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Governmental Audit Procedural Form
Required by 30-A MRSA §5823(3)
To certify and file in pdf use email to report.audit@maine.gov

Title 30-A M.R.S.A. §5823(3) provides:

- B. Within 30 days after the postaudit is completed, the auditor shall send the State Auditor:
 - 1. A certified copy of the postaudit report; and
 - 2. A certified copy of this audit procedural form prescribed by the State Auditor for governmental audits.
- C. Any auditor who fails to file the copies required by paragraph B, as described above, commits a civil violation for which a forfeiture of not more than \$100 may be adjudged.

Please provide the following information for all municipal audits including OMB Circular A-133 audits

Client Town of Machiasport, Maine Fiscal Year End Date 06/30/15
 Name of Firm Stephan T. Hopkins, CPA, AC Date of Last Peer Review 05/31/15
 (Firm Year Ended)
 Firm's License # FM10000808 Issue Date of Firm's License 02/01/16

- 1. For financial statement audits, are the financial statements prepared in accordance with generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB)?
Yes No
- 2. Did you perform the audit in accordance with generally accepted auditing standards (GAAS)? Yes
No , Government Auditing Standards? Yes No , or both? Yes No
- 3. Has the client expended \$500,000 or more in federal financial awards? Yes No
 •If Yes, please provide a copy of the A-133 Single Audit Report (or explain if this report is not provided)

4. a. Did you find **any evidence** of fraud, improper and/or illegal transactions? Yes No

Town of Machiasport, Maine

June 30, 2015

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Stephen T. Hopkins, CPA, PC

Auditing, Accounting, and Consulting Services

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Independent Auditors' Report

Board of Selectmen
Town of Machiasport, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Machiasport, Maine, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Town's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the 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 controls 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 controls 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 controls. 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.

Basis for Adverse Opinion on Governmental Activities

As discussed in Note 14 to the financial statements, management has not recorded capital asset in the governmental activities and, accordingly, has not recorded depreciation expense for capital assets. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated when present, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

Adverse Opinion on Governmental Activities

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Government Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities of the Town of Machiasport, Maine, as of June 30, 2015, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Town of Machiasport, Maine
Management's discussion and analysis
June 30, 2015

Our discussion and analysis of the Town of Machiasport, Maine's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2015. Please read this analysis in conjunction with the basic financial statements, notes to the basic financial statements, and required supplementary information of the Town. This management discussion and analysis is being presented for the current fiscal year with a focus on the comparative analysis of the information on the governmental activities of the Town as found in the government-wide financial statements.

Financial Highlights - Government-wide financial statements

- The Town's unrestricted cash balance as of the end of the current fiscal year was \$1,609,763. This compares to \$1,517,911 as of the end of the prior fiscal year. This represents an increase of \$91,852 or approximately 6.05%. The Town's restricted cash balance as of the end of the current fiscal year was \$31,556. This compares to \$40,962 as of the end of the prior fiscal year. This represents a decrease of \$9,406 or approximately 22.96%. The Town's restricted cash balance amount is equal to the unearned state, federal and other grant revenues balance. Therefore, the current fiscal year decrease in restricted cash is simply due to an decrease in the corresponding unearned state, federal and other grant revenues balance.
- The Town's total assets exceeded its total liabilities by \$1,622,968 (net position) as of the end of the current fiscal year. This compares to the prior fiscal year when total assets exceeded total liabilities by \$1,517,222 as restated. This represents an increase of \$105,746 or approximately 6.97%.
- The Town's restricted net position is made up of two different material components. The first component is the expendable portion which is made up of amounts which are restricted for a certain purpose but which can only be expended for that purpose. State statute requires that any remaining unspent and budgeted amounts relating to education be carried over for educational purposes. This mandate is considered a form of enabling legislation imposed by the State. In addition, certain education related funds are restricted to expenditure for educational related purposes. These amounts are also reported as an expendable portion of restricted net position. This expendable component of the total restricted net position balance of the Town was \$437,266 (26.94% of total net position) as of the end of the current fiscal year. This compares to the prior fiscal year balance of \$368,860 (23.42% of total net position). This represents an increase of \$68,406 or approximately 18.54%.
- The second component of the Town's restricted net position balance is non-expendable funds which are made up of funds which are either nonspendable based on donor imposed restrictions or based on the form of the item. Examples of non-expendable balances would be the principal portion of trust funds which cannot be spent and the offset of the recorded inventory and prepaid item balances which are not in a spendable form. This component of the total restricted net position balance of the Town was \$15,442 (.95% of total net position) as of the end of the current fiscal year. This compares to the prior fiscal year balance of \$15,371 (.98% of total net position). This represents an increase of \$71. This increase is due entirely to a change in the amount of recorded prepaid expenditure items which is the only non-expendable item the Town currently has recorded.
- The Town's unrestricted net position balance is the component of net position which is used to finance the day-to-day activities and operations without constraints imposed by creditors, grantors, contributors, the annual town meeting, special town meetings, or other rules and regulations as imposed by other governments or enabling legislation. The total unrestricted net position balance of the Town was \$1,170,260 or (72.11% of total net position) as of the end of the current fiscal year. This compares to the prior fiscal year balance of \$1,132,991 as restated or (74.67% of total net position). This represents a favorable increase of \$37,269 or approximately 3.29%. This is due to the current fiscal year change in net position amount of \$105,746.
- The Town's total revenues for its governmental activities were \$2,281,988 for the current fiscal year. This compares to \$2,371,337 for the prior fiscal year. This represents a decrease of \$89,349 or approximately 3.77%. This slight decrease is due to a number of smaller changes in revenues in the current fiscal year as compared to the prior fiscal year. Page 6 more fully compares the change in revenues by type between the current fiscal year and the prior fiscal year.
- The Town's total expenses for its governmental activities were \$2,176,242 for the current fiscal year. This compares to \$2,044,387 for the prior fiscal year. This represents an increase of \$131,855 or approximately 6.45%. Page 6 more fully compares the change in expenses by type between the current fiscal year and the prior fiscal year.
- The School Department and the related programs of the Town received approximately \$114,033 in grant dollars from a number of sources including federal and state grant funds and federal pass-through grant funds to assist in a number of educational programs and projects from the school lunch program, to improving basic programs, to enhancing education through technology. This compares to approximately \$140,637 in the prior fiscal year. These revenue amounts represent the amounts recorded by the Town in the fund financial statements. The amounts shown in the government-wide financial statements have been adjusted for unearned amounts which are recorded as unearned revenues on the Statement of net position.

Town of Machiasport, Maine
Management's discussion and analysis
June 30, 2015

The Town as a trustee

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used by the Town to report assets held in a trustee or agency capacity for other groups and therefore cannot be used to support the Town's own programs. The type of fiduciary funds for which the Town is the trustee are agency funds which are characterized as follows:

- Agency funds are used by the Town to report resources held by the Town or resources under the tax identification number of the Town and the School Department. These resources are held in a purely custodial capacity in which assets equal liabilities. These funds are typically characterized by the receipt, temporary investment, and remittance of the fiduciary resources of other individuals, student groups, private organizations, or other governments. Town does not currently have any agency funds which meet the aforementioned definition. The School Department agency funds consist of student activity accounts.

The Town as a whole - Assets, liabilities, and net position

The information provided below represents government-wide information for the governmental activities of the Town for the current fiscal year as compared to the prior fiscal year. The current ratio compares the current assets of the Town to its current liabilities and gives an indication of the Town's ability to pay current obligations. As of the end of the current fiscal year the current ratio of the Town was 9.80 to 1 compared to the end of the prior fiscal year when the current ratio was 9.39 to 1. This represents a slight increase of approximately 4.80%. Another indication of the Town's ability to meet its current obligations with current assets is called its working capital. This is calculated by subtracting the current liabilities from the current assets. As of the end of the current fiscal year the Town's working capital balance was a positive \$1,670,908. This compares to the prior fiscal year balance of a positive \$1,574,324. This represents an increase of approximately 6.91%.

	Governmental Activities		Percentage of Total	
	2015	2014	2015	2014
Current and other assets	\$ 1,860,703	\$ 1,761,883	100.00%	100.00%
Capital assets	-	-	-	-
Total assets	<u>1,860,703</u>	<u>1,761,883</u>	<u>100.00%</u>	<u>100.00%</u>
Deferred outflows of resources	<u>29,310</u>	-	<u>100.00%</u>	-
Current and other liabilities	189,795	187,559	78.29%	100.00%
Long-term debt due within one year	-	-	-	-
Long-term debt due after one year	52,621	-	21.71%	-
Total liabilities	<u>242,415</u>	<u>187,559</u>	<u>100.00%</u>	<u>100.00%</u>
Deferred inflows of resources	<u>24,629</u>	-	<u>100.00%</u>	-
Net position:				
Net investment in capital assets	-	-	-	-
Restricted	452,708	384,231	27.89%	24.41%
Unrestricted	1,170,260	1,190,093	72.11%	75.59%
Total net position	<u>\$ 1,622,968</u>	<u>\$ 1,574,324</u>	<u>100.00%</u>	<u>100.00%</u>
Restricted net position:				
Expendable:				
Future years expenses in the general fund - Note 1T	\$ 411,702	\$ 346,638		
Restricted education funds	25,564	22,222		
	<u>437,266</u>	<u>368,860</u>		
Non-expendable:				
Prepaid items	15,442	15,371		
	<u>\$ 452,708</u>	<u>\$ 384,231</u>		

Town of Machiasport, Maine
Management's discussion and analysis
June 30, 2015

Capital asset and debt administration

The capital assets of the Town include land, land improvements, buildings, building improvements, vehicles, equipment, and infrastructure assets that are used in the operations of the Town and that have an initial useful life extending beyond a single fiscal year. Infrastructure assets are long-lived capital assets that are normally stationary in nature and can normally be preserved for a significantly greater number of years than most capital assets. The types of infrastructure assets that would normally be recorded by the Town include but are not limited to improved town roads, unimproved town roads, and bridges. The financial statements of the Town do not presently include balances and other information regarding the capital assets of the Town due to a lack of complete and accurate detail of these items. As a result, the independent auditors' report has been modified. The general government of the Town does not currently have any outstanding debt relating to long-term bonds or notes payable but it is rather made up of a net pension liability as shown in more detail in note 5 on page 28 and note 11 starting on page 31. The incursion of long-term bonds, notes payable or other similar debt would only be assumed by the Town upon approval of the inhabitants of the Town at the annual town meeting or a special town meeting. The incursion of debt by the School Department of the Town does not need to be approved by the inhabitants of the Town except to the extent that any annual debt payments would need to be included in the annual budget of the School Department which is approved by the inhabitants of the Town.

Financial highlights - Fund financial statements

The previous sections of this management discussion and analysis have been presented for the current fiscal year with a focus on the comparative analysis of the information on the governmental activities of the Town as found in the government-wide financial statements. Comparative financial information has not been included for the fund financial statements of the Town. The following financial highlights, however, do relate to the balances and results of the activities of the Town's individual funds as found in its fund financial statements. Detailed current year information on the Town's individual funds can be found on the Balance sheet on page 10 and the Statement of revenues, expenditures, and changes in fund balances on page 12.

- The net change in fund balance (excess of revenues over expenditures) for the Town's general fund was \$194,539 for the current fiscal year in comparison to \$170,374 for the prior fiscal year. This represents a favorable increase of approximately 14.18%.
- The actual revenues received in the Town's general fund were \$81,559 higher than the budgeted revenues for the current fiscal year which is a favorable variance in comparison to \$77,065 higher for the prior fiscal year which was also a favorable variance. This excess of actual revenues in comparison to budgeted revenues is due in large part to the excise tax revenues exceeding the budgeted amount by \$48,362, the actual intergovernmental education revenues exceeding the budgeted amount by \$7,855 and the intergovernmental other revenues exceeding the budgeted amount by \$6,989. See the budget to actual comparison statement on pages 14 and 15 for more detailed information on actual revenues and expenditures in comparison to the budgeted amounts.
- The actual program expenditures in the Town's general fund were \$260,313 lower than the budgeted expenditures for the current fiscal year which is a favorable variance in comparison to \$171,195 lower than the budgeted expenditures for the prior fiscal year which was also a favorable variance. Shellfish conservation was underspent by \$24,947, maritime maintenance was underspent by \$29,674 and education was underspent by \$159,918 for the current fiscal year.
- In the current fiscal year, the Town budgeted to use \$93,470 of its restricted education fund balance to offset current education expenditures. The actual restricted amount which was available to use for education expenditures was \$285,774. The town also budgeted to use \$60,864 of its general assigned fund balance and \$69,949 of its general unassigned fund balance to offset various current fiscal year expenditures. Budgeting to use surplus in any way is the same as budgeting for a loss due to the fact that prior year accumulated balances cannot be shown as current year revenues.

Economic factors and next year's budgets and rates

The Town believes it is currently moving towards maintaining a sufficient unrestricted net position and unassigned fund balance to sustain the governmental activities and operations for an estimated two month period of time. The Town sees this trend continuing through future fiscal years. There are no currently known facts, decisions or conditions that the Town believes will significantly effect the financial position or results of the operations of the Town in the future.

Contacting the Town's financial management

This financial report is designed to provide a general overview of the Town's finances, comply with finance-related laws and regulations, and demonstrate the Town's commitment to public accountability. If you have questions about this report or need additional financial information, contact the Board of Selectman or the Town Clerk at Town Hall.

Town of Machiasport, Maine
Statement of activities
For the year ended June 30, 2015

	Expenses	Program Revenues			Net (expense) revenue and changes in net position
		Charges for services	Operating grants and contributions	Capital grants and contributions	
Primary government:					
Governmental activities:					
General government	\$ -152,910	\$ -	\$ -	\$ -	\$ -152,910
Public safety	-33,979	-	-	-	-33,979
Public works	-322,579	6,000	71,719	-	-244,860
Health and sanitation	-33,606	-	-	-	-33,606
Conservation	-101,652	20,150	-	-	-81,502
Education	-1,216,944	3,430	202,003	-	-1,011,511
Education on-behalf	-33,425	-	33,425	-	-
County tax	-163,801	-	-	-	-163,801
Unclassified	-56,121	-	-	-	-56,121
Capital outlay	-61,225	-	-	-	-61,225
Debt service					
Interest	-	-	-	-	-
	<u>\$ -2,176,242</u>	<u>\$ 29,580</u>	<u>\$ 307,147</u>	<u>\$ -</u>	<u>\$ -1,839,515</u>

General revenues:

Property taxes	1,623,918
Excise taxes	191,162
State revenue sharing	49,921
State homestead reimbursement	21,804
Other unclassified state revenues	7,507
Postal and other lease revenue	25,600
Sale of tax acquired property	8,618
Interest and dividends	5,749
Miscellaneous	10,982
Total general revenues	<u>1,945,261</u>

Change in net position	<u>105,746</u>
Net Position - July 1	1,574,324
Prior period adjustment - Note 12	<u>-57,102</u>
Net position - July 1 - restated	<u>1,517,222</u>
Net Position - June 30	<u>\$ 1,622,968</u>

See the accompanying notes to the basic financial statements.

Town of Machiasport, Maine
Reconciliation of Statement C to Statement A
for all governmental funds and activities
June 30, 2015

Fund balances of governmental funds as shown on Statement C \$ 1,580,516

Amounts reported for governmental activities in the government-wide financial statements (Statement A) are different than the amounts reported in the fund financial statements (Statement C) and must therefore be modified as follows:

1	The majority of the property tax receivable long-term asset is not available to pay for current period expenditures and therefore it is reported as a deferred inflow of resources in the fund financial statements. However this amount is considered earned when billed and in turn recorded as revenue in the government-wide financial statements and therefore must be added back in:		121,948
2	Certain state and federal grant revenues received by the Town are recorded as revenue when the amounts are available and measurable in accordance with the modified accrual basis of accounting in the fund financial statements. In addition, in accordance with the modified accrual basis of accounting the Town defers all revenues that are received prior to their normal period of receipt in the fund financial statements. However, the government-wide financial statements record revenues on the accrual basis of accounting when they have been earned and therefore these revenue amounts are deferred on Statement A and therefore must be subtracted out:		-31,556
3	Deferred outflows and inflows of resources represent a consumption or acquisition of net position that applies to a future period, and therefore will not be recognized as an expenditure or revenue until then, and therefore, they are not reported in the fund financial statements:		
	Deferred outflows of resources	29,310	
	Deferred inflows of resources	-24,629	4,681
4	Long-term liabilities, are not due and payable in the current period and therefore are not reported in the fund financial statements. However, they are reported in the government-wide financial statements and therefore must be subtracted out:		
	Net pension liability		-52,621
5	Inter fund receivable and payable balances between governmental funds are reported in the fund financial statements but are eliminated in the government-wide financial statements:		
	Inter fund receivables	779,461	
	Inter fund payables	-779,461	-
	Net position of governmental activities as shown on Statement A		<u>\$ 1,622,968</u>

See the accompanying notes to the basic financial statements.

Town of Machiasport, Maine
Reconciliation of Statement D and Statement B
for all governmental funds and activities
For the year ended June 30, 2015

Net changes in governmental fund balances as shown on Statement D	\$	81,509
<p>Amounts recorded for governmental activities in the government-wide financial statements (Statement B) are different than the amounts reported in the fund financial statements (Statement D) and therefore must be modified as follows:</p>		
1	Property tax revenues are recognized in the fund financial statements as described in note 1G of the notes to the financial statements. However property tax revenues are recorded in the full amount of the annual levy in the government-wide financial statements and therefore the current year adjustment described in note 1G must be added back in or subtracted back out as applicable.	5,670
2	The basis of presentation and revenue recognition is different from the fund financial statements to the government-wide financial statements. This difference in revenue recognition policies results in certain revenue amounts being recognized in the fund financial statements and deferred in the government-wide financial statements and therefore must be adjusted as follows:	
	Prior year unearned revenue amounts to be recognized	40,962
	Current year revenue amounts to be recorded as unearned	-31,556
		9,406
3	Deferred outflows and inflows of resources represent a consumption or acquisition of net position that applies to a future period, and therefore will not be recognized as an expenditure or revenue until then, and therefore, they are not reported in the fund financial statements. The following expenditure amounts represent the amortization of these deferred outflow and inflow amounts which are recorded in the government-wide financial statements.	
	Amortization of deferred outflow amounts	-7,614
	Amortization of deferred inflow amounts	6,228
		-1,386
4	Current year employer pension contributions represent a use of current financial resources and therefore are recorded as expenditures in the fund financial statements. However, these contributions are reported as deferred outflows of resources in the government-wide financial statements as they will be used to decrease the net pension liability in the subsequent fiscal year and therefore they must be added back in.	14,080
5	Some expenses reported in the government-wide financial statements do not require the use of current financial resources and, therefore, are not reported as expenditures in the fund financial statements:	
	Pension expense	-3,533
6	Inter fund transfers between governmental funds are reported in the fund financial statements but must be eliminated in the government-wide financial statements:	
	Operating transfers in	184,873
	Operating transfers out	-184,873
		-
Change in net position of governmental activities as shown on Statement B		\$ 105,746

See the accompanying notes to the basic financial statements.

Town of Machiasport, Maine
Statement of revenues, expenditures, and changes in fund balance
Budget and actual (Budgetary basis) - General fund
for the year ended June 30, 2015

	Original budget	Budget revisions	Final budget	Actual	Variance
Education					
Adult education	\$ 1,100	\$ -	\$ 1,100	\$ 1,100	\$ -
Community services	500	-	500	-	500
Contingency	15,000	-	15,000	-	15,000
Secondary tuition	435,427	-	435,427	392,136	43,291
Co-curricular for all schools	9,149	-	9,149	11,074	-1,925
Board of directors	17,457	-	17,457	11,316	6,141
District health	1,772	-	1,772	1,206	566
Fort O'Brien principal's office	34,771	-	34,771	39,284	-4,513
Fort O'Brien instruction	292,602	-	292,602	268,794	23,808
Fort O'Brien operation of plant	151,479	-	151,479	116,004	35,475
Elementary special education	185,843	-	185,843	147,450	38,393
Secondary special education	7,994	-	7,994	1,012	6,982
Transportation	48,797	-	48,797	52,597	-3,800
Shared superintendent costs	35,195	-	35,195	35,194	1
Shared special education costs	9,306	-	9,306	9,306	-
	<u>1,246,392</u>	<u>-</u>	<u>1,246,392</u>	<u>1,086,473</u>	<u>159,919</u>
County tax	<u>163,801</u>	<u>-</u>	<u>163,801</u>	<u>163,801</u>	<u>-</u>
Unclassified					
Town insurance coverage	21,100	-	21,100	19,973	1,127
Town health insurance	31,750	-	31,750	29,612	2,138
Third party appropriations	4,050	-	4,050	5,436	-1,386
General assistance	1,000	-	1,000	-	1,000
Veterans graves	1,100	-	1,100	1,100	-
	<u>59,000</u>	<u>-</u>	<u>59,000</u>	<u>56,121</u>	<u>2,879</u>
Total expenditures	<u>2,105,076</u>	<u>93,033</u>	<u>2,198,109</u>	<u>1,937,594</u>	<u>260,515</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-100,905</u>	<u>-93,033</u>	<u>-193,938</u>	<u>148,136</u>	<u>342,074</u>
Other financing sources (uses)					
Utilization of fund balances					
Restricted education	93,470	-	93,470	-	-93,470
Assigned	60,864	-	60,864	-	-60,864
Unassigned	51,000	18,949	69,949	-	-69,949
Transfers in	10,000	75,638	85,638	85,638	-
Transfers out	-37,681	-1,554	-39,235	-39,235	-
Total other financing sources (uses)	<u>177,653</u>	<u>93,033</u>	<u>270,686</u>	<u>46,403</u>	<u>-224,283</u>
Net change in fund balance	76,748	-	76,748	194,539	117,791
Non-budgeted State on behalf revenue				33,425	
Non-budgeted State on behalf expenditure				-33,425	
Fund balance - July 1				<u>1,063,760</u>	
Fund balance - June 30				<u>\$ 1,258,299</u>	

See the accompanying notes to the basic financial statements.

Town of Machiasport, Maine
Notes to the basic financial statements
June 30, 2015

The Town of Machiasport, Maine (the Town) is located in the eastern section of Maine and is located in Washington County. The Town is a municipal corporation which is governed by an elected Board of Selectmen.

Note 1 - Summary of significant accounting policies

The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting. Standards of accounting and financial reporting issued by the Financial Accounting Standards Board, Accounting Principles Board Opinions, and the Accounting Research Bulletins of the American Institute of Certified Public Accountants Committee on Accounting Procedure on or before November 30, 1989, generally are followed in the government-wide financial statements, when applicable, to the extent that those standards do not conflict with or contradict pronouncements of the GASB. The basic financial statements of the Town consist of government-wide financial statements and fund financial statements. The basis of presentation, measurement focus, and basis of accounting differ for these two types of financial statements and are described separately in Section B and C below. The other following sections represent a summary of the significant accounting policies as applied by the Town.

A. Reporting entity

The financial reporting entity consists of the primary government and its component units, organizations for which the primary government is financially accountable or for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government 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 that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

The Town has determined that the Machiasport Volunteer Fire Department meets the definition of a component unit due to its fiscal dependence on the Town and the nature and significance of their relationship. For a legally separate entity to be considered fiscally independent it must, among other things, have the authority to determine its budget without the primary government having the authority to approve and modify that budget. The Town approves a certain amount of money on an annual basis to be used for fire fighting activities for the Fire Department which in turn funds a portion of its operations. Though the Town does not directly have the authority to approve or modify the budget of the Department, it does indirectly do this by deciding the amount that it will or will not appropriate on an annual basis for fire fighting activities. In addition, the fire safety complex, fire trucks and other equipment used by the Department are purchased by the Town. This also creates a level of fiscal dependence due to the fact that the Department could not function in its current capacity without this assistance. In addition to the level of fiscal dependence between the Town and the Department, the Town considers the nature and significance of the relationship with the primary government as such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The activities of the Department should be shown on the Town's financials statements as a discretely presented component unit as opposed to a blended component unit in accordance with the provisions of GASB Statement No. 14 as amended by Statement Nos. 39 and 61. Audited financial information of the Department, however, have not been included in the accompanying government-wide financial statements and therefore the independent auditors' report includes an opinion modification.

B. Government-wide financial statements

1. Basis of presentation

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements report information about the Town as a whole without displaying individual funds or fund types. These statements distinguish between the primary government as well as the governmental and business-type activities of the Town. These statements do not include information about the fiduciary activities and funds of the Town or component units which are fiduciary in nature. Fiduciary activities and funds report assets which are held by the Town in a trustee or agency capacity and which cannot be used to support the activities and programs of the Town.

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Governmental fund reporting focuses primarily on the sources, uses, and balances of the current financial resources of the Town. The governmental funds used by the Town include the general fund. Other non-major governmental fund types used by the Town may include special revenue funds, capital project funds, and permanent funds. The general use and purpose of these individual governmental fund types are as follows. The individual names of each fund within each non-major governmental fund type can be found in the accompanying combining schedules and the purpose of the fund is generally self explanatory within each title.

- a. General fund - The general fund is the main operating fund of the Town. It is used to account for and report all financial resources not accounted for and reported in another fund.
- b. Special revenue funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term proceeds of specific revenue sources establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. The specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund, however, those amounts should not be recognized as revenue in the fund initially receiving them but rather be shown as revenue in the special revenue fund in which they will be expended for the specified purpose. The restricted or committed proceeds of the specific revenue sources should be expected to continue to make up a substantial portion of the resources flowing into the fund. Other financial resources such as investment income and transfers from other funds may also be reported within a special revenue fund as long as those resources are restricted, committed or assigned to the specified purpose of the fund.
- c. Capital project funds - Capital project funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, such as the acquisition or construction of capital facilities and other capital assets.
- d. Permanent funds - Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the Town's programs and in effect the benefit of the Town or its citizens. The Town currently does not have any permanent funds.

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the programs of the Town. The fiduciary funds of the Town consist of only agency funds which are used to report resources held by the Town in a purely custodial capacity.

The balance sheet is used to report information about the current financial resources (assets, deferred outflows of resources, liabilities, deferred inflows of resources and fund balances) of each major governmental fund and for all non-major governmental funds in the aggregate. The fund balance amounts within the governmental funds are segregated between nonspendable, restricted, committed, assigned and unassigned amounts. These balances are shown on the face of the balance sheet in the aggregate but are broken out into the required detail in note 1T starting on page 25. An accompanying schedule is also required to be completed to reconcile the total governmental fund balance to the total net position balance of the governmental activities of the Town as shown on the government-wide statement of net position.

The statement of revenues, expenditures, and changes in fund balances is used to report information about the inflows, outflows, and balances of current financial resources of each major governmental fund and all non-major funds in the aggregate. Revenues are classified by major revenue sources while expenditures are classified by categories of individual functions corresponding to the different departments and operations of the Town. The proceeds from the issuance of long-term debt and operating transfers between individual funds are shown as other financing sources and uses. An accompanying schedule is also required to be completed to reconcile the total change in governmental fund balances to the total change in net position of the governmental activities of the Town as shown on the government-wide statement of activities.

The budgetary comparison information is required to be presented for the general fund and each major special revenue or capital project fund that has a legally adopted annual budget. This statement shows the original budget as voted on and appropriated, the changes made to each individual departmental line item within the budget, and the final budget which is compared to the actual revenue and expenditure balances to come up with the favorable or unfavorable variance numbers.

The statement of fiduciary net position shows information in regard to the assets and liabilities of the fiduciary funds of the Town (agency funds). The statement of changes in fiduciary net position shows information in regard to the additions to, subtractions from, and net increase or decrease for the year in fiduciary fund net position. Given the type of the fiduciary funds of the Town (agency funds), this statement of changes in fiduciary net position is not applicable for the current fiscal year.

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H. Inventories

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used which is in accordance with the consumption method. On the fund financial statements, inventories are presented at cost on a first-in, first-out basis and are recorded as expenditures when used. The Town currently has no material and reported inventory amounts.

I. Tax acquired property

Property which has been foreclosed on by the Town due to non-payment of taxes or other similar situations is classified as tax acquired property at the value of the original outstanding tax receivable amount. Interest and fees on the property are recorded at such time when the property is sold. The amount of the sale is first credited against the tax acquired property account on the balance sheet and then the remaining amount is credited against the sale of Town property account on the income statement of the town property purchase/sale special revenue fund. The town sold three tax acquired properties during the current fiscal year and has three remaining properties at a recorded value of \$1,702.

J. Prepaid items

Payments made to vendors for services and in certain circumstances goods that will benefit periods beyond the end of the fiscal year are recorded as prepaid expenses-expenditures using the consumption method by recording an asset for the prepaid amount and reflecting the expense-expenditure in the subsequent year (s) in which the services are consumed. Expenditures relatively minor in nature for insurance and similar services extending over more than one accounting period need not be allocated between or among accounting periods, but may be accounted for as expenditures of the period of acquisition. The Town considers relatively minor in nature to include aggregated similar items not exceeding \$2,500. Payments made to vendors for services and in certain circumstances goods that will only benefit periods beyond the end of the fiscal year which are related to grants are recorded as prepaid expenses-expenditures regardless of the dollar amount.

K. Capital assets

The Town does not presently record capital assets on the government-wide financial statements. This is not in accordance with generally accepted accounting principles and therefore the audit report has been modified for this omission. The Town does plan to record these capital assets at some future date and accordingly this description is being included to describe how the capital assets of the Town will be accounted for. Capital assets of the Town include land, land improvements, buildings, building improvements, vehicles, equipment, infrastructure, and all other tangible and intangible assets which may arise that are used in operations and that have an initial useful life extending beyond a single fiscal year. Infrastructure assets are long-lived capital assets that are normally stationary in nature and can normally be preserved for a significantly greater number of years than most capital assets. The types of infrastructure assets recorded by the Town include but are not limited to improved town roads, unimproved town roads, and bridges. All improvements to infrastructure and other capital assets are capitalized which add to the value or materially extend the life of the asset. All capital assets of the Town are recorded at historical cost or estimated historical cost when the actual amount is not available. The historical cost of these assets includes not only the cost of the asset but also capitalized interest charges and other direct costs associated with placing the asset into its intended location and its intended use. The Town maintains a capitalization threshold of \$5,000 for all capital assets with the exception of land purchases which are recorded regardless of amount. Donated capital assets are reported at their estimated fair value at the time of acquisition plus other costs associated with placing the asset into its intended location and intended use. Capital assets are shown on the government-wide statement of net position.

Land and land improvements are not depreciated. All other individual capital assets of the Town are depreciated over their estimated useful lives using the straight line method. Under this method, the recorded cost of each capital asset less any estimated residual value is divided by the estimated useful life resulting in an even amount of depreciation to be taken on an annual basis. The estimated residual value is the amount that the capital asset is expected to be worth at the end of its useful life. The general estimated useful lives for specific types of capital assets are 3 - 10 years for equipment, 5 - 10 years for vehicles, 30 - 50 years for buildings and building improvements and infrastructure. Capital assets which are under construction but not yet completed are recorded as construction in progress. These capital assets will not begin to be depreciated until they are completed. Depreciation expense is allocated to the specific functions (sometimes referred to as departments) of the Town based on which function purchased or benefits from the assets. Depreciation on assets shared between two or more functions is allocated based on the percentage purchased by each function. If the benefit received from these assets shifts from the function making the purchase to another function in a material amount, the depreciation amount being charged will be shifted accordingly. Depreciation on capital assets which benefit all of the functions of the Town, such as infrastructure assets, is shown as a separate line item. Depreciation expense on capital assets is only shown on the government-wide statement of activities.

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P. Long-term obligations and related costs

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are capitalized and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. The current long-term liability of the town consists of the net pension liability.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Q. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Maine Public Employees Retirement System Consolidated Plan for Participating Local Districts (PLD Plan) and the Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan) as applicable and additions thereto deductions there from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

R. Budgets

The Town's policy is to adopt an annual budget for operations accounted for in the general fund. The budget is presented on the modified accrual basis of accounting (except in relation to teacher on-behalf payments made by the State which are not budgeted for and encumbrances) which is consistent with generally accepted accounting principles. In addition, the budget occasionally calls for certain amounts to be transferred or allocated to specific funds which have been set up by the Town for specific purposes. A portion of the budgeted revenues to be raised by the annual tax commitment is considered by the Town to be a specific revenue source which is committed to expenditure for these specified purposes. The budget calls for the revenue to be shown within the general fund and a transfer out to be shown to each of these specific funds. In accordance with the true accounting definition of a special revenue fund, specific revenue sources which in this case would be a portion of the annual tax commitment would be required to be shown as revenue of the specific fund. Therefore, on the Statement of revenues, expenditures and changes in fund balances (Statement D) property tax revenues would be shown for these specific special revenue funds with no transfers in or out being shown in either the general fund or the special revenue funds. On the Budget to actual statement for the general fund (Statement E) these amounts would be shown as property tax revenues for the general fund and as transfers out for the general fund in accordance with the approved budget of the Town. The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within each general function of the Town. Appropriations cannot be transferred or increased without Town approval obtained from a special Town meeting. Budget appropriations lapse at the end of the fiscal year, with the exception of those items voted on by the Town to be carried during the budget process. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

Early in the current fiscal year the Town prepared a budget for the fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them. A meeting of the inhabitants of the Town of Machiasport was then called for the purpose of adopting the proposed budget after public notice of the meeting and warrant items was given. The budget was adopted subsequent to passage by the inhabitants of the Town at a Town meeting on June 10, 2014.

	Revenues	Expenditures	Other financing sources (uses)	Net change in fund balance
GAAP basis - Statement D	\$ 2,119,155	\$ -1,971,019	\$ 46,403	\$ 194,539
State of Maine on-behalf benefits	-33,425	33,425	-	-
Budgetary basis - Statement E	<u>\$ 2,085,730</u>	<u>\$ -1,937,594</u>	<u>\$ 46,403</u>	<u>\$ 194,539</u>

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T. Fund balance classification policies and procedures - fund financial statements only

The fund balance amounts of the governmental funds of the Town on the balance sheet are broken down between nonspendable, restricted, committed, assigned and unassigned. These fund balance classifications are described as follows:

- a. **Nonspendable fund balance** - Nonspendable fund balance include amounts that cannot be spent because they are either (a) not in a spendable form such as inventories or prepaid expenditures or (b) they are legally or contractually required to be maintained intact such as the principal portion of a permanent fund. The nonspendable fund balance amounts as reported by the Town consist solely of the corresponding amount of the recorded inventory and prepaid expenditures when applicable.
- b. **Restricted fund balances** - Restricted fund balance include amounts that are restricted to a specific purpose when the restraints are placed on the use of the resources either by (a) externally imposed creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Town to assess, levy, charge or otherwise mandate payment of resources from external sources and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. The restricted fund balance amounts of the Town consist of the residual fund balance amounts at the end of the fiscal year as they relate to grants received from either state, federal or local funding sources or contributions received to be spent for specific purposes. These amounts are restricted to be expended on the items outlined within the funding agreement with the Town and cannot be used for any other specified purposes. In addition, State statute requires that any remaining unspent and budgeted amounts relating to education be carried over for educational purposes. This mandate is considered a form of enabling legislation imposed by the State and therefore any remaining funds are classified as restricted fund balance.
- c. **Committed fund balance** - Committed fund balance include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority. These committed amounts cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Board of Selectmen is considered to be the highest level of decision making authority within the Town for determining committed fund balance amounts. The Board of Selectmen has the final approval for the budget amounts which are presented to the citizens of the Town for approval and in turn the establishment of the related special revenue or capital project funds. The approval of the annual town budget occasionally includes amounts characterized as specific revenue sources as a portion of either the annual tax commitment or other specific revenue sources contained and voted on within the annual budget. An example of a committed fund balance amount would relate to an approved transfer to an established capital project or special revenue fund. The residual fund balance amount within these funds at the end of the fiscal year would be classified as committed fund balance. Any subsequent change in the specific purpose or use of these committed funds would need to be approved either at the annual town meeting or a special town meeting.
- d. **Assigned fund balance** - Assigned fund balance include amounts that are constrained by the Town with the intent to be used for specific purposes, but which are neither restricted or committed. The intent to use funds for specific purposes is to be assigned by either town meeting appropriations or the Board of Selectmen. The Board of Selectmen have the authority to accept funds on behalf of the Town which are specific revenue sources to be used for specific purposes and to establish special revenue or capital project funds to account and report these amounts. Assigned special revenue and capital project funds are usually made up of small streams of specific revenue sources for specific purposes for which there is a perceived benefit to segregating and reporting the funds rather than including them within the general fund. In addition, annual budgetary encumbrances outstanding at the end of the fiscal year would be classified by the Town as assigned amounts within the general or specific special revenue or capital project funds. Current fiscal year remaining balances that have been approved to be carried forward to the next fiscal year are classified as assigned fund balance within the general fund. Subsequent fiscal year budgeted appropriations of the unassigned general fund balance are also reported as assigned fund balance amounts of the general fund at the end of the current fiscal year.
- e. **Unassigned fund balance** - Unassigned fund balance is the residual classification for the general fund of the Town. This classification represents fund balance amounts that have not been assigned to other funds and that have not been restricted, committed or assigned to specific purposes within the general fund. Unassigned fund balance amounts are normally only recorded within the general fund. However, unassigned amounts can be recorded within any fund when they represent the residual deficit fund balances of a particular fund which has no restricted, committed or assigned fund balance amounts which can absorb the deficit.

Town of Machiasport, Maine
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Note 2 - Cash

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. At year end, the carrying amount of the Town's deposits was \$1,654,106 with the corresponding bank balances of accounts at various financial institutions totaling \$1,722,330. The difference between the two amounts being represented by timing differences with outstanding checks and deposits in transit. FDIC insurance covers all deposit accounts, including checking and savings accounts, money market deposit accounts and certificates of deposit. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category. For government accounts the ownership category is per official custodian. The Town has also entered into a pledge and security agreement for public deposits with the financial institution in which it does the majority of its business for the collateralization of its municipal deposits. As part of this agreement, the financial institution deposits balances into an account set up with a third party custodian institution with the account being in the name of the Town as the pledgee and to the benefit of the Town in case of failure of the financial institution. As of close of business on June 30, 2015, the book value of the securities held as part of this third party custodian agreement were approximately \$2,159,285. This represents that the uninsured cash balances of the Town are fully collateralized with securities which are in the name of the Town as the pledgee. The Town does not have a formal deposit policy for custodial credit risk beyond the requirements of State statutes.

Note 3 - Restricted cash - government-wide financial statements only

The Town breaks cash down between a regular current asset and a restricted asset on the government-wide statement of net position. The restricted cash amount is made up of cash balances which are restricted for a specific purpose in subsequent fiscal years. The current year amount shown on the statement of net position is made up of the balance of state, federal and other grant program balances. The current fiscal year unearned revenue balances on the government-wide financial statements and in turn the restricted cash balances equal \$31,556 which represents unspent state, federal and other grant program balances. This restricted cash balances if offset by a corresponding unearned revenue balance in the liability section of the statement of net position.

Note 4 - Inter fund receivables, payables, and transfers - fund financial statements only

The Town maintains a cash pool that is available for use by all funds. Each fund's portion of this pool is displayed on the balance sheet as "due to or from other funds" under each fund's caption. The purpose for inter fund balances is to keep track of each fund's position in this cash pool. These balances are not expected to be repaid due to the fact that they simply represent funds collected or spent by one fund on behalf of another fund. Only the balances for the general fund are being shown due to the fact that all inter fund balances are either due to or due from the general fund.

General Fund	Receivables due from	Payables due to
Non-major special revenue funds:		
Fire equipment reserve	\$ -	\$ 36,617
Town building reserve	-	15,519
Highway equipment reserve	-	5,678
Grant seed reserve	-	14,229
Town property purchase sale reserve	-	213,357
Atlantic Salmon pier lease reserve	-	48,022
Town Post office lease reserve	-	109,924
Fema storm grants	-	2,509
King foundation grant	-	6,570
Maritime maintenance grant	-	3,569
250 th town celebration	-	1,660
Educational grants and programs	78,947	58,179
Non-major capital project funds:		
Cemetery bypass road construction	154,681	-
Port road slip construction	-	30,000
	\$ 233,628	\$ 545,833

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Note 7 - Expenditures over appropriations

The following individual budgeted expenditures were exceeded by actual expenditures. The balance shown in the column labeled budgeted expenditures is equal to both the current year budgeted expenditure plus any prior year carried balances. In addition, the individual budgeted expenditure lines shown below may be made up of a larger budgeted department or activity when being voted on at the annual town meeting. The town creates a more detailed budget in order to more closely track its spending.

Account	Budgeted expenditures	Actual expenditures	Excess	Allocated revenues	Balance
Administration printing and postage	\$ 3,400	\$ -3,512	\$ -112	\$ -	\$ -112
Administration registry of deeds	3,350	-3,421	-71	-	-71
Administration other	7,350	-8,123	-773	-	-773
Town clerk salary and wages	33,949	-47,704	-13,755	-	-13,755
Social security expense	10,000	-10,598	-598	-	-598
Fire and ambulance other	2,946	-4,536	-1,590	1,590	-
Winter roads plowing	43,824	-46,393	-2,569	2,569	-
Road signs	500	-600	-100	-	-100
Maritime repairs and maintenance	-	-138	-138	138	-
Maritime electric and septic	-	-514	-514	514	-
Clam warden	23,550	-24,566	-1,016	2,150	1,134
School - Co-curricular	9,149	-11,074	-1,925	670	-1,255
School - Principal's office	34,771	-39,285	-4,514	2,549	-1,965
School - Transportation	48,797	-52,597	-3,800	3,577	-223
Adult education allocation	1,300	-2,600	-1,300	-	-1,300
	<u>\$ 222,886</u>	<u>\$ -255,661</u>	<u>\$ -32,775</u>	<u>\$ 13,757</u>	<u>\$ -19,018</u>

Note 8 - Deficit fund balances

In accordance with GAAP, all deficit fund balances and their nature must be disclosed. The following individual non-major funds had deficit fund balances as of June 30, 2015. These deficit fund balances represent an excess of expenditures over actual revenues, appropriations, and recorded receivables. The nine education grant and other programs shown below represent state, federal and other award programs. The deficit fund balances are the result of grant and other funds being spent either before they can be billed for or before they have been billed for. The ARRA education grants as well as the 21st Century grant are complete so unless additional funds are received from the State of Maine, these deficit fund balances will need to be absorbed by the Town. The deficit in the cemetery bypass road construction project will need to be appropriated in future fiscal years from either tax commitment revenue or unassigned fund balance amounts.

	Deficit fund balance
Non-major special revenue funds:	
ARRA Title I grant	\$ -2,145
ARRA Title II grant	-59
ARRA Stimulus funds	-999
Title I grant	-3,055
Title V grant	-2,772
Local entitlement	-13,019
21 st Century grant	-20,262
REAP	-28,905
Professional development	-83
	<u>-71,299</u>
Non-major capital project funds	
Cemetery bypass road construction	<u>-154,681</u>
	<u>\$ -225,980</u>

Town of Machiasport, Maine
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Note 11 - Defined benefit pension plan

Maine Public Employees Retirement System

Plan description - The certified teaching employees and other qualified educators of the School Department of the Town are provided with pensions through the Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan), a cost-sharing multiple-employer defined benefit pension plan, administered by the Maine Public Employees Retirement System (MPERS). The plan 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 Maine State Legislature. MPERS issues a publicly available financial report that may be obtained by writing to the MPERS, 46 State House Station, Augusta, Maine 04333, or by calling 1-800-451-9800 or by visiting their website at www.maineipers.org.

Benefits provided - The SET Plan provides defined retirement benefits based on member's average final compensation and service credit earned as of retirement. Vesting (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit (effective October 1, 1999, the prior ten year requirement was reduced by legislative action to five years). In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. For plan members, normal retirement age is 60, 62, or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. MPERS also provides disability and death benefits, which are established by statute for the SET Plan. Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the Plan's Board of Trustees and is currently 5%.

Contribution requirements - The contribution requirements of the SET Plan members are defined by law or the Plan's Board. Plan members of the School Department of the Town are required to contribute 7.65% of earnable compensation to the plan. The employee's contributions are deducted from the employee's wages or salary and remitted by the School Department to the plan on a monthly basis. The State is statutorily required to contribute 13.50% of plan members earnable compensation to the plan, excluding wages covered by grants, which pays for the unfunded liability for the teachers. Employer contribution rates are determined through actuarial valuations. The School Department's required contribution rate for the year ended June 30, 2015, was 2.65% of plan members earnable compensation, plus 13.50% for grant funded wages, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year (normal cost contributions). Contributions to the plan by the Organization were \$7,795 for non-grant funded wages and \$6,286 for grant funded wages for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions - The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town School Department's proportion of the net pension liability was based on a projection of the School Department's long-term share of contributions relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2014, the School Department's proportion was 0.005266 percent, which was an increase of 0.000688 from its proportion measured as of June 30, 2013.

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

Town School Department's proportionate share of the net pension liability	\$	52,621
State's proportionate share of the net pension liability associated with the Town School Department		226,048
Total	\$	278,669

Town of Machiasport, Maine
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Actuarial assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
Salary increases, per year	3.5% to 13.5%
Investment rate of return, compounded annually	7.125%
Cost of living benefit increases, per annum	2.55%

Mortality rates were based on the RP2000 Combined Mortality Table projected forward to 2015 using Scale AA. For active members and non-disabled retirees, ages are set back 2 years. For disabled recipients the Revenue Ruling 96-7 Disabled Mortality Table for Males & Females is used. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period of July 1, 2005 to June 30, 2010.

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

Asset class	Target allocation	Long-term expected real rate of return
U.S. equities	20%	2.5%
Non-U.S. equities	20%	5.5%
Private equity	10%	7.6%
Real estate	10%	3.7%
Infrastructure	10%	4.0%
Hard assets	5%	4.8%
Fixed income	25%	0.0%
Total	<u>100%</u>	

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

Sensitivity of the Town's proportionate share of the net pension liabilities to changes in the discount rate - The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.125% for the SET Plan, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.125%) or 1 percentage-point higher (8.125%) than the current rate:

	1% Decrease (6.125%)	Current discount rate (7.125%)	1% Increase (8.125%)
Town's proportionate share of the net pension liability	\$ 108,968	\$ 52,621	\$ 13,313

Town of Machiasport, Maine
Notes to the basic financial statements
June 30, 2015

Note 14 - Financial statement modifications

The financial statements of the Town do not include the value and classification of the Town's capital assets which must be present for the statements to be in accordance with accounting principles generally accepted in the United States of America. At present, the Town does not have a detailed, accurate, and reliable record of its capital assets. An accurate estimate of the value of this omission cannot be made as of June 30, 2015. When an inventory is done, the capital assets of the Town in addition to any related accumulated depreciation will be added to the basic financial statements in accordance with accounting principles generally accepted in the United States of America. The management of the Town has stated that this inventory will be completed for the upcoming fiscal year.

The financial statements of the Town do not include the activities and balances of the Machiasport Volunteer Fire Department which has been determined to be a component unit of the Town in accordance with Government Accounting Standards Board Statement No. 14. Section 2600.102 of the Codification of Governmental Accounting and Financial Reporting Standards states that, "the financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete". With the Department being considered a component unit, the activities of the Department should be shown on the Town's financials statements as a discretely presented component unit in accordance with the provisions of GASB Statement No. 14 as amended by Statement Nos. 39 and 61. The financial information of the Department, however, has not been included in the accompanying government-wide statement of net position and statement of activities of the Town and therefore the independent auditors' report has been modified.

Note 15 - Subsequent events

The Town has evaluated subsequent events through December 30, 2015, the date to which the financial statements were available to be issued. There were no recognized subsequent events that would require adjustments to the financial statements and there were no non-recognized subsequent events that would require disclosure in the notes to the financial statements.

Town of Machiasport, Maine
 Schedule of Town contributions
 Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan)
 Last ten fiscal years (for the only years available)

	2015
Contractually required contribution	\$ 7,795
Contributions in relation to the contractually required contribution	-7,795
Contribution deficiency (excess)	\$ -
Town's covered-employee payroll	\$ 294,151
Contributions as a percentage of covered-employee payroll	2.65%

Town of Machiasport, Maine
Combining Statement of revenues, expenditures and changes in
fund balances - Town and School Department general fund
For the year ended June 30, 2015

	Town General fund	School General fund	Total General fund
Revenues			
Property taxes, interest and fees	\$ 515,080	\$ 1,103,169	\$ 1,618,249
Excise taxes	191,162	-	191,162
Intergovernmental revenues			
Education			
State operating subsidy	-	85,359	85,359
Other	-	7,653	7,653
Education on-behalf	-	33,425	33,425
Other			
State revenue sharing	49,921	-	49,921
State road assistance	58,192	-	58,192
State homestead reimbursement	21,804	-	21,804
Other	13,507	-	13,507
Interest and dividends	4,185	-	4,185
Clam license and other sales	20,150	-	20,150
Postal lease revenue	1,320	-	1,320
Other miscellaneous revenues	13,120	1,108	14,228
Total revenues	<u>888,441</u>	<u>1,230,714</u>	<u>2,119,155</u>
Expenditures			
Current:			
General government	152,910	-	152,910
Public safety	33,979	-	33,979
Public works	309,052	-	309,052
Health and sanitation	33,606	-	33,606
Conservation	101,652	-	101,652
Education	-	1,086,473	1,086,473
Education on-behalf	-	33,425	33,425
County tax	163,801	-	163,801
Unclassified	56,121	-	56,121
Capital outlay	-	-	-
Total expenditures	<u>851,121</u>	<u>1,119,898</u>	<u>1,971,019</u>
Excess (deficiency) of revenues over (under) expenditures	<u>37,320</u>	<u>110,816</u>	<u>148,136</u>
Other financing sources (uses)			
Transfers in	85,638	-	85,638
Transfers out	-1,554	-37,681	-39,235
Total other financing sources (uses)	<u>84,084</u>	<u>-37,681</u>	<u>46,403</u>
Net change in fund balances	121,404	73,135	194,539
Fund balances - July 1	<u>777,986</u>	<u>285,774</u>	<u>1,063,760</u>
Fund balances - June 30	<u>\$ 899,390</u>	<u>\$ 358,909</u>	<u>\$ 1,258,299</u>

Town of Machiasport, Maine
Combining Balance sheet and Combining Statement of revenues,
expenditures and changes in fund balances - Non-major special revenue funds
As of and for the year ended June 30, 2015

	Town non-major special revenue funds	School non-major special revenue funds	Totals
Assets			
Cash	\$ -	\$ -	\$ -
Receivables (net of allowance)			
Other	-	26,210	26,210
Due from other funds	457,654	58,179	515,833
Total assets	<u>457,654</u>	<u>84,389</u>	<u>542,043</u>
Liabilities			
Accounts payable	-	6,033	6,033
Accrued payroll	-	10,165	10,165
Due to other funds	-	78,947	78,947
Total liabilities	<u>-</u>	<u>95,145</u>	<u>95,145</u>
Fund balances			
Nonspendable	-	-	-
Restricted	12,648	44,472	57,120
Committed	287,060	-	287,060
Assigned	157,946	16,071	174,017
Unassigned	-	-71,299	-71,299
Total fund balances	<u>457,654</u>	<u>-10,756</u>	<u>446,898</u>
Total liabilities and fund balances	<u>\$ 457,654</u>	<u>\$ 84,389</u>	<u>\$ 542,043</u>
Revenues			
Intergovernmental	\$ 2,509	\$ 110,603	\$ 113,112
Interest and dividends	1,564	-	1,564
Lease and sales revenue	29,298	3,430	32,728
Other miscellaneous revenues	-	354	354
Total revenues	<u>33,371</u>	<u>114,387</u>	<u>147,758</u>
Expenditures			
Operating	13,527	139,633	153,160
Capital outlay	61,225	-	61,225
Miscellaneous	-	-	-
Total expenditures	<u>74,752</u>	<u>139,633</u>	<u>214,385</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-41,381</u>	<u>-25,246</u>	<u>-66,627</u>
Other financing sources (uses)			
Transfers in	61,554	37,681	99,235
Transfers out	-145,638	-	-145,638
Total other financing sources (uses)	<u>-84,084</u>	<u>37,681</u>	<u>-46,403</u>
Net change in fund balances	-125,465	12,435	-113,030
Fund balances - July 1	583,119	-23,191	559,928
Fund balances - June 30	<u>\$ 457,654</u>	<u>\$ -10,756</u>	<u>\$ 446,898</u>

Town of Machiasport, Maine
Combining Balance sheet and Combining Statement of revenues,
expenditures and changes in fund balances - Non-major special revenue funds - Town
As of and for the year ended June 30, 2015

	Town post office lease reserve	Fema storm grants	King foundation grant	Maritime maintenance grant	250th town celebration	Totals
Assets						
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables (net of allowance)						
Other	-	-	-	-	-	-
Due from other funds	109,924	2,509	6,570	3,569	1,660	457,654
Total assets	<u>109,924</u>	<u>2,509</u>	<u>6,570</u>	<u>3,569</u>	<u>1,660</u>	<u>457,654</u>
Liabilities						
Accounts payable	-	-	-	-	-	-
Accrued payroll	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances						
Nonspendable	-	-	-	-	-	-
Restricted	-	2,509	6,570	3,569	-	12,648
Committed	-	-	-	-	1,660	287,060
Assigned	109,924	-	-	-	-	157,946
Unassigned	-	-	-	-	-	-
Total fund balances	<u>109,924</u>	<u>2,509</u>	<u>6,570</u>	<u>3,569</u>	<u>1,660</u>	<u>457,654</u>
Total liabilities and fund balances	<u>\$ 109,924</u>	<u>\$ 2,509</u>	<u>\$ 6,570</u>	<u>\$ 3,569</u>	<u>\$ 1,660</u>	<u>\$ 457,654</u>
Revenues						
Intergovernmental	\$ -	\$ 2,509	\$ -	\$ -	\$ -	\$ 2,509
Interest and dividends	464	-	-	-	-	1,564
Lease and sales revenue	20,680	-	-	-	-	29,298
Other miscellaneous revenues	-	-	-	-	-	-
Total revenues	<u>21,144</u>	<u>2,509</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,371</u>
Expenditures						
Operating	-	13,527	-	-	-	13,527
Capital outlay	-	-	-	-	-	61,225
Miscellaneous	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>13,527</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,752</u>
Excess (deficiency) of revenues over (under) expenditures	<u>21,144</u>	<u>-11,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-41,381</u>
Other financing sources (uses)						
Transfers in	-	-	-	-	-	61,554
Transfers out	-136,600	-	-	-	-	-145,638
Total other financing sources (uses)	<u>-136,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-84,084</u>
Net change in fund balances	-115,456	-11,018	-	-	-	-125,465
Fund balances - July 1	<u>225,380</u>	<u>13,527</u>	<u>6,570</u>	<u>3,569</u>	<u>1,660</u>	<u>583,119</u>
Fund balances - June 30	<u>\$ 109,924</u>	<u>\$ 2,509</u>	<u>\$ 6,570</u>	<u>\$ 3,569</u>	<u>\$ 1,660</u>	<u>\$ 457,654</u>

Town of Machiasport, Maine
Combining Balance sheet and Combining Statement of revenues,
expenditures and changes in fund balances - Non-major special revenue funds - School
As of and for the year ended June 30, 2015

	Title IV grant	Title V grant	Local entitlement grant	Transition grant	21st Century grant	REAP grant
Assets						
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables (net of allowance)						
Other	-	-	9,081	-	-	-
Due from other funds	678	-	-	1,527	-	-
Total assets	<u>678</u>	<u>-</u>	<u>9,081</u>	<u>1,527</u>	<u>-</u>	<u>-</u>
Liabilities						
Accounts payable	-	-	5,256	-	-	-
Accrued payroll	-	-	1,824	-	-	2,129
Due to other funds	-	2,772	15,020	-	20,262	26,776
Total liabilities	<u>-</u>	<u>2,772</u>	<u>22,100</u>	<u>-</u>	<u>20,262</u>	<u>28,905</u>
Fund balances						
Nonspendable	-	-	-	-	-	-
Restricted	678	-	-	1,527	-	-
Committed	-	-	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	-	-2,772	-13,019	-	-20,262	-28,905
Total fund balances	<u>678</u>	<u>-2,772</u>	<u>-13,019</u>	<u>1,527</u>	<u>-20,262</u>	<u>-28,905</u>
Total liabilities and fund balances	<u>\$ 678</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,527</u>	<u>\$ -</u>	<u>\$ -</u>
Revenues						
Intergovernmental	\$ -	\$ -	\$ 31,686	\$ 731	\$ -	\$ -
Interest and dividends	-	-	-	-	-	-
Lease and sales revenue	-	-	-	-	-	-
Other miscellaneous revenues	-	-	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>31,686</u>	<u>731</u>	<u>-</u>	<u>-</u>
Expenditures						
Operating	-	-	32,917	-	-	15,213
Capital outlay	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>32,917</u>	<u>-</u>	<u>-</u>	<u>15,213</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-1,231</u>	<u>731</u>	<u>-</u>	<u>-15,213</u>
Other financing sources (uses)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-1,231	731	-	-15,213
Fund balances - July 1	678	-2,772	-11,788	796	-20,262	-13,692
Fund balances - June 30	<u>\$ 678</u>	<u>\$ -2,772</u>	<u>\$ -13,019</u>	<u>\$ 1,527</u>	<u>\$ -20,262</u>	<u>\$ -28,905</u>

Town of Machiasport, Maine
Combining Balance sheet and Combining Statement of revenues,
expenditures and changes in fund balances - Non-major capital project funds - Town
As of and for the year ended June 30, 2015

	Port road slip construction	Cemetery bypass road construction	Totals
Assets			
Cash	\$ -	\$ -	\$ -
Receivables (net of allowance)			
Other	-	-	-
Due from other funds	30,000	-	30,000
Total assets	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Liabilities			
Accounts payable	-	-	-
Accrued payroll	-	-	-
Due to other funds	-	154,681	154,681
Total liabilities	<u>-</u>	<u>154,681</u>	<u>154,681</u>
Fund balances			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	30,000	-	30,000
Assigned	-	-	-
Unassigned	-	-154,681	-154,681
Total fund balances	<u>30,000</u>	<u>-154,681</u>	<u>-124,681</u>
Total liabilities and fund balances	<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>
Revenues			
Intergovernmental	\$ -	\$ -	\$ -
Property tax revenues	-	-	-
Interest and dividends	-	-	-
Lease and sales revenue	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures			
Operating	-	-	-
Capital outlay	-	-	-
Miscellaneous	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-
Fund balances - July 1	<u>30,000</u>	<u>-154,681</u>	<u>-124,681</u>
Fund balances - June 30	<u>\$ 30,000</u>	<u>\$ -154,681</u>	<u>\$ -124,681</u>

Town of Machiasport, Maine
Schedule of departmental operations - General fund
For the year ended June 30, 2015

	07/01/14 carried balances	Budgeted allocation	Allocated revenues	Total available	Expenditures	Lapses	06/30/15 carried balances
Education:							
Adult education	\$ 1,081	\$ 945	\$ 81	\$ 2,107	\$ 1,100	\$ -	\$ 1,007
Community services	1,329	430	37	1,796	-	-	1,796
Contingency	39,636	12,887	1,099	53,622	-	-	53,622
Secondary education	10,971	374,083	31,916	416,970	392,136	-	24,834
Co-curricular for all schools	-546	7,860	670	7,984	11,074	-	-3,090
Board of directors	27,998	14,998	1,279	44,275	11,316	-	32,959
District health	-3,730	1,522	130	-2,078	1,206	-	-3,284
Fort O'Brien principal's office	3,470	29,872	2,549	35,891	39,284	-	-3,393
Fort O'Brien instruction	68,907	251,380	21,447	341,734	268,794	-	72,940
Fort O'Brien operation of plan	69,225	130,138	11,103	210,466	116,004	-	94,462
Elementary special education	41,518	159,661	13,622	214,801	147,450	-	67,351
Secondary special education	24,641	6,868	586	32,095	1,012	-	31,083
Transportation	5,259	41,922	3,577	50,758	52,597	-	-1,839
Shared superintendents costs	-2,185	30,236	2,580	30,631	35,194	-	-4,563
Shared special education costs	-1,477	7,995	682	7,200	9,306	-	-2,106
Shared vocational education costs	276	-	-	276	-	-	276
School lunch program allocation	-599	32,372	2,762	34,535	37,681	-	-3,146
	<u>285,774</u>	<u>1,103,169</u>	<u>94,120</u>	<u>1,483,063</u>	<u>1,124,154</u>	<u>-</u>	<u>358,909</u>
Special assessments:							
County tax	-	163,801	-	163,801	163,801	-	-
Unclassified:							
Town insurance coverage	-	21,100	-	21,100	19,973	1,127	-
Town health insurance	-	31,750	-	31,750	29,612	2,138	-
Third party appropriations	-	4,050	-	4,050	5,436	-1,386	-
General assistance	-	1,000	-	1,000	-	1,000	-
Veterans graves	-	1,100	-	1,100	1,100	-	-
	-	59,000	-	59,000	56,121	2,879	-
Sub-totals	346,638	1,899,435	192,265	2,438,338	1,975,275	49,533	413,530
Operating transfers out							
Fire equipment reserve	-	1,554	-	1,554	1,554	-	-
Totals	<u>\$ 346,638</u>	<u>\$ 1,900,989</u>	<u>\$ 192,265</u>	<u>\$ 2,439,892</u>	<u>\$ 1,976,829</u>	<u>\$ 49,533</u>	<u>\$ 413,530</u>

Stephen T. Hopkins, CPA, PC

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Independent Auditors' Report on internal control over financial reporting and on compliance and other matters

Board of Selectmen
Town of Machiasport, Maine

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Machiasport, Maine, as of and for the year ended June 30, 2015, which collectively comprise the Town of Machiasport, Maine's financial statements and have issued our report thereon dated December 30, 2015. A modified opinion was issued on the financial statements of the Town of Machiasport, Maine as it relates to the government-wide financial statement exclusion of capital assets and the financial information of an entity determined to be a component unit. This qualification is described in more detail in the Independent Auditors' Report on pages 1 and 2 of the financial statements and note 13 on page 30 of the financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal control over financial reporting

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

Our consideration of internal control over financial reporting 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 financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we considered be material weaknesses and other deficiencies 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 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 deficiencies described in the accompanying schedule of findings and questioned costs and labeled as item numbers 15-02 and 15-05 to be material weaknesses.

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 accompanying schedule of findings and questioned costs and labeled as item numbers 15-01, 15-03 and 15-04 to be significant deficiencies.

Compliance and other matters

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

Town of Machiasport, Maine
Schedule of findings and questioned costs - Town
June 30, 2015

The following schedule of findings and questioned costs is associated with the accounting processes and transactions of the Town of Machiasport, Maine. Even though the School Department is a department of the Town, the findings for the School Department and the Town are being shown separately due to the fact that two different internal control systems are in place. The same finding may apply to both the School Department and the Town and would therefore be presented in each section of findings. The following findings relate to the accounting processes and transactions of the Town:

15-01 - Accounting policies and procedures manual

Criteria:

The management of the Town is responsible for implementing and maintaining a system of internal controls for which the design of the system would allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

Condition:

The Town does not currently have an accurate and in-depth accounting policies and procedures manual which would document the system of internal controls necessary to allow the prevention or detection and correction of misstatements on a timely basis. Without a documented system of internal control related policies and procedures it cannot be determined that the procedures being followed during the day to day accounting activities are adequate to prevent or detect and correct misstatements on a timely basis. We do consider this condition to represent a significant deficiency in internal control over financial reporting.

Context:

This type of manual is used to provide a general description of the general functions and specific duties of all personnel involved in the accounting, cash receipting, and bill paying system of the Town. The manual is also used to document the specific steps to be used in all accounting functions such as the processing of cash disbursements, the recording and deposit of cash receipts and the steps necessary to process payroll.

Effect:

The two main goals of developing and documenting an effective set of accounting policies and procedures is to provide reasonable assurance that the Town's specific objectives will be achieved and to set up a system of checks and balances which safeguard the assets of the Town. Without this set of policies and procedures there can be no reasonable assurance present that the Town's specific objective are being achieved or that its' assets are being safeguarded.

Cause:

The reason for this condition would appear to be a lack of available time and available resources within the accounting function of the Town.

Recommendation:

The Board of Selectmen should be involved with the development of a written policies and procedures manual that addresses the financial operations of the Town and specific duties of all personnel involved in the accounting, cash receipting, and bill paying system of the Town. This manual, drafted by the accounting department, should address the general accounting functions of the department and the overall financial policies of the Town as well as any other specific area (s) as so requested by the Board of Selectmen or other members of management of the Town. The final draft should be presented to the Board of Selectmen for approval. The accounting department would be responsible for implementing the specific policies and procedures. Any questions or disputes in regard to the implementation and operation of these policies and procedures should be presented to the Board of Selectmen for resolution. In addition, any subsequent amendments, revisions, or additions to this manual should be presented to the Board of Selectmen for approval.

Views of responsible officials and planned corrective actions:

This finding has been discussed with management and they appear to understand the importance of such a set of policies and procedures. The Town is currently working on developing an accounting policies and procedures manual. Once an adequate manual has been developed and is being followed, management believes that this significant deficiency will be eliminated.

Town of Machiasport, Maine
Schedule of findings and questioned costs - School Department
June 30, 2015

The following schedule of findings and questioned costs is associated with the accounting processes and transactions of the Town of Machiasport, Maine. Even though the School Department is a department of the Town, the findings for the School Department and the Town are being shown separately due to the fact that two different internal control systems are in place. The same finding may apply to both the School Department and the Town and would therefore be presented in each section of findings. The following findings relate to the accounting processes and transactions of the School Department:

15-03 - Accounting policies and procedures manual

Criteria:

The management of the School Department is responsible for implementing and maintaining a system of internal controls for which the design of the system would allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

Condition:

The School Department does not currently have an accurate and in-depth accounting policies and procedures manual which would document the system of internal controls necessary to allow the prevention or detection and correction of misstatements on a timely basis. Without a documented system of internal control related policies and procedures it cannot be determined that the procedures being followed during the day to day accounting activities are adequate to prevent or detect and correct misstatements on a timely basis. We do consider this condition to represent a significant deficiency in internal control over financial reporting.

Context:

This type of manual is used to provide a general description of the general functions and specific duties of all personnel involved in the accounting, cash receipting, and bill paying system of the School Department. The manual is also used to document the specific steps to be used in all accounting functions such as the processing of cash disbursements, the recording and deposit of cash receipts and the steps necessary to process payroll.

Effect:

The two main goals of developing and documenting an effective set of accounting policies and procedures is to provide reasonable assurance that the School Department's specific objectives will be achieved and to set up a system of checks and balances which safeguard the assets of the School Department. Without this set of policies and procedures there can be no reasonable assurance present that the School Department's specific objective are being achieved or that its' assets are being safeguarded.

Cause:

The reason for this condition would appear to be a lack of available time and available resources within the accounting function of the School Department.

Recommendation:

The School Board should be involved with the development of a written policies and procedures manual that addresses the financial operations of the School Department and specific duties of all personnel involved in the accounting, cash receipting, and bill paying system of the School Department. This manual, drafted by the accounting department, should address the general accounting functions of the department and the overall financial policies of the School Department as well as any other specific area (s) as so requested by the School Board or other members of management of the School Department. The final draft should be presented to the School Board for approval. The accounting department would be responsible for implementing the specific policies and procedures. Subsequent amendments, revisions, or changes to the manual should be presented to the School Board for approval.

Views of responsible officials and planned corrective actions:

This finding has been discussed with management and they appear to understand the importance of such a set of policies and procedures. The School Department has completed a draft copy of the accounting policies and procedures manual and is in the process of a final review of the manual prior to it being presented to the School Board for approval. Once an adequate policy and procedure manual has been completed, approved and is being followed, management believes that this significant deficiency will be eliminated.

Town of Machiasport, Maine
Schedule of findings and questioned costs - School Department
June 30, 2015

15-05 - Allowable costs charged to State and Federal awards

Criteria:

The management of the School Department is responsible for implementing and maintaining a system of internal controls for which the design of the system would allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis in addition to ensuring that the assets of the School Department are being safeguarded.

Condition:

In accordance with Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, the total cost of an award is the sum of the allowable direct and allocable indirect costs less any applicable credits. One factor for a cost to be allowable to an award is that it is adequately documented. In addition, any cost allocable to a particular award or other cost objective under these principles may not be shifted to other federal awards to overcome funding deficiencies, or to avoid restriction imposed by law or by the terms of the award. There does not seem to be an adequate system of internal controls in place to ensure that the expenditures charged to federal and state awards apply to specific award periods as opposed to simply applying to the specific type of award. We consider this item to be a material weakness in addition to noncompliance with the guidelines of OMB Circular A-87.

Context:

The School Department receives certain grants on an annual basis such as federal entitlement grants and certain state grants. Currently, the activity of these annual grants are charged to a single cost center which is associated with the particular type of grant. For example, Title I funds are received in one year under one grant agreement with the expenditure of these funds being applied to a particular cost center. The expenditures of the subsequent Title I funds received under the subsequent grant agreement are charged to the same cost center.

Effect:

This practice does not allow for a determination of the specific expenditures which are charged to each specific grant agreement based on the grant period of the agreement. Without being able to adequately and readily determine the specific expenditures which apply to each grant agreement based on the grant period of the agreement, the School Department cannot adequately ensure that it is in compliance with the aforementioned provisions of Office of Management and Budget Circular A-87. Any violation of the provisions of this cost principles circular could result in the School Department being required to repay grant funds whose specific expenditure could not be determined. Therefore there can be no reasonable assurance present that the School Department's specific objectives are being achieved or that its' assets are being safeguarded.

Cause:

The reason for this condition would appear to simply be that the accounting function of the School Department has always used one system to account for these grant agreements and has not had the available time or resources to develop an alternative system.

Recommendation:

We recommend that the School Department follow all applicable cost principles as they relate to costs being charged to both federal and state award programs and implement a policy which ensures that the specific expenditures of a specific grant agreement based on the specific grant period are readily identifiable within a specific cost center.

Views of responsible officials and planned corrective actions:

This finding has been discussed with management and they appear to understand its importance, however, such a system has yet to be implemented. The School Department is currently developing an accounting policies and procedures manual and intends to cover the posting of grant expenditures in such a way so as to be in full compliance with the aforementioned cost principles. Once an adequate policy and procedure has been developed and is being followed, management believes that this significant deficiency will be eliminated.

and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in this schedule is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Selectmen, School Board, and other members of management of the Town of Machiasport, Maine and the State of Maine Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Stephen T. Hopkins, CPA, PC



Scarborough, Maine
December 30, 2015

Town of Machiasport, Maine
 Schedule of expenditures of federal awards
 For the year ended June 30, 2015

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. Department of Agriculture			
Passed through State of Maine - Department of Education			
School lunch program	10.555	013-3014	\$ 3,396
	10.555	013-3022	1,669
	10.555	013-3023	447
	10.555	013-3024	13,055
	10.555	013-3125	334
			<u>18,901</u>
	10.582	013-3028	<u>1,537</u>
Total U.S. Department of Agriculture			<u>20,438</u>
U.S. Department of Education			
Passed through State of Maine - Department of Education			
Title I grant	84.010	013-3107	<u>51,934</u>
Local entitlement grant section 611	84.027	013-3046	<u>31,686</u>
Title II-A grant	84.367	013-3042	<u>2,652</u>
Total U.S. Department of Education			<u>86,272</u>
Total Expenditures of Federal Awards			<u><u>\$ 106,710</u></u>