate	89.0%

**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, 2011, the Town reported deposits of \$2,252,026 with bank balances of \$2,798,070. Of the Town's total bank balance of \$2,798,070, \$0 was exposed to custodial credit risk as all balances were insured or collateralized by underlying securities held by the related bank, which were not in the Town's name.

Deposits have been reported as follows:

Reported in governmental funds	\$1,811,205
Reported in proprietary funds	<u>215,130</u>
Total reported on the Statement of Net Assets	2,026,335
Reported in fiduciary funds	<u>225,691</u>
Total deposits	<u>\$2,252,026</u>

**Investments**

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

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

**Investments (Continued)**

The Town's investments are as follows:

U.S. Treasury notes	\$ 218,454
U.S. Agency notes	276,191
Common stock	<u>328,794</u>
Total investments	<u>\$ 823,439</u>

*Custodial Credit Risk:* Custodial credit risk is the risk that in the event of failure of the counterparty, the Town will not be able to recover the value of its investments. The Town does not have an investment policy for custodial credit risk. At June 30, 2011 the Town's investments of \$823,439, invested in U.S. Treasury notes, U.S. Agency notes, and company stock, are not exposed to custodial credit risk as the investments are in the Town's name.

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

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

	<b>Due in less than one year</b>	<b>Due in 1-5 years</b>
U.S. Agency notes	\$97,787	\$178,404

Investments have been reported as follows:

Reported in governmental funds	\$ 376,489
Reported in proprietary funds	<u>446,950</u>
Total investments	<u>\$ 823,439</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, 2010 the Town's interest has been valued at \$328,794.

**NOTE 3. ACCOUNTS RECEIVABLE**

The non-major proprietary fund - ambulance fund records an allowance for uncollectible receivables based on a percentage of Medicaid covered charges for services. The allowance for the year ended June 30, 2011 is \$11,568 based on an estimate of 9% of total receivables.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011, was as follows:

	<u>Balance 6/30/10</u>	<u>Additions/ Completions</u>	<u>Retirements/ Reclassifications</u>	<u>Balance 6/30/11</u>
<b>Governmental Activities</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	<u>545,399</u>	<u>(545,399)</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>1,110,473</u>	<u>(545,399)</u>	<u>-</u>	<u>565,074</u>
<i>Capital assets being depreciated</i>				
Buildings and land improvements	6,217,443	559,004	38,502	6,814,949
Infrastructure	798,701	5,940	(9)	804,632
Equipment, furniture and fixtures	654,414	30,595	(101,537)	583,472
Vehicles	<u>1,010,790</u>	<u>3,200</u>	<u>(173,059)</u>	<u>840,931</u>
Total capital assets being depreciated	<u>8,681,348</u>	<u>598,739</u>	<u>(236,103)</u>	<u>9,043,984</u>
<i>Less accumulated depreciation for:</i>				
Buildings and land improvements	(3,652,012)	(107,679)	(80,614)	(3,840,305)
Infrastructure	(51,116)	(21,613)	(23,836)	(96,565)
Equipment, furniture and fixtures	(592,292)	(37,779)	138,789	(491,282)
Vehicles	<u>(765,379)</u>	<u>(44,063)</u>	<u>139,830</u>	<u>(669,612)</u>
Total accumulated depreciation	<u>(5,060,739)</u>	<u>(211,134)</u>	<u>174,109</u>	<u>(5,097,764)</u>
Total capital assets being depreciated, net	<u>3,620,609</u>	<u>387,605</u>	<u>(61,994)</u>	<u>3,946,220</u>
Governmental activities capital assets, net	<u>\$ 4,731,082</u>	<u>\$ (157,794)</u>	<u>\$ (61,994)</u>	<u>\$ 4,511,294</u>
<b>Business-Type Activities</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	<u>1,720,224</u>	<u>2,802,716</u>	<u>(887,576)</u>	<u>3,635,364</u>
Total capital assets not being depreciated	<u>1,721,224</u>	<u>2,802,716</u>	<u>(887,576)</u>	<u>3,636,364</u>
<i>Capital assets being depreciated</i>				
Infrastructure and buildings	6,628,703	-	887,576	7,516,279
Vehicles and equipment	<u>516,710</u>	<u>-</u>	<u>145,813</u>	<u>662,523</u>
Total capital assets being depreciated	<u>7,145,413</u>	<u>-</u>	<u>1,033,389</u>	<u>8,178,802</u>
<i>Less accumulated depreciation</i>				
Infrastructure and buildings	(2,576,520)	(180,553)	-	(2,757,073)
Vehicles and equipment	<u>(222,757)</u>	<u>(30,182)</u>	<u>(83,829)</u>	<u>(336,768)</u>
Total accumulated depreciation	<u>(2,799,277)</u>	<u>(210,735)</u>	<u>(83,829)</u>	<u>(3,093,841)</u>
Total capital assets being depreciated, net	<u>4,346,136</u>	<u>(210,735)</u>	<u>949,560</u>	<u>5,084,961</u>
Business-type activities capital assets, net	<u>\$ 6,067,360</u>	<u>\$ 2,591,981</u>	<u>\$ 61,984</u>	<u>\$ 8,721,325</u>

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

Depreciation expense for the year ended June 30, 2011, was charged as direct expense to programs as follows:

<i>Governmental activities</i>	
General government	\$ 3,982
Protection	26,655
Public works	77,200
Recreation	3,353
Airport	420
Education	<u>99,524</u>
Total depreciation expense – Governmental activities	<u>\$ 211,134</u>
<i>Business-type activities</i>	
Sewer	\$ 154,395
Ambulance	9,174
Telcenter	32,503
Solid waste	<u>14,663</u>
Total depreciation expense – business-type activities	<u>\$ 210,735</u>

**NOTE 5. LONG-TERM DEBT**

**Obligations Under Capital Leases**

The Town is committed to leases for photocopier equipment and a truck scale. 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. Original amounts in the following table represent the gross amount of assets in the balance sheet recorded under capital leases.

	Original Amount	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Capital leases – governmental activities	\$ 67,621	\$ 21,367	\$ -	\$ (14,655)	\$ 6,712
Capital leases – business-type activities	<u>63,035</u>	<u>55,608</u>	-	<u>(11,235)</u>	<u>44,373</u>
Total capital leases	<u>\$ 130,656</u>	<u>\$ 76,975</u>	<u>\$ -</u>	<u>\$ (25,891)</u>	<u>\$ 51,085</u>

Minimum future lease payments under capital leases as of June 30, 2011 are:

2012	18,679
2013	18,679
2014	15,144
2015	<u>5,048</u>
	57,550
Less amount representing interest	<u>6,465</u>
Present value of minimum lease payments	<u>\$ 51,085</u>

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

**General obligation fund and proprietary fund bonds and notes payable**

The following is a summary of general obligation fund and proprietary fund bonds and notes payable transactions of the Town for the year ended June 30, 2011.

	Original Amount	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
<b>Governmental Debt</b>					
<b>General Obligation Bonds and Notes</b>					
<b>General Bonds</b>					
Maine Municipal Bond Bank, 0% school renovation bond, dated August 21, 2001, due 2011	\$1,000,000	\$ 75,180	\$ -	\$ (37,590)	\$ 37,590
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 21, 2010, due 2012	736,000	208,145	-	(105,571)	102,574
Maine Municipal Bond Bank, 4.6% school renovation bond, dated December 22, 2009, due 2020	709,213	709,213	-	(56,217)	652,996
<b>General Notes</b>					
Machias Savings Bank, 3.29% equipment note, dated August 13, 2003, due 2010	134,000	19,100	-	(19,100)	-
Machias Savings Bank, 3.65% industrial park note, dated December 28, 2007, due 2013	349,481	217,404	-	(69,827)	147,577
Machias Savings Bank, 3.12% vehicle note, dated December 2, 2008, due 2015	113,979	99,035	-	(15,252)	83,784
Machias Savings Bank, 1.95% vehicle note, dated December 2, 2008, due 2010	38,248	<u>19,294</u>	-	<u>(19,294)</u>	<u>-</u>
Total general obligation bonds and notes payable		<u>1,347,371</u>	<u>-</u>	<u>(322,850)</u>	<u>1,024,521</u>
<b>Business-type Debt</b>					
<b>Proprietary Fund Bonds and Notes Payable</b>					
<b>Sewer Bonds</b>					
Farmers Home Administration, 5% sewer rehabilitation project, dated April 21, 1983, due 2013	138,700	21,000	-	(7,000)	14,000
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 21, 2010, due 2012	101,000	28,855	-	(14,429)	14,426
Maine Municipal Bond Bank, 2.19% sewer rehabilitation project, dated July 26, 2002, due 2023	205,000	173,001	-	(11,415)	161,586
Maine Municipal Bond Bank, 1.40% sewer rehabilitation project, dated May 15, 2010, due 2029	338,700	323,909	-	(15,000)	308,909
Maine Municipal Bond Bank, 1.00% sewer rehabilitation project, dated January 21, 2011, due 2015	520,000	<u>-</u>	<u>4,000</u>	<u>-</u>	<u>4,000</u>
Total sewer bonds		<u>546,765</u>	<u>4,000</u>	<u>(47,844)</u>	<u>502,921</u>

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

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

**General obligation fund and proprietary fund bonds and notes payable (Continued)**

	Original Amount	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
<b>Business-type Debt (Continued)</b>					
<b>Proprietary Fund Bonds and Notes Payable (Continued)</b>					
Solid Waste Note Payable					
Bar Harbor Banking and Trust, 3.29% General obligation bond, dated March 4, 2010, due 2013	\$78,000	\$ 48,334	\$ -	\$ (14,640)	\$ 33,694
Total proprietary bonds and notes payable		595,099	4,000	(62,484)	536,615
Total general obligation and proprietary bonds and notes payable		<u>\$1,942,470</u>	<u>\$ 4,000</u>	<u>\$ (385,334)</u>	<u>\$1,561,136</u>

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	
2012	\$ 288,077	\$ 41,770	\$ 65,226	\$ 11,413	\$ 406,486
2013	153,763	32,459	52,803	8,868	247,893
2014	82,158	26,164	28,737	7,819	144,878
2015	85,738	22,592	29,273	7,319	144,922
2016	89,478	18,860	29,820	6,809	144,967
2017-2011	325,307	38,397	153,505	25,935	543,144
2022-2026	-	-	120,253	13,353	133,606
2027-2029	-	-	56,998	4,533	61,531
	<u>\$ 1,024,521</u>	<u>\$ 180,242</u>	<u>\$ 536,615</u>	<u>\$ 86,049</u>	<u>\$ 1,827,427</u>

In accordance with 30-A MRSA Section 5702 of the Maine law, no municipality shall incur debt for specific purposes in excess of 15 percent of the State valuation of such municipality. At June 30, 2011, the Town was in compliance with these limitations.

**NOTE 6. SHORT-TERM DEBT**

The following is a summary of proprietary fund short term debt payable transactions of the Town for the year ended June 30, 2011.

	Original Amount	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Short term line of credit	\$ 500,000	\$ -	\$ 500,000	\$ -	\$ 500,000

This short-term line of credit is an interim loan, taken in anticipation of Rural Development grant proceeds.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 7. 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, 2011 arising from these transactions were as follows:

	Receivable	Payable	Transfers in	Transfers out
General fund	\$ 723,028	\$1,087,295	\$128,057	\$ 109,991
Special revenue- school	18,697	-	-	50,552
Sewer fund	9,512	174,277	59,540	6,185
Solid waste fund	-	467,024	32,351	2,630
Private purpose trust fund	-	5,500	-	-
Non-major proprietary funds	534,972	76,473	-	68,690
Non-major governmental funds	<u>587,198</u>	<u>62,838</u>	<u>18,100</u>	<u>-</u>
	<u>\$1,873,407</u>	<u>\$1,873,407</u>	<u>\$238,048</u>	<u>\$238,048</u>

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

**NOTE 8. FUND BALANCES – COMMITTED FOR CAPITAL PROJECTS**

At June 30, 2011, the fund balances which are committed for capital projects were comprised of the following:

Airport improvement	\$ 72,114
Ambulance replacement	26,879
Basketball court	1,233
Boat dock	1,980
Comprehensive plan	382
Economic development	88,733
E-911 signs	1,271
Fire department homeland security	314
Fire department ventilation	4,629
Fire truck replacement	3,276
Industrial development	24,099
Lawnmower	700
Recreation building	7,819
Roads	93,664
Sewer expansion	75,323
Sewer overflow	3,367
Sidewalk repair	3,500
Skate park	5,967
Storm drain repair and replacement	10,972
Tennis court	14,549
Town office	<u>88,385</u>
Total committed for capital projects	<u>\$ 529,156</u>

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 9. FUND BALANCES – COMMITTED FOR OTHER PURPOSES**

At June 30, 2011, the fund balances which are committed for other purposes were comprised of the following:

Recreation – facilities and activities	\$ 4,217
Recreation – softball field	1,677
Debt service – public safety building	35,326
Superintendent's office	<u>13,393</u>
Total	<u>\$ 54,613</u>

**NOTE 10. NET ASSETS – RESTRICTED – EDUCATION**

At June 30, 2011, the net assets restricted fund balance for education was comprised of the following:

General education	\$ 331,058
Adult education- regular	57,427
Adult basic education	7,345
Title IA	15,859
Title IC basic	5,823
Afterschool program	<u>32,748</u>
Total	<u>\$ 450,260</u>

**NOTE 11. NET ASSETS – RESTRICTED – OTHER PURPOSES**

At June 30, 2011, the net assets restricted fund balance for Town grants and other purposes was comprised of the following:

Mill account	\$ 239,627
Revolving loan fund	8,024
Sewer grant	86
State and local roads	16,345
Maine Waste Management-transfer station	4,990
Station 98	10,269
Fire department donations	(923)
Thermal imaging camera	2,280
Downtown planning-donations	8,783
Scholarship funds	<u>175</u>
Total	<u>\$ 289,656</u>

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 12. NET ASSETS – RESTRICTED – ENTERPRISE FUNDS**

At June 30, 2011, the enterprise fund's restricted fund balance for other purposes was comprised of the following:

Sewer fund	
Reserve for debt/capital	\$ 350,148
Reserve for debt service	<u>67,216</u>
Total sewer fund	417,364
Nonmajor proprietary fund- ambulance fund	
Reserve for vehicle replacement	<u>26,536</u>
Total	<u>\$ 443,900</u>

**NOTE 13. UNRESTRICTED NET ASSETS (DEFICIT) – NON-MAJOR PROPRIETARY FUND**

In the non-major proprietary funds the Telcenter fund has a deficit in unrestricted net assets of \$27,203 for the year ended June 30, 2011 to be funded through future Town funding.

**NOTE 14. SUBSEQUENT EVENTS**

The Town entered into a new loan agreement on October 13, 2011 for \$400,000 to finance road repair and paving as approved at the annual town meeting on June 15, 2011.

The Town entered into a new loan agreement on December 21, 2011 for \$500,000 to finance the sewer project under the Clean Water State Revolving Loan Fund Program. \$496,000 of this amount is loan forgiveness.

**NOTE 15. RESTATEMENT OF BEGINNING NET ASSETS**

The Town restated its beginning proprietary fund balance by \$61,984 for a fixed asset originally recorded under governmental activities and by (\$55,608) for the debt related to this asset.

The Town restated its beginning net assets between governmental activities and business-type activities for the above asset transfer, as well as for \$6,490 for a previously unrecorded capital asset addition and (\$12) to correct prior year balances.

The Town restated its beginning fiduciary fund balance by \$128,259 to reflect trust fund balances for which the Town has responsibility and control.

**NOTE 16. PENSION PLANS**

**Maine Public Employees Retirement Systems - School Employees**

All School teachers, plus other qualified educators, participate in the Maine Public Employees Retirement System's teacher group. The teacher's group is a cost-sharing multiple employer defined benefit plan with a special funding situation, established by the Maine State legislature. The Maine Public Employees Retirement System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the state legislature.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 16. PENSION PLANS (CONTINUED)**

**Maine Public Employees Retirement Systems - School Employees**

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

Plan members are required to contribute 7.65% of their compensation to the retirement system. The school department's payroll for employees covered by this group, for the fiscal year ended June 30, 2011, was approximately \$2,276,264. The State of Maine Department of Education is required, by state statute, to contribute the employer contribution which amounts to \$404,265 (17.76%) of compensation for the year ended June 30, 2011. There is no contribution required by the school department except for federally funded teachers for which the school department contributes 17.76% of their compensation. This cost amounted to \$45,667 for the year ended June 30, 2011, and is chargeable to the applicable grant.

**Deferred Compensation Plan**

The Town offers certain employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, administered by International City Manager Association (ICMA) Retirement Corporation, permits the employees to defer a portion on their salary until future years. The deferred compensation is not available to employees until termination, retirement death or unforeseeable emergency.

The Town contributes at rates which vary from 0 to 6.5%, depending on the monthly elections and contributions of participants. Employees may elect to contribute up to 25% of earnings, but the Town limits its match to 6.5%. The Town made matching contributions of \$14,514 and employees elected to defer \$14,831 for a contribution of \$29,345 for the year ended June 30, 2011.

**NOTE 17. PARTICIPATION IN PUBLIC ENTITY RISK POOL**

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

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

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

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2011**

**NOTE 17. 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 18. SCHOOL ADMINISTRATIVE REORGANIZATION**

On June 6, 2007, the Maine House and Senate enacted the two-year state budget including the school administrative reorganization legislation "School Administrative Reorganization" ("SAR") as Public Law 2007, Chapter 240 and on April 18, 2008 Public Law 2007, Chapter 668 (enacted by passage of LD 2323, An Act to Remove Barriers to the Reorganization of School Administrative Units. The law sets forth state policy to ensure that schools are organized as School Administrative Units (SAUs) or Alternative Organizational Structures (AOS).

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

**NOTE 19. COMMITMENTS**

The Town was committed to contracts for sewer projects with a remaining amount totaling approximately \$2,727,408.

**NOTE 20. CONTINGENCIES**

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

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

**Town of Machias, Maine**  
**Budget and Actual (with Budget to GAAP Differences)**  
**General Fund**  
**For the year ended June 30, 2011**

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Budget to GAAP Differences**	Actual Amounts, GAAP Basis
	Original	Final*			
<b>REVENUES</b>					
Property taxes, net	\$ 2,884,381	\$ 2,884,381	\$ 2,776,522	\$ -	\$ 2,776,522
Excise taxes	203,200	203,200	211,388	-	211,388
Interest and lien costs	25,000	25,000	31,073	-	31,073
Licenses and permits	12,735	12,735	20,735	-	20,735
Intergovernmental					
Education	2,563,685	2,566,880	2,810,723	-	2,810,723
On-behalf payments - State of Maine	-	-	-	404,265	404,265
Town	324,952	324,952	316,516	-	316,516
Charges for services	15,645	15,645	42,973	-	42,973
Interest earnings	15,000	15,000	17,070	-	17,070
Miscellaneous	5,014	5,014	20,616	-	20,616
Total revenues	<u>6,049,612</u>	<u>6,052,807</u>	<u>6,247,616</u>	<u>404,265</u>	<u>6,651,881</u>
<b>EXPENDITURES</b>					
<b>Current</b>					
General government	343,005	343,005	320,714	-	320,714
Police department	304,220	304,220	277,590	-	277,590
Fire department	276,550	276,550	269,066	-	269,066
Highways and streets	313,822	313,822	289,239	-	289,239
Education	4,068,978	4,068,978	3,975,675	(210,833)	3,764,842
Adult education	145,986	149,181	149,181	-	149,181
On-behalf payments - State of Maine	-	-	-	404,265	404,265
Recreation	49,850	49,850	44,363	-	44,363
General assistance	4,800	4,800	3,870	-	3,870
Airport	16,800	16,800	7,736	-	7,736
Public safety building	11,742	11,742	11,730	-	11,730
County tax	168,296	168,296	164,930	-	164,930
Tax increment financing	24,757	24,757	24,757	-	24,757
Other services	33,840	33,840	17,770	-	17,770
Debt service					
Principal	240,495	240,495	216,083	121,423	337,506
Interest and other charges	-	-	23,945	30,005	53,950
Capital outlay	70,000	70,000	174	-	174
Total expenditures	<u>6,072,941</u>	<u>6,076,136</u>	<u>5,796,823</u>	<u>344,860</u>	<u>6,141,683</u>
Excess (deficiency) of revenues over expenditures	<u>(23,329)</u>	<u>(23,329)</u>	<u>450,793</u>	<u>59,405</u>	<u>510,198</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	77,505	77,505	128,057	-	128,057
Transfers out	(91,925)	(91,925)	(109,991)	-	(109,991)
Total other financing sources and uses	<u>(14,420)</u>	<u>(14,420)</u>	<u>18,066</u>	<u>-</u>	<u>18,066</u>
Net change in fund balances	(37,749)	(37,749)	468,859	59,405	528,264
<b>FUND BALANCES - BEGINNING</b>	<u>1,193,619</u>	<u>1,193,619</u>	<u>1,193,619</u>	<u>(389,236)</u>	<u>804,383</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 1,155,870</u>	<u>\$ 1,155,870</u>	<u>\$ 1,662,478</u>	<u>\$ (329,831)</u>	<u>\$ 1,332,647</u>

\* - Includes additional adult education budgeted revenues

\*\* - 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	\$ 468,859
On behalf payments revenue	404,265
On behalf payments expenditures	(404,265)
Change in accrued summer teacher pay	59,405
Net change in fund balances - GAAP basis	<u>\$ 528,264</u>

**Town of Machias, Maine**  
**Budget and Actual (with Variances)**  
**General Fund**  
**For the year ended June 30, 2011**

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final*		
<b>REVENUES</b>				
Property taxes, net	\$ 2,884,381	\$ 2,884,381	\$ 2,776,522	\$ (107,859)
Excise taxes	203,200	203,200	211,388	8,188
Interest and lien costs	25,000	25,000	31,073	6,073
Licenses and permits	12,735	12,735	20,735	8,000
Intergovernmental				
Education	2,563,685	2,566,880	2,810,723	243,843
Town	324,952	324,952	316,516	(8,436)
Charges for services	15,645	15,645	42,973	27,328
Investment earnings	15,000	15,000	17,070	2,070
Miscellaneous	5,014	5,014	20,616	15,602
Total revenues	6,049,612	6,052,807	6,247,616	194,809
<b>EXPENDITURES</b>				
Current				
General government	343,005	343,005	320,714	22,291
Police department	304,220	304,220	277,590	26,630
Fire department	276,550	276,550	269,066	7,484
Highways and streets	313,822	313,822	289,239	24,583
Education	4,068,978	4,068,978	3,975,675	93,303
Adult education	145,986	149,181	149,181	-
Recreation	49,850	49,850	44,363	5,487
General assistance	4,800	4,800	3,870	930
Airport	16,600	16,600	7,736	8,864
Public safety building	11,742	11,742	11,730	12
County tax	168,296	168,296	164,930	3,366
Tax increment financing	24,757	24,757	24,757	-
Other services	33,840	33,840	17,770	16,070
Debt service				
Principal	216,550	216,550	216,083	467
Interest and other charges	23,945	23,945	23,945	-
Capital outlay	70,000	70,000	174	69,826
Total expenditures	6,072,941	6,076,136	5,796,823	279,313
Excess (deficiency) of revenues over expenditures	(23,329)	(23,329)	450,793	474,122
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	77,505	77,505	128,057	50,552
Transfers out	(91,925)	(91,925)	(109,991)	(18,066)
Total other financing sources and uses	(14,420)	(14,420)	18,066	32,486
Net change in fund balances	(37,749)	(37,749)	468,859	\$ 506,608
<b>FUND BALANCES - BEGINNING</b>	1,193,619	1,193,619	1,193,619	
<b>FUND BALANCES - ENDING</b>	\$ 1,155,870	\$ 1,155,870	\$ 1,662,478	

\* - Includes additional adult education budgeted revenues

**Town of Machias, Maine**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2011**

	<b>Special Revenue Fund - School Lunch</b>	<b>Special Revenue Fund - Town</b>	<b>Capital Projects Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 41,123	\$ -	\$ -	\$ 41,123
Investments	-	263,950	-	263,950
Due from other funds	-	36,307	550,891	587,198
Receivable from other governments	8,670	-	-	8,670
Note receivable	-	2,623	-	2,623
Inventories	3,761	-	-	3,761
Total assets	<u>\$ 53,554</u>	<u>\$ 302,880</u>	<u>\$ 550,891</u>	<u>\$ 907,325</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Due to other funds	\$ 49,614	\$ 13,224	\$ -	\$ 62,838
Other accrued expenses	3,804	-	-	3,804
Total liabilities	<u>53,418</u>	<u>13,224</u>	<u>-</u>	<u>66,642</u>
<b>Fund balances</b>				
Nonspendable for inventory	3,761	-	-	3,761
Restricted for				
Capital projects	-	-	21,735	21,735
Town grants and other purposes	-	289,656	-	289,656
Committed for capital projects	-	-	529,156	529,156
Unassigned (deficit)	(3,625)	-	-	(3,625)
Total fund balances	<u>136</u>	<u>289,656</u>	<u>550,891</u>	<u>840,683</u>
Total liabilities and fund balances	<u>\$ 53,554</u>	<u>\$ 302,880</u>	<u>\$ 550,891</u>	<u>\$ 907,325</u>

**Town of Machias, Maine**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2011**

	<u>Special Revenue Fund - School Lunch</u>	<u>Special Revenue Fund - Town</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>REVENUES</b>				
Intergovernmental	\$ 136,973	\$ -	\$ 35,753	\$ 172,726
Charges for services	42,213	-	-	42,213
Investment earnings	-	4,800	-	4,800
Total revenues	<u>179,186</u>	<u>4,800</u>	<u>35,753</u>	<u>219,739</u>
<b>EXPENDITURES</b>				
Current				
Food and supplies	112,577	-	-	112,577
Labor	89,240	-	-	89,240
Capital outlay	-	-	49,927	49,927
Total expenditures	<u>201,817</u>	<u>-</u>	<u>49,927</u>	<u>251,744</u>
Excess (deficiency) of revenues over expenditures	<u>(22,631)</u>	<u>4,800</u>	<u>(14,174)</u>	<u>(32,005)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	18,100	18,100
Net change in fund balances	(22,631)	4,800	3,926	(13,905)
<b>FUND BALANCES - BEGINNING</b>	<u>22,767</u>	<u>284,856</u>	<u>546,965</u>	<u>854,588</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 136</u>	<u>\$ 289,656</u>	<u>\$ 550,891</u>	<u>\$ 840,683</u>

**Town of Machias, Maine**  
**Combining Statement of Net Assets**  
**Nonmajor Proprietary Funds**  
**June 30, 2011**

	<u>Proprietary Funds</u>		<u>Total Nonmajor Proprietary Funds</u>
	<u>Telcenter</u>	<u>Ambulance Fund</u>	
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 14,270	\$ -	\$ 14,270
Accounts receivable, net	-	116,966	116,966
Due from other funds	-	534,972	534,972
Total current assets	<u>14,270</u>	<u>651,938</u>	<u>666,208</u>
Non-current assets			
Capital assets			
Buildings	650,068	-	650,068
Equipment and furniture	-	161,713	161,713
Less accumulated depreciation	<u>(308,780)</u>	<u>(139,269)</u>	<u>(448,049)</u>
Total non-current assets	<u>341,288</u>	<u>22,444</u>	<u>363,732</u>
Total assets	<u>355,558</u>	<u>674,382</u>	<u>1,029,940</u>
<b>LIABILITIES</b>			
Current liabilities			
Due to other funds	<u>41,473</u>	<u>35,000</u>	<u>76,473</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	341,288	22,444	363,732
Restricted for other purposes	-	26,536	26,536
Unrestricted (deficit)	<u>(27,203)</u>	<u>590,402</u>	<u>563,199</u>
Total net assets	<u>\$ 314,085</u>	<u>\$ 639,382</u>	<u>\$ 953,467</u>

**Town of Machias, Maine**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Nonmajor Proprietary Funds**  
**For the Year Ended June 30, 2011**

	<u>Telcenter</u>	<u>Ambulance Fund</u>	<u>Total Nonmajor Proprietary Funds</u>
<b>REVENUES</b>			
Charges for services	\$ 67,501	\$ 218,486	\$ 285,987
<b>OPERATING EXPENSES</b>			
Personal services	10,336	139,088	149,424
Contractual services	400	11,769	12,169
Utilities	12,005	8,630	20,635
Repairs and maintenance	7,884	11,154	19,038
Other supplies and expenses	-	13,076	13,076
Insurance claims and expenses	1,279	13,248	14,527
Depreciation	32,503	9,174	41,677
Total operating expenses	<u>64,407</u>	<u>206,139</u>	<u>270,546</u>
Operating income	<u>3,094</u>	<u>12,347</u>	<u>15,441</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest and investment revenue	123	-	123
Miscellaneous revenue	-	261	261
Total non-operating revenue (expenses)	<u>123</u>	<u>261</u>	<u>384</u>
Income before contributions and transfers	3,217	12,608	15,825
Transfers out	<u>(11,595)</u>	<u>(57,095)</u>	<u>(68,690)</u>
Change in net assets	(8,378)	(44,487)	(52,865)
<b>TOTAL NET ASSETS - BEGINNING</b>	<u>322,463</u>	<u>683,869</u>	<u>1,006,332</u>
<b>TOTAL NET ASSETS - ENDING</b>	<u>\$ 314,085</u>	<u>\$ 639,382</u>	<u>\$ 953,467</u>

## Town of Machias, Maine

**TOWN OF MACHIAS SCHOOL DEPARTMENT**  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL**  
**GENERAL FUND**

Year ended June 30, 2011

	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Local assessments	\$ 1,485,779	\$ 1,485,779	\$ -
State subsidy	1,465,699	1,519,289	53,590
Intergovernmental	-	38,605	38,605
Tuition and fees	1,032,000	1,171,519	139,519
Other	5,000	9,949	4,949
<b>Total revenues</b>	<b>3,988,478</b>	<b>4,225,141</b>	<b>236,663</b>
<b>EXPENDITURES</b>			
Regular instruction			
Elementary	1,158,924	1,055,140	103,784
Early childhood	113,779	119,119	(5,340)
Secondary	607,803	593,579	14,224
Special education			
Elementary	180,602	178,875	1,727
Secondary	97,637	91,184	6,453
Administrative	27,651	27,639	12
Tutoring	4,406	4,276	130
Evaluation	17,131	13,217	3,914
Speech therapy	17,210	17,475	(265)
Gifted and talented	81,505	57,439	4,066
Career and technical education	235,450	238,143	(2,693)
Other Instruction			
Co-curricular - athletic elementary	22,034	20,993	1,041
Co-curricular - athletic secondary	55,011	44,534	10,477
Co-curricular - elementary	14,929	9,795	5,134
Co-curricular - secondary	34,320	28,122	6,198
Student and staff support			
Guidance and counseling - elementary	66,598	66,143	455
Guidance and counseling - secondary	104,758	103,669	1,089
Health services	19,760	29,096	(9,336)
Library and media - elementary	32,200	24,186	8,014
Library and media - secondary	54,400	33,899	20,501
Instruction improvement	4,620	2,614	2,006
System administration			
Office of superintendent	94,106	94,118	(12)
School board	19,184	32,601	(13,417)
School administration			
Office of principal - elementary	169,148	161,216	7,932
Office of principal - secondary	152,047	136,530	15,517
Transportation and buses	138,208	135,056	3,152
Facilities and maintenance			
Operation and maintenance of plant	450,312	494,756	(44,444)
Debt service	90,000	87,184	2,816
Vehicle Maintenance & Operation	14,245	15,532	(1,287)
Site improvement	1,000	140	860
Other			
Contingency	10,000	-	10,000
<b>Total expenditures</b>	<b>4,068,978</b>	<b>3,916,270</b>	<b>152,708</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(80,500)</b>	<b>308,871</b>	<b>389,371</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	50,552	50,552
Utilization of prior year surplus	80,500	-	(80,500)
<b>Total other financing sources</b>	<b>80,500</b>	<b>50,552</b>	<b>(29,948)</b>
<b>Excess of revenues and other sources over expenditures and other uses</b>	<b>\$ -</b>	<b>\$ 359,423</b>	<b>\$ 359,423</b>

Town of Machias, Maine  
**COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS - TOWN**  
 June 30, 2011

	Downtown Revolving Loan Fund	Station 98	Economic Development (Mill)	State Local Road Assistance	Sewer Grant	Maine Waste Management Grant	Downtown planning	Thermal Imaging camera	Fire Donations	Scholarship	Totals
Investments	\$ -	\$ 10,905	\$ 251,291	\$ -	\$ -	\$ -	\$ -	\$ 1,754	\$ -	\$ -	\$ 263,950
Loans receivable	2,623	-	-	-	-	-	-	-	-	-	2,623
Due from other funds	5,401	-	-	16,345	86	4,990	8,784	526	-	175	36,307
<b>Total assets</b>	<b>\$ 8,024</b>	<b>\$ 10,905</b>	<b>\$ 251,291</b>	<b>\$ 16,345</b>	<b>\$ 86</b>	<b>\$ 4,990</b>	<b>\$ 8,784</b>	<b>\$ 2,280</b>	<b>\$ -</b>	<b>\$ 175</b>	<b>\$ 302,880</b>
<b>LIABILITIES</b>											
Due to other funds	\$ -	\$ 637	\$ 11,664	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 923	\$ -	\$ 13,224
<b>FUND EQUITY</b>											
Fund Balance											
Reserved for revolving loan fund	2,623	10,268	239,627	16,345	86	4,990	8,784	2,280	(923)	175	2,623
Unreserved - undesignated	5,401	-	-	-	-	-	-	-	-	-	287,033
<b>Total fund equity</b>	<b>8,024</b>	<b>10,268</b>	<b>239,627</b>	<b>16,345</b>	<b>86</b>	<b>4,990</b>	<b>8,784</b>	<b>2,280</b>	<b>(923)</b>	<b>175</b>	<b>289,656</b>
<b>Total liabilities and fund equity</b>	<b>\$ 8,024</b>	<b>\$ 10,905</b>	<b>\$ 251,291</b>	<b>\$ 16,345</b>	<b>\$ 86</b>	<b>\$ 4,990</b>	<b>\$ 8,784</b>	<b>\$ 2,280</b>	<b>\$ -</b>	<b>\$ 175</b>	<b>\$ 302,880</b>

**Town of Machias, Maine**  
**Statement of Revenues, Expenditures and Changes in Fund**  
**Balances - Agency Funds**  
**June 30, 2011**

	<u>Balances</u> July 1, 2010	<u>Receipts</u>	<u>Expenditures</u>	<u>Balances</u> June 30, 2011
Rose Gaffney School	\$ 35,138	\$ 61,349	\$ 69,263	\$ 27,224
Machias High School	33,986	89,564	77,700	45,850
Machias Vocational Center	<u>2,467</u>	<u>22,089</u>	<u>24,199</u>	<u>357</u>
<b>Total</b>	<u>\$ 71,591</u>	<u>\$ 173,002</u>	<u>\$ 171,162</u>	<u>\$ 73,431</u>

**Town of Machias, Maine**  
**Taxes receivable, Tax liens and Tax Acquired Property**  
**General Fund**  
**June 30, 2011**

Taxes receivable	
2010	\$ 317,641
2009	1,315
2008 and prior	<u>15,909</u>
Total taxes receivable	<u>334,865</u>
Tax liens and tax acquired property	
2009	114,351
2008 and prior	<u>1,118</u>
Total tax liens and tax acquired property	<u>115,469</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 450,334</u>

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

Board of Selectmen  
Town of Machias, Maine

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Machias, Maine as of and for the year ended June 30, 2011, which collectively comprise the Town of Machias, Maine's basic financial statements and have issued our report thereon dated April 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

*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 entities financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: #2011-1.

**Compliance and Other Matters**

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

We noted certain other matters that we have reported to management of the Town of Machias, Maine, in the letter dated April 9, 2012.

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

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

Bangor, Maine  
April 9, 2012

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

Board of Selectmen  
Town of Machias, Maine

**Compliance**

We have audited the Town of Machias, Maine's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Machias, Maine's major federal programs for the year ended June 30, 2011. The Town of Machias, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Machias, Maine's management. Our responsibility is to express an opinion on the Town of Machias, Maine's compliance based on our audit.

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

In our opinion, the Town of Machias, Maine, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questions costs as item #2011-2.

### **Internal Control Over Compliance**

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. However, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item #2011-2. *A significant deficiency in internal control over compliance* is a deficiency, or 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.

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

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

**Town of Machias, Maine**  
**Audit Adjustments to MEDMS Financial System**  
**Year ended June 30, 2011**

	General	Special Revenue		Totals
	Fund*	Grants and other	School lunch	
<b>June 30 balance as per MEDMS</b>	\$ (293,006)	\$ -	\$ -	\$ (293,006)
<b>Beginning balance variance</b>	509,734	158,136	22,767	690,637
<b>Reclass activity</b>	161,751	(130,907)	(30,844)	-
<b>Revenues adjustments</b>				
Due from other governments	-	45,154	8,669	53,823
Additional adjustment to school trial balance		-	482	482
Transfer in	50,552	(50,552)	-	-
<b>Expenditures adjustments</b>				
Adjustment to expenses	(37,373)	36,771	-	(602)
Adjust inventory	-	-	(938)	(938)
<b>Audited GAAP Basis Fund Balance</b>	<u>\$ 391,658</u>	<u>\$ 58,602</u>	<u>\$ 136</u>	<u>\$ 450,396</u>

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

Board of Selectmen  
Town of Machias, Maine

We audited the financial statements of the Town of Machias, Maine as of and for the year ended June 30, 2011, and have issued our report thereon dated April 9, 2012.

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

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

1. The audit has been conducted in accordance with applicable state and federal laws relating to financial and compliance audits.
2. Budgetary controls were in place.
4. A determination of whether or not the annual financial data submitted to the department is correct.
5. A determination of whether or not the Unit has exceeded its authority to expend funds.
6. The Town has complied with transfer limitations between budget cost centers pursuant to section 1485, subsection 4.
7. The Town has complied with budget content requirements pursuant to section 15693, subsection 1 and cost center summary budget format requirements pursuant to sections 1305C, 1485, 1701C and 2307.

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

Bangor, Maine  
April 9, 2012

**Town of Machias, Maine**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended June 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	Disbursements/ Expenditures
<i>U.S. Department of Agriculture</i>			
<i>Passed through State Department of Education</i>			
National School Lunch Program	10.555	13-05A-8121-05	\$ 112,130
After school snack	10.555	13-05A-8121-05	2,510
School breakfast program	10.553	13-05A-7127-05	27,705
<i>Direct</i>			
Waste and waste disposal systems for rural communities	10.760		<u>780,359</u>
Total U.S. Department of Agriculture			<u>922,704</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	unknown	501,500
ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	unknown	<u>520,857</u>
Total U.S. Environmental Protection Agency			<u>1,022,357</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	236,349
ARRA - Title IA Grants to Local Educational Agencies	84.389A	20-05A-3057-13	38,325
ARRA State fiscal stabilization fund	84.394A	20-05A-2077-01	96,130
Career and technical education- Perkins Title IC	84.048	13-05A-3030-8	50,316
Adult basic education	84.002	13-05A-6296-64	8,320
Gear - up	84.334	13-05A-6341-13	1,790
Title IIA teacher quality	84.367	13-05A-3042-11	44,064
Education jobs fund	84.410	13-05A-3099-10	9,973
<i>Cluster</i>			
Part B Section 619- Preschool	84.173	13-05A-6241-23	2,006
ARRA - Part B Section 619- Preschool	84.392A	20-05A-6241-23	1,835
Title VI, Part B - Local Entitlement	84.027	13-05A-3046-12	207,541
ARRA - itle VI, Part B - Local Entitlement	84.391A	20-05A-3046-12	<u>66,840</u>
Total U.S. Department of Education			<u>763,489</u>
<i>U.S. Housing and Urban Development</i>			
<i>Passed through State Department of Economic and Community Development</i>			
2009 Public infrastructure grant	14.228	015-19A-0587-012-6331	<u>500,000</u>
<i>U.S Department of Justice</i>			
<i>Passed through City of Calais, Maine</i>			
ARRA - Office of Justice Programs - 2009SBB92263	16.804	N/A	<u>1,500</u>
Total federal program expenditures			<u>\$ 3,210,050</u>

**Town of Machias, Maine**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year ended June 30, 2011**

**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, 2011. The reporting entity is defined in the Notes to the Financial Statements of the Town of Machias, Maine.

**2. BASIS OF PRESENTATION**

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

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

**3. BASIS OF ACCOUNTING**

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

**4. NONCASH AWARDS**

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

**Town of Machias, Maine**  
**Schedule of Findings and Questioned Costs**  
**Year ended June 30, 2011**

**Section I — Summary of Auditor's Results**

**Financial Statements**

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

**Federal Awards**

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

Identification of major programs

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

- 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, 2011**

**Section II — Financial Statement Findings**

<b>#2011-1</b>	
<i>Criteria or specific requirement Condition</i>	Internal control over financial reporting with significant adjustments. Management does not control the preparation of the financial statements and project reporting which also results in significant audit adjustments to several funds and restatements to the financial statements. Inappropriate reviews of accounting entries or system inputs lead to significant accounting services.
<i>Context</i>	Management has relied on its auditors to prepare the financial statements and footnote disclosures for them to review and approve as well as some components of supporting schedules.
<i>Effect</i>	As a result of various ongoing construction projects and the inclusion of the Town's School Department and the related required reporting, management may not be able to identify an error or misstatement in the financial statements. In addition, management may not be able to recognize that a required footnote has been omitted or an inappropriate footnote has been included in the footnotes.
<i>Cause</i>	Lack of knowledge and training necessary to permit the Town to understand its own financial statements and required footnotes.
<i>Recommendation</i>	Management should obtain the training necessary to permit the Town to identify any errors or misstatements in its own financial statements and required footnotes.
<i>Management's response</i>	Management will implement procedures to strengthen internal controls over construction projects by reviewing project information to ensure activity is properly recorded. Management is putting into operation a new accounting software package that will automatically record due to/from. This will prohibit large balancing adjustments from occurring. Management will work with the School Department toward having the School Department also use auditor financial schedules to assist in the preparation of the audit report. Until then, management will use school data available at the time that the Town prepares the financial schedules for the audit. Management will continue to work with the School Department to ensure that the information required to be reported by the School Department will be provided at audit.

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

<b>#2011-2 (REPEAT)</b>	
<i>Criteria or specific requirement (including statutory, regulatory, or other citation)</i>	Internal control over reporting. OMB Circular A-133, Subpart C. 300 (a), (b) and (d), and Subpart C. 320. The auditee shall identify, in its accounts, all federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
<i>Condition</i>	Management does not control the preparation of the financial statements and federal grant reporting, including the schedule of expenditures of federal awards.
<i>Questioned costs</i>	None.
<i>Context</i>	Management has relied on its auditors to prepare the financial statements and the schedule of expenditures of federal awards.
<i>Effect</i>	Failure to perform certain management functions could result in misstated information and unreliable reporting.
<i>Cause</i>	Lack of training, staffing levels and oversight of the Town's grant activity.
<i>Recommendation</i>	Town should obtain the necessary training to alleviate its reliance on its auditor to perform these functions.
<i>Management's response</i>	The Town will work toward correcting this situation.

**Town of Machias, Maine**  
**Summary Schedule of Prior Audit Findings**  
**Year ended June 30, 2011**

**2010-1**  
*Condition*

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

*Current Status*

Management continues to devote more time to fixing problem.

**2010-2**  
*Condition*

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

*Current Status*

Management continues to devote more time to fixing problem.