Audited Financial Statements

Town of Cutler, Maine

June 30, 2016

Proven Expertise and Integrity
TOWN OF CUTLER, MAINE

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JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

Board of Selectmen
Town of Cutler
Cutler, 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 Cutler, Maine, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Cutler, Maine as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 4 through 10 and budgetary comparison and pension information on pages 43 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Cutler, Maine’s basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 20-A MRSA §6051, Sub-chapter 1(K) of the Maine Revised Statutes as amended, and is also not a required part of the basic financial statements.
The Schedule of Departmental Operations – General Fund, combining and individual non-major fund financial statements and capital asset schedules are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Departmental Operations – General Fund, combining and individual nonmajor fund financial statements and capital asset schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Buxton, Maine
October 27, 2016
The following management’s discussion and analysis of the Town of Cutler, Maine's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the Town's financial statements.

Financial Statement Overview

The Town of Cutler's basic financial statements include the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes required supplementary information which consists of the general fund budgetary comparison schedule, pension information, and other supplementary information which includes combining and other schedules.

Basic Financial Statements

The basic financial statements include financial information in two differing views: the government-wide financial statements and the fund financial statements. These basic financial statements also include the notes to financial statements that explain in more detail certain information in the financial statements and also provide the user with the accounting policies used in the preparation of the financial statements.

Government-Wide Financial Statements

The government-wide financial statements provide a broad view of the Town's operations in a manner that is similar to private businesses. These statements provide both short-term as well as long-term information in regards to the Town's financial position. These financial statements are prepared using the accrual basis of accounting. This measurement focus takes into account all revenues and expenses associated with the fiscal year regardless of when cash is received or paid. The government-wide financial statements include the following two statements:

The Statement of Net Position – this statement presents all of the government’s assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference being reported as net position.

The Statement of Activities – this statement presents information that shows how the government’s net position changed during the period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.
Both of the above mentioned financial statements have one column for the Town’s one type of activity. The type of activity presented for the Town of Cutler is:

- **Governmental activities** – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal and state grants). Most of the Town's basic services are reported in governmental activities, which include general government, public safety, public works, education, recreation and culture and unclassified.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Cutler, like other local governments uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. All of the funds of the Town of Cutler are categorized as one fund type: governmental funds.

**Governmental funds**: All of the basic services provided by the Town are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported in governmental activities in the government – wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balance of spendable resources available at the end of the fiscal year. Such information will be useful in evaluating the government’s near-term financing requirements. This approach is known as the current financial resources measurement focus and the modified accrual basis of accounting. Under this approach revenues are recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the Town’s finances to assist in determining whether there will be adequate financial resources available to meet the current needs of the Town.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.
The Town of Cutler presents only two columns in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances. The Town’s major governmental fund is the general fund. All other funds are shown as nonmajor and are combined in the “Nonmajor Funds” column on these statements.

The general fund is the only fund for which the Town legally adopted a budget for. The Budgetary Comparison Schedule – Budgetary Basis – Budget and Actual – General Fund provides a comparison of the original and final budget and the actual expenditures for the current year.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and the Fund Financial Statements. The Notes to Financial Statements can be found following the Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information, which includes a Budgetary Comparison Schedule – Budgetary Basis – Budget and Actual – General Fund, Schedule of Proportionate Share of the Net Pension Liability and a Schedule of Contributions.

Other Supplementary Information

Other supplementary information follows the required supplementary information. These combining and other schedules provide information in regards to nonmajor funds, capital asset activity and other detailed budgetary information for the general fund.

Government-Wide Financial Analysis

Our analysis below focuses on the net position, and changes in net position of the Town's governmental activities. The Town's total net position increased by $357,142 from $1,003,848 to $1,360,990.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased to a balance of $704,826 at the end of this year.
<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td>$1,128,631</td>
<td>$842,684</td>
</tr>
<tr>
<td>Capital Assets</td>
<td>1,365,533</td>
<td>1,438,711</td>
</tr>
<tr>
<td>Total Assets</td>
<td>2,494,164</td>
<td>2,281,395</td>
</tr>
<tr>
<td>Deferred Outflows of Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred Outflows Related to Pensions</td>
<td>22,951</td>
<td>17,602</td>
</tr>
<tr>
<td>Total Deferred Outflows of Resources</td>
<td>22,951</td>
<td>17,602</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>245,480</td>
<td>241,789</td>
</tr>
<tr>
<td>Long-term Debt Outstanding</td>
<td>889,905</td>
<td>1,026,963</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>1,135,385</td>
<td>1,268,752</td>
</tr>
<tr>
<td><strong>Deferred Inflows of Resources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid Taxes</td>
<td>6,835</td>
<td>5,663</td>
</tr>
<tr>
<td>Deferred Inflows Related to Pensions</td>
<td>13,905</td>
<td>20,734</td>
</tr>
<tr>
<td>Total Deferred Inflows of Resources</td>
<td>20,740</td>
<td>26,397</td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Investment in Capital Assets</td>
<td>373,101</td>
<td>306,456</td>
</tr>
<tr>
<td>Restricted for: General Fund</td>
<td>273,055</td>
<td>101,521</td>
</tr>
<tr>
<td>Permanent Funds</td>
<td>10,008</td>
<td>10,000</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>704,826</td>
<td>585,871</td>
</tr>
<tr>
<td>Total Net Position</td>
<td>$1,360,990</td>
<td>$1,003,848</td>
</tr>
</tbody>
</table>
### Table 2
Town of Cutler, Maine
Changes in Net Position
For the Years Ended June 30,

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td>$1,237,436</td>
<td>$1,094,830</td>
</tr>
<tr>
<td>Excise</td>
<td>114,272</td>
<td>108,510</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>538,565</td>
<td>411,656</td>
</tr>
<tr>
<td>State of Maine on-behalf payments</td>
<td>41,829</td>
<td>32,000</td>
</tr>
<tr>
<td>Charges for services</td>
<td>27,026</td>
<td>30,126</td>
</tr>
<tr>
<td>Investment income</td>
<td>660</td>
<td>435</td>
</tr>
<tr>
<td>Other revenue</td>
<td>30,634</td>
<td>44,451</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>1,990,422</td>
<td>1,722,008</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General government</td>
<td>142,286</td>
<td>117,310</td>
</tr>
<tr>
<td>Public safety</td>
<td>14,793</td>
<td>21,959</td>
</tr>
<tr>
<td>Public works</td>
<td>98,372</td>
<td>95,924</td>
</tr>
<tr>
<td>Health and sanitation</td>
<td>22,150</td>
<td>19,641</td>
</tr>
<tr>
<td>Social services</td>
<td>2,864</td>
<td>-</td>
</tr>
<tr>
<td>Education</td>
<td>991,345</td>
<td>1,155,096</td>
</tr>
<tr>
<td>State of Maine on-behalf payments</td>
<td>41,829</td>
<td>32,000</td>
</tr>
<tr>
<td>County tax</td>
<td>109,607</td>
<td>110,476</td>
</tr>
<tr>
<td>Unclassified</td>
<td>95,095</td>
<td>58,332</td>
</tr>
<tr>
<td>Interest expense</td>
<td>27,962</td>
<td>17,671</td>
</tr>
<tr>
<td>Capital outlay</td>
<td>16,700</td>
<td>-</td>
</tr>
<tr>
<td>Unallocated depreciation</td>
<td>70,277</td>
<td>73,302</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>1,633,280</td>
<td>1,701,711</td>
</tr>
<tr>
<td><strong>Change in Net Position</strong></td>
<td>357,142</td>
<td>20,297</td>
</tr>
<tr>
<td><strong>Net Position - July 1,</strong></td>
<td>1,003,848</td>
<td>983,551</td>
</tr>
<tr>
<td><strong>Net Position - June 30</strong></td>
<td>$1,360,990</td>
<td>$1,003,848</td>
</tr>
</tbody>
</table>

**Revenues and Expenses**

Revenues for the Town's governmental activities increased by 15.59% while total expenses decreased by 4.02%. The increase in revenues was due mostly to taxes and intergovernmental revenues. The largest decrease in expenses was in education.
Financial Analysis of the Town’s Fund Statements

*Governmental funds:* The financial reporting focus of the Town’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information may be useful in assessing the Town’s financial requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s financial position at the end of the year, and the net resources available for spending.

### Table 3
**Town of Cutler, Maine**
**Fund Balances - Governmental Funds**
**June 30,**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Major Funds:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonspendable</td>
<td>$2,186</td>
<td>$255</td>
</tr>
<tr>
<td>Restricted</td>
<td>273,055</td>
<td>101,521</td>
</tr>
<tr>
<td>Committed</td>
<td>299,628</td>
<td>271,774</td>
</tr>
<tr>
<td>Assigned</td>
<td>76,434</td>
<td>62,512</td>
</tr>
<tr>
<td>Unassigned</td>
<td>128,972</td>
<td>75,702</td>
</tr>
<tr>
<td><strong>Total Major Funds</strong></td>
<td>$780,275</td>
<td>$511,764</td>
</tr>
<tr>
<td><strong>Nonmajor Funds:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special revenue funds:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assigned</td>
<td>$16,950</td>
<td>$14,583</td>
</tr>
<tr>
<td>Unassigned</td>
<td>(2,416)</td>
<td>(26,671)</td>
</tr>
<tr>
<td>Permanent funds:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted</td>
<td>10,008</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Total Nonmajor Funds</strong></td>
<td>$24,542</td>
<td>$(2,088)</td>
</tr>
</tbody>
</table>

The general fund total fund balance increased by $268,511 over the prior fiscal year. The non-major fund balances increased by $26,630 over the prior fiscal year.

**Budgetary Highlights**

There was no significant difference between the original and final budget for the general fund, with the exception of budgeted used of fund balances.

The general fund actual revenues exceeded budgeted amounts by $85,602. Most revenues were over-received with the exception of property taxes, homestead reimbursement, and school lunch subsidy.

The general fund actual expenditures were under the budget by $558,167. All expenditure categories were under budget with the largest being capital outlay.
Capital Asset and Debt Administration

Capital Assets

As of June 30, 2016, the net book value of capital assets recorded by the Town decreased by $73,178 from the prior year. This was due to current year depreciation expense.

Table 4
Town of Cutler, Maine
Capital Assets (Net of Depreciation)
June 30,

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$ 75,847</td>
<td>$ 75,847</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>-</td>
<td>316,320</td>
</tr>
<tr>
<td>Land improvements</td>
<td>14,292</td>
<td>14,959</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>78,748</td>
<td>83,364</td>
</tr>
<tr>
<td>Vehicles</td>
<td>19,840</td>
<td>22,320</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>1,176,806</td>
<td>925,901</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,365,533</strong></td>
<td><strong>$1,438,711</strong></td>
</tr>
</tbody>
</table>

Currently Known Facts, Decisions, or Conditions

Economic Factors and Next Year's Budgets and Rates

The Town has not maintained a sufficient unassigned fund balance to sustain government operations for a period of approximately one month, but is working on a fund balance policy that will allow for adequate balances to be maintained.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town’s finances and to show the Town’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Office at P.O. Box 236, 2655 Cutler Road, Cutler, Maine 04626.
TOWN OF CUTLER, MAINE

STATEMENT OF NET POSITION
JUNE 30, 2016

<table>
<thead>
<tr>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
</tr>
<tr>
<td>Current assets:</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
</tr>
<tr>
<td>Accounts receivable (net of allowance for uncollectibles):</td>
</tr>
<tr>
<td>Taxes</td>
</tr>
<tr>
<td>Due from other governments</td>
</tr>
<tr>
<td>Inventory</td>
</tr>
<tr>
<td>Prepaid items</td>
</tr>
<tr>
<td>Total current assets</td>
</tr>
</tbody>
</table>

Noncurrent assets:
Capital assets:
Land and other assets not being depreciated | 75,847 |
Depreciable assets, net of accumulated depreciation | 1,289,686 |
Total noncurrent assets | 1,365,533 |

TOTAL ASSETS | 2,494,164 |

DEFERRED OUTFLOWS OF RESOURCES
Deferred outflows related to pensions | 22,951 |
TOTAL DEFERRED OUTFLOWS OF RESOURCES | 22,951 |

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $ 2,517,115 |

LIABILITIES
Current liabilities:
Accounts payable | $ 38,613 |
Payroll liabilities | 69,210 |
Current portion of long-term obligations | 137,657 |
Total current liabilities | 245,480 |

Noncurrent liabilities:
Notes payable | 854,775 |
Net pension liability | 35,130 |
Total noncurrent liabilities | 889,905 |

TOTAL LIABILITIES | 1,135,385 |

DEFERRED INFLOWS OF RESOURCES
Prepaid taxes | 6,835 |
Deferred inflows related to pensions | 13,905 |
TOTAL DEFERRED INFLOWS OF RESOURCES | 20,740 |

NET POSITION
Net investment in capital assets | 373,101 |
Restricted for:
General fund | 273,055 |
Permanent funds | 10,008 |
Unrestricted | 704,826 |
TOTAL NET POSITION | 1,360,990 |

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | $ 2,517,115 |

See accompanying independent auditors’ report and notes to financial statements.
**TOWN OF CUTLER, MAINE**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2016**

<table>
<thead>
<tr>
<th>Functions/Programs</th>
<th>Expenses</th>
<th>Reimbursements/Charges for Operating Capital</th>
<th>Capital Grants &amp; Contributions</th>
<th>Total Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governmental activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General government</td>
<td>$142,286</td>
<td>$3,604</td>
<td>-</td>
<td>$ (138,682)</td>
</tr>
<tr>
<td>Protection</td>
<td>14,793</td>
<td></td>
<td>-</td>
<td>(14,793)</td>
</tr>
<tr>
<td>Public works</td>
<td>98,372</td>
<td></td>
<td>-</td>
<td>(90,724)</td>
</tr>
<tr>
<td>Health and sanitation</td>
<td>22,150</td>
<td></td>
<td>7,648</td>
<td>(22,150)</td>
</tr>
<tr>
<td>Education</td>
<td>991,345</td>
<td>16,982</td>
<td>323,394</td>
<td>(650,969)</td>
</tr>
<tr>
<td>County tax</td>
<td>109,607</td>
<td></td>
<td>-</td>
<td>(109,607)</td>
</tr>
<tr>
<td>Unclassified</td>
<td>95,095</td>
<td>6,440</td>
<td>-</td>
<td>(88,655)</td>
</tr>
<tr>
<td>On-behalf payments</td>
<td>41,829</td>
<td></td>
<td>41,829</td>
<td>-</td>
</tr>
<tr>
<td>Interest expense</td>
<td>27,962</td>
<td></td>
<td>-</td>
<td>(27,962)</td>
</tr>
<tr>
<td>Capital outlay</td>
<td>16,700</td>
<td></td>
<td>-</td>
<td>(16,700)</td>
</tr>
<tr>
<td>Unallocated depreciation (Note 4)*</td>
<td>70,277</td>
<td></td>
<td>-</td>
<td>(70,277)</td>
</tr>
<tr>
<td><strong>Total government</strong></td>
<td>$1,633,280</td>
<td>$27,026</td>
<td>$365,223</td>
<td>$7,648</td>
</tr>
</tbody>
</table>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.
## Governmental Activities

<table>
<thead>
<tr>
<th>Changes In net position:</th>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Net (expense) revenue</td>
<td>(1,235,268)</td>
</tr>
</tbody>
</table>

### General revenue:

**Taxes:**
- Property taxes, levied for general purposes: $1,237,436
- Excise taxes: $114,272
- Grants and contributions not restricted to specific programs: $209,408
- Interest / investment income: $660
- Other revenues: $30,634

**Total general revenue:** $1,592,410

**Change in net position:** $357,142

<table>
<thead>
<tr>
<th>Net position - July 1,</th>
<th>1,003,848</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net position - June 30</td>
<td>$1,360,990</td>
</tr>
</tbody>
</table>
### BALANCE SHEET - GOVERNMENTAL FUNDS
#### JUNE 30, 2016

#### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Nonmajor Funds</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$663,525</td>
<td>$10,008</td>
<td>$673,533</td>
</tr>
<tr>
<td>Accounts receivable (net of allowance for uncollectibles):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes and liens</td>
<td>279,223</td>
<td>-</td>
<td>279,223</td>
</tr>
<tr>
<td>Due from other governments</td>
<td>173,689</td>
<td>-</td>
<td>173,689</td>
</tr>
<tr>
<td>Inventory</td>
<td>255</td>
<td>-</td>
<td>255</td>
</tr>
<tr>
<td>Prepaid items</td>
<td>1,931</td>
<td>-</td>
<td>1,931</td>
</tr>
<tr>
<td>Due from other funds</td>
<td>2,416</td>
<td>16,950</td>
<td>19,366</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>$1,121,039</strong></td>
<td><strong>$26,958</strong></td>
<td><strong>$1,147,997</strong></td>
</tr>
</tbody>
</table>

#### LIABILITIES

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Nonmajor Funds</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$38,613</td>
<td>-</td>
<td>$38,613</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>69,210</td>
<td>-</td>
<td>69,210</td>
</tr>
<tr>
<td>Due to other funds</td>
<td>16,950</td>
<td>2,416</td>
<td>19,366</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td><strong>124,773</strong></td>
<td><strong>2,416</strong></td>
<td><strong>127,189</strong></td>
</tr>
</tbody>
</table>

#### DEFERRED INFLOWS OF RESOURCES

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Nonmajor Funds</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid taxes</td>
<td>6,835</td>
<td>-</td>
<td>6,835</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>209,156</td>
<td>-</td>
<td>209,156</td>
</tr>
<tr>
<td><strong>TOTAL DEFERRED INFLOWS OF RESOURCES</strong></td>
<td><strong>215,991</strong></td>
<td>-</td>
<td><strong>215,991</strong></td>
</tr>
</tbody>
</table>

#### FUND BALANCES

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Nonmajor Funds</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonspendable</td>
<td>2,186</td>
<td>-</td>
<td>2,186</td>
</tr>
<tr>
<td>Restricted</td>
<td>273,055</td>
<td>10,008</td>
<td>283,063</td>
</tr>
<tr>
<td>Committed</td>
<td>299,628</td>
<td>-</td>
<td>299,628</td>
</tr>
<tr>
<td>Assigned</td>
<td>76,434</td>
<td>16,950</td>
<td>93,384</td>
</tr>
<tr>
<td>Unassigned</td>
<td>128,972</td>
<td>(2,416)</td>
<td>126,556</td>
</tr>
<tr>
<td><strong>TOTAL FUND BALANCES</strong></td>
<td><strong>780,275</strong></td>
<td><strong>24,542</strong></td>
<td><strong>804,817</strong></td>
</tr>
</tbody>
</table>

#### TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Nonmajor Funds</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$1,121,039</strong></td>
<td><strong>$26,958</strong></td>
<td><strong>$1,147,997</strong></td>
<td></td>
</tr>
</tbody>
</table>
TOWN OF CUTLER, MAINE

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

<table>
<thead>
<tr>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>$804,817</td>
</tr>
</tbody>
</table>

**Total Fund Balances**

Amounts reported for governmental activities in the Statement of Net Position are different because:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation</td>
<td>$1,365,533</td>
</tr>
<tr>
<td>Deferred outflows of resources related to pensions are not financial resources and therefore are not reported in the funds</td>
<td>$22,951</td>
</tr>
<tr>
<td>Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds shown above:</td>
<td></td>
</tr>
<tr>
<td>Taxes and liens receivable</td>
<td>$209,156</td>
</tr>
<tr>
<td>Long-term liabilities shown below, are not due and payable in the current period and therefore are not reported in the funds shown above:</td>
<td></td>
</tr>
<tr>
<td>Notes payable</td>
<td>($992,432)</td>
</tr>
<tr>
<td>Net pension liability</td>
<td>($35,130)</td>
</tr>
<tr>
<td>Deferred inflows of resources related to pensions are not financial resources and therefore are not reported in the funds</td>
<td>($13,905)</td>
</tr>
</tbody>
</table>

Net position of governmental activities                                           $1,360,990
TOWN OF CUTLER, MAINE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Nonmajor Governmental Funds</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td>$1,247,605</td>
<td>$-</td>
<td>$1,247,605</td>
</tr>
<tr>
<td>Excise</td>
<td>114,272</td>
<td>-</td>
<td>114,272</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>455,220</td>
<td>83,345</td>
<td>538,565</td>
</tr>
<tr>
<td>State of Maine on-behalf payments</td>
<td>29,267</td>
<td>-</td>
<td>29,267</td>
</tr>
<tr>
<td>Charges for services</td>
<td>20,586</td>
<td>6,440</td>
<td>27,026</td>
</tr>
<tr>
<td>Investment income</td>
<td>652</td>
<td>8</td>
<td>660</td>
</tr>
<tr>
<td>Other</td>
<td>30,634</td>
<td>-</td>
<td>30,634</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td>1,898,236</td>
<td>89,793</td>
<td>1,988,029</td>
</tr>
</tbody>
</table>

| **EXPENDITURES**    |              |                              |                          |
| Current:            |              |                              |                          |
| General government  | 139,385      | -                            | 139,385                  |
| Protection          | 14,793       | -                            | 14,793                   |
| Public works        | 98,372       | -                            | 98,372                   |
| Health and sanitation | 22,150    | -                            | 22,150                   |
| Social services     | 2,864        | -                            | 2,864                    |
| Education           | 985,376      | 59,090                       | 1,044,466                |
| State of Maine on-behalf payments | 29,267   | -                            | 29,267                   |
| County tax          | 109,607      | -                            | 109,607                  |
| Unclassified        | 91,022       | 4,073                        | 95,095                   |
| Debt service        | 120,189      | -                            | 120,189                  |
| Capital outlay      | 16,700       | -                            | 16,700                   |
| **TOTAL EXPENDITURES** | 1,629,725   | 63,163                       | 1,692,888                |

| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | 268,511 | 26,630 | 295,141 |

| **OTHER FINANCING SOURCES (USES)** | - | - | - |
| **TOTAL OTHER FINANCING SOURCES (USES)** | - | - | - |

| **NET CHANGE IN FUND BALANCES** | 268,511 | 26,630 | 295,141 |

| **FUND BALANCES (DEFICITS) - JULY 1** | 511,764 | (2,088) | 509,676 |

| **FUND BALANCES - JUNE 30** | $780,275 | $24,542 | $804,817 |

See accompanying independent auditors’ report and notes to financial statements.

16
TOWN OF CUTLER, MAINE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds (Statement E)  $ 295,141

Amounts reported for governmental activities in the Statement of Activities (Statement 2) are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense allocated to those expenditures over the life of the assets:
- Capital asset purchases capitalized
- Depreciation expense

Deferred outflows of resources are a consumption of net position by the government that are applicable to a future reporting period and therefore are not reported in the funds.

Revenues in the Statement of Activities that do not provide current financial resources as revenues in the funds:
- Taxes and liens receivable

Debt proceeds provide current financial resources to governmental funds, but issuing long-term liabilities in the Statement of Net Position

Repayment of long-term debt principal is an expenditure in the governmental funds, reduces long-term liabilities in the Statement of Net Position

Deferred inflows of resources are a consumption of net position by the government that are applicable to a future reporting period and therefore are not reported in the funds.

Some expenses reported in the Statement of Activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds:
- Net pension liability

Change in net position of governmental activities (Statement B)  $ 357,142

See accompanying independent auditors' report and notes to financial statements.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Town of Cutler was incorporated under the laws of the State of Maine. The Town operates under the selectmen-treasurer-manager form of government and provides the following services: general government services, public safety, public works, health / sanitation, education, and other services and committees.

The Town’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The Town’s combined financial statements include all accounts and all operations of the Town. We have determined that the Town has no component units as described in GASB Statement No. 14 and amended by GASB Statements No. 39 and 61.

Implementation of New Accounting Standards

During the year ended June 30, 2016, the following statements of financial accounting standards issued by the Governmental Accounting Standards Board became effective:

Statement No. 72, “Fair Value Measurement and Application”. The objective of the Statement is to expand comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will improve fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government’s financial position. Management has determined the impact of this Statement is not material to the financial statements.

Statement No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”. The objective of the Statement is to improve financial reporting by instituting a single framework for the presentation of information about pensions, thereby expanding the comparability of pension-related information reported by state and local governments. Management has determined that this Statement is not applicable.
Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”. The objective of this Statement is to identify in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Management has determined the impact of this Statement is not material to the financial statements.

Statement No. 79, “Certain External Investment Pools and Pool Participants”. This Statement establishes specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

This Statement also establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. Management has determined the impact of this Statement is not material to the financial statements.

**Government–Wide and Fund Financial Statements**

The Town’s basic financial statements include both government–wide (reporting the Town as a whole) and fund financial statements (reporting the Town’s major funds).

Both the government–wide and fund financial statements categorize primary activities as governmental. The Town categorizes all activities as governmental.

In the government–wide Statement of Net Position, the governmental activities columns are (a) presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town’s net position are
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions (general government, public safety, etc.). The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, miscellaneous revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. For the most part, the interfund activity has been eliminated from these government-wide financial statements.

The net costs (by function) are normally covered by general revenue (taxes, certain intergovernmental revenues and charges for services, etc.).

The Town does not allocate indirect costs. All costs are charged directly to the corresponding department.

The government-wide focus is more on the sustainability of the Town as an entity and the change in the Town’s net position resulting from the current year's activities.

**Measurement Focus - Basic Financial Statements & Fund Financial Statements**

The financial transactions of the Town are reported in the individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The following fund types are used by the Town:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major Funds

a. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Nonmajor Funds

b. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

c. Permanent Funds are used to account for assets held by the Town that are legally restricted pursuant to Title 30-A, §5653 of the Maine State Statutes, as amended, and unless otherwise specified, only earnings, and not principal, may be used for purposes that benefit the Town or its citizenry. The Town’s policy for authorizing and spending investment income follows State statutes.

The emphasis in fund financial statements is on the major funds in governmental activities categories. Non-major funds by category are summarized into a single column, GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenses of either the fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

1. Accrual

Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Modified Accrual

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

**Budget**

The Town’s policy is to adopt an annual budget for operations. The budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

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

| Revenues per budgetary basis           | $ 1,868,969 |
| Add: On-behalf payments               | 29,267     |
| Total GAAP basis                      | $ 1,898,236|

| Expenditures per budgetary basis      | $ 1,600,458 |
| Add: On-behalf basis                 | 29,267     |
| Total GAAP basis                     | $ 1,629,725 |

The following procedures are followed in establishing budgetary data reflected in the financial statements:

1. Early in the second half of the year the Town prepares a budget for the fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.

2. A meeting of the inhabitants of the Town was called for the purpose of adopting the proposed budget after public notice of the meeting was given.

3. The budget was adopted subsequent to passage by the inhabitants of the Town.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. The Town did have subsequent meetings after the original budget was passed.

5. The Town does not adopt budgets for Special Revenue Funds.

**Deposits and Investments**

The Town’s cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

It is the Town’s policy to value investments at fair value. None of the Town’s investments are reported at amortized cost. The Town Treasurer is authorized by State Statutes to invest all excess funds in the following:

- Obligations of the U.S. Government, its agencies and instrumentalities.
- Certificates of deposits and other evidences of deposits at banks, savings and loan associations, and credit unions.
- Repurchase agreements
- Money market mutual funds

The Town of Cutler has no formal investment policy but instead follows the State of Maine Statutes. They are in the process of adopting a more detailed investment policy.

**Inventories**

Inventories of supplies are considered to be expenditures at the time of purchase and are not included in the general fund balance sheet.

**Prepaid Items**

Certain insurance and other payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Interfund Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds”. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Any residual balances outstanding between governmental activities and
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

business-type activities are reported in the governmental-wide financial statements as "internal balances".

**Transactions Between Funds**

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both the Governmental Funds.

**Allowance for Uncollectible Accounts**

The allowance for uncollectible accounts is estimated to be $0 as of June 30, 2016.

**Capital Assets**

Capital assets purchased or acquired with an original cost of $5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Infrastructure such as streets, traffic signals, and signs are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful lives.

The assets are valued at historical cost when available and estimated historical cost where actual invoices or budgetary data was unavailable. Donated fixed assets are valued at their estimated fair market value on the date received. All retirements have been recorded by eliminating the net carrying values.

Infrastructure assets include roads, bridges, underground pipe (other than related to independently owned utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Town. The Town has retroactively recorded infrastructure.

Estimated useful lives are as follows:

- **Buildings**: 20 - 50 years
- **Infrastructure**: 50 - 100 years
- **Machinery and equipment**: 3 - 50 years
- **Vehicles**: 3 - 25 years
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Long-term Obligations**

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

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in government-wide statements. The long-term debt consists primarily of notes payable and net pension liability.

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

**Compensated Absences**

The Town’s policies regarding vacation and sick time do permit employees to accumulate earned but unused vacation but not sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred. As of June 30, 2016, the Town’s liability for compensated absences is $0.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employee and Teacher (SET) Plan and additions to/deductions from the SET Plan’s fiduciary net position have been determined on the same basis as they are reported by the SET Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will at times report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one type of item, deferred outflows related to pensions. This item is reported in the statement of net position.

In addition to liabilities, the statement of financial position and or balance sheet will at times report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has only one type of item, deferred tax revenues, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, this item is reported in the governmental funds balance sheet. Prepaid taxes and deferred inflows related to pensions also qualify for reporting in this category. Prepaid taxes is reported in both the statements of net position and governmental funds balance sheet, while deferred inflows related to pensions is only reported in the statement of net position. All items in this category are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or restricted net position.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

Nonspendable – This includes amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted – This includes amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – This includes amounts that can be used only for specific purposes determined by a formal action of the inhabitants of the Town. The inhabitants of the Town through Town meetings are the highest level of decision-making authority of the Town. Commitments may be established, modified, or rescinded only through a Town meeting vote.

Assigned – This includes amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The authority for assigning fund balance is expressed by the Board of Selectmen.

Unassigned – This includes all other spendable amounts. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Town meeting vote has provided otherwise in its commitment or assignment actions.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - Property Taxes - Modified Accrual Basis

The Town’s property tax for the current year was levied on October 20, 2015 on the assessed value listed as of April 1, 2015, for all real and personal property located in the Town. Taxes were due on December 31, 2015. Interest on unpaid taxes commenced on January 1, 2015, at 7% per annum.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. The remaining receivables have been recorded as deferred revenues.

The Town is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to $19,563 for the year ended June 30, 2016.

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The Town has the authority to foreclose on property eighteen months after the filing of the lien if tax liens and associated costs remain unpaid.

Program Revenues

Program revenues include all directly related income items applicable to a particular program (charges to customers or applicants for goods, services, or privileges provided; operating or capital grants and contributions, including special assessments).

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end. The Town does not utilize encumbrance accounting for its general fund.

Use of Estimates

During the preparation of the Town’s financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent items as of the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results may differ from these estimates.
NOTE 2 - DEPOSITS AND INVESTMENTS

State statutes require that all investments made by the Town consider the safe and sound investment of principal and preservation of capital in the overall portfolio, maintenance of sufficient liquidity to meet day-to-day operations and other cash requirements and maximization of income, within established investment risk guidelines, with consistent cash flows throughout the budgetary cycle. These investment policies apply to all Town funds.

**Deposits:**

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Town will not be able to recover its deposits. The Town does not have a policy covering custodial credit risk for deposits. However, the Town maintains deposits in qualifying financial institutions that are a member of the FDIC or NCUSIF as defined in Title 30-A, Section 5706 of the Maine Revised Statutes. At June 30, 2016, the Town’s cash balances amounting to $566,750 were comprised of bank deposits of $598,571. All of these deposits were fully insured by federal depository insurance or collateralized with securities held by the financial institution in the Town’s name.

**Investments:**

Custodial credit risk for investments is that, in the event of failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Currently, the Town does not have a policy for custodial credit risk for investments.

At June 30, 2016, the Town’s had $0 in investments.

Credit risk – Statutes for the State of Maine authorize the Town to invest in obligations of the U.S. Treasury, agencies and instrumentalities, other states and Canada, provided such securities are rated within the three highest grades by an approved rating service of the State of Maine, corporate stocks and bonds within statutory limits, financial institutions, mutual funds and repurchase agreements. The Town does not have an investment policy on credit risk.

Interest rate risk – is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from fluctuations in interest rates.
NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2016 consisted of the following individual fund receivables and payables.

<table>
<thead>
<tr>
<th>Receivables</th>
<th>Payables</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Due from)</td>
<td>(Due to)</td>
</tr>
<tr>
<td>General Fund</td>
<td>$ 2,416</td>
</tr>
<tr>
<td>Nonmajor Special Revenue Funds</td>
<td>$ 16,950</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 19,366</strong></td>
</tr>
</tbody>
</table>

NOTE 4 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2016:

<table>
<thead>
<tr>
<th>Balance 7/1/2015</th>
<th>Additions</th>
<th>Disposals</th>
<th>Balance 6/30/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governmental activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-depreciated assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$ 75,847</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>$ 316,320</td>
<td>$ -</td>
<td>(316,320)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 392,167</td>
<td>$ -</td>
<td>(316,320)</td>
</tr>
<tr>
<td>Depreciated assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings</td>
<td>$ 116,029</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Land improvements</td>
<td>$ 24,931</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Vehicles</td>
<td>$ 37,200</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>$ 992,036</td>
<td>316,320</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 1,170,196</td>
<td>316,320</td>
<td>-</td>
</tr>
<tr>
<td>Less: accumulated depreciation</td>
<td>(123,652)</td>
<td>(73,178)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 1,046,544</td>
<td>243,142</td>
<td>-</td>
</tr>
<tr>
<td>Net capital assets</td>
<td>$ 1,438,711</td>
<td>$ 243,142</td>
<td>(316,320)</td>
</tr>
<tr>
<td>Current year depreciation:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Town-wide</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total depreciation expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
NOTE 5 - LONG TERM DEBT

The following is a summary of changes in the long-term debt for the year ended June 30, 2016:

<table>
<thead>
<tr>
<th></th>
<th>Balance 7/1/15</th>
<th>Additions</th>
<th>Reductions</th>
<th>Balance 6/30/16</th>
<th>Current Portion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable</td>
<td>$1,132,255</td>
<td>$</td>
<td>($139,823)</td>
<td>$992,432</td>
<td>$137,657</td>
</tr>
<tr>
<td>Net pension liability</td>
<td>28,477</td>
<td>17,725</td>
<td>(11,072)</td>
<td>35,130</td>
<td>-</td>
</tr>
<tr>
<td>Totals</td>
<td>$1,160,732</td>
<td>$17,725</td>
<td>($150,895)</td>
<td>$1,027,562</td>
<td>$137,657</td>
</tr>
</tbody>
</table>

The following is a summary of the outstanding notes payable:

**Notes payable - governmental activities**

- **2012 Machias Savings Bank note of $250,000 for roads.**
  Interest is stated at 2.75%. Annual payments of $28,783 include both principal and interest until June of 2022. $154,989

- **2012 Machias Savings Bank note of $125,000 for roads.**
  Interest is stated at 2.75%. Annual payments of $14,391 include both principal and interest until June of 2022. 78,508

- **2012 Machias Savings Bank note of $406,600 for school repairs.**
  Interest is stated at 2.75%. Annual payments of $46,514 include both principal and interest until June of 2022. 248,744

- **2013 Machias Savings Bank note of $179,400 for roads.**
  Interest stated at 2.75%. Annual payments of $20,618 include both principal and interest until June of 2023. 127,715

- **2013 Machias Savings Bank note of $100,000 for roads.**
  Interest stated at 2.75%. Annual payments of $11,493 include both principal and interest until June 2023. 71,190
NOTE 5 - LONG TERM DEBT (CONTINUED)

2014 Machias Savings Bank note of $222,400 for roads.
Interest stated at 2.95%. Annual payments of $25,746 include both principal and interest until June 2024. 178,474

2014 Machias Savings Bank note of $165,500 for roads.
Interest stated at 2.95%. Annual payments of $19,159 include both principal and interest until June 2023. 132,812

Total notes payable - governmental activities $ 992,432

Principal and interest requirements to maturity for the years ending June 30, are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total Debt Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$137,657</td>
<td>$26,444</td>
<td>$164,101</td>
</tr>
<tr>
<td>2018</td>
<td>141,568</td>
<td>22,874</td>
<td>164,442</td>
</tr>
<tr>
<td>2019</td>
<td>145,588</td>
<td>19,202</td>
<td>164,790</td>
</tr>
<tr>
<td>2020</td>
<td>149,678</td>
<td>15,468</td>
<td>165,146</td>
</tr>
<tr>
<td>2021</td>
<td>153,976</td>
<td>11,543</td>
<td>165,519</td>
</tr>
<tr>
<td>2022-2026</td>
<td>263,965</td>
<td>12,298</td>
<td>276,263</td>
</tr>
</tbody>
</table>

$ 992,432 $ 107,829 $ 1,100,261

NOTE 6 - NONSPENDABLE FUND BALANCES

At June 30, 2016, the Town had the following non-spendable fund balances:

<table>
<thead>
<tr>
<th>Fund Balance</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>$255</td>
</tr>
<tr>
<td>Prepaid items</td>
<td>1,931</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,186</strong></td>
</tr>
</tbody>
</table>

NOTE 7 - RESTRICTED FUND BALANCES

At June 30, 2016, the Town had the following restricted fund balances:

<table>
<thead>
<tr>
<th>Fund Balance</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>$273,055</td>
</tr>
<tr>
<td>Permanent funds (See Sch. F)</td>
<td>10,008</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$283,063</strong></td>
</tr>
</tbody>
</table>
NOTE 8 - COMMITTED FUND BALANCES

At June 30, 2016, the Town had the following committed fund balances:

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital outlay</td>
<td>$148,844</td>
</tr>
<tr>
<td>TIF projects</td>
<td>$150,784</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$299,628</strong></td>
</tr>
</tbody>
</table>

NOTE 9 - ASSIGNED FUND BALANCES

At June 30, 2016, the Town had the following assigned fund balances:

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensive planning</td>
<td>$2,500</td>
</tr>
<tr>
<td>Ways, highways and bridges</td>
<td>$32,387</td>
</tr>
<tr>
<td>Harbor management</td>
<td>$4,562</td>
</tr>
<tr>
<td>Park and rec fund</td>
<td>$3,993</td>
</tr>
<tr>
<td>General assistance</td>
<td>$5,840</td>
</tr>
<tr>
<td>Cemetery account</td>
<td>$5,723</td>
</tr>
<tr>
<td>Matching grants</td>
<td>$21,429</td>
</tr>
<tr>
<td>Special Revenue funds (See Schedule D)</td>
<td>$16,950</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$93,384</strong></td>
</tr>
</tbody>
</table>

NOTE 10 - DEFINED BENEFIT PENSION PLAN

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description

All school teachers, plus other qualified educators, participate in the Maine Public Employees Retirement System’s (MainePERS) State Employee and Teacher (SET) Plan. The teacher’s program is a multi-employer cost-sharing plan with a special funding situation, established by the Maine State Legislature. The State of Maine is also a non-employer contributing entity in that the State pays the initial unfunded actuarial liability on behalf of teachers, while school districts contribute the normal cost, calculated actuarially, for their teacher members. Title 5 of the Maine Revised Statutes Annotated assigns the authority to establish and amend benefit provisions to the State Legislature. The Maine Public Employees Retirement System issues a publicly available financial report that includes financial and actuarial information for the SET Plan. That report may be obtained online at [www.mainepers.org](http://www.mainepers.org) or by contacting the System at (207) 512-3100.
Benefits Provided

The Maine Public Employees Retirement System provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the State Legislature. The System’s retirement programs provide defined retirement benefits based on members’ 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 for State employees and teachers). In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for State employees and teachers is age 60, 62 or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employee and teacher members.

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

Contributions

Retirement benefits are funded by contributions from members and employers and by earnings on investments. Disability and death benefits are funded by employer normal cost contributions and by investment earnings. The Town’s teachers are required to contribute 7.65% of their compensation to the retirement system. The Town’s payroll for teachers covered by this program was approximately $264,994 for the year ended June 30, 2016. Title 5 of the Maine Revised Statutes Annotated requires the State to contribute 10.02% of the Town’s contractually required contributions, which are 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, with an additional amount to finance any unfunded accrued liability (UAL). Contributions paid by the State were approximately $23,367 for the year ended June 30, 2016. Title 5 of the Maine Revised Statutes Annotated also requires the Town to contribute at an actuarially determined normal cost rate of 3.36%, which totaled $8,904.
NOTE 10 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

for 2016. In addition, the Town is required to contribute toward the UAL of the plan and
pay a small percentage of payroll towards the administrative costs for federally funded
teachers, which amounts to 10.57% of compensation and totaled $3,360 the year ended
June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources
and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Town reported a liability for its proportionate share of the
net pension liability that reflected a reduction for State pension support provided to the
Town. The amount recognized by the Town as its proportionate share of the net
pension liability, the related State support, and the total portion of the net pension
liability that was associated with the Town were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town's proportionate share of the net pension liability</td>
<td>$35,130</td>
</tr>
<tr>
<td>State's proportionate share of the net pension liability associated with the Town</td>
<td>$276,267</td>
</tr>
<tr>
<td>Total</td>
<td>$311,397</td>
</tr>
</tbody>
</table>

The net pension liability was measured as of June 30, 2015, and the total
pension liability used to calculate the net pension liability was determined by an
actuarial valuation as of that date. The Town's proportion of the net pension liability was
based on a projection of the Town's long-term share of contributions to the pension plan
relative to the projected contributions of all participating school units and the State,
actuarially determined. At June 30, 2015, the Town's proportion was 0.002602%, which
was a decrease of 0.000034% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized total pension expense
of $7,037 and revenue of $12,562 for support provided by the State of Maine. At June
30, 2016, the Town reported deferred outflows of resources and deferred inflows of
resources related to pensions from the following sources:
NOTE 10 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

<table>
<thead>
<tr>
<th></th>
<th>SET Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Deferred Outflows of Resources</td>
</tr>
<tr>
<td>Differences between expected and actual experience</td>
<td>$</td>
</tr>
<tr>
<td>Changes of assumptions</td>
<td>968</td>
</tr>
<tr>
<td>Net difference between projected and actual earnings on pension plan investments</td>
<td>7,434</td>
</tr>
<tr>
<td>Changes in proportion and differences between employer contributions and proportionate share of contributions</td>
<td>2,284</td>
</tr>
<tr>
<td>Contributions subsequent to the measurement date</td>
<td>12,265</td>
</tr>
<tr>
<td>Total</td>
<td>$ 22,951</td>
</tr>
</tbody>
</table>

$12,265 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Actuarial Methods and Assumptions**

The collective total pension liability for the Plan was determined by an actuarial valuation as of June 30, 2015 and 2014, using the following methods and assumptions applied to all periods included in the measurement:

**Actuarial Cost Method**

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

The individual entry age normal method is used to determine liabilities. Under the individual entry age normal method, a normal cost rate is calculated for each employee. This rate is determined by taking the value, as of age at entry into the plan, of the member's projected future benefits, and dividing it by the value, also as of the member's entry age, of his or her expected future salary. The normal cost for each employee is
NOTE 10 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

the product of his or her pay and his or her normal cost rate. The normal cost for the group is the sum of the normal costs for all members.

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

Asset Valuation Method

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

Amortization

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

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2015 and June 30, 2014 are as follows:

Investment Rate of Return - For the State Employee and Teacher Plan, 7.125% per annum for the years ended June 30, 2015 and June 30, 2014, compounded annually.

Salary Increases, Merit and Inflation - State Employees, 3.50% to 10.50% per year; Teachers, 3.50% to 13.50% per year.

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

Cost of Living Benefit Increases - 2.55% per annum for State employees and Teachers.
NOTE 10 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions (Continued)

The long-term expected rate of return on pension plan assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as June 30, 2015 are summarized in the following table:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation</th>
<th>Long-term Expected Real Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>US equities</td>
<td>20%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Non-US equities</td>
<td>20%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Private equity</td>
<td>10%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Real assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate</td>
<td>10%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>10%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Hard assets</td>
<td>5%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Fixed income</td>
<td>25%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Discount Rate

The discount rate used to measure the collective total pension liability was 7.125% for 2015 and 2014 for the State Employee and Teacher Plan. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.
NOTE 10 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The following table shows how the collective net pension liability/(asset) as of June 30, 2015 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rate is 7.125% for the State Employee and Teacher Plan.

<table>
<thead>
<tr>
<th>SET Plan:</th>
<th>1% Decrease</th>
<th>Discount Rate</th>
<th>1% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>6.125%</td>
<td>7.125%</td>
<td>8.125%</td>
</tr>
<tr>
<td>Employer's proportionate share of the net pension liability</td>
<td>$ 61,504</td>
<td>$ 35,130</td>
<td>$ 13,163</td>
</tr>
</tbody>
</table>

**Changes in Net Pension Liability**

Changes in net pension liability are recognized in pension expense for the year ended June 30, 2015 with the following exceptions:

* Differences between Expected and Actual Experience

The difference between expected and actual experience with regard to economic or demographic factors were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. For 2015 and 2014, this was 3 years for the State Employee and Teacher Plan.

* Differences between Projected and Actual Investment Earnings

Differences between projected and actual investment earnings were recognized in pension expense using a straight-line amortization method over a closed five-year period.

* Changes in Assumptions

Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. There were no changes in assumptions for the State Employee and Teacher Plan.
NOTE 10 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Changes in Net Pension Liability (Continued)

Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions

Differences resulting from a change in proportionate share of contributions and differences between total employer contributions and the employer's proportionate share of contributions were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. Differences between total employer contributions and the employer's proportionate share of contributions may arise when an employer has a contribution requirement for an employer specific liability.

Pension Plan Fiduciary Net Position

Additional financial and actuarial information with respect to the Plan can be found in the MainePERS' 2015 Comprehensive Annual Financial Report available online at www.mainepers.org or by contacting the System at (207) 512-3100.

NOTE 11 - RISK MANAGEMENT

The Town faces a full realm of risks typical of a thriving entity. Liabilities associated with torts and protections against damage of loss of assets are the general categories of risk for which the Town carries commercial insurance. Specific insurance related to these categories includes general, police and public officials liability coverage, workers compensation, and automobile insurance. The Town is liable for deductibles ranging up to $10,000 for settlements exceeding the limits of coverage, which range from $400,000 to $3,000,000. Based on the coverage provided by the insurance purchased, the Town is not aware of any material actual or potential claim liabilities which should be recorded as of June 30, 2016. There were no significant reductions in insurance coverage from that of the prior year and amounts of settlements have not exceeded insurance coverage in the past three years.

NOTE 12 - CONTINGENCIES

With regard to pending legal claims or any unasserted claims, it is not feasible at this time to predict or determine their outcome. Management believes, however, that settlement amounts, if any, will not have a material adverse effect on the Town's financial position.
NOTE 12 – CONTINGENCIES (CONTINUED)

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

NOTE 13 - DEFICIT FUND BALANCES

At June 30, 2016, the Town has the following deficit fund balances:

<table>
<thead>
<tr>
<th>Education grants</th>
<th>$ 2,416</th>
</tr>
</thead>
</table>

Required Supplementary Information

Required supplementary information includes financial information and disclosures that are required by the Government Accounting Standards Board but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – Budgetary Basis – Budget and Actual - General Fund
- Schedule of Proportionate Share of the Net Pension Liability
- Schedule of Contributions
TOWN OF CUTLER, MAINE

BUDGETARY COMPARISON SCHEDULE – BUDGETARY BASIS

BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

<table>
<thead>
<tr>
<th>Budgeted Amounts</th>
<th>Variance Positive (Negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
</tr>
</tbody>
</table>

**Budgetary Fund Balance, July 1**

<table>
<thead>
<tr>
<th></th>
<th>Budgeted Amounts</th>
<th>Variance Positive (Negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
<td>Final</td>
</tr>
<tr>
<td>Resources (Inflows):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes</td>
<td>1,249,950</td>
<td>1,249,950</td>
</tr>
<tr>
<td>Excise taxes</td>
<td>100,155</td>
<td>100,155</td>
</tr>
</tbody>
</table>

Intergovernmental:

- Education subsidy 289,985 289,985 308,010 18,025
- State revenue sharing 20,455 20,455 22,142 1,687
- Homestead reimbursement 14,928 14,928 13,645 (1,283)
- Wildlife refuge 12,000 12,000 12,492 492
- BETE reimbursement 4,175 4,175 4,181 6
- Local road assistance - 7,648 7,648 -
- Tree growth 12,000 12,000 12,534 534
- School lunch subsidy - - 14,393 14,393
- Grant - 46,821 46,821 -
- State agency clients - - 11,927 11,927
- Tree growth / Veteran's / Other 750 750 1,427 677

Charges for services / fees:

- School lunch 15,000 15,000 9,617 (5,383)
- Tuition - - 7,365 7,365
- Administration - - 3,604 3,604

Other income:

- In lieu of payments 8,500 8,500 9,300 800
- Interest / Fees on taxes - - 17,253 17,253
- Other education revenue 1,000 1,000 1,703 703
- Other revenue - - 2,378 2,378
- Investment income - - 652 652

Amounts Available for Appropriation 2,240,662 2,295,131 2,380,733 85,602

Charges to Appropriations (Outflows):

- General government 133,655 144,456 139,385 5,071
- Public safety 20,870 20,870 14,793 6,077
- Public works 112,500 136,595 98,372 38,223
- Health and sanitation 22,200 22,200 22,150 50
- Social services 3,500 8,712 2,864 5,848
- Education 1,108,889 1,108,889 985,376 123,513
- County tax 109,607 109,607 109,607 -
- TIF 109,554 109,554 - 109,554
- Debt service 120,230 120,230 120,189 41
- Capital outlay 65,000 230,544 16,700 213,844
- Unclassified 58,113 146,968 91,022 55,946

Total Charges to Appropriation 1,864,118 2,158,625 1,600,458 558,167

Budgetary Fund Balance - June 30 $ 376,544 $ 136,506 $ 780,275 $ 643,769

Use of Restricted Fund Balance - $ - $ - $ - $ -

Use of Committed Fund Balance 109,554 275,098 - 275,098

Use of Assigned Fund Balance 25,666 100,160 - 100,160

$ 135,220 $ 375,258 - $ 375,258

See accompanying independent auditors’ report and notes to financial statements.
## TOWN OF CUTLER, MAINE

### SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
#### LAST TEN FISCAL YEARS*

<table>
<thead>
<tr>
<th>SET Plan:</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town's proportion of the net pension liability</td>
<td>0.00260%</td>
<td>0.00264%</td>
</tr>
<tr>
<td>Town's proportionate share of the net pension liability</td>
<td>$35,130</td>
<td>$28,477</td>
</tr>
<tr>
<td>State's proportionate share of the net pension liability associated with the Town</td>
<td>276,267</td>
<td>252,776</td>
</tr>
<tr>
<td>Total</td>
<td>$311,397</td>
<td>$281,253</td>
</tr>
<tr>
<td>Town’s covered-employee payroll</td>
<td>$260,440</td>
<td>$230,506</td>
</tr>
<tr>
<td>Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll</td>
<td>13.49%</td>
<td>12.35%</td>
</tr>
<tr>
<td>Plan fiduciary net position as a percentage of the total pension liability</td>
<td>88.27%</td>
<td>94.10%</td>
</tr>
</tbody>
</table>

* The amounts presented for each fiscal year were determined as of June 30, and are for those years for which information is available.

See accompanying independent auditors’ report and notes to financial statements.
TOWN OF CUTLER, MAINE

SCHEDULE OF CONTRIBUTIONS
LAST TEN FISCAL YEARS*

<table>
<thead>
<tr>
<th>SET Plan:</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractually required contribution</td>
<td>$ 12,265</td>
<td>$ 11,072</td>
</tr>
<tr>
<td>Contributions in relation to the contractually required contribution</td>
<td>(12,265)</td>
<td>(11,072)</td>
</tr>
<tr>
<td>Contribution deficiency (excess)</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Town's covered-employee payroll</td>
<td>$ 264,994</td>
<td>$ 260,440</td>
</tr>
<tr>
<td>Contributions as a percentage of covered-employee payroll</td>
<td>4.63%</td>
<td>4.25%</td>
</tr>
</tbody>
</table>

* The amounts presented for each fiscal year are for those years for which information is available.

See accompanying independent auditors’ report and notes to financial statements.
Other Supplementary Information

Other supplementary information includes financial statements and schedules not required by the Government Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

- Schedule of Departmental Operations – General Fund
- Combining Balance Sheet - Nonmajor Governmental Funds
- Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
- Combining Balance Sheet - Nonmajor Special Revenue Funds
- Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds
- Combining Balance Sheet – Nonmajor Permanent Funds
- Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds
- Schedule of General Capital Assets by Function
- Schedule of Changes in General Capital Assets by Function
# Schedule A

**Town of Cutler, Maine**

**Schedule of Departmental Operations – General Fund**

For the Year Ended, June 30, 2016

<table>
<thead>
<tr>
<th></th>
<th>Original Budget</th>
<th>Budget Adjustments</th>
<th>Final Budget</th>
<th>Expenditures</th>
<th>Variance Positive (Negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Government</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>$ 26,835</td>
<td>$</td>
<td>$ 26,835</td>
<td>$ 26,683</td>
<td>$ 152</td>
</tr>
<tr>
<td>Office personnel</td>
<td>58,800</td>
<td>2,414</td>
<td>61,214</td>
<td>61,214</td>
<td>-</td>
</tr>
<tr>
<td>Officer / other salaries</td>
<td>12,770</td>
<td>2,800</td>
<td>15,570</td>
<td>15,570</td>
<td>-</td>
</tr>
<tr>
<td>Assessors / assessor fund</td>
<td>6,500</td>
<td></td>
<td>6,500</td>
<td>6,074</td>
<td>426</td>
</tr>
<tr>
<td>MMA Health insurance</td>
<td>10,500</td>
<td></td>
<td>10,500</td>
<td>9,985</td>
<td>515</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>7,750</td>
<td></td>
<td>10,024</td>
<td>10,024</td>
<td>-</td>
</tr>
<tr>
<td>Software purchase</td>
<td>6,300</td>
<td></td>
<td>6,300</td>
<td>6,300</td>
<td>-</td>
</tr>
<tr>
<td>Legal fees</td>
<td>3,000</td>
<td></td>
<td>3,000</td>
<td>1,882</td>
<td>1,118</td>
</tr>
<tr>
<td>Update comprehensive plan</td>
<td>-</td>
<td>3,313</td>
<td>3,313</td>
<td>813</td>
<td>2,500</td>
</tr>
<tr>
<td>Planning board</td>
<td>1,200</td>
<td></td>
<td>1,200</td>
<td>840</td>
<td>360</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>133,655</td>
<td>10,801</td>
<td>144,456</td>
<td>139,385</td>
<td>5,071</td>
</tr>
<tr>
<td><strong>Public Safety</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volunteer fire departement</td>
<td>7,800</td>
<td></td>
<td>7,800</td>
<td>2,800</td>
<td>5,000</td>
</tr>
<tr>
<td>Animal control</td>
<td>500</td>
<td></td>
<td>500</td>
<td>385</td>
<td>115</td>
</tr>
<tr>
<td>Street lights</td>
<td>7,500</td>
<td></td>
<td>7,500</td>
<td>6,568</td>
<td>932</td>
</tr>
<tr>
<td>Ambulance</td>
<td>5,070</td>
<td></td>
<td>5,070</td>
<td>5,040</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>20,870</td>
<td></td>
<td>20,870</td>
<td>14,793</td>
<td>6,077</td>
</tr>
<tr>
<td><strong>Public Works</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Town roads</td>
<td>10,000</td>
<td>24,095</td>
<td>34,095</td>
<td>1,708</td>
<td>32,387</td>
</tr>
<tr>
<td>Snow removal</td>
<td>95,000</td>
<td></td>
<td>95,000</td>
<td>92,250</td>
<td>2,750</td>
</tr>
<tr>
<td>Winter road salt</td>
<td>7,500</td>
<td></td>
<td>7,500</td>
<td>4,414</td>
<td>3,086</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>112,500</td>
<td>24,095</td>
<td>136,595</td>
<td>98,372</td>
<td>38,223</td>
</tr>
<tr>
<td><strong>Health and Sanitation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solid waste</td>
<td>22,200</td>
<td></td>
<td>22,200</td>
<td>22,150</td>
<td>50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>22,200</td>
<td></td>
<td>22,200</td>
<td>22,150</td>
<td>50</td>
</tr>
<tr>
<td><strong>Social Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social service agencies</td>
<td>2,500</td>
<td></td>
<td>2,500</td>
<td>2,492</td>
<td>8</td>
</tr>
<tr>
<td>General assistance</td>
<td>1,000</td>
<td>5,212</td>
<td>6,212</td>
<td>372</td>
<td>5,840</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,500</td>
<td>5,212</td>
<td>8,712</td>
<td>2,864</td>
<td>5,848</td>
</tr>
</tbody>
</table>
TOWN OF CUTLER, MAINE

SCHEDULE OF DEPARTMENTAL OPERATIONS – GENERAL FUND
FOR THE YEAR ENDED, JUNE 30, 2016

<table>
<thead>
<tr>
<th>Original Budget</th>
<th>Budget Adjustments</th>
<th>Final Budget</th>
<th>Expenditures</th>
<th>Variance Positive (Negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EDUCATION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,108,889</td>
<td>-</td>
<td>1,108,889</td>
<td>985,376</td>
</tr>
<tr>
<td><strong>COUNTY TAX</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>109,607</td>
<td>-</td>
<td>109,607</td>
<td>109,607</td>
</tr>
<tr>
<td><strong>TIF</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>109,554</td>
<td>-</td>
<td>109,554</td>
<td>-</td>
</tr>
<tr>
<td><strong>CAPITAL OUTLAY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>65,000</td>
<td>165,544</td>
<td>230,544</td>
<td>16,700</td>
</tr>
<tr>
<td>Total</td>
<td>65,000</td>
<td>165,544</td>
<td>230,544</td>
<td>16,700</td>
</tr>
<tr>
<td><strong>DEBT SERVICE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>120,230</td>
<td>-</td>
<td>120,230</td>
<td>120,189</td>
</tr>
<tr>
<td><strong>UNCLASSIFIED</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Harbor management</td>
<td>-</td>
<td>3,806</td>
<td>3,806</td>
<td>497</td>
</tr>
<tr>
<td>Parks and rec fund</td>
<td>500</td>
<td>4,093</td>
<td>4,593</td>
<td>600</td>
</tr>
<tr>
<td>Office building / library</td>
<td>8,000</td>
<td>-</td>
<td>8,000</td>
<td>7,826</td>
</tr>
<tr>
<td>Town properties</td>
<td>4,250</td>
<td>-</td>
<td>4,250</td>
<td>3,075</td>
</tr>
<tr>
<td>July 4th celebration</td>
<td>2,500</td>
<td>-</td>
<td>2,500</td>
<td>2,500</td>
</tr>
<tr>
<td>Contingency</td>
<td>10,000</td>
<td>-</td>
<td>10,000</td>
<td>2,909</td>
</tr>
<tr>
<td>Cemetery</td>
<td>2,500</td>
<td>-</td>
<td>2,500</td>
<td>-</td>
</tr>
<tr>
<td>Cemetery maintenance</td>
<td>5,750</td>
<td>-</td>
<td>5,750</td>
<td>5,522</td>
</tr>
<tr>
<td>Town office improvements</td>
<td>5,000</td>
<td>-</td>
<td>5,000</td>
<td>4,630</td>
</tr>
<tr>
<td>Library</td>
<td>50</td>
<td>-</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>SHIP grant</td>
<td>-</td>
<td>80,956</td>
<td>80,956</td>
<td>59,527</td>
</tr>
<tr>
<td>Overlay</td>
<td>19,563</td>
<td>-</td>
<td>19,563</td>
<td>3,886</td>
</tr>
<tr>
<td>Total</td>
<td>58,113</td>
<td>88,855</td>
<td>146,968</td>
<td>91,022</td>
</tr>
</tbody>
</table>

TOTAL EXPENDITURES

- $1,864,118
- $294,507
- $2,158,625
- $1,600,458
- $558,126

See accompanying independent auditors' report and notes to financial statements.
## TOWN OF CUTLER, MAINE

### COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

**JUNE 30, 2016**

<table>
<thead>
<tr>
<th></th>
<th>Special Revenue Funds</th>
<th>Permanent Funds</th>
<th>Total Nonmajor Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$</td>
<td>$ 10,008</td>
<td>$ 10,008</td>
</tr>
<tr>
<td>Due from other governments</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Due from other funds</td>
<td>16,950</td>
<td>-</td>
<td>16,950</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$ 16,950</td>
<td>$ 10,008</td>
<td>$ 26,958</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to other funds</td>
<td>$ 2,416</td>
<td>$ -</td>
<td>$ 2,416</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>2,416</td>
<td>-</td>
<td>2,416</td>
</tr>
<tr>
<td><strong>FUND BALANCES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted</td>
<td>-</td>
<td>10,008</td>
<td>10,008</td>
</tr>
<tr>
<td>Assigned</td>
<td>16,950</td>
<td>-</td>
<td>16,950</td>
</tr>
<tr>
<td>Unassigned</td>
<td>(2,416)</td>
<td>-</td>
<td>(2,416)</td>
</tr>
<tr>
<td><strong>TOTAL FUND BALANCES</strong></td>
<td>14,534</td>
<td>10,008</td>
<td>24,542</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND FUND BALANCES</strong></td>
<td>$ 16,950</td>
<td>$ 10,008</td>
<td>$ 26,958</td>
</tr>
</tbody>
</table>

See accompanying independent auditors’ report and notes to financial statements.
## SCHEDULE C

**TOWN OF CUTLER, MAINE**

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2016**

<table>
<thead>
<tr>
<th></th>
<th>Special Revenue Funds</th>
<th>Permanent Funds</th>
<th>Total Nonmajor Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td>$89,785</td>
<td>$8</td>
<td>$89,793</td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td>63,163</td>
<td>-</td>
<td>63,163</td>
</tr>
<tr>
<td><strong>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</strong></td>
<td>26,622</td>
<td>8</td>
<td>26,630</td>
</tr>
<tr>
<td><strong>OTHER FINANCING SOURCES (USES)</strong></td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfers in</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfers (out)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL OTHER FINANCING SOURCES (USES)</strong></td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>NET CHANGE IN FUND BALANCES</strong></td>
<td>26,622</td>
<td>8</td>
<td>26,630</td>
</tr>
<tr>
<td><strong>FUND BALANCES (DEFICITS) - JULY 1</strong></td>
<td>(12,088)</td>
<td>10,000</td>
<td>(2,088)</td>
</tr>
<tr>
<td><strong>FUND BALANCES - JUNE 30</strong></td>
<td>$14,534</td>
<td>$10,008</td>
<td>$24,542</td>
</tr>
</tbody>
</table>

See accompanying independent auditors’ report and notes to financial statements.
Special Revenue Funds

Special revenue funds are established to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes.
## Combine Balance Sheet – Nonmajor Special Revenue Funds

**June 30, 2016**

<table>
<thead>
<tr>
<th></th>
<th>Cemetery Fund Raising</th>
<th>Shellfish Conservation</th>
<th>Education Grants</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due from other funds</td>
<td>$1,074</td>
<td>$15,876</td>
<td>$</td>
<td>$16,950</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$1,074</td>
<td>$15,876</td>
<td>$</td>
<td>$16,950</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to other funds</td>
<td>$</td>
<td>$</td>
<td>$2,416</td>
<td>$2,416</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>-</td>
<td>-</td>
<td>$2,416</td>
<td>$2,416</td>
</tr>
<tr>
<td><strong>FUND BALANCES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assigned</td>
<td>1,074</td>
<td>15,876</td>
<td>-</td>
<td>16,950</td>
</tr>
<tr>
<td>Unassigned</td>
<td>-</td>
<td>-</td>
<td>(2,416)</td>
<td>(2,416)</td>
</tr>
<tr>
<td><strong>TOTAL FUND BALANCES</strong></td>
<td>1,074</td>
<td>15,876</td>
<td>(2,416)</td>
<td>14,534</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND FUND BALANCES</strong></td>
<td>$1,074</td>
<td>$15,876</td>
<td>$</td>
<td>$16,950</td>
</tr>
</tbody>
</table>

See accompanying independent auditors’ report and notes to financial statements.

52
### TOWN OF CUTLER, MAINE

#### COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS

**FOR THE YEAR ENDED JUNE 30, 2016**

See accompanying independent auditors’ report and notes to financial statements.

<table>
<thead>
<tr>
<th>Fund</th>
<th>Cemetery Raising</th>
<th>Shellfish Conservation</th>
<th>Education Grants</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intergovernmental income</td>
<td>$ -</td>
<td>$ 83,345</td>
<td>$ 83,345</td>
<td>$ 83,345</td>
</tr>
<tr>
<td>Charges for services</td>
<td>-</td>
<td>6,440</td>
<td>-</td>
<td>6,440</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td>-</td>
<td>6,440</td>
<td>83,345</td>
<td>89,785</td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shellfish</td>
<td>-</td>
<td>4,073</td>
<td>-</td>
<td>4,073</td>
</tr>
<tr>
<td>Education</td>
<td>-</td>
<td>-</td>
<td>59,090</td>
<td>59,090</td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURES</strong></td>
<td>-</td>
<td>4,073</td>
<td>59,090</td>
<td>63,163</td>
</tr>
<tr>
<td><strong>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</strong></td>
<td>-</td>
<td>2,367</td>
<td>24,255</td>
<td>26,622</td>
</tr>
<tr>
<td><strong>OTHER FINANCING SOURCES (USES)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers in</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfers (out)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL OTHER FINANCING SOURCES (USES)</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>NET CHANGE IN FUND BALANCES</strong></td>
<td>-</td>
<td>2,367</td>
<td>24,255</td>
<td>26,622</td>
</tr>
</tbody>
</table>

| Fund Balances (Deficits) - July 1 | 1,074 | 13,509 | (26,671) | (12,088) |
| Fund Balances (Deficits) - June 30 | $ 1,074 | $ 15,876 | $ (2,416) | $ 14,534 |

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Permanent Funds

Permanent funds are used to account for assets held by the Town of Cutler, Maine that are legally restricted pursuant to Title 30-A, §5653 of the Maine State Statutes, as amended, and unless otherwise specified, only earnings, and not principal, may be used for purposes that benefit the Town or its citizenry. These funds have been established for various purposes including the provision and/or maintenance of the cemeteries.
## COMBINING BALANCE SHEET - NONMAJOR PERMANENT FUNDS
### JUNE 30, 2016

<table>
<thead>
<tr>
<th>Perpetual</th>
<th>Care</th>
<th>Ackley</th>
<th>Wright</th>
<th>Cheney</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$8,002</td>
<td>$1,003</td>
<td>$1,003</td>
<td>$1,003</td>
<td>$10,008</td>
</tr>
<tr>
<td>Due from other funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>$8,002</td>
<td>$1,003</td>
<td>$1,003</td>
<td>$1,003</td>
<td>$10,008</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Perpetual</th>
<th>Care</th>
<th>Ackley</th>
<th>Wright</th>
<th>Cheney</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIABILITIES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to other funds</td>
<td>$</td>
<td>-</td>
<td>$</td>
<td>-</td>
<td>$</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Perpetual</th>
<th>Care</th>
<th>Ackley</th>
<th>Wright</th>
<th>Cheney</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>FUND BALANCES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted</td>
<td>8,002</td>
<td>1,003</td>
<td>1,003</td>
<td>1,003</td>
<td>10,008</td>
<td></td>
</tr>
<tr>
<td>TOTAL FUND BALANCES</td>
<td>8,002</td>
<td>1,003</td>
<td>1,003</td>
<td>1,003</td>
<td>10,008</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Perpetual</th>
<th>Care</th>
<th>Ackley</th>
<th>Wright</th>
<th>Cheney</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL LIABILITIES AND FUND BALANCES</td>
<td>$8,002</td>
<td>$1,003</td>
<td>$1,003</td>
<td>$1,003</td>
<td>$10,008</td>
<td></td>
</tr>
</tbody>
</table>

See accompanying independent auditors' report and notes to financial statements.

55
## SCHEDULE G

**TOWN OF CUTLER, MAINE**

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

**NONMAJOR PERMANENT FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2016**

<table>
<thead>
<tr>
<th></th>
<th>Perpetual Care</th>
<th>Ackley</th>
<th>Wright Cheney</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>$4</td>
<td>$1</td>
<td>$3</td>
<td>$8</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td>$4</td>
<td>$1</td>
<td>$3</td>
<td>$8</td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other expenses</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURES</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>EXCESS OF REVENUES OVER (UNDER)</strong></td>
<td>$4</td>
<td>$1</td>
<td>$3</td>
<td>$8</td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL OTHER FINANCING SOURCES (USES)</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>NET CHANGE IN FUND BALANCES</strong></td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td><strong>FUND BALANCES - JULY 1</strong></td>
<td>7,998</td>
<td>1,002</td>
<td>1,000</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>FUND BALANCES - JUNE 30</strong></td>
<td>$8,002</td>
<td>$1,003</td>
<td>$1,003</td>
<td>$10,008</td>
</tr>
</tbody>
</table>

See accompanying independent auditors’ report and notes to financial statements.
General Capital Assets

General capital assets are those assets related to activities reported in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position.
<table>
<thead>
<tr>
<th></th>
<th>Land, Non-Depreciable Infrastructure and Construction in Progress</th>
<th>Buildings, Machinery, Equipment, Land Improvements</th>
<th>Infrastructure</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>$17,952</td>
<td>$116,029</td>
<td>$</td>
<td>$133,981</td>
</tr>
<tr>
<td>Town-wide</td>
<td>$57,855</td>
<td>$62,171</td>
<td>$1,308,356</td>
<td>$1,428,382</td>
</tr>
<tr>
<td>Total General Capital Assets</td>
<td>$75,807</td>
<td>$178,200</td>
<td>$1,308,356</td>
<td>$1,562,363</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>-</td>
<td>$(64,560)</td>
<td>$(132,270)</td>
<td>$(196,830)</td>
</tr>
<tr>
<td>Net General Capital Assets</td>
<td>$75,807</td>
<td>$113,640</td>
<td>$1,176,086</td>
<td>$1,365,533</td>
</tr>
</tbody>
</table>

See accompanying independent auditors' report and notes to financial statements.
TOWN OF CUTLER, MAINE

SCHEDULE OF CHANGES IN GENERAL CAPITAL ASSETS BY FUNCTION
FOR THE YEAR ENDED JUNE 30, 2016

<table>
<thead>
<tr>
<th>General Capital Assets</th>
<th>7/1/15</th>
<th>Additions</th>
<th>Deletions</th>
<th>6/30/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>$133,981</td>
<td>-</td>
<td>-</td>
<td>$133,981</td>
</tr>
<tr>
<td>Town-wide</td>
<td>1,428,382</td>
<td>-</td>
<td>-</td>
<td>1,428,382</td>
</tr>
<tr>
<td>Total General Capital Assets</td>
<td>1,562,363</td>
<td>-</td>
<td>-</td>
<td>1,562,363</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>(123,652)</td>
<td>(73,178)</td>
<td>-</td>
<td>(196,830)</td>
</tr>
<tr>
<td>Net General Capital Assets</td>
<td>$1,438,711</td>
<td>$(73,178)</td>
<td>-</td>
<td>$1,365,533</td>
</tr>
</tbody>
</table>

See accompanying independent auditors' report and notes to financial statements.
TOWN OF CUTLER, MAINE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2016

<table>
<thead>
<tr>
<th>Federal Grantor Pass-through Grantor</th>
<th>Federal CFDA Number</th>
<th>Pass-through Grantor Number</th>
<th>Subrecipients</th>
<th>Expenditures</th>
<th>Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Department of Agriculture</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passed-through State of Maine - Department of Education and Cultural Services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child Nutrition Cluster:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>School Breakfast Program</td>
<td>10.556</td>
<td>013-06A-3014-13</td>
<td>$</td>
<td>-</td>
<td>$ 3,275</td>
</tr>
<tr>
<td>School Lunch Program</td>
<td>10.555</td>
<td>013-06A-3024-13</td>
<td></td>
<td>-</td>
<td>10,782</td>
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<tr>
<td>Subtotal Child Nutrition Cluster:</td>
<td></td>
<td></td>
<td>$</td>
<td>-</td>
<td>$ 14,057</td>
</tr>
<tr>
<td>Total U.S. Department of Agriculture</td>
<td></td>
<td></td>
<td>$</td>
<td>-</td>
<td>$ 14,057</td>
</tr>
<tr>
<td><strong>U.S. Department of Education</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct grant:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REAP funds</td>
<td>84.358</td>
<td>N/A</td>
<td>-</td>
<td></td>
<td>$ 21,631</td>
</tr>
<tr>
<td>Passed-through State of Maine - Department of Education and Cultural Services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Title I</td>
<td>84.010</td>
<td>013-05A-3107-13</td>
<td>-</td>
<td></td>
<td>$ 18,176</td>
</tr>
<tr>
<td>Special Education Cluster (IDEA):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Title VI - Local Entitlement</td>
<td>84.027</td>
<td>013-05A-3046-12</td>
<td>-</td>
<td></td>
<td>$ 15,922</td>
</tr>
<tr>
<td>Preschool</td>
<td>84.173</td>
<td>013-05A-6241-07</td>
<td>-</td>
<td></td>
<td>$ 144</td>
</tr>
<tr>
<td>Subtotal Special Education Cluster (IDEA):</td>
<td></td>
<td></td>
<td>-</td>
<td></td>
<td>$ 16,066</td>
</tr>
<tr>
<td>Title IIA-Teaching Quality</td>
<td>84.367</td>
<td>013-05A-3042-11</td>
<td>-</td>
<td></td>
<td>$ 3,159</td>
</tr>
<tr>
<td>Total U.S. Department of Education</td>
<td></td>
<td></td>
<td>-</td>
<td></td>
<td>$ 59,032</td>
</tr>
<tr>
<td><strong>TOTAL FEDERAL ASSISTANCE</strong></td>
<td></td>
<td></td>
<td>$</td>
<td>-</td>
<td>$ 73,089</td>
</tr>
</tbody>
</table>
1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all education federal award programs of the Town of Cutler, Maine for the year ended June 30, 2016. The Schedule is prepared for the State of Maine Department of Education and is not intended to include all federal financial assistance that may have been received by the Town of Cutler. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town of Cutler, Maine, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Cutler, Maine.

2. Summary of Significant Accounting Policies

a. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

b. The Town of Cutler, Maine has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.
INDEPENDENT AUDITORS’ REPORT ON STATE REQUIREMENTS

Board of Selectmen
Town of Cutler
Cutler, Maine

We have audited the financial statements of Town of Cutler for the year ended June 30, 2016 and have issued our report thereon dated October 27, 2016. Our audit was made in accordance with auditing standards generally accepted in the United States of America and applicable state and federal laws relating to financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, we reviewed the budgetary controls that are in place, and have reviewed the annual financial report that was submitted to the Unit for accuracy. In addition we have reviewed the Unit’s compliance with applicable provisions of the Maine Finance Act as noted under MRSA Title 20A, section 6051 as we considered necessary in obtaining our understanding.

The results of our procedures indicate that with respect to the items tested, the Town of Cutler, Maine complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Town of Cutler was in noncompliance with, or in violation of, those provisions.

Management has determined that no adjustments were necessary to the fiscal books of the Town and have attached the following schedule as it relates to the reconciliation of audit adjustments to the initial annual financial data submitted to the MEDMS financial system maintained at the Town.

This report is intended solely for the information of the Board of Selectmen, management and the Department of Education. This report is not intended to be and should not be used by anyone other than the specified parties.

Buxton, Maine
October 27, 2016
**Town of Cutler, Maine**  
**Reconciliation of Audit Adjustments to Annual Financial Data Submitted to the MEDMS Financial System**  
**For the Year Ended June 30, 2016**

<table>
<thead>
<tr>
<th></th>
<th>General Fund (1000)</th>
<th>Special Revenue Funds (2000)</th>
<th>Totals</th>
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<tr>
<td><strong>Beginning balance adjustments</strong></td>
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</tr>
<tr>
<td><strong>Revenue Adjustments:</strong></td>
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</tr>
<tr>
<td>Transfer from town</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accounts receivable</td>
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<td>-</td>
</tr>
<tr>
<td><strong>Expenditure Adjustments:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Workers comp in general ledger</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accrued payroll adjustment</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accounts payable adjustment</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

|                          | $                   | $                          | $      |