

Town of Machias, Maine

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

For the Year Ended June 30, 2017

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## **Independent Auditor's Report**

Board of Selectmen  
Town of Machias, Maine

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Machias, Maine as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Schedules of Pension Amounts by Employer reported by the State of Maine Public Employees Retirement System, which provides information used to calculate the amounts recognized in the financial statements of the Town of Machias, Maine as deferred outflows and deferred inflows related to pensions, net pension liability, pension expense, and pension revenue of governmental activities. Those schedules were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Machias, Maine, is based solely on the report of the other auditors and certain other procedures related to the allocation percentage and the amounts allocated to the Town of Machias, Maine based on the allocation percentage. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Machias, Maine as of June 30, 2017 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion, analysis, budgetary comparison information and pension information on pages 7 through 16 and 50 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Machias Maine's basic financial statements. The other supplementary information on Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The reconciliation of audit adjustments to annual financial data submitted to Maine Education Financial System is presented as required by the laws of the State of Maine and is also not a required part of the basic financial statements.

The other supplementary information on Schedules 1 through 6, the schedule of expenditures of federal awards, and the reconciliation of audit adjustments to annual financial data submitted to Maine Education Financial System are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1 through 6, the schedule of expenditures of federal awards, and the reconciliation of audit adjustments to annual financial data submitted to Maine Education Financial System are fairly stated in all material respects in relation to the basic financial statements as a whole.

*Barbara Chiboudou & Associates*

January 31, 2018

## **Town of Machias, Maine**

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

The Management Discussion and Analysis ("MD&A") is a report of the Town of Machias' fiscal activity for the year ending June 30, 2017 compared with 2016. The report is presented in a manner that fairly represents the Town's present financial position in respect to all funds and accounts. Included is all the information to accurately understand the Town's financial position, and the data is correct to the best of our knowledge and belief.

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

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

### **GENERAL INFORMATION**

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

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

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

## Town of Machias, Maine

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

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

- The balance of the Town's cash and investments as of June 30, 2017 was \$4,113,174.
- On a budget basis the Town ended the year with a positive budget variance of \$588,677.

### **OVERVIEW OF FINANCIAL STATEMENTS**

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

#### **Government-Wide Financial Statements**

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

The statement of net position is used to express the financial data required for the government-wide financials. This shows the total assets which now include land, buildings, inventory, and other capital assets. These are then reduced by the liabilities which now include total bonds and leases due over their entire lives and deferred inflows of resources, such as prepaid taxes. The result is the net position of the Town.

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

## Town of Machias, Maine

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

#### Fund Financial Statements

##### *Governmental Funds*

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

#### Notes to Financial Statements

The notes to the financial statements are included in the audit to give specific comment to certain areas. These are a crucial part of the audit and are closely monitored by Town administration. The reason they are monitored is that they provide additional insight into activities of the Town. These can show areas of strength and weakness for continued success and improvement. The notes to the financial statements are included on pages 28-49.

#### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning financial performance (budget and actual with budget to GAAP differences and budget and actual with variances). Required supplementary information can be found on pages 50-53.

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

**Town of Machias, Maine**

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

**GOVERNMENT-WIDE ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$18,982,255 as of June 30, 2017.

**Net Position for the Period Ending June 30, 2017 and 2016**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$4,437,098	\$ 3,824,322	\$ 1,061,821	\$ 1,152,151	\$ 5,498,919	\$ 4,976,473
Capital assets	<u>5,683,713</u>	<u>5,301,385</u>	<u>10,957,041</u>	<u>11,004,240</u>	<u>16,640,754</u>	<u>16,305,625</u>
Total Assets	<u>10,120,811</u>	<u>9,125,707</u>	<u>12,018,862</u>	<u>12,156,391</u>	<u>22,139,673</u>	<u>21,282,098</u>
Deferred Outflows of resources	<u>192,210</u>	<u>177,018</u>	-	-	<u>192,210</u>	<u>177,018</u>
Current liabilities	563,664	551,126	120,508	34,063	684,172	585,189
Noncurrent liabilities	<u>1,713,061</u>	<u>1,261,994</u>	<u>862,550</u>	<u>831,486</u>	<u>2,575,611</u>	<u>2,093,480</u>
Total Liabilities	<u>2,276,725</u>	<u>1,813,120</u>	<u>983,058</u>	<u>865,549</u>	<u>3,259,783</u>	<u>2,678,669</u>
Deferred inflows of resources	<u>89,845</u>	<u>77,143</u>	-	-	<u>89,845</u>	<u>77,143</u>
Net Position						
Net investment in capital assets	4,274,945	4,280,407	10,076,366	10,189,151	14,351,311	14,469,558
Restricted	1,292,714	947,507	786,283	684,440	2,078,997	1,708,826
Unrestricted	<u>2,378,792</u>	<u>2,184,548</u>	<u>173,155</u>	<u>417,251</u>	<u>2,551,947</u>	<u>2,524,920</u>
Total Net Position	<u>\$ 7,946,451</u>	<u>\$ 7,412,462</u>	<u>\$11,035,804</u>	<u>\$11,290,842</u>	<u>\$18,982,255</u>	<u>\$18,703,304</u>

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

As a result of applying the GASB 34 statement, the Town recorded depreciation expense of \$315,429 and recorded capital asset additions of \$794,064.

The Town recognized deferred property taxes of \$34,279 as a reduction revenue for the Statement of Net Position.

The Town recognized changes in net pension liability, deferred inflows and deferred outflows related to pensions for a net effect of \$14,641.

**Town of Machias, Maine**

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

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2017 and 2016.

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
<b>REVENUES</b>						
Charges for services and other	\$ 190,467	\$ 195,977	\$ 1,025,903	\$ 1,270,964	\$ 1,216,370	\$ 1,466,941
Operating grants and contributions	4,869,958	4,347,903	-	-	4,869,958	4,347,903
Capital grants and contributions	199,358	251,686	85,077	15,958	284,435	267,644
Property taxes	2,671,841	2,787,967	-	-	2,671,841	2,787,967
Excise and miscellaneous taxes	281,243	273,335	-	-	281,243	273,335
Interest and lien charges	20,427	21,660	-	-	20,427	21,660
Grants and contributions not restricted to specific purpose	339,980	283,270	-	-	339,980	283,270
State portion of pension contribution	-	-	-	-	-	-
Unrestricted investment and interest income	10,250	7,059	62,300	25,837	72,550	32,896
Miscellaneous	<u>14,020</u>	<u>18,454</u>	<u>2,946</u>	<u>273</u>	<u>16,966</u>	<u>18,727</u>
Total Revenues	<u>8,597,544</u>	<u>8,187,311</u>	<u>1,176,226</u>	<u>1,313,032</u>	<u>9,773,770</u>	<u>9,500,343</u>
<b>EXPENSES</b>						
General government	\$ 405,624	\$ 405,166	-	-	\$ 405,624	\$ 405,166
Police	272,193	327,667	-	-	272,193	327,667
Fire	328,233	227,351	-	-	328,233	227,351
Public Safety Building	5,397	-	-	-	5,397	-
Public works	445,619	552,883	-	-	445,619	552,883
Education	4,879,997	4,626,127	-	-	4,879,997	4,626,127
Adult education-general	68,056	72,783	-	-	68,056	72,783
On-behalf payments – State of Maine	208,713	204,709	-	-	208,713	204,709
Culture and recreation	42,450	38,091	-	-	42,450	38,091
General assistance	3,355	3,616	-	-	3,355	3,616
Airport	12,035	14,255	-	-	12,035	14,255
County tax	201,867	204,030	-	-	201,867	204,030
Tax incremental financing	14,423	16,324	-	-	14,423	16,324
Other	67,639	12,782	-	-	67,639	12,782
Grants and other contributions	629,088	496,420	-	-	629,088	496,420
School lunch program	299,606	294,281	-	-	299,606	294,281
Interest on long-term debt	31,688	32,961	-	-	31,688	32,961
Capital outlay	14,530	249,136	-	-	14,530	249,136
Business-type Activities	-	-	<u>1,564,306</u>	<u>1,632,209</u>	<u>1,564,306</u>	<u>1,632,209</u>
Total Expenses	<u>7,930,513</u>	<u>7,778,682</u>	<u>1,571,518</u>	<u>1,571,518</u>	<u>9,494,819</u>	<u>9,410,891</u>
Excess(deficiency) before special items and transfers	667,031	408,629	(388,080)	(319,177)	278,933	89,452
Transfers	<u>(133,042)</u>	<u>(96,985)</u>	<u>133,042</u>	<u>96,985</u>	-	-
Change in net position	533,989	311,644	(255,038)	(222,192)	278,951	89,452
Net position, beginning of year	<u>7,412,462</u>	<u>7,100,818</u>	<u>11,290,842</u>	<u>11,513,034</u>	<u>18,703,304</u>	<u>18,613,852</u>
Net position, end of year	<u>\$ 7,946,451</u>	<u>\$ 7,100,818</u>	<u>\$ 11,035,804</u>	<u>\$ 11,290,872</u>	<u>\$18,982,255</u>	<u>\$18,703,304</u>

## Town of Machias, Maine

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

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

#### **Governmental Activities**

For the year ended June 30, 2017, the Town's net position for governmental activities increased by \$533,989.

Expenses of governmental activities include depreciation expense of \$315,429. Depreciation expense has been allocated and is included in various function/program expenses of the Town.

General revenues consist of all revenues that are not considered to be program revenues or charges for services. General revenues for the year ended June 30, 2017 totaled \$3,337,761 a decrease of 53,984 from June 30, 2016. Of this amount, \$2,671,841 was from local property taxes.

#### **Business-type Activities**

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

During the year ended June 30, 2017, the Town's net position from business-type activities decreased by \$255,038 with the depreciation of assets comprising most of the amount.

#### **Financial Analysis of the Town's Funds**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements.

##### Governmental funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. As the Town completed the year, its governmental funds reported a combined fund balance of \$3,559,665, \$599,228 higher than the previous year. An analysis of transactions affecting the change in the combined fund balance of the Town's governmental funds is as follows:

Revenues include property taxes totaling \$2,706,120. Excise taxes accounted for \$273,873 in total revenue.

**Town of Machias, Maine**

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

On behalf payments amounted to \$208,713 during the year ended June 30, 2017. Additional information on these "on-behalf" payments can be found in the notes to the basic financial statements.

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

Total governmental fund expenditures for the year were \$8,257,666, \$339,127 higher than the previous year.

The Town capitalized \$697,658 of capital outlays in governmental activities.

**Capital Asset and Debt Administration**

**Capital Assets**

	<b>Balance 6/30/16</b>	<b>Additions/ Completions</b>	<b>Retire- ments/reclass</b>	<b>Balance 6/30/17</b>
<b>Governmental Activities</b>				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	263,221	166,914	(263,221)	166,914
Buildings and Improvements	6,702,706	411,387	-	7,114,093
Infrastructure	1,684,940	196,068	-	1,881,008
Equipment, furniture and fixtures	889,098	103,500	(93,700)	898,898
Vehicles	<u>921,900</u>	<u>83,109</u>	<u>-</u>	<u>1,005,009</u>
Total capital assets	<u>11,026,939</u>	<u>960,978</u>	<u>(356,921)</u>	<u>11,630,996</u>
<i>Less accumulated depreciation</i>	<u>(5,725,554)</u>	<u>(315,429)</u>	<u>93,700</u>	<u>(5,947,283)</u>
Total capital assets, net	<u>\$ 5,301,385</u>	<u>\$ 645,549</u>	<u>\$ (263,221)</u>	<u>\$ 5,683,713</u>

**Town of Machias, Maine**

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

	<b>Balance 6/30/16</b>	<b>Additions/ Completions</b>	<b>Retire- ments/reclass</b>	<b>Balance 6/30/17</b>
<b>Business-Type Activities</b>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	6,981	164,501	(6,981)	164,501
Lines and mains and buildings	14,942,351	-		14,942,351
Vehicles and equipment	<u>739,663</u>	<u>196,595</u>	<u>(24,316)</u>	<u>911,942</u>
Total capital assets	<u>15,689,995</u>	<u>361,096</u>	<u>(31,297)</u>	<u>16,019,794</u>
<i>Less accumulated depreciation</i>	<u>(4,685,755)</u>	<u>(401,314)</u>	24,316	<u>(5,062,753)</u>
Total capital assets, net	<u>\$11,004,240</u>	<u>\$ (40,218)</u>	<u>(6,981)</u>	<u>\$10,957,041</u>

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

**Debt Administration**

The Town's debt consists of bonds, notes, capital leases obligations, and compensated absences. A summary of the Town's debt activity for the year ended June 30, 2017 is as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Bonds and notes payable	\$1,836,115	\$ 768,500	\$(344,174)	\$2,260,441
Compensated Absences	56,291	10,955	-	67,246
Capital lease obligations	11,531	-	(5,569)	5,962
Net pension liability	<u>189,543</u>	<u>142,658</u>	<u>(90,239)</u>	<u>241,962</u>
Total	<u>\$2,093,480</u>	<u>\$ 922,113</u>	<u>\$(439,982)</u>	<u>\$2,575,611</u>

Additional information on the Town's long-term debt can be found in the notes to the basic financial statements.

**Town of Machias, Maine**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**General Fund Budgetary Discussions**

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

Additional information about this difference can be found on pages 50 and 51 of the financial statements.

During the year, actual revenues exceeded budgeted revenues by \$286,367. Most of this variance resulted from increases in intergovernmental revenues.

The Town's property tax collections were \$41,414 under what was budgeted because of increased receivables, increase in deferred revenue and more discounts and abatements.

Budgeted expenditures exceeded actual expenditures by \$425,506.

**Town of Machias, Maine**

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

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

The Machias Board of Selectmen and the Town Manager do not anticipate any significant economic factors during the next fiscal year that would have an adverse effect upon the Town's financial position. The proposed municipal budget for the 2017-2018 fiscal year has a total increase of \$103,739 assuming all warrant articles are adopted as presented to the voters.

**REQUEST FOR INFORMATION**

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

**Town of Machias, Maine**  
**Statement of Net Position**  
**June 30, 2017**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and equivalents	\$ 2,810,939	\$ 75,076	\$ 2,886,015
Investments	536,673	690,486	1,227,159
Taxes receivable	394,802	-	394,802
Accounts receivable	-	360,156	360,156
Internal balances	96,575	(96,575)	-
Due from other governmental agencies	565,396	32,678	598,074
Other receivables	12,768	-	12,768
Inventories	5,887	-	5,887
Other assets	14,058	-	14,058
Capital assets not being depreciated	731,988	165,501	897,489
Capital assets being depreciated, net of accumulated depreciation	4,951,725	10,791,540	15,743,265
Total assets	<u>10,120,811</u>	<u>12,018,862</u>	<u>22,139,673</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	192,210	-	192,210
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	108,001	71,981	179,982
Due to other governmental agencies	6,224	22,987	29,211
Unearned revenues	39,578	2,500	42,078
Accrued summer teacher pay	409,861	-	409,861
Bond anticipation note payable	-	23,040	23,040
Long-term liabilities			
Due within one year			
Bonds and notes payable	342,987	82,876	425,863
Capital leases payable	4,154	-	4,154
Due in more than one year			
Bonds and notes payable	1,059,819	774,759	1,834,578
Capital leases payable	1,808	-	1,808
Net pension liability	241,962	-	241,962
Compensated absences	62,331	4,915	67,246
Total liabilities	<u>2,276,725</u>	<u>983,058</u>	<u>3,259,783</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	41,768	-	41,768
Prepaid taxes	48,077	-	48,077
Total deferred inflows of resources	<u>89,845</u>	<u>-</u>	<u>89,845</u>
<b>NET POSITION</b>			
Net investment in capital assets	4,274,945	10,076,366	14,351,311
Restricted for			
Education	933,199	-	933,199
Capital projects	21,735	43,617	65,352
Machias Water Co.	-	568,986	568,986
Other purposes	337,780	173,680	511,460
Unrestricted	2,378,792	173,155	2,551,947
Total net position	<u>\$ 7,946,451</u>	<u>\$ 11,035,804</u>	<u>\$ 18,982,255</u>

**Town of Machias, Maine  
Statement of Activities  
For the Year Ended June 30, 2017**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 405,624	\$ 57,320	\$ 1,000	\$ -	\$ (347,304)	\$ -	\$ (347,304)
Police department	272,193	4,544	8,064	-	(259,585)	-	(259,585)
Fire department	328,233	83,085	-	-	(245,148)	-	(245,148)
Public safety building	5,397	-	-	-	(5,397)	-	(5,397)
Public works	445,619	82	17,068	-	(428,469)	-	(428,469)
Education	4,879,997	-	3,734,245	-	(1,145,752)	-	(1,145,752)
Adult education	68,056	-	48,538	-	(19,518)	-	(19,518)
On-behalf payments - State of Maine	208,713	-	208,713	-	-	-	-
Culture and recreation	42,450	105	834	-	(41,511)	-	(41,511)
General assistance	3,355	-	2,212	-	(1,143)	-	(1,143)
Airport	12,035	-	-	-	(12,035)	-	(12,035)
County tax	201,867	-	-	-	(201,867)	-	(201,867)
Tax incremental financing	14,423	840	-	-	(13,583)	-	(13,583)
Other	67,639	-	35,695	-	(31,944)	-	(31,944)
Grants and other contributions	629,088	-	596,083	-	(33,005)	-	(33,005)
School lunch program	299,606	44,491	209,858	-	(45,257)	-	(45,257)
Interest on long-term debt	31,688	-	7,648	-	(24,040)	-	(24,040)
Capital outlay	14,530	-	-	199,358	184,828	-	184,828
Total governmental activities	<u>7,930,513</u>	<u>190,467</u>	<u>4,869,958</u>	<u>199,358</u>	<u>(2,670,730)</u>	<u>-</u>	<u>(2,670,730)</u>
Business-type activities							
Sewer fund	774,206	458,511	-	85,077	-	(230,618)	(230,618)
Solid waste	250,331	170,242	-	-	-	(80,089)	(80,089)
Ambulance fund	468,458	367,903	-	-	-	(100,555)	(100,555)
Telcenter	71,311	29,247	-	-	-	(42,064)	(42,064)
Total business-type activities	<u>1,564,306</u>	<u>1,025,903</u>	<u>-</u>	<u>85,077</u>	<u>-</u>	<u>(453,326)</u>	<u>(453,326)</u>
Total government	<u>\$ 9,494,819</u>	<u>\$ 1,216,370</u>	<u>\$ 4,869,958</u>	<u>\$ 284,435</u>	<u>(2,670,730)</u>	<u>(453,326)</u>	<u>(3,124,056)</u>
<b>General revenues</b>							
Taxes							
Property taxes					2,671,841	-	2,671,841
Excise taxes, licenses, permits and fees					281,243	-	281,243
Interest and lien charges					20,427	-	20,427
Grants and contributions not restricted to specific programs					339,980	-	339,980
Unrestricted investment and interest earnings					10,250	62,300	72,550
Miscellaneous					14,020	2,946	16,966
<b>Transfers</b>					<u>(133,042)</u>	<u>133,042</u>	<u>-</u>
Total general revenues and transfers					<u>3,204,719</u>	<u>198,288</u>	<u>3,403,007</u>
Change in net position					533,989	(255,038)	278,951
<b>NET POSITION - BEGINNING</b>					<u>7,412,462</u>	<u>11,290,842</u>	<u>18,703,304</u>
<b>NET POSITION - ENDING</b>					<u>\$ 7,946,451</u>	<u>\$ 11,035,804</u>	<u>\$ 18,982,255</u>

**Town of Machias, Maine**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2017**

	<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	\$ 2,729,904	\$ -	\$ 81,035	\$ 2,810,939
Investments	265,382	-	271,291	536,673
Taxes receivable, net	394,802	-	-	394,802
Due from other funds	636,513	-	637,712	1,274,225
Receivable from other governments	329,997	221,694	13,705	565,396
Other receivables	-	-	12,768	12,768
Inventories	-	-	5,887	5,887
Prepaid expenses	14,058	-	-	14,058
Total assets	<u>\$ 4,370,656</u>	<u>\$ 221,694</u>	<u>\$ 1,022,398</u>	<u>\$ 5,614,748</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 104,560	\$ 255	\$ -	\$ 104,815
Due to other funds	829,235	133,418	214,998	1,177,651
Payable to other governments	6,224	-	-	6,224
Unearned grant revenue	-	39,579	-	39,579
Accrued teacher pay	365,748	40,250	3,862	409,860
Other payables	3,186	-	-	3,186
Total liabilities	<u>1,308,953</u>	<u>213,502</u>	<u>218,860</u>	<u>1,741,315</u>
Deferred inflows of resources				
Prepaid property taxes	48,077	-	-	48,077
Unavailable property taxes	265,691	-	-	265,691
Total deferred inflows of resources	<u>313,768</u>	<u>-</u>	<u>-</u>	<u>313,768</u>
Fund balances				
Nonspendable for				
Inventories	-	-	5,887	5,887
Restricted for				
Education	1,016,527	8,192	-	1,024,719
Capital projects	-	-	21,735	21,735
Town grants and other purposes	48,393	-	289,387	337,780
Committed for				
Other purposes	60,660	-	-	60,660
Capital projects	-	-	580,196	580,196
Unassigned (deficit)	1,622,355	-	(93,667)	1,528,688
Total fund balances	<u>2,747,935</u>	<u>8,192</u>	<u>803,538</u>	<u>3,559,665</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,370,656</u>	<u>\$ 221,694</u>	<u>\$ 1,022,398</u>	<u>\$ 5,614,748</u>

**Town of Machias, Maine**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
**June 30, 2017**

Total fund balance, governmental funds	\$ 3,559,665
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	5,683,713
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds.	
Deferred inflows related to property taxes	265,691
Certain deferred outflows of resources, deferred inflows of resources, and internal balances related to pensions are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	
Deferred outflows related to pensions	192,210
Deferred inflows related to pensions	(41,768)
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Bonds Payable and Net Pension Liability), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.	<u>(1,713,060)</u>
Net Position of Governmental Activities in the Statement of Net Position	<u><u>\$ 7,946,451</u></u>

**Town of Machias, Maine**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds**  
**For the Year Ended June 30, 2017**

	General Fund	Special Revenue Fund - School Categorical Grants	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 2,706,120	\$ -	\$ -	\$ 2,706,120
Excise taxes	273,873	-	-	273,873
Interest and lien charges	20,427	-	-	20,427
Licenses, permits and fees	19,726	-	-	19,726
Intergovernmental				
Town	407,811	-	409,216	817,027
Education	3,480,043	593,125	-	4,073,168
On-behalf payments - State of Maine	208,713	-	-	208,713
Charges for services	27,427	-	44,491	71,918
Interfund charges for services	106,314	-	-	106,314
Investment and interest earnings	8,327	-	1,922	10,249
Miscellaneous	13,401	-	500	13,901
Total revenues	<u>7,272,182</u>	<u>593,125</u>	<u>456,129</u>	<u>8,321,436</u>
<b>EXPENDITURES</b>				
Current				
General government	390,578	-	-	390,578
Police department	266,130	-	-	266,130
Fire department	350,491	-	-	350,491
Public works	304,050	-	-	304,050
Education	4,349,710	-	-	4,349,710
Adult education	68,056	-	-	68,056
On-behalf payments - State of Maine	208,713	-	-	208,713
Recreation	38,355	-	-	38,355
General assistance	3,355	-	-	3,355
Airport	7,244	-	-	7,244
County tax	201,867	-	-	201,867
Tax increment financing	14,423	-	-	14,423
Other services	69,225	-	-	69,225
Federal, state and local grants	-	596,074	-	596,074
School lunch program	-	-	299,606	299,606
Debt service				
Principal	266,958	-	-	266,958
Interest and other charges	31,896	-	-	31,896
Capital outlay	236,915	-	554,020	790,935
Total expenditures	<u>6,807,966</u>	<u>596,074</u>	<u>853,626</u>	<u>8,257,666</u>
Excess (deficiency) of revenues over expenditures	464,216	(2,949)	(397,497)	63,770
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from long term debt	237,500	-	431,000	668,500
Transfers in	-	-	30,500	30,500
Transfers out	(136,663)	-	(26,879)	(163,542)
Total other financing sources and uses	<u>100,837</u>	<u>-</u>	<u>434,621</u>	<u>535,458</u>
Net change in fund balances	565,053	(2,949)	37,124	599,228
<b>FUND BALANCES (DEFICIT) - BEGINNING</b>	<u>2,182,882</u>	<u>11,141</u>	<u>766,414</u>	<u>2,960,437</u>
<b>FUND BALANCES (DEFICIT) - ENDING</b>	<u>\$ 2,747,935</u>	<u>\$ 8,192</u>	<u>\$ 803,538</u>	<u>\$ 3,559,665</u>

**Town of Machias, Maine**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental**  
**Funds to the Statement of Activities**  
**For the Year Ended June 30, 2017**

Net change in fund balances - total governmental funds: \$ 599,228

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	\$ 697,658	
Depreciation	<u>(315,429)</u>	382,229

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

(34,279)

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

Deferred outflows related to pensions		15,192
Deferred inflows related to pensions		22,586

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

Debt proceeds	\$ (668,500)	
Debt repayments	<u>280,810</u>	(387,690)

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

Net pension expense		(52,419)
Compensated absences not reflected on Governmental funds		<u>(10,858)</u>

Change in net position of governmental activities \$ 533,989

**Town of Machias, Maine**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2017**

	<b>Enterprise Funds</b>				<b>Total</b>
	<b>Sewer Fund</b>	<b>Solid Waste Facility</b>	<b>Ambulance Fund</b>	<b>Other Proprietary Fund - Telcenter</b>	
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ -	\$ 75,076	\$ -	\$ -	\$ 75,076
Investments	690,486	-	-	-	690,486
Accounts receivable, net	175,758	-	184,397	-	360,155
Due from other funds	9,512	-	380,093	69,497	459,102
Receivables from other governments	28,954	3,724	-	-	32,678
Total current assets	<u>904,710</u>	<u>78,800</u>	<u>564,490</u>	<u>69,497</u>	<u>1,617,497</u>
Non-current assets					
Capital assets not being depreciated	109,118	-	-	56,383	165,501
Capital assets being depreciated, net of accumulated depreciation	10,373,955	102,586	168,732	202,650	10,791,540
Total non-current assets	<u>10,483,073</u>	<u>102,586</u>	<u>168,732</u>	<u>202,650</u>	<u>10,957,041</u>
Total assets	<u>11,387,783</u>	<u>181,386</u>	<u>733,222</u>	<u>272,147</u>	<u>12,574,538</u>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	37,413	7,202	27,366	-	71,981
Due to other funds	206,693	313,983	35,000	-	555,676
Payable to other governments	22,987	-	-	-	22,987
Other accrued expenses	-	-	-	2,500	2,500
Short term bond anticipation note payable	23,040	-	-	-	23,040
Bonds and notes payable	44,663	-	24,851	13,362	82,876
Total current liabilities	<u>334,796</u>	<u>321,185</u>	<u>87,217</u>	<u>15,862</u>	<u>759,060</u>
Non-current liabilities					
Compensated absences	-	4,915	-	-	4,915
Bonds and notes payable	688,121	-	-	86,638	774,759
Total non-current liabilities	<u>688,121</u>	<u>4,915</u>	<u>-</u>	<u>86,638</u>	<u>779,674</u>
Total liabilities	<u>1,022,917</u>	<u>326,100</u>	<u>87,217</u>	<u>102,500</u>	<u>1,538,734</u>
<b>NET POSITION</b>					
Net investment in capital assets	9,727,249	102,586	143,881	102,650	10,076,366
Restricted capital replacement	129,977	-	-	43,617	173,594
Restricted for USDA debt requirements	43,703	-	-	-	43,703
Restricted for Machias Water Co.	568,986	-	-	-	568,986
Unrestricted (deficit)	(105,049)	(247,300)	502,124	23,380	173,155
Total net position (deficit)	<u>\$ 10,364,866</u>	<u>\$ (144,714)</u>	<u>\$ 646,005</u>	<u>\$ 169,647</u>	<u>\$ 11,035,804</u>

**Town of Machias, Maine**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2017**

	<b>Enterprise Funds</b>				<b>Total</b>
	<b>Sewer Fund</b>	<b>Solid Waste Facility</b>	<b>Ambulance Fund</b>	<b>Other Proprietary Fund - Telcenter</b>	
<b>REVENUES</b>					
Charges for services and interest	\$ 458,511	\$ 170,242	\$ 367,903	\$ 29,247	\$ 1,025,903
Total operating revenues	<u>458,511</u>	<u>170,242</u>	<u>367,903</u>	<u>29,247</u>	<u>1,025,903</u>
<b>OPERATING EXPENSES</b>					
Personal services	15,230	85,662	345,537	485	446,914
Contractual services	186,948	114,516	13,127	220	314,811
Utilities	97,852	8,671	8,755	9,902	125,180
Repairs and maintenance	60,273	7,538	7,715	26,000	101,526
Other supplies and expenses	79,606	17,691	29,815	68	127,180
Insurance claims and expenses	14,123	1,687	4,048	2,133	21,991
Depreciation	295,654	14,566	58,591	32,503	401,314
Total operating expenses	<u>749,686</u>	<u>250,331</u>	<u>467,588</u>	<u>71,311</u>	<u>1,538,916</u>
Operating income (loss)	<u>(291,175)</u>	<u>(80,089)</u>	<u>(99,685)</u>	<u>(42,064)</u>	<u>(513,013)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Interest and investment revenue	60,339	1,961	-	-	62,300
Miscellaneous revenue	-	-	2,946	-	2,946
Capital grants and contributions	85,077	-	-	-	85,077
Interest expense	<u>(24,520)</u>	<u>-</u>	<u>(870)</u>	<u>-</u>	<u>(25,390)</u>
Total non-operating revenue	<u>120,896</u>	<u>1,961</u>	<u>2,076</u>	<u>-</u>	<u>124,933</u>
Income (loss) before transfers and special item	<u>(170,279)</u>	<u>(78,128)</u>	<u>(97,609)</u>	<u>(42,064)</u>	<u>(388,080)</u>
Transfers in	<u>61,163</u>	<u>45,000</u>	<u>26,879</u>	<u>-</u>	<u>133,042</u>
Change in net position	(109,116)	(33,128)	(70,730)	(42,064)	(255,038)
Total net position (deficit) - beginning	<u>10,473,982</u>	<u>(111,586)</u>	<u>716,735</u>	<u>211,711</u>	<u>11,290,842</u>
Total net position (deficit) - ending	<u>\$ 10,364,866</u>	<u>\$ (144,714)</u>	<u>\$ 646,005</u>	<u>\$ 169,647</u>	<u>\$ 11,035,804</u>

**Town of Machias, Maine**  
**Statement of Cash Flows - Proprietary Funds**  
**For the Year Ended June 30, 2017**

	<b>Proprietary Fund Types - Enterprise</b>				<b>Totals</b>
	<b>Sewer</b>	<b>Solid Waste Facility</b>	<b>Ambulance Fund</b>	<b>Other Proprietary Fund-Telcenter</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Received from user charges and tenants	\$ 508,059	\$ 187,274	\$ 354,653	\$ 29,247	\$ 1,079,233
Payments for administrative services	(29,353)	(87,252)	(349,585)	(2,618)	(468,808)
Payments to suppliers for goods and services	(422,021)	(152,290)	(59,412)	(33,690)	(667,413)
Interfund activity	(54,531)	(142,121)	212,075	(36,557)	(21,134)
Net cash provided (used) by operating activities	<u>2,154</u>	<u>(194,389)</u>	<u>157,731</u>	<u>(43,618)</u>	<u>(78,122)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Interest paid	(24,520)	-	(870)	-	(25,390)
Interest income	-	1,961	-	-	1,961
Donation and other	-	-	2,946	-	2,946
Transfers in (out)	61,163	45,000	26,879	-	133,042
Net cash provided by noncapital financing activities	<u>36,643</u>	<u>46,961</u>	<u>28,955</u>	<u>-</u>	<u>112,559</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Principal paid on bonds and leases	(44,598)	-	(24,435)	-	(69,033)
Bond and short term note proceeds	23,040	-	-	100,000	123,040
Capital grants and contributions	56,123	-	-	-	56,123
Acquisition and construction of capital assets	(73,362)	-	(162,251)	(56,382)	(291,995)
Net cash (used) by capital and related financial activities	<u>(38,797)</u>	<u>-</u>	<u>(186,686)</u>	<u>43,618</u>	<u>(181,865)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>-</u>	<u>(147,428)</u>	<u>-</u>	<u>-</u>	<u>(147,428)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>-</u>	<u>222,504</u>	<u>-</u>	<u>-</u>	<u>222,504</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ -</u>	<u>\$ 75,076</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,076</u>
<b>Reconciliation of operating income to net cash used by operating activities</b>					
Operating income (loss)	\$ (291,175)	\$ (80,089)	\$ (99,685)	\$ (42,064)	\$ (513,013)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	295,654	14,566	58,591	32,503	401,314
(Increase) decrease in the following assets					
Accounts receivable	49,548	17,032	(13,250)	-	53,330
Interfund receivables	-	-	212,075	(36,557)	175,518
Increase (decrease) in the following liabilities					
Compensated absences payable	-	97	-	-	97
Interfund payables	(54,531)	(142,121)	-	-	(196,652)
Accounts payable and other accrued liabilities	2,658	(3,874)	-	2,500	1,284
Net cash provided (used) by operating activities	<u>\$ 2,154</u>	<u>\$ (194,389)</u>	<u>\$ 157,731</u>	<u>\$ (43,618)</u>	<u>\$ (78,122)</u>

**Town of Machias, Maine**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2017**

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	<u>\$ 1,357,446</u>	<u>\$ 71,727</u>
<b>LIABILITIES</b>		
Due to student groups	<u>-</u>	<u>71,727</u>
<b>NET POSITION</b>		
Held in trust for scholarships and other purposes	<u><u>\$ 1,357,446</u></u>	<u><u>\$ -</u></u>

**Town of Machias, Maine**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2017**

	<b>Private Purpose Trust Funds</b>
<b>ADDITIONS</b>	
Interest	\$ 23,196
Contributions	646
Total additions	23,842
 <b>DEDUCTIONS</b>	
Scholarships	28,454
Change in net position	(4,612)
 <b>NET POSITION - BEGINNING</b>	1,362,058
 <b>NET POSITION - ENDING</b>	\$ 1,357,446

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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

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

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and the Financial Accounting Standards Board, when applicable. The more significant accounting policies of the Town are described below.

**A. FINANCIAL REPORTING ENTITY**

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

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

The government-wide financial statements report information of all activities of the Town, except for fiduciary funds. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The business-type activities of the Town include the sewer fund, solid waste facility fund, the ambulance fund, and the Telcenter fund, a property held for leasing to businesses for the purpose of economic development.

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

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

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

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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

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

**1. Governmental Funds**

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

The Town has presented the following major governmental funds:

*General Fund*

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

*Special Revenue Fund- School Categorical Grants*

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

**2. Proprietary Funds**

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting, in essentially the same manner as a private entity. The accounting objectives are determinations of net income, financial position and cash flow.

The Town has presented the following major proprietary funds:

*Sewer Fund*

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

*Solid Waste Fund*

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

*Ambulance Fund*

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

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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

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

**2. Proprietary Funds (Continued)**

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

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

The Town has presented the following fiduciary funds:

*Private Purpose Trust Funds*

Private purpose funds are funds held by the Town in a trustee capacity and are accounted for in essentially the same manner as a proprietary fund. Private purpose trusts for the Town account for various scholarship accounts. Capital maintenance of private purpose funds is critical.

*Agency Funds*

Agency funds account for assets held by the Town in a purely custodial capacity and include student activities funds. Since agency funds are custodial in nature, they do not involve the measurement of results of operations.

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

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

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

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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

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

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

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

**E. BUDGETS AND BUDGETARY ACCOUNTING**

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

Payments made by the State of Maine to the Maine Public Employees Retirement System for teachers and certain other school employees are reported as offsetting revenues and expenditures of the general fund in accordance with generally accepted accounting principles.

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

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

**F. FINANCIAL STATEMENT AMOUNTS**

**1. Deposits and Investments**

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

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

**2. Inventories**

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

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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

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

**3. Interfund Receivables and Payables**

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

**4. Interfund Transfers**

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

**5. Capital Assets**

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

Assets capitalized have an original cost of \$5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

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

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

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

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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

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

**6. Long-term Debt**

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

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

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

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

**7. Pensions**

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

**8. Use of Estimates**

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

**9. Government-wide Net Position**

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for those assets, and adding back unspent proceeds.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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

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

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

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**10. Governmental Fund Balances**

Fund balance represents the difference between assets and liabilities in the fund financial statements. Fund balance must be properly reported within one of the five fund balance categories listed below:

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

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

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

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

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

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

**11. Revenue Recognition - Property Taxes**

Property taxes were levied on assessed values of April 1, 2016 and were due on October 15, 2016 and March 15, 2017, respectively. Interest was charged at 5% per annum as authorized by Maine Law on amounts not paid by the due date. Upon the expiration of eight months, and within one year from the date of original commitment, a tax lien is recorded for all delinquent taxes on real estate. If taxes were paid in full by October 15, 2016 a 2% discount was applied.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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

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

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

For purposes of the fund financial statements, property taxes assessed and collected during the year ended June 30, 2017, and during the first sixty days of the next fiscal year are recognized as revenue in 2017. Receivables estimated to be collectible after the sixty day period are recorded as deferred inflows of resources in the general fund.

Assessed value	
Real estate	\$132,394,800
Personal property	<u>6,720,700</u>
	\$139,115,500
Tax rate (per \$1,000)	<u>19.75</u>
Commitment	\$ 2,747,534
Less collections, discounts and abatements	<u>(2,470,125)</u>
Receivable at June 30, 2017	<u>\$ 277,409</u>
Collection rate	90%

**12. New Governmental Accounting Standards**

During the year ended June 30, 2017, the Town implemented GASB Statement No. 77, *Tax Abatement Disclosures*. This statement improves financial reporting by increasing disclosure of information about the nature and magnitude of tax abatements, increasing transparency of the transactions, and providing more information about how tax abatements affect a government's future ability to raise resources and meet its financial obligations, and the impact those abatements have on a government's financial position and economic condition.

**13. Recent Accounting Pronouncements**

In January 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 84, *Fiduciary Activities*. This statement improves financial reporting by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. The statement is effective for periods beginning after December 15, 2018. The effect of this Statement on the Town's financial statements is not known at this time.

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This statement improves financial reporting by increasing the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The statement is effective for periods beginning after December 15, 2019. The effect of this Statement on the Town's financial statements is not known at this time.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

**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, 2017, the Town reported deposits of \$4,315,188 with bank balances of \$5,097,242. Of the Town's total bank balance of \$5,097,242, \$4,393,825 was exposed to custodial credit risk. Of the exposed amount, \$4,393,825 was 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	\$ 2,810,939
Reported in proprietary funds	<u>75,076</u>
Total reported on the Statement of Net Position	2,886,015
Reported in fiduciary funds	<u>1,429,173</u>
Total deposits	<u>\$ 4,315,188</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.

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town's investments at June 30, 2017 are as follows:

Money market accounts	\$ 419,283	Level 1
U.S. Agency notes	238,890	Level 1
Common stock, Machias Water Co.	<u>568,986</u>	Level 2
Total investments	<u>\$1,227,159</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, 2017 the Town's investments of \$1,227,159, invested in money market accounts, U.S. Agency notes, and company stock, are not exposed to custodial credit risk as the investments are in the Town's name.

*Concentration of Credit Risk:* The Town's investment in common stock meets the criteria to be classified as a concentration of credit risk investment. The investment of \$568,886 in the Machias Water Company makes up approximately 46% of the Town's total investments. The Town does not have a policy related to concentration of credit risk.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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

**Investments (Continued)**

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

	<b>Due in less than one year</b>	<b>Due in 1-5 years</b>
U.S. Agency notes	\$ 99,603	\$ 139,287

Investments have been reported as follows:

Reported in governmental funds	\$ 536,673
Reported in proprietary funds	<u>690,486</u>
Total investments	<u>\$1,227,159</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, 2016 the Town's interest has been valued at \$568,986 and is included in the proprietary funds.

**NOTE 3. ACCOUNTS RECEIVABLE**

The proprietary fund - ambulance fund records an allowance for uncollectible receivables based on a percentage of Medicaid covered charges for services. The allowance for the year ended June 30, 2017 is \$18,237 based on an estimate of 9% of total receivables.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance 6/30/16	Additions/ Completion s	Retirements/ Reclassifications	Balance 6/30/17
<b>Governmental Activities</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 565,074	\$ -	\$ -	\$ 565,074
Construction in progress	<u>263,221</u>	<u>166,914</u>	<u>(263,221)</u>	<u>166,914</u>
Total capital assets not being depreciated	<u>828,295</u>	<u>166,914</u>	<u>(263,221)</u>	<u>731,988</u>
<i>Capital assets being depreciated</i>				
Buildings and land improvements	6,702,706	411,387	-	7,114,093
Infrastructure	1,684,940	196,068	-	1,881,008
Equipment, furniture and fixtures	889,098	103,500	(93,700)	898,898
Vehicles	<u>921,900</u>	<u>83,109</u>	<u>-</u>	<u>1,005,009</u>
Total capital assets being depreciated	<u>10,198,644</u>	<u>794,064</u>	<u>(93,700)</u>	<u>10,899,008</u>
Less accumulated depreciation for:				
Buildings and land improvements	(3,914,754)	(127,758)	-	(3,914,754)
Infrastructure	(344,547)	(62,700)	-	(344,547)
Equipment, furniture and fixtures	(763,025)	(41,395)	93,700	(763,025)
Vehicles	<u>(703,228)</u>	<u>(83,576)</u>	<u>-</u>	<u>(703,228)</u>
Total accumulated depreciation	<u>(5,725,554)</u>	<u>(315,429)</u>	<u>93,700</u>	<u>(5,947,283)</u>
Total capital assets being depreciated, net	<u>4,473,090</u>	<u>478,635</u>	<u>-</u>	<u>4,951,725</u>
Governmental activities capital assets, net	<u>\$ 5,301,385</u>	<u>\$ 645,549</u>	<u>\$ (263,221)</u>	<u>\$ 5,683,713</u>
<b>Business-Type Activities</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	<u>6,981</u>	<u>164,501</u>	<u>(6,981)</u>	<u>164,501</u>
Total capital assets not being depreciated	<u>7,981</u>	<u>164,501</u>	<u>(6,981)</u>	<u>165,501</u>
<i>Capital assets being depreciated</i>				
Infrastructure and buildings	14,942,351	-	-	14,942,351
Vehicles and equipment	<u>739,663</u>	<u>196,595</u>	<u>(24,316)</u>	<u>911,942</u>
Total capital assets being depreciated	<u>15,682,014</u>	<u>196,595</u>	<u>(24,316)</u>	<u>15,854,293</u>
Less accumulated depreciation				
Infrastructure and buildings	(4,246,181)	(303,988)	-	(4,550,169)
Vehicles and equipment	<u>(439,574)</u>	<u>(97,326)</u>	<u>24,316</u>	<u>(512,584)</u>
Total accumulated depreciation	<u>(4,685,755)</u>	<u>(401,314)</u>	<u>24,316</u>	<u>(5,062,753)</u>
Total capital assets being depreciated, net	<u>10,996,259</u>	<u>(204,719)</u>	<u>-</u>	<u>10,791,540</u>
Business-type activities capital assets, net	<u>\$ 11,004,240</u>	<u>\$ (40,218)</u>	<u>\$ (6,981)</u>	<u>\$ 10,957,041</u>

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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

Depreciation expense for the year ended June 30, 2017, was charged as direct expense to programs as follows:

<i>Governmental activities</i>	
General government	\$ 6,357
Police	10,710
Fire	9,991
Public works	139,854
Recreation	4,094
Airport	4,790
Education grants	3,137
Education	<u>136,496</u>
Total depreciation expense – Governmental activities	<u>\$ 315,429</u>
<i>Business-type activities</i>	
Sewer	\$ 295,654
Solid waste	14,566
Ambulance	58,591
Telcenter	<u>32,503</u>
Total depreciation expense – business-type activities	<u>\$ 401,314</u>

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

**NOTE 5. LONG-TERM LIABILITIES**

The following is a summary of long term liabilities for the year ended June 30, 2017:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Portion due within one year
<b>Governmental Liabilities</b>					
<b>General Obligation Bonds and Notes</b>					
<b>General Bonds</b>					
Maine Municipal Bond Bank, 4.6% school renovation bond, dated December 22, 2009, due 2020	\$ 326,039	\$ -	\$ (74,961)	\$ 251,078	\$ 78,498
<b>General Notes</b>					
Machias Savings Bank, 2.50% road projects note, dated December 2, 2008, due 2019	180,640	-	(58,705)	121,935	60,206
Machias Savings Bank, 1.95% vehicles note, dated October 23, 2012, due 2018	30,897	-	(15,297)	15,600	15,601
Machias Savings Bank, 2.06% school renovations note, dated July 10, 2013, due 2023	175,050	-	(23,476)	151,574	23,976
Machias Savings Bank, 1.75% road projects note, dated September 10, 2014 due 2023	88,986	-	(21,559)	67,427	22,049
Machias Savings Bank, 1.25% Town cruiser note, dated July 29, 2015, due 2019	35,000	-	(11,531)	23,469	11,661
Machias Savings Bank, 2.99% school bus note, dated March 1, 2017, due 2020	67,835	-	(16,207)	51,628	16,698
Machias Savings Bank, 1.79% Town equipment note, dated May 11, 2016, due 2021	105,000	-	(21,001)	83,999	20,437
Machias Savings Bank, 2.29% school bus note and equipment note, dated August 25, 2016, due 2023	-	166,000	(32,404)	133,596	32,259
Machias Savings Bank, 2.49% safety building note, dated December 14, 2016, due 2027	-	231,000	-	231,000	20,597
Machias Savings Bank, 2.49% road projects note, dated December 14, 2016, due 2027	-	200,000	-	200,000	17,833
Machias Savings Bank, 2.39% loader/backhoe note, dated June 27, 2017, due 2020	-	71,500	-	71,500	23,172
Total general obligation bonds and notes	1,009,447	668,500	(275,141)	1,402,806	342,987
<b>Capital Leases</b>	11,531	-	(5,569)	5,962	4,154
<b>Net Pension Liability</b>	189,543	142,658	(90,239)	241,962	N/A
<b>Compensated Absences</b>	51,473	10,858	-	62,331	N/A
Total governmental activities liabilities	<u>\$ 1,261,994</u>	<u>\$ 822,016</u>	<u>\$ (370,949)</u>	<u>\$ 1,713,061</u>	<u>\$ 347,141</u>

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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

**Business-type Liabilities**

**Proprietary Fund Bonds and Notes Payable**

**Sewer Bonds**

Maine Municipal Bond Bank, 2.19% sewer rehabilitation project, dated July 26, 2002, due 2023	\$ 100,053	\$ -	\$ (13,251)	\$ 86,802	\$ 13,584
Maine Municipal Bond Bank, 1.40% sewer rehabilitation project, dated May 15, 2010, due 2029	230,703	-	(16,304)	214,399	16,532
Maine Municipal Bond Bank, 1.00% sewer rehabilitation project, dated December 21, 2011, due 2017	816	-	(816)	-	-
Rural Development Bond, 2.25% sewer rehabilitation project, dated January 25, 2012, due 2040	445,805	-	(14,222)	431,583	14,547

**Ambulance Note Payable**

Machias Savings Bank, 1.75% vehicle note, dated November 21, 2012, due 2018	49,291	-	(24,440)	24,851	24,851
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**Telcenter Note Payable**

Machias Savings Bank, 2.19% roof note, dated December 14, 2016, due 2023	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>13,362</u>
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Total proprietary fund bonds and notes payable	826,668	100,000	(69,033)	857,635	82,876
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**Compensated Absences**

	<u>4,818</u>	<u>97</u>	<u>-</u>	<u>4,915</u>	<u>N/A</u>
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Total proprietary activities liabilities	<u>831,486</u>	<u>100,097</u>	<u>(69,033)</u>	<u>862,550</u>	<u>82,876</u>
Total general obligation and proprietary liabilities	<u>\$ 2,093,480</u>	<u>\$ 922,113</u>	<u>\$ (439,982)</u>	<u>\$ 2,575,611</u>	<u>\$ 431,825</u>

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

Future maturities of general obligation and proprietary bonds and notes payable are as follows:

Year ended June 30	General Obligations		Proprietary Obligations		Total
	Principal	Interest	Principal	Interest	
2018	\$ 342,987	\$ 38,607	\$ 82,876	\$ 18,123	\$ 482,593
2019	336,909	28,772	59,222	16,513	441,416
2020	275,875	19,085	60,445	15,331	370,736
2021	123,026	10,849	61,691	14,128	209,694
2022	68,502	8,051	62,970	12,894	152,417
2023-2027	255,507	18,692	221,700	48,935	544,834
2028-2032	-	-	153,612	33,009	186,621
2033-2037	-	-	108,614	12,711	121,325
2038-2040	<u>-</u>	<u>-</u>	<u>46,505</u>	<u>1,933</u>	<u>48,438</u>
	<u>\$ 1,402,806</u>	<u>\$ 124,056</u>	<u>\$ 857,635</u>	<u>\$ 173,577</u>	<u>\$ 2,558,074</u>

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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

In accordance with Maine law, no municipality shall incur debt for specific purposes in excess of certain percentages of State valuation of such municipality. At June 30, 2017, the Town was in compliance with these limitations.

**Capital Leases Payable**

The Town is the lessee of photocopiers under capital leases expiring in fiscal years ending June 30, 2017 and 2019. The liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair market value of the asset acquired.

As of June 30, 2017, the Town had recorded \$109,367 in governmental activities equipment related to outstanding capital leases. Amortization of these assets is included with depreciation expense. Accumulated depreciation for these assets at June 30, 2017 is \$109,367, respectively.

Minimum future lease payments under capital leases as of June 30, 2017 are:

2018		\$ 4,404
2019		<u>1,835</u>
		6,239
Less amount representing interest		<u>(277)</u>
Present value of minimum lease payments		<u>\$ 5,962</u>

**NOTE 6. INTERFUND TRANSACTIONS**

During the course of normal operations the Town has numerous transactions between funds including expenditures and transfers.

Individual fund interfund receivable and payables balances at June 30, 2017 arising from these transactions and interfund transfers were as follows:

	<u>Receivable</u>	<u>Payable</u>	<u>Transfers in</u>	<u>Transfers out</u>
General fund	\$636,513	\$829,235	\$ -	\$ 136,663
Special revenue- school grants	-	133,418	-	-
Sewer fund	9,512	206,693	61,163	-
Solid waste fund	-	313,983	45,000	-
Ambulance fund	380,093	35,000	26,879	-
Non-major proprietary funds	69,497	-	-	-
Non-major governmental funds	<u>637,712</u>	<u>214,998</u>	<u>30,500</u>	<u>26,879</u>
	<u>\$1,733,327</u>	<u>\$1,733,327</u>	<u>\$ 163,542</u>	<u>\$ 163,542</u>

The outstanding balances between funds result mainly from short-term cash flow needs that are funded by the general fund, as it hold the Town's checking account. Transfers were used to move funds from the general fund in accordance with budgetary authorizations, including debt payments of the proprietary funds, a \$25,000 transfer to the other governmental fund - school lunch fund, \$5,500 to the other governmental fund – capital projects fund and \$45,000 to the Solid Waste Facility proprietary fund. Additionally, \$26,879 was moved from the other governmental funds to the ambulance funds to cover budget authorized capital outlay expenditures.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds payable, adding back any unspent proceeds. The Town's net investment in capital assets was calculated as follows at June 30, 2017:

	Governmental Activities	Business-type Activities
Capital assets	\$ 11,630,996	\$ 16,019,794
Accumulated depreciation	(5,947,283)	(5,062,753)
Unspent note proceeds	-	(43,617)
Related bonds payable	(1,402,806)	(837,058)
Related capital leases payable	(5,962)	-
Total balance	\$ 4,274,945	\$ 10,076,366

**NOTE 8. NET POSITION – RESTRICTED – EDUCATION**

At June 30, 2017 the Town's restricted for education was comprised as follows:

General education	\$ 882,445
Vocational education building	30,000
Adult education	12,562
Transitions	633
MELMAC grant	7,559
Total	\$ 933,199

**NOTE 9. NET POSITION – RESTRICTED – CAPITAL PROJECTS**

At June 30, 2017 the Town's capital projects restricted fund balance was comprised as follows:

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

**NOTE 10. FUND BALANCE – RESTRICTED – OTHER PURPOSES**

At June 30, 2017 the Town's general fund balance restricted for other purposes was comprised as follows:

Tax increment financing	\$ 41,052
Healthy Maine Streets grant	7,341
Total	\$ 48,393

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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

At June 30, 2017 the Town's other governmental funds - special revenue fund balance restricted for Town grants and other purposes was comprised as follows:

Mill account	\$ 246,616
Revolving loan fund	8,021
Sewer grant	85
State and local roads	16,345
Maine Waste Management-transfer station	4,990
Station 98	2,966
Thermal imaging camera	1,406
Downtown planning-donations	8,783
Scholarship funds	<u>175</u>
Total	<u>\$ 289,387</u>

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

At June 30, 2017, the Town's other governmental funds fund balances committed for capital projects were comprised of the following:

Airport improvement	\$ 36,367
Basketball court	1,233
Boat dock	1,980
Comprehensive plan	7,820
Downtown revitalization	12,295
Economic development	88,733
E-911 signs	1,271
Fire department homeland security	314
Fire department ventilation	32,000
Fire truck replacement	3,276
Industrial development	24,099
Lawnmower	700
Other – tax acquired property sales	20,488
Police- vehicle replacement	12,927
Public safety building	51,834
Roads	83,596
Sewer expansion	75,323
Sewer overflow	3,367
Sidewalk repair	9,540
School renovations	61,969
Skate park	5,967
Tennis court	14,549
Town office	<u>30,548</u>
Total committed for capital projects	<u>\$ 580,196</u>

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

At June 30, 2017, the Town's general fund balances committed for other purposes were comprised of the following:

Recreation – facilities and activities	\$ 895
Recreation – softball field	1,129
4 <sup>th</sup> of July	4,320
250 <sup>th</sup> Anniversary celebration	1,052
Police academy	16,900
Debt service – public safety building	<u>36,364</u>
Total	<u>\$ 60,660</u>

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

**NOTE 14. PENSION PLANS**

**Maine Public Employees Retirement System**

All School teachers, plus other qualified educators, participate in the Maine Public Employees Retirement System's State Employee and Teacher (SET) Plan. The SET plan is a cost-sharing multiple employer defined benefit plan with a special funding situation, established by the Maine State legislature. The State of Maine is a non-employer contributing entity in that the State pays the initial unfunded actuarial liability on behalf of teachers, while school departments contribute the normal cost, calculated actuarially, for their teacher members.

**Pension Benefits**

Benefit terms are established in Maine statute. The System's retirement programs provide defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting occurs upon the earning of five years of service credit. In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for State employees and teachers is age 60, 62, or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below his/her normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employee and teacher members and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 5.0%.

**Contributions**

Member and employer contribution rates are each a percentage of applicable member compensation. Member contribution rates are defined by law or Board of Trustees rule and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined through actuarial valuations.

The contributions for the year ended June 30, 2017 were as follows:

	<u>Covered Payroll</u>	<u>Contribution Percentage</u>	<u>Contribution Amount</u>
Employee contribution	\$ 2,300,016	7.65%	\$ 175,951
State DOE contribution for non-federally funded employees	2,082,961	10.02%	208,713
Employer contribution for normal costs of non-federally funded employees	2,082,961	3.36%	69,987
Employer contribution for federally funded employees	217,055	13.93%	30,236

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

**NOTE 14. PENSION PLANS (CONTINUED)**

**Net Pension Liability**

The System separately accounts for the two groups within the SET plan, state employees being one group, and teachers the second group. Amounts disclosed for the SET plan reflect only the teachers' group portion, where applicable.

The collective net pension liability for the SET Plan, measured as of June 30, 2016 was as follows:

SET Plan collective total pension liability	\$ 8,432,364,488
Less plan net position	<u>(6,665,703,555)</u>
 SET Plan collective net pension liability	 <u>\$ 1,766,660,933</u>

At June 30, 2017, the Town reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Town. The amount recognized by the Town as its proportionate share of the net pension liability and the total portion of the net pension liability that was associated with the Town were as follows:

Town's proportionate share of the net pension liability	\$ 241,962
State's proportionate share of the net pension liability associated with the Town	<u>3,074,740</u>
 Total	 <u>\$ 3,316,702</u>

The net pension liability was measured as of June 30, 2016, and the total collective pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportionate share percentage of the collective net pension liability was 0.013697%, allocated based on Unfunded Actuarial Liability (UAL) contributions to the plan. This percentage was 0.014037% at the prior measurement date of June 30, 2015.

**Pension Expense and Revenue**

For the year ended June 30, 2017, the Town recognized pension expense of \$114,554 related to the SET Plan, made up of the Town's proportionate share of plan pension expense \$30,503, and net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions \$84,051, and recognized revenue of \$302,740 for support provided by the State.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

**NOTE 14. PENSION PLANS (CONTINUED)**

**Deferred Outflows and Inflows of Resources**

For the year ended June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SET Plan	
	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 4,679	\$ 457
Changes of assumptions	-	6,214
Net difference between projected and actual investment earnings on pension plan investments	77,263	31,659
Changes in proportion and differences between employer contributions and proportionate share of contributions	11,239	3,438
Employer's contributions to plan subsequent to measurement date of collective net pension liability	<u>99,029</u>	<u>-</u>
Total	<u>\$ 192,210</u>	<u>\$ 41,768</u>

\$99,029 reported as deferred outflows related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows and outflows will be recognized as pension expense as follows:

Year ended June 30	Amount
2018	\$ 14,090
2019	3,583
2020	21,761
2021	<u>11,979</u>
	<u>\$ 51,413</u>

**Actuarial Assumptions, Discount Rate, and Pension Plan Fiduciary Net Position**

Information on the pension plan's fiduciary net position, as well as the actuarial assumptions and discount rate used by the Maine Public Employees Retirement System in calculating the net pension liability and related amounts are disclosed in the Notes to the Audited Schedules of Employer Allocations and Pension Amounts by Employer. Those schedules, as well as the actuarial valuation reports for each of the System's plans may be obtained by calling 1-800-451-9800, and are available on the System's website at [www.maineopers.org/Publications/Publications.htm#Annual Reports](http://www.maineopers.org/Publications/Publications.htm#Annual Reports).

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

**NOTE 14. PENSION PLANS (CONTINUED)**

**Deferred Compensation Plan – ICMA**

The Town also provides a 457 Deferred Compensation Plan and other retirement plans. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The Town contributes 6-10% of base pay for participating employees depending on years of continuous service. Employees may elect to contribute any % they wish of earnings up to the annual maximums. The Town made contributions of \$19,146 and employees elected to defer \$19,713 for a contribution of \$38,859 for the year ended June 30, 2017.

**NOTE 15. PARTICIPATION IN PUBLIC ENTITY RISK POOL**

The Town is exposed to various risks of losses related to torts, theft, damage, and destruction of assets, injuries to employees, and natural disasters. The Town maintains membership in various risk pools to mitigate these risks to an acceptable level and to limit the Town's exposure to losses.

The Town is a member of the Maine Municipal Association - Worker Compensation Trust Fund ("Fund"). The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain lower costs for worker's compensation coverage and develop a comprehensive loss control program. The Town pays an annual premium to the fund for its worker's compensation coverage. The Town's agreement with the Fund provides that the fund will be self-sustaining through member premiums and will provide, through commercial companies reinsurance contracts, individual stop loss coverage for member Town's for claims in excess of \$500,000 with an excess limit of \$2,000,000.

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

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

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.

**Town of Machias, Maine**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

**NOTE 16. TAX ABATEMENTS**

The Town enters into property tax abatement agreements with local businesses under Title 30-A Chapter 206 Development Districts, Subchapter 1, Development Districts for Municipalities and Plantations and Subchapter 3, Municipal Affordable Housing Development Districts. Under this law, municipalities may grant property tax abatements of up to 100 percent of a business' property tax bill for the purpose of attracting or retaining businesses within their jurisdictions. The abatements may be granted to any business located within or new job creation in the Town. For the fiscal year ended June 30, 2017, the Town abated property taxes totaling \$10,807 under this program, including the following tax abatement agreement.

Machias Savings Bank received a 45 percent property tax abatement for undertaking the renovation and rehabilitation of a building in the Town and for a training facility. The abatement amounted to \$11,220.

**NOTE 17. DEFICIT FUND BALANCE**

The Town has a deficit fund balance of \$93,667 in its other governmental fund – school lunch. The Town plans to address this deficit in future budgets.

**NOTE 18. CONTINGENCIES**

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

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

**NOTE 19. ENVIRONMENTAL LIABILITIES**

The Town was fined by the Department of Environmental Protection \$22,987 for a wastewater discharge violation which occurred on June 12, 2013. This liability has been recorded in both the government-wide and the fund financial statements.

**Town of Machias, Maine**  
**Budget and Actual (with Budget to GAAP Differences)**  
**General Fund**  
**For the year ended June 30, 2017**

	Budgeted Amounts			Actual Amounts, Budgetary Basis	Budget to GAAP Differences**	Actual Amounts, GAAP Basis
	Original	Changes	Final*			
<b>REVENUES</b>						
Property taxes, net	\$ 2,747,534	\$ -	\$ 2,747,534	\$ 2,706,120	\$ -	\$ 2,706,120
Excise taxes	231,700	-	231,700	273,873	-	273,873
Interest and lien costs	30,000	-	30,000	20,427	-	20,427
Licenses and permits	18,875	-	18,875	19,726	-	19,726
Intergovernmental						
Education	3,200,032	2,098	3,202,130	3,480,043	-	3,480,043
On-behalf payments - State of Maine	-	-	-	-	208,713	208,713
Town	360,572	43,759	404,331	407,811	-	407,811
Charges for services	24,900	-	24,900	27,427	-	27,427
Interfund charges for services	106,457	-	106,457	102,454	(7,717)	94,737
Interest earnings	6,000	-	6,000	8,327	-	8,327
Miscellaneous	1,315	-	1,315	13,401	-	13,401
Total revenues	<u>6,727,385</u>	<u>45,857</u>	<u>6,773,242</u>	<u>7,059,609</u>	<u>200,996</u>	<u>7,260,605</u>
<b>EXPENDITURES</b>						
Current						
General government	406,142	-	406,142	390,578	-	390,578
Police department	338,046	8,064	346,110	258,412	3,859	262,271
Fire department	335,351	-	335,351	335,055	7,718	342,773
Public safety building	29,300	-	29,300	19,294	(19,294)	-
Highways and streets	333,792	-	333,792	304,050	-	304,050
Education	4,781,413	166,000	4,947,413	4,691,606	(341,895)	4,349,711
Adult education	65,958	2,098	68,056	68,056	-	68,056
On-behalf payments - State of Maine	-	-	-	-	208,713	208,713
Recreation	40,061	-	40,061	38,355	-	38,355
General assistance	5,450	-	5,450	3,355	-	3,355
Airport	13,300	-	13,300	7,244	-	7,244
County tax	201,867	-	201,867	201,867	-	201,867
Tax increment financing	10,807	3,616	14,423	14,423	-	14,423
Other services	20,000	51,990	71,990	69,225	-	69,225
Debt service						
Principal	129,201	-	129,201	115,430	151,528	266,958
Interest and other charges	8,319	-	8,319	8,319	23,576	31,895
Capital outlay	-	71,500	71,500	71,500	165,415	236,915
Total expenditures	<u>6,719,007</u>	<u>303,268</u>	<u>7,022,275</u>	<u>6,596,769</u>	<u>199,620</u>	<u>6,796,389</u>
Excess (deficiency) of revenues over expenditures	<u>8,378</u>	<u>(257,411)</u>	<u>(249,033)</u>	<u>462,840</u>	<u>1,376</u>	<u>464,216</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Use of unrestricted carryover fund balances	50,000	21,795	71,795	-	-	-
Use of restricted carryover fund balances	154,949	3,616	158,565	-	-	-
Overlay	(107,132)	-	(107,132)	-	-	-
Proceeds from debt	-	237,500	237,500	237,500	-	237,500
Transfers out	(106,195)	(5,500)	(111,695)	(111,663)	(25,000)	(136,663)
Total other financing sources and uses	<u>(8,378)</u>	<u>257,411</u>	<u>249,033</u>	<u>125,837</u>	<u>(25,000)</u>	<u>100,837</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>588,677</u>	<u>(23,624)</u>	<u>565,053</u>
<b>FUND BALANCES - BEGINNING</b>				<u>2,515,305</u>	<u>(332,423)</u>	<u>2,182,882</u>
<b>FUND BALANCES - ENDING</b>				<u>\$ 3,103,982</u>	<u>\$ (356,047)</u>	<u>\$ 2,747,935</u>

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

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

Net change in fund balances - budget basis	\$ 588,677
On behalf payments revenue	208,713
On behalf payments expenditures	(208,713)
Change in accrued summer teacher pay	<u>(23,624)</u>
Net change in fund balances - GAAP basis	<u>\$ 565,053</u>

**Town of Machias, Maine**  
**Budget and Actual (with Variances)**  
**General Fund**  
**For the year ended June 30, 2017**

	Budgeted Amounts			Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Changes	Final*		
<b>REVENUES</b>					
Property taxes, net	\$ 2,747,534	\$ -	\$ 2,747,534	\$ 2,706,120	\$ (41,414)
Excise taxes	231,700	-	231,700	273,873	42,173
Interest and lien costs	30,000	-	30,000	20,427	(9,573)
Licenses and permits	18,875	-	18,875	19,726	851
Intergovernmental					
Education	3,200,032	2,098	3,202,130	3,480,043	277,913
Town	360,572	43,759	404,331	407,811	3,480
Charges for services	24,900	-	24,900	27,427	2,527
Interfund charges for services	106,457	-	106,457	102,454	(4,003)
Investment earnings	6,000	-	6,000	8,327	2,327
Miscellaneous	1,315	-	1,315	13,401	12,086
Total revenues	<u>6,727,385</u>	<u>45,857</u>	<u>6,773,242</u>	<u>7,059,609</u>	<u>286,367</u>
<b>EXPENDITURES</b>					
Current					
General government	406,142	-	406,142	390,578	15,564
Police department	338,046	8,064	346,110	258,412	87,698
Fire department	335,351	-	335,351	335,055	296
Public safety building	29,300	-	29,300	19,294	10,006
Highways and streets	333,792	-	333,792	304,050	29,742
Education	4,781,413	166,000	4,947,413	4,691,606	255,807
Adult education	65,958	2,098	68,056	68,056	-
Recreation	40,061	-	40,061	38,355	1,706
General assistance	5,450	-	5,450	3,355	2,095
Airport	13,300	-	13,300	7,244	6,056
County tax	201,867	-	201,867	201,867	-
Tax increment financing	10,807	3,616	14,423	14,423	-
Other services	20,000	51,990	71,990	69,225	2,765
Debt service					
Principal	129,201	-	129,201	115,430	13,771
Interest and other charges	8,319	-	8,319	8,319	-
Capital outlay	-	71,500	71,500	71,500	-
Total expenditures	<u>6,719,007</u>	<u>303,268</u>	<u>7,022,275</u>	<u>6,596,769</u>	<u>425,506</u>
Excess (deficiency) of revenues over expenditures	<u>8,378</u>	<u>(257,411)</u>	<u>(249,033)</u>	<u>462,840</u>	<u>711,873</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Use of unrestricted carryover fund balances	50,000	21,795	71,795	-	71,795
Use of restricted carryover fund balances	154,949	3,616	158,565	-	158,565
Use of committed carryover fund balances	-	-	-	-	-
Overlay	(107,132)	-	(107,132)	-	(107,132)
Proceeds from debt	-	237,500	237,500	237,500	-
Transfers out	(106,195)	(5,500)	(111,695)	(111,663)	32
Total other financing sources and uses	<u>(8,378)</u>	<u>257,411</u>	<u>249,033</u>	<u>125,837</u>	<u>123,260</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	588,677	<u>\$ 588,677</u>
<b>FUND BALANCES - BEGINNING</b>				2,515,305	
<b>FUND BALANCES - ENDING</b>				<u>\$ 3,103,982</u>	

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Town's proportion of the net pension liability	0.013697%	0.014039%	0.011751%	0.014357%						
Town's proportionate share of the net pension liability	\$ 241,962	\$ 189,543	\$ 126,950	\$ 228,255						
State's proportionate share of the net pension liability associated with the Unit	<u>3,074,740</u>	<u>2,450,872</u>	<u>2,086,549</u>	<u>3,057,002</u>	_____	_____	_____	_____	_____	_____
Total	<u>\$ 3,316,702</u>	<u>\$ 2,640,415</u>	<u>\$ 2,213,499</u>	<u>\$ 3,285,257</u>	=====	=====	=====	=====	=====	=====
Town's covered-employee payroll	\$ 2,300,016	\$ 2,204,174	\$ 2,310,728	\$ 2,260,733						
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	10.52%	8.60%	5.49%	10.10%						
Plan fiduciary net position as a percentage of the total pension liability	79.05%	83.55%	83.91%	76.85%						

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 90,209	\$ 75,753	\$ 78,454	\$ 22,528						
Contributions in relation to the contractually required contribution	<u>(90,209)</u>	<u>(75,753)</u>	<u>(78,454)</u>	<u>(22,528)</u>						
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
Town's covered-employee payroll	\$ 2,300,016	\$ 2,204,174	\$ 2,310,728	\$ 2,260,733						
Contributions as a percentage of covered-employee payroll	3.92%	3.44%	3.40%	1.00%						

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

**Town of Machias, Maine  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2017**

	<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>ASSETS</b>				
Cash and cash equivalents	\$ 81,035	\$ -	\$ -	\$ 81,035
Investments	-	271,291	-	271,291
Due from other funds	-	35,781	601,931	637,712
Receivable from other governments	13,705	-	-	13,705
Other receivable	10,148	-	-	10,148
Note receivable	-	2,620	-	2,620
Inventories	5,887	-	-	5,887
Total assets	<u>\$ 110,775</u>	<u>\$ 309,692</u>	<u>\$ 601,931</u>	<u>\$ 1,022,398</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Due to other funds	\$ 194,693	\$ 20,305	\$ -	\$ 214,998
Accrued payroll liability	3,862	-	-	3,862
Total liabilities	<u>198,555</u>	<u>20,305</u>	<u>-</u>	<u>218,860</u>
Fund balances				
Nonspendable for inventory	5,887	-	-	5,887
Restricted for				
Capital projects	-	-	21,735	21,735
Town grants and other purposes	-	289,387	-	289,387
Committed for capital projects	-	-	580,196	580,196
Unassigned (deficit)	(93,667)	-	-	(93,667)
Total fund balances	<u>(87,780)</u>	<u>289,387</u>	<u>601,931</u>	<u>803,538</u>
Total liabilities and fund balances	<u>\$ 110,775</u>	<u>\$ 309,692</u>	<u>\$ 601,931</u>	<u>\$ 1,022,398</u>

**Town of Machias, Maine**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2017**

	<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	\$ 209,858	\$ 28,340	\$ 171,018	\$ 409,216
Donations	-	500	-	500
Charges for services	44,491	-	-	44,491
Investment earnings	-	1,922	-	1,922
Total revenues	<u>254,349</u>	<u>30,762</u>	<u>171,018</u>	<u>456,129</u>
<b>EXPENDITURES</b>				
Current				
Food and supplies	171,319	-	-	171,319
Labor	128,287	-	-	128,287
Capital outlay	-	29,022	524,998	554,020
Total expenditures	<u>299,606</u>	<u>29,022</u>	<u>524,998</u>	<u>853,626</u>
Excess (deficiency) of revenues over expenditures	<u>(45,257)</u>	<u>1,740</u>	<u>(353,980)</u>	<u>(397,497)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from long term debt	-	-	431,000	431,000
Transfers in	25,000	-	5,500	30,500
Transfers out	-	-	(26,879)	(26,879)
Total other financing sources and uses	<u>25,000</u>	<u>-</u>	<u>409,621</u>	<u>434,621</u>
Net change in fund balances	(20,257)	1,740	55,641	37,124
<b>FUND BALANCES - BEGINNING</b>	<u>(67,523)</u>	<u>287,647</u>	<u>546,290</u>	<u>766,414</u>
<b>FUND BALANCES (DEFICIT) - ENDING</b>	<u>\$ (87,780)</u>	<u>\$ 289,387</u>	<u>\$ 601,931</u>	<u>\$ 803,538</u>

Town of Machias, Maine

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

Year ended June 30, 2017

	Adjusted Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Local assessments	\$ 1,462,390	\$ 1,462,390	\$ -
State subsidy	1,813,302	1,813,302	-
Intergovernmental	21,583	31,411	9,828
Tuition and fees	1,308,275	1,561,383	253,108
Other	20,914	35,569	14,655
	<u>4,626,464</u>	<u>4,904,055</u>	<u>277,591</u>
<b>EXPENDITURES</b>			
Regular instruction			
Elementary	1,332,397	1,236,108	96,289
Early childhood	136,723	140,859	(4,136)
Secondary	681,591	724,324	(42,733)
Instruction improvement	7,720	1,740	5,980
Special education			
Elementary	375,639	279,274	96,365
Secondary	185,017	161,114	23,903
Administrative	31,533	31,533	-
Tutoring	4,406	935	3,471
Evaluation	1,800	5,410	(3,610)
Speech therapy	2,000	1,529	471
Gifted and talented	90,832	72,157	18,675
Career and technical education	210,707	210,707	-
Other Instruction			
Co-curricular - athletic elementary	27,483	21,959	5,524
Co-curricular - athletic secondary	74,022	75,339	(1,317)
Co-curricular - elementary	20,325	25,948	(5,623)
Co-curricular - secondary	33,334	31,918	1,416
Student and staff support			
Guidance and counseling - elementary	79,694	77,825	1,869
Guidance and counseling - secondary	103,311	94,031	9,280
Health services	45,722	44,193	1,529
Library and media - elementary	29,283	22,943	6,340
Library and media - secondary	40,563	38,963	1,600
System administration			
Office of superintendent	120,009	120,009	-
School board	25,347	25,347	-
School administration			
Office of principal - elementary	185,237	182,382	2,855
Office of principal - secondary	139,867	134,233	5,634
Transportation and buses	157,738	157,738	-
Facilities and maintenance			
Operation and maintenance of plant	499,668	496,249	3,419
Debt service	87,200	87,184	16
Vehicle Maintenance & Operation	15,558	11,779	3,779
Site improvement	500	500	-
Other			
Capital outlay	166,000	166,000	-
Contingency	10,000	10,000	-
	<u>4,921,226</u>	<u>4,690,230</u>	<u>230,996</u>
Excess (deficiency) of revenues over expenditures	<u>(294,762)</u>	<u>213,825</u>	<u>508,587</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from long term debt	166,000	166,000	-
Transfers out	(26,187)	(25,000)	1,187
Utilization of prior year surplus	154,949	-	(154,949)
	<u>294,762</u>	<u>141,000</u>	<u>(153,762)</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 354,825</u>	<u>\$ 354,825</u>

**Town of Machias, Maine**  
**Combining Balance Sheet - Special Revenue Funds - Town**  
**June 30, 2017**

	<b>Downtown Revolving Loan Fund</b>	<b>Station 98</b>	<b>Economic Development (Mill)</b>	<b>State Local Road Assistance</b>	<b>Sewer Grant</b>	<b>Maine Waste Management Grant</b>	<b>Downtown planning</b>	<b>Thermal imaging camera</b>	<b>Scholar- ship</b>	<b>Totals</b>
<b>ASSETS</b>										
Investments	\$ -	\$ 11,209	\$ 258,279	\$ -	\$ -	\$ -	\$ -	\$ 1,803	\$ -	\$ 271,291
Loans receivable	2,620	-	-	-	-	-	-	-	-	2,620
Due from other funds	<u>5,401</u>	<u>-</u>	<u>-</u>	<u>16,345</u>	<u>86</u>	<u>4,990</u>	<u>8,784</u>	<u>-</u>	<u>175</u>	<u>35,781</u>
Total assets	<u>\$ 8,021</u>	<u>\$ 11,209</u>	<u>\$ 258,279</u>	<u>\$ 16,345</u>	<u>\$ 86</u>	<u>\$ 4,990</u>	<u>\$ 8,784</u>	<u>\$ 1,803</u>	<u>\$ 175</u>	<u>\$ 309,692</u>
<b>LIABILITIES</b>										
Due to other funds	\$ -	\$ 8,243	\$ 11,664	\$ -	\$ -	\$ -	\$ -	\$ 398	\$ -	\$ 20,305
<b>FUND EQUITY</b>										
Fund Balance										
Restricted	<u>8,021</u>	<u>2,966</u>	<u>246,615</u>	<u>16,345</u>	<u>86</u>	<u>4,990</u>	<u>8,784</u>	<u>1,405</u>	<u>175</u>	<u>289,387</u>
Total fund equity	<u>8,021</u>	<u>2,966</u>	<u>246,615</u>	<u>16,345</u>	<u>86</u>	<u>4,990</u>	<u>8,784</u>	<u>1,405</u>	<u>175</u>	<u>289,387</u>
Total liabilities and fund equity	<u>\$ 8,021</u>	<u>\$ 11,209</u>	<u>\$ 258,279</u>	<u>\$ 16,345</u>	<u>\$ 86</u>	<u>\$ 4,990</u>	<u>\$ 8,784</u>	<u>\$ 1,803</u>	<u>\$ 175</u>	<u>\$ 309,692</u>

**Town of Machias, Maine**  
**Statement of Receipts, Disbursements, and Changes in Balances**  
**Agency Funds**  
**June 30, 2017**

	<b>Balances July 1, 2016</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Balances June 30, 2017</b>
Rose Gaffney School	\$ 25,781	\$ 50,357	\$ 53,430	\$ 22,708
Machias High School	44,574	117,555	118,002	44,127
Machias Vocational Center	<u>5,515</u>	<u>3</u>	<u>626</u>	<u>4,892</u>
<b>Total</b>	<b><u>\$ 75,870</u></b>	<b><u>\$ 167,915</u></b>	<b><u>\$ 172,058</u></b>	<b><u>\$ 71,727</u></b>

**Town of Machias, Maine**  
**Taxes receivable, Tax liens and Tax acquired property**  
**General Fund**  
**June 30, 2017**

Taxes receivable	
2016	\$ 277,409
2015	2,250
2014 and prior	<u>7,380</u>
Total taxes receivable	<u>287,039</u>
Tax liens and tax acquired property	
2015	102,157
2014 and prior	<u>5,606</u>
Total tax liens and tax acquired property	<u>107,763</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 394,802</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 Town of Machias, Maine as of and for the year ended June 30, 2017, and have issued our report thereon dated January 31, 2018.

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

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

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

The results of our tests indicate that, for the items tested, Town of Machias, Maine 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, Town of Machias, Maine was not in compliance with Maine laws and regulations.

*Brantner Thibodeau & Associates*

January 31, 2018

**Town of Machias, Maine**  
**Reconciliation of Audit Adjustments to Annual Financial Data**  
**Submitted to Maine Education Financial System**  
**Year ended June 30, 2017**

	General		Special Revenue		Totals
	Fund	Grants and other	School lunch		
<b>June 30 balance as per MEDMS</b>	\$ 911,776	\$ 5,783	\$ (27,394)	\$ 890,165	
<b>Beginning balance adjustments</b>	(250,556)	5,357	(40,130)	(285,329)	
<b>Revenues adjustments</b>					
Revenues per MEDMS	4,956,846	563,184	272,408	5,792,438	
Due from other governments	-	29,940	-	29,940	
Adjust revenues	181,748	-	-	181,748	
Adjust receivables	-	-	6,941	6,941	
<b>Expenditures adjustments</b>					
Expenses per MEDMS	(4,592,307)	(598,402)	(301,280)	(5,491,989)	
Adjustment to expenses	(165,980)	2,330	-	(163,650)	
Transfers out	(25,000)	-	-	(25,000)	
Adjust inventory	-	-	1,675	1,675	
<b>GAAP Basis Fund Balance (Deficit)</b>	<u>\$ 1,016,527</u>	<u>\$ 8,192</u>	<u>\$ (87,780)</u>	<u>\$ 936,939</u>	

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

Board of Selectmen  
Town of Machias, Maine

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Machias, Maine as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Town of Machias, Maine's basic financial statements and have issued our report thereon dated January 31, 2018. Our report includes a reference to other auditors who audited the Schedules of Pension Amounts by Employer reported by the State of Maine Public Employees Retirement System, as described in our report on the Town of Machias, Maine's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency which is described in the accompanying schedule of findings and questioned costs as item #2017-001.

### **Compliance and Other Matters**

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

We noted certain other matters that we have reported to management of Town of Machias, Maine, in a letter dated January 31, 2018.

### **Town of Machias, Maine's Response to Findings**

Town of Machias, Maine's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Machias, Maine's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

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

*Bartholomew Thibodeau & Associates*

January 31, 2018

**Independent Auditor's Report on Compliance For Each Major Program  
and on Internal Control over Compliance Required by the Uniform Guidance**

Board of Selectmen  
Town of Machias, Maine

**Report on Compliance for Each Major Federal Program**

We have audited Town of Machias, Maine's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Town of Machias, Maine's major federal programs for the year ended June 30, 2017. Town of Machias, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Town of Machias, Maine's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Machias, Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Town of Machias, Maine's compliance.

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

In our opinion, Town of Machias, Maine, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### Report on Internal Control Over Compliance

Management of Town of Machias, Maine is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Town of Machias, Maine's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Machias, Maine's internal control over compliance.

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

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

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

*Brantley Shiodian & Associates*

January 31, 2018

**Town of Machias, Maine**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended June 30, 2017

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	Disbursements/ Expenditures
<i>U.S. Department of Agriculture</i>			
<i>Passed through State Department of Education</i>			
Fresh fruit and vegetable program	10.582	13-05A-3028-05	\$ 18,952
<i>Cluster</i>			
National School Lunch Program	10.555	13-05A-8025-05	135,160
After school snack	10.555	13-05A-3020-05	12,092
Summer food service program	10.559	13-05A-3016-05	5,259
School breakfast program	10.553	13-05A-3014-05	<u>43,175</u>
<i>Total Child Nutrition Cluster</i>			<u>195,686</u>
Total U.S. Department of Agriculture			<u>214,638</u>
<i>U.S. Department of Environmental Protection</i>			
<i>Passed through Maine Department of Environmental Protection</i>			
Capitalization Grants for Clean Water State Revolving Funds	66.458	EM96154201	85,077
Capitalization Grants for Clean Water State Revolving Funds	66.458	unknown	<u>23,040</u>
Total U.S. Environmental Protection Agency			<u>108,117</u>
<i>U.S. Department of Education</i>			
<i>Passed through State Department of Education</i>			
Title IA Grants to Local Educational Agencies	84.010	13-05A-3057-13	248,932
Career and technical education- Perkins Title IC	84.048	13-05A-3030-8	38,661
Title IIA teacher quality	84.367	13-05A-3042-11	34,312
Rural Education Achievement Program	84.358	13-05A-1078-03	8,731
<i>Special Education Cluster</i>			
Part B Section 619- Preschool	84.173	13-05A-6241-23	2,095
Title VI, Part B - Local Entitlement	84.027	13-05A-3046-12	<u>115,590</u>
<i>Total Special Education Cluster</i>			<u>117,685</u>
Total U.S. Department of Education			<u>448,321</u>
<i>U.S. Department of Health and Human Services</i>			
<i>Passed through Maine Development Foundation</i>			
Community transformation program- Healthy Maine Streets	93.737	unknown	<u>783</u>
<i>U.S. Housing and Urban Development</i>			
<i>Passed through State Department of Economic and Community Development</i>			
Workforce Development Grant	14.228	015-19A-0587-012-6331	<u>28,340</u>
<i>U.S. Department of Justice</i>			
<i>Passed through Town of Baileyville, Maine</i>			
Edward Byrne Memorial Justice Assistance Grant	16.738	BAI-01-13	<u>8,513</u>
<i>U.S. Department of Transportation</i>			
<i>Direct</i>			
FAA grant - airport improvement program	20.106	AIP#3-23-0029-06-2011	<u>130,108</u>
Total expenditures of federal awards			<u>\$ 938,820</u>

**Town of Machias, Maine**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year ended June 30, 2017**

**PURPOSE OF THE SCHEDULE**

The Uniform Guidance 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, 2017. The reporting entity is defined in the Notes to the Financial Statements of Town of Machias, Maine.

**2. BASIS OF PRESENTATION**

The information in this schedule is presented in accordance with the requirements of requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

- a. Pursuant to the Uniform Guidance, 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. The Uniform Guidance 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 of \$9,208 is reported on the schedule as the value of commodities received by the Town during the current year and priced as prescribed by USDA and is included in the National School Lunch Program total.

**5. CHILD NUTRITION CLUSTER**

The Town commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Unit assumes it expends federal monies first.

**Town of Machias, Maine  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2017**

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

***Financial Statements***

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP - *Unmodified opinion*

Internal control over financial reporting

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

Noncompliance material to financial statements noted? -  yes  no

***Federal Awards***

Internal control over major programs

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

Type of auditor’s report issued on compliance for major programs - *Unmodified opinion*

Any audit findings disclosed that are required to be reported in accordance with the 2 CFR 200.516(a)? -  yes  no

Identification of major programs

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
20.106	Airport Improvement Grant
84.010	Title IA - disadvantaged

Dollar threshold used to distinguish between Type A and Type B programs - \$750,000

Auditee qualified as low-risk auditee? -  yes  no

**Town of Machias, Maine  
 Schedule of Findings and Questioned Costs (Continued)  
 Year ended June 30, 2017**

**Section II — Financial Statement Findings**

**#2017-001**

<i>Criteria or specific requirement</i>	Internal control over financial reporting and closing process. (REPEAT)
<i>Condition</i>	The Town and school department need to implement additional controls over year end closing procedures and the preparation of the financial statement. The lack of which results in significant audit adjustments. Reconciliations required for financial statement preparation and information required for conversion of fund financial statements to government-wide financial statements and other adjusting entries are not always being performed appropriately and effectively.
<i>Context</i>	The overall year-end financial closing process and reconciliations to financial statements are now being performed timely and additionally the Town and the School department maintain independent accounting records, however, additional adjustments were needed to reconcile these sets of records.
<i>Effect</i>	The Town and school department may not be able to identify an error or misstatement in the financial statements.
<i>Cause</i>	Lack of year end reconciliations and analysis of the overall reporting requirements including a lack of maintaining appropriate subsidiary records for year-end adjusting entries.
<i>Recommendation</i>	The Town and School Department should establish a system of control and records at year end as well as throughout the years to ensure these records are in agreement and financial statements are adjusted appropriately. The Town and School Department will need to take additional time in the year end closing process to identify any errors or misstatements in its own financial statements.
<i>Management's response</i>	The Town and School Department will put in place a process for more accurate year-end closing and financial statement preparation. Management will work with the auditor to identify and correct problematic areas.

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

**None noted**

**Town of Machias, Maine**  
**Summary Schedule of Prior Audit Findings**  
**Year ended June 30, 2017**

**#2016-001**

*Condition*

The Town does not have appropriate controls over year end closing procedures and the preparation of the financial statements, which results in significant audit adjustments. Reconciliations required for financial statement preparation and information required for conversion of fund financial statements to government-wide financial statements and other adjusting entries are not being performed appropriately and effectively.

*Current Status*

No change.

**#2016-002**

*Condition*

The Town did not perform the necessary review of its budget and tax commitment reconciliation to recognize an error.

*Current Status*

The finding was corrected in 2016-17.