

Town of Machias, Maine

ANNUAL FINANCIAL STATEMENTS
(with required and other supplementary information)

For the Year Ended June 30, 2014

CONTENTS

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

CONTENTS

| | Schedule | Page |
|---|-----------------|-------------|
| Other Supplementary Information | | |
| Combining balance sheet – nonmajor governmental funds | 1 | 48 |
| Combining statement of revenues, expenditures and changes in fund balances – nonmajor governmental funds | 2 | 49 |
| Schedule of revenues and expenditures - budget and actual (with variances) – general fund- school department | 3 | 50 |
| Combining balance sheet – special revenue funds – town | 4 | 51 |
| Statement of receipts, disbursements and changes in balances – agency funds | 5 | 52 |
| Taxes receivable, tax liens and tax acquired property – general fund | 6 | 53 |
| Other Reports and Schedules | | |
| Report on compliance with the requirements of the Maine School Finance Act | | 54 |
| Reconciliation of audit adjustments to annual financial data submitted to MEDMS financial system | | 55 |
| 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 <i>Government Auditing Standards</i> | | 56-57 |
| Independent auditor's report on compliance for each major program and on internal control over compliance required by OMB Circular A-133 | | 58-59 |
| Schedule of expenditures of federal awards | | 60 |
| Notes to the schedule of expenditures of federal awards | | 61 |
| Schedule of findings and questioned costs | | 62-65 |
| Summary schedule of prior audit findings | | 66 |

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 Town of Machias, Maine as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Machias, Maine as of June 30, 2014 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 and analysis and the budgetary comparison information on pages 6 through 15 and 46 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The reconciliation of audit adjustments to annual financial data submitted to MEDMS financial system is presented as required by the laws of the State of Maine and is also not a required part of the basic financial statements.

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

Brantley Thibodeau & Associates

June 18, 2015

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, 2014 compared with 2013. 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.

Town of Machias, Maine

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

FINANCIAL INFORMATION

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

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

- The balance of the Town's cash and investments as of June 30, 2014 was \$4,044,220.
- On a budget basis the Town ended the year with a positive budget variance of \$196,619.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

Town of Machias, Maine

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

which now include total bonds and leases due over their entire lives 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.

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 27-45.

Other Information

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

Town of Machias, Maine

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

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

GOVERNMENT-WIDE ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$18,817,994 as of June 30, 2014.

Net Position for the Period Ending June 30, 2014 and 2013

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Current and other assets | \$ 3,344,456 | \$ 3,141,756 | \$ 1,093,711 | \$ 1,555,030 | \$ 4,438,167 | \$ 4,696,786 |
| Capital assets | <u>5,388,869</u> | <u>5,273,393</u> | <u>11,637,334</u> | <u>11,921,777</u> | <u>17,026,203</u> | <u>17,195,170</u> |
| Total Assets | <u>8,733,325</u> | <u>8,415,149</u> | <u>12,731,045</u> | <u>13,476,807</u> | <u>21,464,370</u> | <u>21,891,956</u> |
| Current liabilities | 407,272 | 447,316 | 34,229 | 552,001 | 441,501 | 999,317 |
| Noncurrent liabilities | <u>1,218,678</u> | <u>1,153,293</u> | <u>982,822</u> | <u>1,060,004</u> | <u>2,201,500</u> | <u>2,213,297</u> |
| Total Liabilities | <u>1,625,950</u> | <u>1,600,609</u> | <u>1,017,051</u> | <u>1,612,005</u> | <u>2,643,001</u> | <u>3,212,614</u> |
| Deferred inflows of resources | <u>3,375</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,375</u> | <u>-</u> |
| Net Position | | | | | | |
| Net investment in capital assets | 4,240,005 | 4,175,932 | 10,672,350 | 10,874,202 | 14,912,355 | 15,050,134 |
| Restricted | 1,012,541 | 883,600 | 566,176 | 572,973 | 1,578,717 | 1,456,573 |
| Unrestricted | <u>1,851,454</u> | <u>1,755,008</u> | <u>475,468</u> | <u>417,627</u> | <u>2,326,922</u> | <u>2,172,635</u> |
| Total Net Position | <u>\$ 7,104,000</u> | <u>\$ 6,814,540</u> | <u>\$11,713,994</u> | <u>\$11,864,802</u> | <u>\$18,817,994</u> | <u>\$18,679,342</u> |

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 \$640,603 and capitalized \$405,938 of new capital assets in governmental activities.

The Town recognized deferred property taxes of \$56,204 as revenue for the Statement of Net Position.

The Town increased its long term debt by \$246,000 for the financing of school roof repairs and renovations, and by \$19,731 for new leased copiers.

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, 2014 and 2013.

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| REVENUES | | | | | | |
| Charges for services and other | \$ 187,821 | \$ 168,882 | \$ 1,188,446 | \$ 1,056,721 | \$ 1,376,267 | \$ 1,225,603 |
| Operating grants and contributions | 4,154,316 | 3,935,618 | - | - | 4,154,316 | 3,935,618 |
| Capital grants and contributions | 56,020 | 20,499 | 50,501 | 1,228,779 | 106,521 | 1,249,278 |
| Property taxes | 2,691,278 | 2,663,742 | - | - | 2,691,278 | 2,663,742 |
| Excise and miscellaneous taxes | 242,681 | 233,279 | - | - | 242,681 | 233,279 |
| Interest and lien charges | 17,145 | 30,851 | - | - | 17,145 | 30,851 |
| Grants and contributions not restricted to specific purpose | 337,369 | 431,665 | - | - | 337,369 | 431,665 |
| Unrestricted investment and interest income | 5,042 | 7,997 | 13,748 | 15,622 | 18,790 | 23,619 |
| Miscellaneous | 6,831 | 4,320 | 177 | 100 | 7,008 | 4,420 |
| Total Revenues | <u>7,698,503</u> | <u>7,496,853</u> | <u>1,252,872</u> | <u>2,301,222</u> | <u>8,951,375</u> | <u>9,798,075</u> |
| EXPENSES | | | | | | |
| General government | \$ 358,052 | \$ 350,466 | - | - | \$ 358,052 | \$ 350,466 |
| Police | 344,959 | 304,025 | - | - | 344,959 | 304,025 |
| Fire | 368,878 | 326,339 | - | - | 368,878 | 304,025 |
| Public works | 426,288 | 423,797 | - | - | 426,288 | 326,339 |
| Education | 4,199,168 | 4,120,150 | - | - | 4,199,168 | 4,120,150 |
| Adult education-general | 169,352 | 152,832 | - | - | 169,352 | 152,832 |
| On-behalf payments – State of Maine | 273,571 | 290,787 | - | - | 273,571 | 290,787 |
| Culture and recreation | 43,890 | 40,020 | - | - | 43,890 | 40,020 |
| General assistance | 4,831 | 7,053 | - | - | 4,831 | 7,053 |
| Airport | 12,886 | 8,513 | - | - | 12,886 | 8,513 |
| County tax | 202,572 | 189,295 | - | - | 202,572 | 189,295 |
| Tax incremental financing | 19,902 | 21,779 | - | - | 19,902 | 21,779 |
| Other | 14,833 | 5,080 | - | - | 14,833 | 5,080 |
| Grants and other contributions | 346,246 | 441,089 | - | - | 346,246 | 441,089 |
| School lunch program | 271,835 | 262,783 | - | - | 271,835 | 262,783 |
| Interest on long-term debt | 43,449 | 50,025 | - | - | 43,449 | 50,025 |
| Capital outlay | 196,277 | 46,292 | - | - | 196,277 | 46,292 |
| Business-type Activities | - | - | <u>1,536,859</u> | <u>1,403,360</u> | <u>1,536,859</u> | <u>1,403,360</u> |
| Total Expenses | <u>7,296,989</u> | <u>7,040,325</u> | <u>1,536,859</u> | <u>1,403,360</u> | <u>8,833,848</u> | <u>8,443,685</u> |
| Excess(deficiency) before special items and transfers | 401,514 | 456,528 | (283,987) | 897,862 | 117,527 | 1,354,390 |
| Transfers | (112,054) | (128,563) | 112,054 | 128,563 | - | - |
| Special item – sale of assets | - | - | 8,000 | - | 8,000 | - |
| Special item – DEP fine/ fine adjustments | - | - | <u>13,125</u> | <u>(36,112)</u> | <u>13,125</u> | <u>(36,112)</u> |
| Change in net position | 289,460 | 327,965 | (158,808) | 990,313 | 138,652 | 1,318,278 |
| Net position, beginning of year | <u>6,814,540</u> | <u>6,486,575</u> | <u>11,864,802</u> | <u>10,874,489</u> | <u>18,679,342</u> | <u>17,361,064</u> |
| Net position, end of year | <u>\$ 7,104,000</u> | <u>\$ 6,814,540</u> | <u>\$ 11,713,994</u> | <u>\$ 11,864,802</u> | <u>\$ 18,817,994</u> | <u>\$ 18,679,342</u> |

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, 2014, the Town's net position for governmental activities increased by \$289,460.

Expenses of governmental activities include depreciation expense of \$290,462. 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, 2014 totaled \$3,300,346 a decrease of 0.21% from June 30, 2013. Of this amount, \$2,691,278 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, 2014, the Town's net position from business-type activities decreased by \$150,808 with the expenditure of sewer capital grants comprising most of the amount.

Financial Analysis of the Town's Funds

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

Governmental funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. As the Town completed the year, its governmental funds reported a combined fund balance of \$2,624,089 \$183,164 higher than the previous year. An analysis of transactions affecting the change in the combined fund balance of the Town's governmental funds is as follows:

Town of Machias, Maine

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

Revenues include property taxes totaling \$2,635,073. Excise taxes accounted for \$235,465 in total revenue.

On behalf payments amounted to \$273,571 during the year ended June 30, 2014. Additional information on these "on-behalf" payments can be found in the notes to the basic financial statements.

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

Total governmental fund expenditures for the year were \$7,746,874, \$359,069 higher than the previous year.

The Town capitalized \$405,938 of capital outlays in governmental activities.

Capital Asset and Debt Administration

Capital Assets

| | Balance 6/30/13 | Additions/ Completions | Retire- ments/reclass | Balance 6/30/14 |
|--------------------------------------|----------------------------|-----------------------------------|----------------------------------|----------------------------|
| Governmental Activities | | | | |
| Land | \$ 565,074 | \$ - | \$ - | \$ 565,074 |
| Construction in progress | 269,978 | 211,769 | (218,526) | 263,221 |
| Buildings and Improvements | 6,344,957 | 110,055 | 218,526 | 6,673,538 |
| Infrastructure | 1,476,492 | 44,000 | - | 1,520,492 |
| Equipment, furniture and fixtures | 746,087 | 40,114 | - | 786,201 |
| Vehicles | <u>713,758</u> | <u>-</u> | <u>-</u> | <u>713,758</u> |
| Total capital assets | <u>10,116,346</u> | <u>405,938</u> | <u>-</u> | <u>10,522,284</u> |
| <i>Less accumulated depreciation</i> | <u>(4,842,953)</u> | <u>(290,462)</u> | <u>-</u> | <u>(5,133,415)</u> |
| Total capital assets, net | <u>\$ 5,273,393</u> | <u>\$ 115,476</u> | <u>\$ -</u> | <u>\$ 5,388,869</u> |

Town of Machias, Maine

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

| | Balance 6/30/13 | Additions/ Completions | Retire- ments/reclass | Balance 6/30/14 |
|--|----------------------------|-----------------------------------|----------------------------------|----------------------------|
| Business-Type Activities | | | | |
| Land | \$ 1,000 | \$ - | \$ - | \$ 1,000 |
| Construction in progress | 3,510,637 | 51,201 | (2,599,700) | 962,138 |
| Lines and mains and buildings | 11,333,010 | - | 2,599,700 | 13,932,710 |
| Vehicles and equipment | <u>720,389</u> | <u>14,498</u> | <u>(28,500)</u> | <u>706,386</u> |
| Total capital assets | <u>15,565,036</u> | <u>65,699</u> | <u>(28,500)</u> | <u>15,602,234</u> |
| <i>Less accumulated depreciation</i> | <u>(3,643,259)</u> | <u>(350,141)</u> | <u>28,500</u> | <u>(3,964,900)</u> |
| Total capital assets, net | <u>\$11,921,777</u> | <u>\$ (284,443)</u> | <u>\$ -</u> | <u>\$11,637,334</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, 2014 is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|-------------------------------|------------------------------|-------------------|--------------------|---------------------------|
| Bonds and notes payable | \$2,044,760 | \$ 246,000 | \$(252,290) | \$2,038,470 |
| Compensated Absences | 68,261 | 17,905 | (983) | 85,183 |
| Capital lease obligations | <u>100,276</u> | <u>19,731</u> | <u>(42,160)</u> | <u>77,847</u> |
| Total | <u>\$2,213,297</u> | <u>\$ 283,636</u> | <u>\$(295,433)</u> | <u>\$2,201,500</u> |

Town of Machias, Maine

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

| | <u>Total Interest Paid</u> |
|---------------------------|---|
| Bonds and notes payable | \$ 48,895 |
| Capital lease obligations | <u>5,841</u> |
| Total | <u>\$ 54,736</u> |

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

REQUIRED SUPPLEMENTARY INFORMATION

General Fund Budgetary Discussions

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

Additional information about this difference can be found on pages 46 and 47 of the financial statements.

During the year, actual revenues exceeded budgeted revenues by \$333,143. Most of this variance resulted from increases in intergovernmental revenues.

The Towns property tax collections were \$88,619 under what was budgeted because of increased receivables, increase in deferred revenue and more discounts and abatements.

Budgeted expenditures exceeded actual expenditures by \$245.

Town of Machias, Maine

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

Economic Factors and Next Year's Budgets and Rates

The town's elected and appointed officials considered many factors when setting the fiscal year 2015 budget, tax rates, and fees that will be charged for the business-type activities. One of those factors is the economy. Unemployment in the town now stands at 9.0% versus 10.1% a year ago. This compares with the State's unemployment rate of 5.1% and the national rate of 6.1%.

It was voted to approve borrowing not to exceed \$110,000.00 for the purpose of paving and repairing town roads, storm drains, and the school access road; and an additional \$36,112.00 to pay the fine to the Department of Environmental Protection for the Sewer Department (which they will pay back the town over 10 years.)

It was voted to use fund balances for a couple projects:

- \$45,000.00 for town roads
- \$55,000.00 for the town office, including the roof, carpets, and air conditioning

Even with increased wage and cost-of-living adjustments, based on agreements with police, fire, public works, and sanitation departments unions and the decrease from state revenue sharing, the mill rate has remained the same since 2012/2013 at a stable 20.0.

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, 2014

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| ASSETS | | | |
| Cash and equivalents | \$ 2,027,906 | \$ 230,645 | \$ 2,258,551 |
| Investments | 382,155 | 566,913 | 949,068 |
| Taxes receivable | 401,143 | - | 401,143 |
| Accounts receivable | - | 321,414 | 321,414 |
| Internal balances | 43,431 | (43,431) | - |
| Due from other governmental agencies | 481,272 | 18,170 | 499,442 |
| Other receivables | 2,620 | - | 2,620 |
| Inventories | 5,929 | - | 5,929 |
| Capital assets not being depreciated | 828,295 | 963,138 | 1,791,433 |
| Capital assets being depreciated, net of accumulated depreciation | 4,560,574 | 10,674,196 | 15,234,770 |
| Total assets | <u>8,733,325</u> | <u>12,731,045</u> | <u>21,464,370</u> |
| LIABILITIES | | | |
| Accounts payable and accrued expenses | 61,694 | 11,242 | 72,936 |
| Due to other governmental agencies | 6,961 | 22,987 | 29,948 |
| Accrued summer teacher pay | 338,617 | - | 338,617 |
| Long-term liabilities | | | |
| Due within one year | | | |
| Bonds and notes payable | 178,834 | 67,267 | 246,101 |
| Capital leases payable | 30,181 | 4,967 | 35,148 |
| Due in more than one year | | | |
| Bonds and notes payable | 897,150 | 895,219 | 1,792,369 |
| Capital leases payable | 42,699 | - | 42,699 |
| Compensated absences | 69,814 | 15,369 | 85,183 |
| Total liabilities | <u>1,625,950</u> | <u>1,017,051</u> | <u>2,643,001</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Prepaid taxes | 3,375 | - | 3,375 |
| NET POSITION | | | |
| Net investment in capital assets | 4,240,005 | 10,672,350 | 14,912,355 |
| Restricted for | | | |
| Education | 626,829 | - | 626,829 |
| Capital projects | 21,734 | - | 21,734 |
| Machias Water Co. | - | 446,987 | 446,987 |
| School lunch | 5,929 | - | 5,929 |
| Other purposes | 358,049 | 119,189 | 477,238 |
| Unrestricted | 1,851,454 | 475,468 | 2,326,922 |
| Total net position | <u>\$ 7,104,000</u> | <u>\$ 11,713,994</u> | <u>\$ 18,817,994</u> |

**Town of Machias, Maine
Statement of Activities
For the Year Ended June 30, 2014**

| 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 | \$ 358,052 | \$ 54,069 | \$ - | \$ - | \$ (303,983) | \$ - | \$ (303,983) |
| Police department | 344,959 | 20,112 | - | - | (324,847) | - | (324,847) |
| Fire department | 368,878 | 66,948 | - | - | (301,930) | - | (301,930) |
| Public works | 426,288 | 2,500 | 18,548 | - | (405,240) | - | (405,240) |
| Education | 4,199,168 | - | 3,317,937 | - | (881,231) | - | (881,231) |
| Adult education | 169,352 | - | - | - | (169,352) | - | (169,352) |
| On-behalf payments - State of Maine | 273,571 | - | 273,571 | - | - | - | - |
| Culture and recreation | 43,890 | 114 | 18,624 | - | (25,152) | - | (25,152) |
| General assistance | 4,831 | - | 2,352 | - | (2,479) | - | (2,479) |
| Airport | 12,886 | - | 408 | - | (12,478) | - | (12,478) |
| County tax | 202,572 | - | - | - | (202,572) | - | (202,572) |
| Tax incremental financing | 19,902 | 815 | - | - | (19,087) | - | (19,087) |
| Other | 14,833 | - | - | 17,800 | 2,967 | - | 2,967 |
| Grants and other contributions | 346,246 | - | 343,080 | 20,000 | 16,834 | - | 16,834 |
| School lunch program | 271,835 | 43,263 | 179,796 | - | (48,776) | - | (48,776) |
| Interest on long-term debt | 43,449 | - | - | - | (43,449) | - | (43,449) |
| Capital outlay | 196,277 | - | - | 18,220 | (178,057) | - | (178,057) |
| Total governmental activities | <u>7,296,989</u> | <u>187,821</u> | <u>4,154,316</u> | <u>56,020</u> | <u>(2,898,832)</u> | <u>-</u> | <u>(2,898,832)</u> |
| Business-type activities | | | | | | | |
| Sewer fund | 724,574 | 377,135 | - | 50,501 | - | (296,938) | (296,938) |
| Solid waste | 354,277 | 352,255 | - | - | - | (2,022) | (2,022) |
| Ambulance fund | 383,871 | 410,906 | - | - | - | 27,035 | 27,035 |
| Telcenter | 74,137 | 48,150 | - | - | - | (25,987) | (25,987) |
| Total business-type activities | <u>1,536,859</u> | <u>1,188,446</u> | <u>-</u> | <u>50,501</u> | <u>-</u> | <u>(297,912)</u> | <u>(297,912)</u> |
| Total government | <u>\$ 8,833,848</u> | <u>\$ 1,376,267</u> | <u>\$ 4,154,316</u> | <u>\$ 106,521</u> | <u>(2,898,832)</u> | <u>(297,912)</u> | <u>(3,196,744)</u> |
| General revenues: | | | | | | | |
| Taxes | | | | | | | |
| Property taxes | | | | | 2,691,278 | - | 2,691,278 |
| Excise taxes, licenses, permits and fees | | | | | 242,681 | - | 242,681 |
| Interest and lien charges | | | | | 17,145 | - | 17,145 |
| Grants and contributions not restricted to specific programs | | | | | 337,369 | - | 337,369 |
| Unrestricted investment and interest earnings | | | | | 5,042 | 13,748 | 18,790 |
| Miscellaneous | | | | | 6,831 | 177 | 7,008 |
| Special item - DEP discharge fine reduction | | | | | - | 13,125 | 13,125 |
| Special item - gain/loss on sale of capital assets | | | | | - | 8,000 | 8,000 |
| Transfers | | | | | (112,054) | 112,054 | - |
| Total general revenues and transfers | | | | | <u>3,188,292</u> | <u>147,104</u> | <u>3,335,396</u> |
| Change in net position | | | | | 289,460 | (150,808) | 138,652 |
| NET POSITION - BEGINNING | | | | | <u>6,814,540</u> | <u>11,864,802</u> | <u>18,679,342</u> |
| NET POSITION - ENDING | | | | | <u>\$ 7,104,000</u> | <u>\$ 11,713,994</u> | <u>\$ 18,817,994</u> |

**Town of Machias, Maine
Balance Sheet
Governmental Funds
June 30, 2014**

| | <u>General Fund</u> | <u>Special Revenue Fund - School Categorical Grants</u> | <u>Special Revenue Fund - School Lunch</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---|--|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 1,911,260 | \$ - | \$ 66,383 | \$ 50,263 | \$ 2,027,906 |
| Investments | 114,516 | - | - | 267,639 | 382,155 |
| Taxes receivable, net | 401,143 | - | - | - | 401,143 |
| Due from other funds | 884,977 | - | - | 602,420 | 1,487,397 |
| Receivable from other governments | 382,082 | 89,656 | 9,534 | - | 481,272 |
| Other receivables | - | - | - | 2,620 | 2,620 |
| Inventories | - | - | 5,929 | - | 5,929 |
| Total assets | <u>\$ 3,693,978</u> | <u>\$ 89,656</u> | <u>\$ 81,846</u> | <u>\$ 922,942</u> | <u>\$ 4,788,422</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 49,820 | \$ 6,013 | \$ 2,675 | \$ - | \$ 58,508 |
| Due to other funds | 1,123,003 | 57,035 | 250,705 | 13,223 | 1,443,966 |
| Payable to other governments | 6,961 | - | - | - | 6,961 |
| Accrued summer teacher pay | 316,722 | 20,438 | 1,457 | - | 338,617 |
| Other payables | 3,186 | - | - | - | 3,186 |
| Total liabilities | <u>1,499,692</u> | <u>83,486</u> | <u>254,837</u> | <u>13,223</u> | <u>1,851,238</u> |
| Deferred inflows of resources | | | | | |
| Prepaid property taxes | 3,375 | - | - | - | 3,375 |
| Unavailable property taxes | 309,720 | - | - | - | 309,720 |
| Total deferred inflows of resources | <u>313,095</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>313,095</u> |
| Fund balances | | | | | |
| Nonspendable for | | | | | |
| Inventories | - | - | 5,929 | - | 5,929 |
| Restricted for | | | | | |
| Education | 620,659 | 6,170 | - | - | 626,829 |
| Capital projects | - | - | - | 21,734 | 21,734 |
| Town grants and other purposes | 64,716 | - | - | 293,343 | 358,059 |
| Committed for | | | | | |
| Other purposes | 45,436 | - | - | - | 45,436 |
| Capital projects | - | - | - | 594,642 | 594,642 |
| Unassigned (deficit) | 1,150,380 | - | (178,920) | - | 971,460 |
| Total fund balances | <u>1,881,191</u> | <u>6,170</u> | <u>(172,991)</u> | <u>909,719</u> | <u>2,624,089</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 3,693,978</u> | <u>\$ 89,656</u> | <u>\$ 81,846</u> | <u>\$ 922,942</u> | <u>\$ 4,788,422</u> |

Town of Machias, Maine
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2014

| | |
|--|----------------------------|
| Total fund balance, governmental funds | \$ 2,624,089 |
| 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. | 5,388,869 |
| 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 | 309,720 |
| Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position. | <u>(1,218,678)</u> |
| Net Position of Governmental Activities in the Statement of Net Position | <u><u>\$ 7,104,000</u></u> |

Town of Machias, Maine
Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds
For the Year Ended June 30, 2014

| | General Fund | Special Revenue Fund - School Categorical Grants | Special Revenue Fund - School Lunch | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---|--|---|---|
| REVENUES | | | | | |
| Property taxes | \$ 2,635,073 | \$ - | \$ - | \$ - | \$ 2,635,073 |
| Excise taxes | 235,465 | - | - | - | 235,465 |
| Interest and lien charges | 17,145 | - | - | - | 17,145 |
| Licenses, permits and fees | 23,382 | - | - | - | 23,382 |
| Intergovernmenta | | | | | |
| Town | 376,429 | - | - | 18,220 | 394,649 |
| Education | 3,317,937 | 343,058 | 179,796 | - | 3,840,791 |
| On-behalf payments - State of Maine | 273,571 | - | - | - | 273,571 |
| Charges for services | 44,240 | - | 43,264 | - | 87,504 |
| Interfund charges for services | 82,510 | - | - | - | 82,510 |
| Investment and interest earnings | 5,158 | - | - | (116) | 5,042 |
| Miscellaneous | 47,167 | - | - | - | 47,167 |
| Total revenues | <u>7,058,077</u> | <u>343,058</u> | <u>223,060</u> | <u>18,104</u> | <u>7,642,299</u> |
| EXPENDITURES | | | | | |
| Current | | | | | |
| General governmen | 351,108 | - | - | - | 351,108 |
| Police department | 328,549 | - | - | - | 328,549 |
| Fire department | 355,523 | - | - | - | 355,523 |
| Public safety building | - | - | - | - | - |
| Public works | 311,184 | - | - | - | 311,184 |
| Education | 4,392,938 | - | - | - | 4,392,938 |
| Adult education | 169,352 | - | - | - | 169,352 |
| On-behalf payments - State of Maine | 273,571 | - | - | - | 273,571 |
| Recreation | 39,796 | - | - | - | 39,796 |
| General assistance | 4,831 | - | - | - | 4,831 |
| Airport | 8,505 | - | - | - | 8,505 |
| County tax | 202,572 | - | - | - | 202,572 |
| Tax increment financing | 19,902 | - | - | - | 19,902 |
| Other services | 14,833 | - | - | - | 14,833 |
| Federal, state and local grants | - | 341,762 | - | - | 341,762 |
| School lunch program | - | - | 271,835 | - | 271,835 |
| Debt service | | | | | |
| Principal | 214,328 | - | - | - | 214,328 |
| Interest and other charges | 43,449 | - | - | - | 43,449 |
| Capital outlay | 57,414 | - | - | 211,360 | 268,774 |
| Total expenditures | <u>6,787,855</u> | <u>341,762</u> | <u>271,835</u> | <u>211,360</u> | <u>7,612,812</u> |
| Excess (deficiency) of revenues over expenditures | <u>270,222</u> | <u>1,296</u> | <u>(48,775)</u> | <u>(193,256)</u> | <u>29,487</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Proceeds from bonc | - | - | - | 246,000 | 246,000 |
| Proceeds from capital lease: | 19,731 | - | - | - | 19,731 |
| Transfers in | - | - | - | 22,008 | 22,008 |
| Transfers out | (134,062) | - | - | - | (134,062) |
| Total other financing sources and use: | <u>(114,331)</u> | <u>-</u> | <u>-</u> | <u>268,008</u> | <u>153,677</u> |
| Net change in fund balances | 155,891 | 1,296 | (48,775) | 74,752 | 183,164 |
| FUND BALANCES (DEFICIT)- BEGINNING | <u>1,725,300</u> | <u>4,874</u> | <u>(124,216)</u> | <u>834,967</u> | <u>2,440,925</u> |
| FUND BALANCES (DEFICIT) - ENDING | <u>\$ 1,881,191</u> | <u>\$ 6,170</u> | <u>\$ (172,991)</u> | <u>\$ 909,719</u> | <u>\$ 2,624,089</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, 2014

Net change in fund balances - total governmental funds: \$ 183,164

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 | 405,938 | |
| Depreciation | <u>(290,462)</u> | 115,476 |

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.

56,204

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 | (265,731) | |
| Debt repayments | <u>214,328</u> | (51,403) |

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

| | | |
|--|--|-----------------|
| Compensated absences not reflected on Governmental funds | | <u>(13,981)</u> |
|--|--|-----------------|

| | | |
|---|--|--------------------------|
| Change in net position of governmental activities | | <u><u>\$ 289,460</u></u> |
|---|--|--------------------------|

Town of Machias, Maine
Statement of Net Position
Proprietary Funds
June 30, 2014

| | Enterprise Funds | | | | Total |
|---|-------------------------|-----------------------------|-----------------------|---|---------------------|
| | Sewer Fund | Solid Waste Facility | Ambulance Fund | Other Proprietary Fund - Telcenter | |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ - | \$ 216,220 | \$ - | \$ 14,425 | \$ 230,645 |
| Investments | 566,913 | - | - | - | 566,913 |
| Accounts receivable, net | 189,878 | - | 131,536 | - | 321,414 |
| Due from other funds | 9,512 | - | 643,817 | 3,497 | 656,826 |
| Receivables from other governments | 6,882 | 11,288 | - | - | 18,170 |
| Total current assets | <u>773,185</u> | <u>227,508</u> | <u>775,353</u> | <u>17,922</u> | <u>1,793,968</u> |
| Non-current assets | | | | | |
| Capital assets not being depreciated | 963,138 | - | - | - | 963,138 |
| Capital assets being depreciated, net of accumulated depreciation | 10,189,361 | 146,644 | 94,414 | 243,777 | 10,674,196 |
| Total non-current assets | <u>11,152,499</u> | <u>146,644</u> | <u>94,414</u> | <u>243,777</u> | <u>11,637,334</u> |
| Total assets | <u>11,925,684</u> | <u>374,152</u> | <u>869,767</u> | <u>261,699</u> | <u>13,431,302</u> |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Accounts payable | 6,882 | 4,360 | - | - | 11,242 |
| Due to other funds | 220,432 | 444,825 | 35,000 | - | 700,257 |
| Payable to other governments | 22,987 | - | - | - | 22,987 |
| Capital leases payable | - | 4,967 | - | - | 4,967 |
| Bonds and notes payable | 43,681 | - | 23,586 | - | 67,267 |
| Total current liabilities | <u>293,982</u> | <u>454,152</u> | <u>58,586</u> | <u>-</u> | <u>806,720</u> |
| Non-current liabilities | | | | | |
| Compensated absences | 11,401 | 3,968 | - | - | 15,369 |
| Bonds and notes payable | 821,923 | - | 73,296 | - | 895,219 |
| Total non-current liabilities | <u>833,324</u> | <u>3,968</u> | <u>73,296</u> | <u>-</u> | <u>910,588</u> |
| Total liabilities | <u>1,127,306</u> | <u>458,120</u> | <u>131,882</u> | <u>-</u> | <u>1,717,308</u> |
| NET POSITION | | | | | |
| Net investment in capital assets | 10,286,896 | 141,677 | - | 243,777 | 10,672,350 |
| Restricted for debt service and capital replacement | 105,738 | - | 13,451 | - | 119,189 |
| Restricted for Machias Water Co. | 446,987 | - | - | - | 446,987 |
| Unrestricted (deficit) | (41,243) | (225,645) | 724,434 | 17,922 | 475,468 |
| Total net position (deficit) | <u>\$10,798,378</u> | <u>\$ (83,968)</u> | <u>\$ 737,885</u> | <u>\$ 261,699</u> | <u>\$11,713,994</u> |

Town of Machias, Maine
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2014

| | Enterprise Funds | | | | Total |
|---|----------------------|----------------------|-------------------|------------------------------------|----------------------|
| | Sewer Fund | Solid Waste Facility | Ambulance Fund | Other Proprietary Fund - Telcenter | |
| REVENUES | | | | | |
| Charges for services and interest | \$ 377,131 | \$ 317,258 | \$ 445,886 | \$ 48,149 | \$ 1,188,424 |
| Total operating revenues | <u>377,131</u> | <u>317,258</u> | <u>445,886</u> | <u>48,149</u> | <u>1,188,424</u> |
| OPERATING EXPENSES | | | | | |
| Personal services | 148,841 | 94,241 | 250,785 | 12,640 | 506,507 |
| Contractual services | 14,839 | 208,339 | 11,152 | 200 | 234,530 |
| Utilities | 100,965 | 14,995 | 15,796 | 9,220 | 140,976 |
| Repairs and maintenance | 67,752 | 8,408 | 17,300 | 18,469 | 111,929 |
| Other supplies and expenses | 87,147 | 11,398 | 52,911 | - | 151,456 |
| Insurance claims and expenses | 12,577 | 1,755 | 3,647 | 1,106 | 19,085 |
| Depreciation | 273,389 | 14,158 | 30,091 | 32,503 | 350,141 |
| Total operating expenses | <u>705,510</u> | <u>353,294</u> | <u>381,682</u> | <u>74,138</u> | <u>1,514,624</u> |
| Operating income (loss) | <u>(328,379)</u> | <u>(36,036)</u> | <u>64,204</u> | <u>(25,989)</u> | <u>(326,200)</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | | | |
| Interest and investment revenue | 9,354 | 4,260 | - | 45 | 13,659 |
| Miscellaneous revenue | - | - | 291 | - | 291 |
| Capital grants and contributions | 50,501 | - | - | - | 50,501 |
| Interest expense | (19,065) | (985) | (2,188) | - | (22,238) |
| Total non-operating revenue | <u>40,790</u> | <u>3,275</u> | <u>(1,897)</u> | <u>45</u> | <u>42,213</u> |
| Income (loss) before transfers and special item | <u>(287,589)</u> | <u>(32,761)</u> | <u>62,307</u> | <u>(25,944)</u> | <u>(283,987)</u> |
| Transfers in | 61,910 | 50,144 | - | - | 112,054 |
| Special item - DEP discharge fine reduction | 13,125 | - | - | - | 13,125 |
| Special item - sale of capital assets | - | - | 8,000 | - | 8,000 |
| Total transfers and special items | <u>75,035</u> | <u>50,144</u> | <u>8,000</u> | <u>-</u> | <u>133,179</u> |
| Change in net position | <u>(212,554)</u> | <u>17,383</u> | <u>70,307</u> | <u>(25,944)</u> | <u>(150,808)</u> |
| Total net position (deficit) - beginning | <u>11,010,932</u> | <u>(101,351)</u> | <u>667,578</u> | <u>287,643</u> | <u>11,864,802</u> |
| Total net position (deficit) - ending | <u>\$ 10,798,378</u> | <u>\$ (83,968)</u> | <u>\$ 737,885</u> | <u>\$ 261,699</u> | <u>\$ 11,713,994</u> |

Town of Machias, Maine
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2014

| | Proprietary Fund Types - Enterprise | | | | Totals |
|---|--|-----------------------------|-----------------------|---|-------------------|
| | Sewer | Solid Waste Facility | Ambulance Fund | Other Proprietary Fund-Telcenter | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Received from user charges and tenants | \$ 397,999 | \$ 316,859 | \$ 384,810 | \$ 48,490 | \$ 1,148,158 |
| Payments for administrative services | (144,918) | (95,224) | (263,425) | - | (503,567) |
| Payments to suppliers for goods and services | (283,280) | (243,233) | (88,166) | (41,635) | (656,314) |
| Interfund activity | 39,471 | (7,475) | (16,204) | (6,855) | 8,937 |
| Net cash provided (used) by operating activities | <u>9,272</u> | <u>(29,073)</u> | <u>17,015</u> | <u>-</u> | <u>(2,786)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Interest paid | (19,065) | (985) | (2,188) | - | (22,238) |
| Interest income | - | 4,260 | - | 45 | 4,305 |
| Donation | - | - | 291 | - | 291 |
| Transfers in (out) | 61,910 | 50,144 | - | - | 112,054 |
| Net cash provided (used) by noncapital financing activities | <u>42,845</u> | <u>53,419</u> | <u>(1,897)</u> | <u>45</u> | <u>94,412</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Principal paid on bonds and leases | (42,844) | (14,160) | (23,118) | - | (80,122) |
| Capital grants and contributions | 50,501 | - | - | - | 50,501 |
| Acquisition and construction of capital assets | (59,774) | (5,925) | - | - | (65,699) |
| Sale of capital assets | - | - | 8,000 | - | 8,000 |
| Net cash (used) by capital and related financial activities | <u>(52,117)</u> | <u>(20,085)</u> | <u>(15,118)</u> | <u>-</u> | <u>(87,320)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | <u>-</u> | <u>4,261</u> | <u>-</u> | <u>45</u> | <u>4,306</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING | <u>-</u> | <u>211,959</u> | <u>-</u> | <u>14,380</u> | <u>226,339</u> |
| CASH AND CASH EQUIVALENTS, ENDING | <u>\$ -</u> | <u>\$ 216,220</u> | <u>\$ -</u> | <u>\$ 14,425</u> | <u>\$ 230,645</u> |
| Reconciliation of operating income to net cash used by operating activities | | | | | |
| Operating income (loss) | \$ (328,379) | \$ (36,036) | \$ 64,204 | \$ (25,989) | \$ (326,200) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | | | | | |
| Depreciation | 273,389 | 14,158 | 30,091 | 32,503 | 350,141 |
| (Increase) decrease in the following assets | | | | | |
| Accounts receivable | 20,868 | (399) | (61,076) | 341 | (40,266) |
| Interfund receivables | - | - | (16,204) | (3,497) | (19,701) |
| Increase (decrease) in the following liabilities | | | | | |
| Compensated absences payable | 3,923 | (983) | - | - | 2,940 |
| Interfund payables | 39,471 | (7,475) | - | (3,358) | 28,638 |
| Accounts payable and other accrued liabilities | - | 1,662 | - | - | 1,662 |
| Net cash provided (used) by operating activities | <u>\$ 9,272</u> | <u>\$ (29,073)</u> | <u>\$ 17,015</u> | <u>\$ -</u> | <u>\$ (2,786)</u> |

Town of Machias, Maine
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

| | <u>Private Purpose Trust Funds</u> | <u>Agency Funds</u> |
|---|--|-------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 769,146 | \$ 67,455 |
| LIABILITIES | | |
| Due to student groups | - | 67,455 |
| NET POSITION | | |
| Held in trust for scholarships and other purposes | <u>\$ 769,146</u> | <u>\$ -</u> |

Town of Machias, Maine
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014

| | Private Purpose Trust Funds |
|-------------------------------------|--|
| ADDITIONS | |
| Interest | \$ 11,619 |
| Contributions | 250 |
| Total additions | 11,869 |
| DEDUCTIONS | |
| Scholarships | 18,134 |
| Change in net position | (6,265) |
| NET POSITION - BEGINNING | 775,411 |
| NET POSITION - ENDING | \$ 769,146 |

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2014

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, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Governmental Funds

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

The Town has presented the following major governmental funds:

General Fund

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

Special Revenue Fund- School Categorical Grants

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

Special Revenue Fund- School Lunch

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

2. Proprietary Funds

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

The Town has presented the following major proprietary funds:

Sewer Fund

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

Solid Waste Fund

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

Ambulance Fund

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS (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, 2014

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, 2014

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, 2014

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 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. 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.

8. Government-wide Net Position

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

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

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

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.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

9. 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.

10. Revenue Recognition - Property Taxes

Property taxes were levied on assessed values of April 1, 2013 and were due on October 15, 2013 and March 15, 2014, 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, 2013 a 2% discount was applied.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

10. Revenue Recognition - Property Taxes (Continued)

For purposes of the fund financial statements, property taxes assessed and collected during the year ended June 30, 2014, and during the first sixty days of the next fiscal year are recognized as revenue in 2014. 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 | \$130,378,900 |
| Personal property | <u>5,805,700</u> |
| | \$136,184,600 |
| Tax rate (per \$1,000) | <u>20.00</u> |
| Commitment | \$ 2,723,692 |
| Supplemental | 2,833 |
| Less collections, discounts and abatements | <u>(2,444,050)</u> |
| Receivable at June 30, 2014 | <u>\$ 282,475</u> |
| Collection rate | 89.6% |

11. New Governmental Accounting Standards

During the year ended June 30, 2014, the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The intent of this statement is to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

12. Recent Accounting Pronouncements

In June, 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The statement is effective for periods beginning after June 15, 2014. The effect of this Statement on the Town's financial statements is not known at this time.

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, 2014, the Town reported deposits of \$3,095,152 with bank balances of \$3,389,682. Of the Town's total bank balance of \$3,389,682, \$743,005 was exposed to custodial credit risk. The entire exposed amount was uncollateralized.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2014

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits have been reported as follows:

| | |
|---|---------------------|
| Reported in governmental funds | \$ 2,027,906 |
| Reported in proprietary funds | <u>230,645</u> |
| Total reported on the Statement of Net Position | 2,258,551 |
| Reported in fiduciary funds | <u>836,601</u> |
| Total deposits | <u>\$ 3,095,152</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's investments are as follows:

| | |
|---------------------------------|-------------------|
| Money market accounts | \$ 428,730 |
| U.S. Agency notes | 73,351 |
| Common stock, Machias Water Co. | <u>446,987</u> |
| Total investments | <u>\$ 949,068</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, 2014 the Town's investments of \$949,068, 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 \$446,987 in the Machias Water Company makes up approximately 47% of the Town's total investments. The Town does not have a policy related to concentration of credit risk.

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

| | Due in less than one year | Due in 1-5 years |
|-------------------|--|---------------------------------|
| U.S. Agency notes | \$ - | \$ 73,351 |

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2014

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Investments have been reported as follows:

| | |
|--------------------------------|-----------------------|
| Reported in governmental funds | \$ 382,155 |
| Reported in proprietary funds | <u>566,913</u> |
| Total investments | <u>\$ 949,068</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, 2013 the Town's interest has been valued at \$446,987.

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, 2014 is \$13,009 based on an estimate of 9% of total receivables. The Town has established an allowance for uncollectible sewer assessments in the amount of \$16,267, reflected in the sewer proprietary fund.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

| | Balance 6/30/13 | Additions/ Completion s | Retirements/ Reclassifications | Balance 6/30/14 |
|---|---------------------|-------------------------------|-----------------------------------|---------------------|
| Governmental Activities | | | | |
| <i>Capital assets not being depreciated</i> | | | | |
| Land | \$ 565,074 | \$ - | \$ - | \$ 565,074 |
| Construction in progress | <u>269,978</u> | <u>211,769</u> | <u>(218,526)</u> | <u>263,221</u> |
| Total capital assets not being depreciated | <u>835,052</u> | <u>211,769</u> | <u>(218,526)</u> | <u>828,295</u> |
| <i>Capital assets being depreciated</i> | | | | |
| Buildings and land improvements | 6,344,957 | 110,055 | 218,526 | 6,673,538 |
| Infrastructure | 1,476,492 | 44,000 | - | 1,520,492 |
| Equipment, furniture and fixtures | 746,087 | 40,114 | - | 786,201 |
| Vehicles | <u>713,758</u> | <u>-</u> | <u>-</u> | <u>713,758</u> |
| Total capital assets being depreciated | <u>9,281,294</u> | <u>194,169</u> | <u>218,526</u> | <u>9,693,989</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and land improvements | (3,527,610) | (129,067) | - | (3,656,677) |
| Infrastructure | (182,156) | (50,317) | - | (232,473) |
| Equipment, furniture and fixtures | (585,411) | (60,807) | - | (646,218) |
| Vehicles | <u>(547,776)</u> | <u>(50,271)</u> | <u>-</u> | <u>(598,047)</u> |
| Total accumulated depreciation | <u>(4,842,953)</u> | <u>(290,462)</u> | <u>-</u> | <u>(5,133,415)</u> |
| Total capital assets being depreciated, net | <u>4,438,341</u> | <u>(96,293)</u> | <u>218,526</u> | <u>4,560,574</u> |
| Governmental activities capital assets, net | <u>\$ 5,273,393</u> | <u>\$ 115,476</u> | <u>\$ -</u> | <u>\$ 5,388,869</u> |

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2014

NOTE 4. CAPITAL ASSETS (CONTINUED)

| | Balance 6/30/13 | Additions/ Completion s | Retirements/ Reclassifications | Balance 6/30/14 |
|--|----------------------------|--|---|----------------------------|
| Business-Type Activities | | | | |
| <i>Capital assets not being depreciated</i> | | | | |
| Land | \$ 1,000 | \$ - | \$ - | \$ 1,000 |
| Construction in progress | <u>3,510,637</u> | <u>51,201</u> | <u>(2,599,700)</u> | <u>962,138</u> |
| Total capital assets not being depreciated | <u>3,511,637</u> | <u>51,201</u> | <u>(2,599,700)</u> | <u>963,138</u> |
| <i>Capital assets being depreciated</i> | | | | |
| Infrastructure and buildings | 11,333,010 | - | 2,599,700 | 13,932,710 |
| Vehicles and equipment | <u>720,389</u> | <u>14,497</u> | <u>(28,500)</u> | <u>706,386</u> |
| Total capital assets being depreciated | <u>12,053,399</u> | <u>14,497</u> | <u>2,571,200</u> | <u>14,639,096</u> |
| Less accumulated depreciation | | | | |
| Infrastructure and buildings | (3,315,889) | (298,577) | - | (3,614,476) |
| Vehicles and equipment | <u>(327,360)</u> | <u>(51,564)</u> | <u>28,500</u> | <u>(350,424)</u> |
| Total accumulated depreciation | <u>(3,643,259)</u> | <u>(350,141)</u> | <u>28,500</u> | <u>(3,964,900)</u> |
| Total capital assets being depreciated, net | <u>8,410,140</u> | <u>(335,644)</u> | <u>2,599,701</u> | <u>10,674,196</u> |
| Business-type activities capital assets, net | <u>\$ 11,921,777</u> | <u>\$ (284,443)</u> | <u>\$ -</u> | <u>\$ 11,637,334</u> |

Depreciation expense for the year ended June 30, 2014, was charged as direct expense to programs as follows:

| | |
|--|-------------------|
| <i>Governmental activities</i> | |
| General government | \$ 3,404 |
| Police | 10,553 |
| Fire | 26,534 |
| Public works | 113,351 |
| Recreation | 4,094 |
| Airport | 4,790 |
| Education grants | 4,484 |
| Education | <u>123,252</u> |
| Total depreciation expense – Governmental activities | <u>\$ 290,462</u> |
| <i>Business-type activities</i> | |
| Sewer | \$ 273,389 |
| Solid waste | 14,158 |
| Ambulance | 30,091 |
| Telcenter | <u>32,503</u> |
| Total depreciation expense – business-type activities | <u>\$ 350,141</u> |

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2014

NOTE 5. LONG-TERM LIABILITIES

The following is a summary of long term liabilities for the year ended June 30, 2014:

| | Balance June 30, 2013 | Increases | Decreases | Balance June 30, 2014 | Portion due within one year |
|--|-----------------------------|----------------|------------------|-----------------------------|-----------------------------------|
| Governmental Liabilities | | | | | |
| General Obligation Bonds and Notes | | | | | |
| General Bonds | | | | | |
| Maine Municipal Bond Bank, 4.6% school renovation bond, dated December 22, 2009, due 2020 | \$ 531,194 | \$ - | \$ (65,250) | \$ 465,944 | \$ 68,466 |
| General Notes | | | | | |
| Machias Savings Bank, 3.12% vehicle note, dated December 2, 2008, due 2015 | 51,825 | - | (16,742) | 35,083 | 17,272 |
| Machias Savings Bank, 1.25% vehicle note, dated June 5, 2012, due 2014 | 10,062 | - | (10,062) | - | - |
| Machias Savings Bank, 2.50% road projects note, dated December 2, 2008, due 2015 | 348,231 | - | (54,474) | 293,757 | 55,851 |
| Machias Savings Bank, 1.95% vehicles note, dated October 23, 2012, due 2018 | 75,000 | - | (14,390) | 60,610 | 14,711 |
| Machias Savings Bank, 2.06% school renovations note, dated July 10, 2013, due 2023 | <u>-</u> | <u>246,000</u> | <u>(25,410)</u> | <u>220,590</u> | <u>22,534</u> |
| Total general obligation bonds and notes | 1,016,312 | 246,000 | (186,328) | 1,075,984 | 178,834 |
| Capital Leases | 81,149 | 19,731 | (28,000) | 72,880 | 30,181 |
| Compensated Absences | <u>55,832</u> | <u>13,982</u> | <u>-</u> | <u>69,814</u> | <u>N/A</u> |
| Total governmental activities liabilities | <u>\$ 1,153,293</u> | <u>279,713</u> | <u>(214,328)</u> | <u>\$ 1,218,678</u> | <u>\$ 209,015</u> |
| 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 | \$ 137,885 | \$ - | \$ (12,298) | \$ 125,587 | \$ 12,609 |
| Maine Municipal Bond Bank, 1.40% sewer rehabilitation project, dated May 15, 2010, due 2029 | 278,277 | - | (15,638) | 262,639 | 15,857 |
| Maine Municipal Bond Bank, 1.00% sewer rehabilitation project, dated January 21, 2011, due 2016 | 2,424 | - | (800) | 1,624 | 808 |
| Maine Municipal Bond Bank, 1.00% sewer rehabilitation project, dated December 21, 2011, due 2017 | 3,216 | - | (792) | 2,424 | 800 |
| Rural Development Bond, 2.25% sewer rehabilitation project, dated January 25, 2012, due 2040 | 486,646 | - | (13,316) | 473,330 | 13,607 |
| Ambulance Note Payable | | | | | |
| Machias Savings Bank, 1.75% vehicle note, dated November 21, 2012, due 2018 | <u>120,000</u> | <u>-</u> | <u>(23,118)</u> | <u>96,882</u> | <u>23,586</u> |
| Total proprietary fund bonds and notes payable | 1,028,448 | - | (65,962) | 962,486 | 67,267 |

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2014

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

| | Balance June 30, 2013 | Increases | Decreases | Balance June 30, 2014 | Portion due within one year |
|--|-----------------------------|-------------------|---------------------|-----------------------------|-----------------------------------|
| Capital Leases | 19,127 | - | (14,160) | 4,967 | 4,967 |
| Compensated Absences | <u>12,429</u> | <u>3,923</u> | <u>(983)</u> | <u>15,369</u> | N/A |
| Total proprietary activities liabilities | <u>1,060,004</u> | <u>3,923</u> | <u>(81,105)</u> | <u>982,822</u> | <u>72,234</u> |
| Total general obligation and proprietary liabilities | <u>\$ 2,213,297</u> | <u>\$ 283,636</u> | <u>\$ (295,433)</u> | <u>\$ 2,201,500</u> | <u>\$ 281,249</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 | |
| 2015 | \$ 178,834 | \$ 35,896 | \$ 67,267 | \$ 19,716 | \$ 301,713 |
| 2016 | 184,744 | 29,980 | 68,546 | 18,474 | 301,744 |
| 2017 | 172,439 | 23,911 | 69,025 | 17,171 | 282,546 |
| 2018 | 178,281 | 18,068 | 69,526 | 15,890 | 281,765 |
| 2019 | 168,364 | 12,072 | 45,563 | 14,590 | 240,589 |
| 2020-2024 | 193,322 | 9,455 | 226,240 | 59,568 | 488,585 |
| 2025-2029 | - | - | 182,601 | 41,277 | 223,878 |
| 2030-2034 | - | - | 99,365 | 21,960 | 121,325 |
| 2035-2039 | - | - | 111,058 | 10,267 | 121,325 |
| 2040-2041 | - | - | <u>23,295</u> | <u>879</u> | <u>24,174</u> |
| | <u>\$ 1,075,984</u> | <u>\$ 129,382</u> | <u>\$ 962,486</u> | <u>\$ 219,792</u> | <u>\$ 2,387,644</u> |

In accordance with Maine law, no municipality shall incur debt for specific purposes in excess of certain percentages of State valuation of such municipality. At June 30, 2014, the Town was in compliance with these limitations.

Capital Leases Payable

The Town is the lessee of photocopiers and a truck scale under capital leases expiring in fiscal years ending June 30, 2015, 2016, 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, 2014, the Town had recorded \$152,269 in governmental activities equipment and \$63,035 in business-type activities equipment related to outstanding capital leases. Amortization of these assets is included with depreciation expense. Accumulated depreciation for these assets at June 30, 2014 is \$83,456 and \$11,136, respectively.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2014

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

Capital Leases Payable (Continued)

Minimum future lease payments under capital leases as of June 30, 2014 are:

| | |
|---|------------------|
| 2015 | \$ 38,639 |
| 2016 | 32,828 |
| 2017 | 6,073 |
| 2018 | 4,404 |
| 2019 | <u>1,835</u> |
| | 83,779 |
| Less amount representing interest | <u>(5,932)</u> |
| Present value of minimum lease payments | <u>\$ 77,847</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, 2014 arising from these transactions and interfund transfers were as follows:

| | Receivable | Payable | Transfers in | Transfers out |
|--------------------------------|--------------------|--------------------|-------------------|-------------------|
| General fund | \$ 884,977 | \$1,123,003 | \$ - | \$ 134,062 |
| Special revenue- school grants | - | 57,035 | - | - |
| Special revenue- school lunch | - | 250,705 | - | - |
| Sewer fund | 9,512 | 220,432 | 61,910 | - |
| Solid waste fund | - | 444,825 | 50,144 | - |
| Ambulance fund | 643,817 | 35,000 | - | - |
| Non-major proprietary funds | 3,497 | - | - | - |
| Non-major governmental funds | <u>602,420</u> | <u>13,223</u> | <u>22,008</u> | <u>-</u> |
| | <u>\$2,144,223</u> | <u>\$2,144,223</u> | <u>\$ 134,062</u> | <u>\$ 134,062</u> |

The outstanding balances between funds result mainly from short-term cash flow needs that are funded by the general fund, as it hold the Town's checking account. Transfers were used to move funds from the general fund in accordance with budgetary authorizations, including debt payments of the proprietary funds and a \$35,000 transfer to the Solid Waste Facility proprietary fund to cover deficits.

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2014

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, 2014:

| | Governmental Activities | Business-type Activities |
|---|----------------------------|-----------------------------|
| Capital assets | \$ 10,522,284 | \$ 15,602,233 |
| Accumulated depreciation | (5,133,415) | (3,964,899) |
| Related bonds payable | (1,075,984) | (962,486) |
| Related capital leases payable | (72,880) | (4,967) |
| Non-major proprietary fund deficit reported in unrestricted fund balance | - | 2,469 |
| Total balance | \$ 4,240,005 | \$ 10,672,350 |

NOTE 8. FUND BALANCE – RESTRICTED – EDUCATION

At June 30, 2014 the Town's restricted for education was comprised as follows:

| | |
|-------------------|------------|
| General education | \$ 579,664 |
| Adult education | 40,995 |
| MELMAC grant | 6,170 |
| Total | \$ 626,829 |

NOTE 9. FUND BALANCE – RESTRICTED – OTHER PURPOSES

At June 30, 2014 the Town's general fund balance restricted for other purposes was comprised as follows:

| | |
|-----------------------------|-----------|
| Tax increment financing | \$ 15,674 |
| King grant | 20,000 |
| Healthy Maine Streets grant | 16,188 |
| Boxcar office | 215 |
| Station 98 | 12,639 |
| Total | \$ 64,716 |

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2014

NOTE 10. FUND BALANCE – RESTRICTED – CAPITAL PROJECTS

At June 30, 2014 the Town's capital projects restricted fund balance was comprised as follows:

| | |
|---------------------|------------------|
| School renovations | \$ 9,764 |
| School roof repairs | <u>11,970</u> |
| Total | <u>\$ 21,734</u> |

NOTE 11. FUND BALANCE – RESTRICTED – OTHER PURPOSES

At June 30, 2014 the Town's special revenue fund balance restricted for Town grants and other purposes was comprised as follows:

| | |
|---|-------------------|
| Mill account | \$ 243,138 |
| Revolving loan fund | 8,024 |
| Sewer grant | 86 |
| State and local roads | 16,344 |
| Maine Waste Management-transfer station | 4,990 |
| Station 98 | 10,421 |
| Thermal imaging camera | 1,382 |
| Downtown planning-donations | 8,783 |
| Scholarship funds | <u>175</u> |
| Total | <u>\$ 293,343</u> |

NOTE 12. FUND BALANCES – COMMITTED FOR CAPITAL PROJECTS

At June 30, 2014, the fund balances committed for capital projects were comprised of the following:

| | |
|--------------------------------------|-------------------|
| Airport improvement | \$ 63,876 |
| Ambulance replacement | 26,879 |
| Basketball court | 1,233 |
| Boat dock | 1,980 |
| Comprehensive plan | 7,871 |
| Economic development | 88,733 |
| E-911 signs | 1,271 |
| Fire department homeland security | 314 |
| Fire department ventilation | 20,000 |
| Fire truck replacement | 3,276 |
| Industrial development | 24,099 |
| Lawnmower | 700 |
| Recreation building | 7,819 |
| Roads | 93,664 |
| Sewer expansion | 75,323 |
| Sewer overflow | 3,367 |
| Sidewalk repair | 3,500 |
| School renovations | 61,836 |
| Skate park | 5,967 |
| Tennis court | 14,549 |
| Town office | <u>88,385</u> |
| Total committed for capital projects | <u>\$ 594,642</u> |

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2014

NOTE 13. FUND BALANCES – COMMITTED FOR OTHER PURPOSES

At June 30, 2014, the fund balances committed for other purposes were comprised of the following:

| | |
|---|------------------|
| Recreation – facilities and activities | \$ 895 |
| Recreation – softball field | 611 |
| 4 th of July | 7,018 |
| 250 th Anniversary celebration | 1,052 |
| Debt service – public safety building | <u>35,860</u> |
| Total | <u>\$ 45,436</u> |

NOTE 14. PENSION PLANS

Maine Public Employees Retirement Systems - School Employees

All School teachers, plus other qualified educators, participate in the Maine Public Employees Retirement System's teacher group. The teacher's group is a cost-sharing multiple employer defined benefit plan with a special funding situation, established by the Maine State legislature. The Maine Public Employees Retirement System (MainePERS) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the state legislature. The MainePERS issues a publicly available financial report that includes financial statements and required supplementary information for the teacher's group. That report may be obtained by calling 1-800-451-9800.

Plan members are required to contribute 7.65% of their compensation to the retirement system. The State of Maine Department of Education (DOE) is required, by state statute, to contribute 13.03% of compensation for non-federally funded employees. The Town's school department is required to contribute 2.65% of compensation to cover the normal costs for non-federally funded employees. The school department is also required to contribute 16.15% of compensation for federally funded employees.

The contributions for the year ended June 30, 2014 were as follows:

| | <u>Covered Payroll</u> | <u>Contribution Percentage</u> | <u>Contribution Amount</u> |
|--|----------------------------|------------------------------------|--------------------------------|
| Employee contribution | \$ 2,260,733 | 7.65% | \$ 172,946 |
| State DOE contribution for non-federally funded employees | 2,099,546 | 13.03% | 273,571 |
| Employer contribution for normal costs of non-federally funded employees | 2,099,546 | 2.65% | 55,638 |
| Employer contribution for federally funded employees | 161,187 | 16.15% | 26,032 |

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2014

NOTE 14. PENSION PLANS (CONTINUED)

Deferred Compensation Plan

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

The Town contributes at rates which vary from 0 to 10%, depending on the years of employment, monthly elections, and contributions of participants. Employees may elect to contribute up to 25% of earnings, but the Town limits its match to a maximum of 10%. The Town made matching contributions of \$23,195 and employees elected to defer \$24,896 for a contribution of \$48,091 for the year ended June 30, 2014.

NOTE 15. PARTICIPATION IN PUBLIC ENTITY RISK POOL

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

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

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

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

Town of Machias, Maine
Notes to Basic Financial Statements
June 30, 2014

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

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

NOTE 16. COMMITMENTS

At June 30, 2014, the Town was committed to remaining sewer construction contracts totaling approximately \$148,393 and airport construction contracts totaling approximately \$39,808.

NOTE 17. CONTINGENCIES

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

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

NOTE 18. ENVIRONMENTAL LIABILITIES

The Town has been 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. The fine was reported as a special item in the year ended June 30, 2013 in the amount of \$36,112. The fine was subsequently reduced by \$13,125 to \$22,987 in the year ended June 30, 2014, with the reduction in the fine payable reflected as a special item in the financial statements.

NOTE 19. SALE OF PROPERTY AND DISCONTINUATION OF ACTIVITIES

The Town owns a property held for leasing to businesses for the purpose of economic development. This activity is reported in the Telcenter enterprise fund. The Town has placed this property for sale and intends to discontinue the rental activity upon the sale of the building and contents.

Town of Machias, Maine
Budget and Actual (with Budget to GAAP Differences)
General Fund
For the year ended June 30, 2014

| | Budgeted Amounts | | | Actual Amounts, Budgetary Basis | Budget to GAAP Differences** | Actual Amounts, GAAP Basis |
|---|------------------|----------------|------------------|------------------------------------|---------------------------------|-------------------------------|
| | Original | Changes | Final* | | | |
| REVENUES | | | | | | |
| Property taxes, net | \$ 2,723,692 | \$ - | \$ 2,723,692 | \$ 2,635,073 | \$ - | \$ 2,635,073 |
| Excise taxes | 211,700 | - | 211,700 | 235,465 | - | 235,465 |
| Interest and lien costs | 30,000 | - | 30,000 | 17,145 | - | 17,145 |
| Licenses and permits | 21,314 | - | 21,314 | 23,382 | - | 23,382 |
| Intergovernmental | | | | | | |
| Education | 2,843,453 | 137,273 | 2,980,726 | 3,319,613 | (1,676) | 3,317,937 |
| On-behalf payments - State of Maine | - | - | - | - | 273,571 | 273,571 |
| Town | 372,379 | - | 372,379 | 376,429 | - | 376,429 |
| Charges for services | 23,050 | - | 23,050 | 44,240 | - | 44,240 |
| Interfund charges for services | 93,450 | - | 93,450 | 97,568 | (15,058) | 82,510 |
| Interest earnings | 6,500 | - | 6,500 | 5,158 | - | 5,158 |
| Miscellaneous | 5,286 | - | 5,286 | 47,167 | - | 47,167 |
| Total revenues | <u>6,330,824</u> | <u>137,273</u> | <u>6,468,097</u> | <u>6,801,240</u> | <u>256,837</u> | <u>7,058,077</u> |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| General government | 364,110 | - | 364,110 | 351,108 | - | 351,108 |
| Police department | 325,607 | - | 325,607 | 321,020 | 7,529 | 328,549 |
| Fire department | 339,430 | - | 339,430 | 340,465 | 15,058 | 355,523 |
| Public safety building | 27,350 | - | 27,350 | 37,645 | (37,645) | - |
| Highways and streets | 308,970 | - | 308,970 | 311,184 | - | 311,184 |
| Education | 4,475,223 | - | 4,475,223 | 4,506,694 | (113,756) | 4,392,938 |
| Adult education | 30,000 | 137,273 | 167,273 | 163,727 | 5,625 | 169,352 |
| On-behalf payments - State of Maine | - | - | - | - | 273,571 | 273,571 |
| Recreation | 50,291 | (6,637) | 43,654 | 39,796 | - | 39,796 |
| General assistance | 5,450 | - | 5,450 | 4,831 | - | 4,831 |
| Airport | 14,825 | - | 14,825 | 8,505 | - | 8,505 |
| County tax | 202,572 | - | 202,572 | 202,572 | - | 202,572 |
| Tax increment financing | 20,550 | - | 20,550 | 19,902 | - | 19,902 |
| Other services | 20,000 | - | 20,000 | 14,833 | - | 14,833 |
| Debt service | | | | | | |
| Principal | 97,906 | - | 97,906 | 97,710 | 116,618 | 214,328 |
| Interest and other charges | 12,884 | - | 12,884 | 12,884 | 30,565 | 43,449 |
| Capital outlay | 64,731 | - | 64,731 | 57,414 | - | 57,414 |
| Total expenditures | <u>6,359,899</u> | <u>130,636</u> | <u>6,490,535</u> | <u>6,490,290</u> | <u>297,565</u> | <u>6,787,855</u> |
| Excess (deficiency) of revenues over expenditures | <u>(29,075)</u> | <u>6,637</u> | <u>(22,438)</u> | <u>310,950</u> | <u>(40,728)</u> | <u>270,222</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Use of unrestricted carryover fund balances | 161,000 | - | 161,000 | - | - | - |
| Use of committed carryover fund balances | 8,741 | - | 8,741 | - | - | - |
| Overlay | (32,951) | - | (32,951) | - | - | - |
| Proceeds from capital leases | 19,731 | - | 19,731 | 19,731 | - | 19,731 |
| Transfers out | (127,446) | (6,637) | (134,083) | (134,062) | - | (134,062) |
| Total other financing sources and uses | <u>29,075</u> | <u>(6,637)</u> | <u>22,438</u> | <u>(114,331)</u> | <u>-</u> | <u>(114,331)</u> |
| Net change in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>196,619</u> | <u>(40,728)</u> | <u>155,891</u> |
| FUND BALANCES - BEGINNING | | | | <u>2,001,294</u> | <u>(275,994)</u> | <u>1,725,300</u> |
| FUND BALANCES - ENDING | | | | <u>\$ 2,197,913</u> | <u>\$ (316,722)</u> | <u>\$ 1,881,191</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 | \$ 196,619 |
| On behalf payments revenue | 273,571 |
| On behalf payments expenditures | (273,571) |
| Change in accrued summer teacher pay | (40,728) |
| Net change in fund balances - GAAP basis | <u>\$ 155,891</u> |

Town of Machias, Maine
Budget and Actual (with Variances)
General Fund
For the year ended June 30, 2014

| | Budgeted Amounts | | | Actual Amounts, Budgetary Basis | Variance with Final Budget - Positive (Negative) |
|---|------------------|----------------|------------------|------------------------------------|---|
| | Original | Changes | Final* | | |
| REVENUES | | | | | |
| Property taxes, net | \$ 2,723,692 | \$ - | \$ 2,723,692 | \$ 2,635,073 | \$ (88,619) |
| Excise taxes | 211,700 | - | 211,700 | 235,465 | 23,765 |
| Interest and lien costs | 30,000 | - | 30,000 | 17,145 | (12,855) |
| Licenses and permits | 21,314 | - | 21,314 | 23,382 | 2,068 |
| Intergovernmental | | | | | |
| Education | 2,843,453 | 137,273 | 2,980,726 | 3,319,613 | 338,887 |
| Town | 372,379 | - | 372,379 | 376,429 | 4,050 |
| Charges for services | 23,050 | - | 23,050 | 44,240 | 21,190 |
| Interfund charges for services | 93,450 | - | 93,450 | 97,568 | 4,118 |
| Investment earnings | 6,500 | - | 6,500 | 5,158 | (1,342) |
| Miscellaneous | 5,286 | - | 5,286 | 47,167 | 41,881 |
| Total revenues | <u>6,330,824</u> | <u>137,273</u> | <u>6,468,097</u> | <u>6,801,240</u> | <u>333,143</u> |
| EXPENDITURES | | | | | |
| Current | | | | | |
| General government | 364,110 | - | 364,110 | 351,108 | 13,002 |
| Police department | 325,607 | - | 325,607 | 321,020 | 4,587 |
| Fire department | 339,430 | - | 339,430 | 340,465 | (1,035) |
| Public safety building | 27,350 | - | 27,350 | 37,645 | (10,295) |
| Highways and streets | 308,970 | - | 308,970 | 311,184 | (2,214) |
| Education | 4,475,223 | - | 4,475,223 | 4,506,694 | (31,471) |
| Adult education | 30,000 | 137,273 | 167,273 | 163,727 | 3,546 |
| Recreation | 50,291 | (6,637) | 43,654 | 39,796 | 3,858 |
| General assistance | 5,450 | - | 5,450 | 4,831 | 619 |
| Airport | 14,825 | - | 14,825 | 8,505 | 6,320 |
| County tax | 202,572 | - | 202,572 | 202,572 | - |
| Tax increment financing | 20,550 | - | 20,550 | 19,902 | 648 |
| Other services | 20,000 | - | 20,000 | 14,833 | 5,167 |
| Debt service | | | | | |
| Principal | 97,906 | - | 97,906 | 97,710 | 196 |
| Interest and other charges | 12,884 | - | 12,884 | 12,884 | - |
| Capital outlay | 64,731 | - | 64,731 | 57,414 | 7,317 |
| Total expenditures | <u>6,359,899</u> | <u>130,636</u> | <u>6,490,535</u> | <u>6,490,290</u> | <u>245</u> |
| Excess (deficiency) of revenues over expenditures | <u>(29,075)</u> | <u>6,637</u> | <u>(22,438)</u> | <u>310,950</u> | <u>333,388</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Use of unrestricted carryover fund balances | 161,000 | - | 161,000 | - | 161,000 |
| Use of committed carryover fund balances | 8,741 | - | 8,741 | - | 8,741 |
| Overlay | (32,951) | - | (32,951) | - | (32,951) |
| Proceeds from capital leases | 19,731 | - | 19,731 | 19,731 | - |
| Transfers out | (127,446) | (6,637) | (134,083) | (134,062) | 21 |
| Total other financing sources and uses | <u>29,075</u> | <u>(6,637)</u> | <u>22,438</u> | <u>(114,331)</u> | <u>136,811</u> |
| Net change in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | 196,619 | <u>\$ 196,619</u> |
| FUND BALANCES - BEGINNING | | | | 2,001,294 | |
| FUND BALANCES - ENDING | | | | <u>\$ 2,197,913</u> | |

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

**Town of Machias, Maine
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014**

| | <u>Special Revenue Fund - Town</u> | <u>Capital Projects Fund</u> | <u>Total Nonmajor Governmental Funds</u> |
|--------------------------------------|--|----------------------------------|--|
| ASSETS | | | |
| Cash and cash equivalents | \$ - | \$ 50,263 | \$ 50,263 |
| Investments | 267,639 | - | 267,639 |
| Due from other funds | 36,307 | 566,113 | 602,420 |
| Note receivable | 2,620 | - | 2,620 |
| Total assets | <u>\$ 306,566</u> | <u>\$ 616,376</u> | <u>\$ 922,942</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | | | |
| Due to other funds | <u>\$ 13,223</u> | <u>\$ -</u> | <u>\$ 13,223</u> |
| Fund balances | | | |
| Restricted for | | | |
| Capital projects | - | 21,734 | 21,734 |
| Town grants and other purposes | 293,343 | - | 293,343 |
| Committed for capital projects | - | 594,642 | 594,642 |
| Total fund balances | <u>293,343</u> | <u>616,376</u> | <u>909,719</u> |
| Total liabilities and fund balances | <u>\$ 306,566</u> | <u>\$ 616,376</u> | <u>\$ 922,942</u> |

Town of Machias, Maine
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2014

| | <u>Special Revenue Fund - Town</u> | <u>Capital Projects Fund</u> | <u>Total Nonmajor Governmental Funds</u> |
|---|--|--------------------------------------|--|
| REVENUES | | | |
| Intergovernmental | \$ - | \$ 18,220 | \$ 18,220 |
| Investment earnings (losses) | (203) | 87 | (116) |
| Total revenues | <u>(203)</u> | <u>18,307</u> | <u>18,104</u> |
| EXPENDITURES | | | |
| Capital outlay | - | 211,360 | 211,360 |
| Excess (deficiency) of revenues over expenditures | <u>(203)</u> | <u>(193,053)</u> | <u>(193,256)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from state renovation funds | - | 246,000 | 246,000 |
| Transfers in | - | 22,008 | 22,008 |
| Total other financing sources and uses | <u>-</u> | <u>268,008</u> | <u>268,008</u> |
| Net change in fund balances | (203) | 74,955 | 74,752 |
| FUND BALANCES (DEFICIT) - BEGINNING | <u>293,546</u> | <u>541,421</u> | <u>834,967</u> |
| FUND BALANCES (DEFICIT) - ENDING | <u>\$ 293,343</u> | <u>\$ 616,376</u> | <u>\$ 909,719</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, 2014

| | Adjusted Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|--------------------|--|
| REVENUES | | | |
| Local assessments | \$ 1,431,770 | \$ 1,431,770 | \$ - |
| State subsidy | 1,691,339 | 1,725,464 | 34,125 |
| Intergovernmental | - | 220 | 220 |
| Tuition and fees | 1,131,200 | 1,315,565 | 184,365 |
| Other | <u>20,914</u> | <u>35,506</u> | <u>14,592</u> |
| Total revenues | <u>4,275,223</u> | <u>4,508,525</u> | <u>233,302</u> |
| EXPENDITURES | | | |
| Regular instruction | | | |
| Elementary | 1,264,464 | 1,274,713 | (10,249) |
| Early childhood | 128,488 | 111,990 | 16,498 |
| Secondary | 632,886 | 666,942 | (34,056) |
| Instruction improvement | 4,620 | 3,013 | 1,607 |
| Special education | | | |
| Elementary | 301,771 | 251,453 | 50,318 |
| Secondary | 131,452 | 132,854 | (1,402) |
| Administrative | 29,208 | 29,208 | - |
| Tutoring | 3,305 | 1,648 | 1,657 |
| Evaluation | 19,127 | 8,669 | 10,458 |
| Speech therapy | 19,429 | 17,801 | 1,628 |
| Gifted and talented | 77,060 | 71,973 | 5,087 |
| Career and technical education | 181,665 | 190,829 | (9,164) |
| Other Instruction | | | |
| Co-curricular - athletic elementary | 23,656 | 20,985 | 2,671 |
| Co-curricular - athletic secondary | 63,697 | 65,010 | (1,313) |
| Co-curricular - elementary | 15,282 | 24,514 | (9,232) |
| Co-curricular - secondary | 32,958 | 41,871 | (8,913) |
| Student and staff support | | | |
| Guidance and counseling - elementary | 73,642 | 67,075 | 6,567 |
| Guidance and counseling - secondary | 114,303 | 101,582 | 12,721 |
| Health services | 40,679 | 43,074 | (2,395) |
| Library and media - elementary | 21,420 | 14,826 | 6,594 |
| Library and media - secondary | 36,766 | 39,337 | (2,571) |
| System administration | | | |
| Office of superintendent | 109,318 | 109,318 | - |
| School board | 20,650 | 24,138 | (3,488) |
| School administration | | | |
| Office of principal - elementary | 178,760 | 180,493 | (1,733) |
| Office of principal - secondary | 132,694 | 148,143 | (15,449) |
| Transportation and buses | 140,111 | 121,804 | 18,307 |
| Facilities and maintenance | | | |
| Operation and maintenance of plant | 558,612 | 653,214 | (94,602) |
| Debt service | 90,000 | 87,184 | 2,816 |
| Vehicle Maintenance & Operation | 3,700 | 2,322 | 1,378 |
| Site improvement | 500 | 0 | 500 |
| Other | | | |
| After school program | - | 1,000 | (1,000) |
| Contingency | <u>10,000</u> | <u>13,419</u> | <u>(3,419)</u> |
| Total expenditures | <u>4,460,223</u> | <u>4,520,402</u> | <u>(60,179)</u> |
| Excess (deficiency) of revenues over expenditures | <u>(185,000)</u> | <u>(11,877)</u> | <u>173,123</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers out | (15,000) | - | 15,000 |
| Utilization of prior year surplus | <u>200,000</u> | <u>-</u> | <u>(200,000)</u> |
| Total other financing sources | <u>185,000</u> | <u>-</u> | <u>(185,000)</u> |
| Excess of revenues and other sources over expenditures and other uses | <u>\$ -</u> | <u>\$ (11,877)</u> | <u>\$ (11,877)</u> |

Town of Machias, Maine
Combining Balance Sheet - Special Revenue Funds - Town
June 30, 2014

| | Downtown Revolving Loan Fund | Station 98 | Economic Development (Mill) | State Local Road Assistance | Sewer Grant | Maine Waste Management Grant | Downtown planning | Thermal imaging camera | Scholar- ship | Totals |
|-----------------------------------|---|-----------------------|--|--|------------------------|---|------------------------------|---------------------------------------|--------------------------|-------------------|
| ASSETS | | | | | | | | | | |
| Investments | \$ - | \$ 11,057 | \$ 254,802 | \$ - | \$ - | \$ - | \$ - | \$ 1,780 | \$ - | \$ 267,639 |
| 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>526</u> | <u>175</u> | <u>36,307</u> |
| Total assets | <u>\$ 8,021</u> | <u>\$ 11,057</u> | <u>\$ 254,802</u> | <u>\$ 16,345</u> | <u>\$ 86</u> | <u>\$ 4,990</u> | <u>\$ 8,784</u> | <u>\$ 2,306</u> | <u>\$ 175</u> | <u>\$ 306,566</u> |
| LIABILITIES | | | | | | | | | | |
| Due to other funds | \$ - | \$ 637 | \$ 11,663 | \$ - | \$ - | \$ - | \$ - | \$ 923 | \$ - | \$ 13,223 |
| FUND EQUITY | | | | | | | | | | |
| Fund Balance | | | | | | | | | | |
| Restricted | <u>8,021</u> | <u>10,420</u> | <u>243,139</u> | <u>16,345</u> | <u>86</u> | <u>4,990</u> | <u>8,784</u> | <u>1,383</u> | <u>175</u> | <u>293,343</u> |
| Total fund equity | <u>8,021</u> | <u>10,420</u> | <u>243,139</u> | <u>16,345</u> | <u>86</u> | <u>4,990</u> | <u>8,784</u> | <u>1,383</u> | <u>175</u> | <u>293,343</u> |
| Total liabilities and fund equity | <u>\$ 8,021</u> | <u>\$ 11,057</u> | <u>\$ 254,802</u> | <u>\$ 16,345</u> | <u>\$ 86</u> | <u>\$ 4,990</u> | <u>\$ 8,784</u> | <u>\$ 2,306</u> | <u>\$ 175</u> | <u>\$ 306,566</u> |

Town of Machias, Maine
Statement of Receipts, Disbursements, and Changes in Balances
Agency Funds
June 30, 2014

| | Balances July 1, 2013 | Receipts | Disbursements | Balances June 30, 2014 |
|---------------------------|--------------------------------------|--------------------------|--------------------------|---------------------------------------|
| Rose Gaffney School | \$ 31,950 | \$ 61,850 | \$ 68,172 | \$ 25,628 |
| Machias High School | 25,139 | 90,212 | 79,939 | 35,412 |
| Machias Vocational Center | <u>6,090</u> | <u>831</u> | <u>506</u> | <u>6,415</u> |
| Total | <u>\$ 63,179</u> | <u>\$ 152,893</u> | <u>\$ 148,617</u> | <u>\$ 67,455</u> |

Town of Machias, Maine
Taxes receivable, Tax liens and Tax acquired property
General Fund
June 30, 2014

| | |
|--|-------------------|
| Taxes receivable | |
| 2013 | \$ 282,475 |
| 2012 | 984 |
| 2011 and prior | <u>4,208</u> |
| Total taxes receivable | <u>287,667</u> |
| Tax liens and tax acquired property | |
| 2012 | 111,905 |
| 2011 and prior | <u>1,571</u> |
| Total tax liens and tax acquired property | <u>113,476</u> |
| Total taxes receivable, tax liens and tax acquired property | <u>\$ 401,143</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, 2014, and have issued our report thereon dated June 18, 2015.

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

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

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

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

Brantner Thibodeau & Associates

June 18, 2015

Town of Machias, Maine
Reconciliation of Audit Adjustments to Annual Financial Data
Submitted to MEDMS Financial System
Year ended June 30, 2014

| | General | | Special Revenue | | Totals |
|---|-------------------|------------------|---------------------|--------------|----------------|
| | Fund | Grants and other | School lunch | School lunch | |
| June 30 balance as per MEDMS | \$ 531,662 | \$ - | \$ (50,220) | \$ | 481,442 |
| Beginning balance adjustments | 153,833 | 4,874 | (104,001) | | 54,706 |
| Reclass activity | (91,221) | 91,221 | - | | - |
| Revenues adjustments | | | | | |
| Due from other governments | - | (89,516) | (26,811) | | (116,327) |
| Other adjustments | 45,257 | - | 6,209 | | 51,466 |
| Additional adjustment to school trial balance | - | - | (328) | | (328) |
| Expenditures adjustments | | | | | |
| Adjustment to expenses | (18,872) | (409) | (1,345) | | (20,626) |
| Adjust inventory | - | - | 3,505 | | 3,505 |
| GAAP Basis Fund Balance | <u>\$ 620,659</u> | <u>\$ 6,170</u> | <u>\$ (172,991)</u> | <u>\$</u> | <u>453,838</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, 2014, 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 June 18, 2015.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency #2014-001, described in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies, #2014-002, #2014-003.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item #2014-002.

We noted certain other matters that we have reported to management of Town of Machias, Maine, in the letter dated June 18, 2015.

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.

Barbara Shiodian & Associates

June 18, 2015

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

Board of Selectmen
Town of Machias, Maine

Report on Compliance for Each Major Federal Program

We have audited Town of Machias, Maine's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Town of Machias, Maine's major federal programs for the year ended June 30, 2014. Town of Machias, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Town of Machias, Maine's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Machias, Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Town of Machias, Maine, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

Brantner Whibodian & Associates

June 18, 2015

Town of Machias, Maine
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2014

| 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 | \$ 15,960 |
| <i>Cluster</i> | | | |
| National School Lunch Program | 10.555 | 13-05A-3024-05 | 115,682 |
| After school snack | 10.555 | 13-05A-3020-05 | 9,110 |
| Summer food service program | 10.559 | 13-05A-3016-05 | 5,012 |
| School breakfast program | 10.553 | 13-05A-3014-05 | <u>39,292</u> |
| <i>Total Child Nutrition Cluster</i> | | | <u>169,096</u> |
| | | | |
| Total U.S. Department of Agriculture | | | <u>185,056</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 | 6,182 |
| ARRA-Capitalization Grants for Clean Water State Revolving Funds | 66.458 | unknown | <u>45,019</u> |
| | | | |
| Total U.S. Environmental Protection Agency | | | <u>51,201</u> |
| | | | |
| <i>U.S. Department of Education</i> | | | |
| <i>Passed through State Department of Education</i> | | | |
| <i>Title IA Cluster</i> | | | |
| Title IA Grants to Local Educational Agencies | 84.010 | 13-05A-3057-13 | 179,357 |
| Career and technical education- Perkins Title IC | 84.048 | 13-05A-3030-8 | 38,536 |
| Title IIA teacher quality | 84.367 | 13-05A-3042-11 | 31,879 |
| Rural Education Achievement Program | 84.358 | 13-05A-1078-03 | 13,060 |
| <i>Cluster</i> | | | |
| Part B Section 619- Preschool | 84.173 | 13-05A-6241-23 | 1,807 |
| Title VI, Part B - Local Entitlement | 84.027 | 13-05A-3046-12 | <u>70,917</u> |
| <i>Total Special Education Cluster</i> | | | <u>72,724</u> |
| | | | |
| Total U.S. Department of Education | | | <u>335,556</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>6,312</u> |
| | | | |
| <i>U.S. Department of Transportation</i> | | | |
| <i>Direct</i> | | | |
| FAA grant - airport improvement program | 20.106 | AIP#3-23-0029-06-2011 | 15,528 |
| <i>Passed through the State Bureau of Highway Safety</i> | | | |
| 2013 "Drive Sober, Maine!" Impaired Driving Project | 20.600 | AL14-045 | <u>1,970</u> |
| | | | |
| Total U.S. Department of Transportation | | | <u>17,498</u> |
| | | | |
| Total expenditures of federal awards | | | <u>\$ 595,623</u> |

Town of Machias, Maine
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

PURPOSE OF THE SCHEDULE

Office of Management and Budget (OMB) Circular A-133, requires a Schedule of Expenditures of Federal Awards showing total expenditures for each federal award program as identified in the catalog of Federal Domestic Assistance (CFDA).

SIGNIFICANT ACCOUNTING POLICIES

1. REPORTING ENTITY

The accompanying schedule includes all federal award programs of the Town for the fiscal year ended June 30, 2014. The reporting entity is defined in the Notes to the Financial Statements of Town of Machias, Maine.

2. BASIS OF PRESENTATION

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

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

3. BASIS OF ACCOUNTING

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

4. NONCASH AWARDS

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

**Town of Machias, Maine
Schedule of Findings and Questioned Costs
Year ended June 30, 2014**

Section I — Summary of Auditor’s Results

Financial Statements

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

Federal Awards

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

Identification of major programs

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

- Dollar threshold used to distinguish between Type A and Type B programs - \$300,000
- Auditee qualified as low-risk auditee? - yes X no

**Town of Machias, Maine
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2014**

Section II — Financial Statement Findings

| | #2014-001 (REPEAT) |
|---|---|
| <i>Criteria or specific requirement</i> | Internal control over financial reporting with material adjustments. |
| <i>Condition</i> | Management does not have appropriate controls over year end closing procedures, the preparation of the financial statements, and project reporting, which results in significant audit adjustments. Reconciliations required for financial statement preparation and information required for conversion of fund financial statements to government-wide financial statements and other adjusting entries are not being performed appropriately and effectively. |
| <i>Context</i> | The Town and the school department maintain independent accounting records, which are not reconciled throughout the year and at the end of the year. Significant accounting services are required to attempt to reconcile these sets of records. The Town and school do not maintain subsidiary records for capital assets additions and disposals, including ongoing capital projects, and for current outstanding capital leases. Management has relied on its auditors to prepare the financial statements and footnote disclosures for them to review and approve as well as some components of supporting schedules. |
| <i>Effect</i> | As a result of various ongoing construction projects and the inclusion of the Town's School Department and the related required reporting, management may not be able to identify an error or misstatement in the financial statements. In addition, management may not be able to recognize that a required footnote has been omitted or an inappropriate footnote has been included in the footnotes. |
| <i>Cause</i> | Lack of year end reconciliation of Town and school records and lack of maintaining appropriate subsidiary records for year end adjusting entries. Lack of knowledge and training necessary to permit the Town to understand its own financial statements and required footnotes. |
| <i>Recommendation</i> | Management should reconcile the Town and school records throughout the year and at year end, and maintain controls to ensure these records are in agreement. Management should maintain better subsidiary records for capital outlays made throughout the year, including ongoing capital projects. Management should obtain the training necessary to permit the Town to identify any errors or misstatements in its own financial statements and required footnotes. |
| <i>Management's response</i> | Management will implement procedures to strengthen internal controls over construction projects by reviewing project information to ensure activity is properly recorded. Management is putting into operation a new accounting software package that will automatically record due to/from. This will prohibit large balancing adjustments from occurring. Management will work with the School Department toward having the School Department also use auditor financial schedules to assist in the preparation of the audit report. Until then, management will use school data available at the time that the Town prepares the financial schedules for the audit. Management will continue to work with the School Department to ensure that the information required to be reported by the School Department will be provided at audit. |

**Town of Machias, Maine
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2014**

Section II — Financial Statement Findings (Continued)

| #2014-002 (REPEAT) | |
|---|--|
| <i>Criteria or specific requirement Condition</i> | Internal control over grant expenditures. Management does not have appropriate controls over grants expenditures to prevent or detect and correct misstatements. |
| <i>Context</i> | The school department does not require an appropriate approval for expenditures of federal grant funds. These grants require appropriate review and approval of transactions by someone with knowledge of the grants' compliance requirements. |
| <i>Effect</i> | There is a risk of unauthorized transactions or unallowable costs being charged to federal grant programs. |
| <i>Cause</i> | Lack of appropriate review and approval of certain grant transactions by each responsible grant administrators may not prevent or detect a misstatement that is material to the financial statements. |
| <i>Recommendation</i> | Management should require all grant administrators to review and approve all transactions charged to federal grant programs. All grant administrators should be responsible for ensuring grant expenditures are allowable in their particular programs and that all applicable compliance requirements are met for each transaction. |
| <i>Management's response</i> | Management will implement procedures to strengthen internal controls over grants expenditures. |

| #2014-003 (REPEAT) | |
|---|--|
| <i>Criteria or specific requirement Condition</i> | Internal control over agency funds. Management does not have appropriate controls over agency funds to prevent or detect and correct significant or material misstatements. |
| <i>Context</i> | The school department maintains agency funds for student activities funds held at individual schools. Account reconciliations for these accounts are not performed on a timely basis and are not reviewed for accuracy, unusual activity or outstanding items, and are not approved by management. Transactions are processed without appropriate documentation of authorization and approval. |
| <i>Effect</i> | Accounting records are not maintained appropriately and reconciled at the end of the year for inclusion in the financial statements. Adjustments are posted to the financial records after reconciliations are performed. Misstatement of the financial statements is a risk because of errors left undetected and cash funds at risk of misappropriation. |
| <i>Cause</i> | Lack of appropriate reconciliation of school accounts and oversight over the reconciliations of and adjustments to these accounts may not prevent or detect a misstatement that is material to the financial statements. |
| <i>Recommendation</i> | Management should reconcile school accounts throughout the year and at year end, and maintain appropriate and consistent controls over these accounts, including review and approval of bank reconciliations, and requiring documentation and authorization for all disbursements. |
| <i>Management's response</i> | Management will implement procedures to strengthen internal controls over agency funds. |

Town of Machias, Maine
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2014

Section III — Federal Award Findings and Questioned Costs

| | |
|--|------|
| <i>Criteria or specific requirement (including statutory, regulatory, or other citation)</i> | None |
| <i>Condition</i> | |
| <i>Questioned costs</i> | |
| <i>Context</i> | |
| <i>Effect</i> | |
| <i>Cause</i> | |
| <i>Recommendation</i> | |
| <i>Management's response</i> | |

Town of Machias, Maine
Summary Schedule of Prior Audit Findings
Year ended June 30, 2014

#2013-001

Condition

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

Current Status

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

#2013-002

Condition

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

Current Status

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

#2013-003

Condition

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

Current Status

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