

TOWN OF MILLINOCKET, MAINE

Annual Financial Report

For the Year Ended June 30, 2012

TOWN OF MILLINOCKET, MAINE
Annual Financial Report
For the Year Ended June 30, 2012

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Independent Auditor's Report

Town Council
Town of Millinocket, Maine

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Millinocket, Maine as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Millinocket, Maine's management. Our responsibility is to express opinions on these financial statements based on our audit.

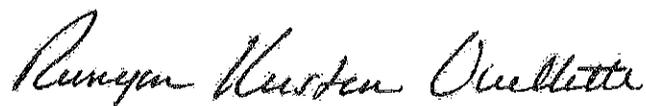
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Millinocket, Maine as of June 30, 2012, and the respective changes in financial position and cash flows where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2012, on our consideration of the Town of Millinocket, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of Funding Progress, as listed in the table of contents, 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Millinocket, Maine's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. They are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



October 5, 2012
South Portland, Maine

TOWN OF MILLINOCKET, MAINE
Management's Discussion and Analysis
June 30, 2012

The Town of Millinocket's annual financial report is hereby submitted for Fiscal Year 2012, which covers the period of July 1, 2011 to June 30, 2012. The Town is the responsible party to ensure the accuracy, completeness, and fairness of the data and other information presented. It is the belief of management that all the information contained herein is accurate in all material respects and reflects fairly the financial position and operations of the Town. This Management's Discussion and Analysis is designed to offer further explanation of the information contained herein.

Fiscal Year 2012 marks the tenth year that the Town was required to comply with the accounting standard called GASB #34. GASB is the Governmental Accounting Standards Board that sets regulations by which audits are conducted. #34 refers to the accounting standard that requires municipalities to track capital assets and other items. It also requires the compilation of this report. This report includes all of the Town's equipment, buildings, land, and infrastructure investments (i.e., roads, sidewalks, storm drains, and sewers).

This year also features the fourth year of GASB 45, a new standard that addresses the long-term costs of retiree health benefits.

FINANCIAL STATEMENTS

The audit contains several major components. The Basic Financial Statements reflect the activities in the Town's general fund, its proprietary account for Wastewater, and its fiduciary (trust) funds. Other related accounts include reserve funds that are set aside for special, specific purposes. Notes to the Financial Statements offer explanations of various entries, policies, and obligations of the Town. These include items such as the tax commitment, long-term debt, etc. Finally, the Combining and Individual Fund Statements address balance sheets and statements of revenues, expenditures, and changes in fund balances for the various funds (general, special, reserve, and permanent). The Table of Contents in the front section of the audit provides the specific pages where the various statements and exhibits can be found.

Governmental fund accounts use the modified accrual basis of accounting. This method measures cash and all other financial assets that can be converted to cash in a quick manner. Governmental activities are reported in the Statement of Net Assets and the Statement of Activities, which both use the accrual method because the information is cast in a context similar to the method used by most private sector companies. Each of these statements report changes in the Town's net assets. Net assets are simply the difference between assets and liabilities and this difference becomes one way to measure the financial position of the Town. Other factors include changes in the property tax base and the condition of the Town's infrastructure. Proprietary funds are also maintained on an accrual accounting basis, as they are treated as business-type accounts.

Comparative figures between this year and last are used to add clarity to the Town's condition and to provide the reader with more information.

TOWN OF MILLINOCKET, MAINE
Management's Discussion and Analysis, Continued

CONDENSED PRESENTATION OF FINANCIAL INFORMATION

The following information is condensed from Statement 1, Statement of Net Assets for Fiscal 2012 compared to Fiscal 2011. It distinguishes between capital and other assets, notes the Town's general liabilities and debt service, and shows the Town's net assets by restricted and unrestricted amounts. This information is for the Town's Governmental Activities and Business-type Activities.

	2012 Govt Activities	2012 Bus-type Activities	2012 Total	2011 Govt Activities	2011 Bus-type Activities	2011 Total
Assets:						
Current and other assets	\$ 3,688,501	1,156,026	4,844,527	\$ 5,421,413	1,410,357	6,831,770
Capital assets	10,380,651	4,491,202	14,871,853	9,006,771	4,585,460	13,592,231
Total assets	14,069,152	5,647,228	19,716,380	14,428,184	5,995,817	20,424,001
Liabilities:						
Long-term debt	4,719,124	1,684,823	6,403,947	3,668,893	1,865,369	5,534,262
Other liabilities	3,949,035	50,227	3,999,262	3,947,081	54,734	4,001,815
Total liabilities	8,668,159	1,735,050	10,403,209	7,615,974	1,920,103	9,536,077
Net assets:						
Invested in capital assets	5,661,527	2,806,379	8,467,906	5,337,878	2,720,091	8,057,969
Restricted	544,195	-	544,195	381,729	-	381,729
Unrestricted	(804,729)	1,105,799	301,070	1,092,603	1,355,623	2,448,226
Total net assets	\$ 5,400,993	3,912,178	9,313,171	6,812,210	4,075,714	10,887,924

TYPES OF ACTIVITIES BY FISCAL YEAR

The information in the following chart is drawn from Statement 2, Statement of Activities, in a reformulated presentation to show overall revenues, expenses, and net assets. While total expenses for all departments (including Wastewater) totaled \$14,450,060, other revenues contributed to make the net amount raised by property taxes \$5,167,620 (net of tax increment financing reimbursements). Put another way, property taxes financed 36% in FY12 compared to FY11's 46% of the total costs of providing municipal, school, county, and wastewater expenses. It should be noted that Wastewater is entirely self-financed through user fees and other related revenues and does not use any property taxes to support its budget. Under GASB #34, however, it is necessary to include its revenues and expenses in these totals.

TOWN OF MILLINOCKET, MAINE
Management's Discussion and Analysis, Continued

TYPES OF ACTIVITIES BY FISCAL YEAR

	2012 Govt Activities	2012 Bus-type Activities	2012 Total	2011 Govt Activities	2011 Bus-type Activities	2011 Total
Revenues:						
Program revenues:						
Charges for services-						
Municipal	\$ 1,205,792	-	1,205,792	\$ 868,435	-	868,435
Wastewater	-	501,775	501,775	-	505,700	505,700
Operating contributions	803,321	-	803,321	909,199	-	909,199
Capital contributions	450,933	-	450,933	451,243	750	451,993
General revenues:						
Property taxes	5,167,620	-	5,167,620	7,190,684	-	7,190,684
Vehicle excise taxes	680,261	-	680,261	690,258	-	690,258
Interest and lien costs	32,420	-	32,420	54,997	-	54,997
State education subsidy	2,657,403	-	2,657,403	3,452,908	-	3,452,908
Homestead/BETE exemption	367,316	-	367,316	342,948	-	342,948
Other state aid	94,419	-	94,419	193,708	-	193,708
State revenue sharing	762,447	-	762,447	641,870	-	641,870
Investment earnings	8,211	1,977	10,188	10,412	13,723	24,135
Miscellaneous	141,412	-	141,412	208,476	-	208,476
Total revenues	12,371,555	503,752	12,875,307	15,015,138	520,173	15,535,311
Expenses:						
General government	538,752	-	538,752	620,206	-	620,206
Protection	1,608,529	-	1,608,529	1,688,115	-	1,688,115
Town services	1,030,062	-	1,030,062	1,122,787	-	1,122,787
Community services	946,395	-	946,395	986,761	-	986,761
Education	7,225,502	-	7,225,502	8,114,962	-	8,114,962
Maine PERS	466,352	-	466,352	556,484	-	556,484
Insurance/fringe benefits	1,027,112	-	1,027,112	890,456	-	890,456
County tax	374,002	-	374,002	350,412	-	350,412
Food service	323,669	-	323,669	310,026	-	310,026
Interest on debt	178,386	-	178,386	185,852	-	185,852
Unclassified	60,831	-	60,831			
Capital maintenance expenses	16,980	-	16,980	25,127	-	25,127
Wastewater	-	653,488	653,488	-	665,941	665,941
Total expenses	13,796,572	653,488	14,450,060	14,851,188	665,941	15,517,129
Transfers	13,800	(13,800)	-	14,400	(14,400)	-
Change in net assets	(1,411,217)	(163,536)	(1,574,753)	178,350	(160,168)	18,182
Net assets beginning of year	6,812,210	4,075,714	10,887,924	6,633,860	4,235,882	10,869,742
Net assets end of year	\$ 5,400,993	3,912,178	9,313,171	6,812,210	4,075,714	10,887,924

TOWN OF MILLINOCKET, MAINE
Management's Discussion and Analysis, Continued

ANALYSIS OF TOWN POSITION AND OPERATIONS

In all material respects, the position and operations of the Town of Millinocket general fund decreased during Fiscal 2012. Revenues were above the budgeted amount by \$234,182. By line category, the range of revenues varied from a surplus of \$692,804 to a deficit of \$554,955. The Intergovernmental line was \$554,955 under, of which a loss of \$721,000 was due to the failure of the State to fully fund its obligation on Sudden and Severe Impact (S&SI) funds to offset property taxes because of a \$96,000,000 valuation loss at the mill. This had a major impact on the Town, especially in its Unassigned Fund Balance (UFB). The Town covered the loss through the use of the UFB. For the year, the Town ended with an overall operating deficit of \$1,369,908 and our Total Fund Balance decreased from \$2,677,345 to \$1,307,437. Besides the non-payment of \$720,000 in S&SI, the most of the remaining drop in the UFB was due to the planned use of UFB to support the Fiscal 2012 Municipal budget.

The mil rate for Fiscal 2012 increased to 25.6 (\$25.60 per \$1,000 in valuation) from a 23.20 rate in Fiscal 2011. The primary driver of the increase was the devaluation of the mill by \$96,000,000, despite a decrease in the Municipal and School budgets of over \$1,000,000.

Katahdin Paper Company (KPC) announced on May 29, 2008 that it planned to indefinitely shut its Millinocket mill down at the end of July due to extremely high oil prices. The company used bunker C oil to furnish its heat and steam. Although the company had a full order book for the year, the cost of oil made the operation unprofitable. Subsequent to the original announcement, the mill actually did not close until September 2, 2008 which was followed by a significant time period to mothball the facility.

In September 2011, the mills were purchased by Cate Street Capital from Portsmouth, New Hampshire. The mill in East Millinocket was re-started in October and continues to produce paper, although the workforce is about one-half the numbers employed before it shut down in April 2011. Current employment is approximately 230. The Millinocket mill continues to be shut down and the future is unknown. The Governor's office continues its efforts on behalf of the Town to find a company that might want to operate only the mill and Cate Street is receptive to those efforts.

Cate Street is embarking on a major new project to manufacture a coal substitute for use in Europe that will help coal burning plants there to reduce their carbon footprint. These wood pellets are called "torrefied wood" and will help diversify the area's economy while still using our prime resource: wood. The company will be called Thermogen and the first machine should be in production during the summer of 2013.

In 2008, the Town had two businesses that failed to meet their job creation benefit that was required by the Community Development Block Grant program for loans they each obtained from CDBG in previous years. Allagash Valve and Controls entered into a payment plan with the State and has now completed their obligation. The other company, Brims Ness, is still in limbo and discussions with them have been sporadic. These funds are granted to communities and require the guarantee of job creation or face recall of the loaned funds to the State. The Town is vulnerable to the recall of the outstanding balance of the Brims Ness loan of \$250,000 if they are not repaid by the recipient.

The Katahdin Resorts project on Hammond Ridge just outside of Town completed phase 1 of its plans to construct some new guest cabins at its Twin Pines facility in 2011. They are continuing to develop additional elements of their overall project.

Another major initiative was the completion of a multi-use recreation trail from the Timber Cruisers club house to the Seboeis area. Phase 1 involved constructing the new trail from the club house to South Twin and Phase 2 extended that trail from South Twin to Seboeis. A parallel project was the construction of a new recreation bridge

TOWN OF MILLINOCKET, MAINE
Management's Discussion and Analysis, Continued

over the West Branch of the Penobscot in 2009. The trail is now open and is starting to get consistent use. Businesses in Millinocket are also beginning to experience sales from those using the trail. This trail connects Millinocket to the State trail system south of Seboeis. Plans call for eventually expanding the new multi-use trail system north to Aroostook County and east to East Millinocket and Medway. The State Department of Conservation has been very helpful and generous in supporting these efforts through grants.

The Town is continuing its efforts to diversify the economic base in Millinocket and the surrounding area. While the forest products industry will continue to be a major player, it is important to develop new opportunities that are not as subject to worldwide competition. Good manufacturing facilities create full time, high paying jobs with benefits, but such opportunities continue to be difficult to find and bring to our Town. Such businesses, however, can have the impact of establishing a solid financial base for this area and allow us to also increase opportunities connected to retailing, services, and tourism. All of these elements are important building blocks in re-establishing Millinocket as a significant economic development engine for the region.

Despite the economic circumstances, the level of property tax collections was 94.83%, compared to 96.34% a year ago. These figures are a little below the normal range of tax collections for Millinocket, but are remarkable given the challenges many of our property owners currently face.

SIGNIFICANT CHANGES IN FUNDS

There were no significant changes in funds during Fiscal 2012.

SIGNIFICANT BUDGET VARIANCES

Property taxes were committed in October, 2011. As usual, there were a number of variances between what was budgeted by functional area and what was actually received in revenues or spent in expenditures. The major ones are detailed below.

Total revenues, including the school, were budgeted at \$10,614,804 and the actual amount received was \$10,848,986, for an overage of \$234,182. The most significant reason for this was an increase in State Revenue Sharing of \$87,447 due to the receipt of S&SI funds that apply to the Revenue Sharing program. The major revenue decreases were drops of \$28,039 in Excise Tax collections and \$7,580 less in Interest and Fees.

Total expenses, including the school, were budgeted at \$12,346,798 while actual expenditures were \$12,289,109 or \$57,689 less than budgeted. The School Department accounted for most of the under-expenditures with \$173,354 unspent. Other savings in budgeted expenditures included a \$42,304 drop in Public Works spending. In other expenditure areas, the most significant over-expenditures for the municipal part of the budget included \$34,529 in the legal fees account due to continued litigation related to retiree health insurance and new litigation to recover the S&SI funds due to the Town by law, \$28,816 in Police expenditures, and \$33,103 at the Airport that was mostly due to increased aviation gas purchases due to sales volume increases.

When all the above factors were taken into account, the Town's overall year-end deficit (including the School Department) was \$1,369,908, of which \$720,000 is the S&SI funds due to the Town by the State. The Town's total fund balance decreased to \$1,307,437 from the previous year's \$2,677,345.

TOWN OF MILLINOCKET, MAINE
Management's Discussion and Analysis, Continued

SUMMARY OF CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

CAPITAL ASSETS

For the past eleven years, the Town has developed and maintained a five year Capital Improvement Plan (CIP). This plan is updated annually as part of the budget cycle. The plan is for equipment needs only and does not include buildings at this time. Also, street paving is a separate sub-account in the Public Works budget.

For Fiscal 2012, the Town Council appropriated just \$65,624 for capital equipment needs. The major purchase was a trash hauling trailer.

The Town continues to be challenged by the condition of its streets and sidewalks. In Fiscal 2012, the Town budgeted \$45,000 for street paving and sidewalks, compared to \$100,000 in Fiscal 2011. A study put together by the Town ten years ago demonstrated that the actual need is at least \$160,000 per year (based on 2001 dollars when the annual paving budget was \$80,000), if the Town were to adopt a schedule to ensure each street was repaved at least once every 12 years. This is a minimal paving goal if the streets are to be maintained. The competition for funds for other needed purposes limits the amount of money available for this area.

LONG-TERM DEBT

The State allows municipalities to borrow up to 15% of their total state valuation. Since the value of the Town was \$251,048,950 in FY12, the debt limit would be \$37,657,342. Our current bonded debt is \$6,353,417 or just 18% of our authorized limit. This debt includes \$3,595,512 in school projects, \$1,073,083 for municipal purposes (including the new pool and energy improvements), and \$1,684,823 for Wastewater. The Wastewater debt is repaid through user fees, not property tax revenues.

During FY03, the Town was invited to refinance its Wastewater debt through the Maine Municipal Bond Bank. This shortened the life of the loan by six months and will result in an overall savings of \$250,000 over the life of the loan, which expires in 2017. The last school loan will be repaid in 2018. The two municipal loans are for the new pool that is a 15 year obligation and the first payment was made during Fiscal 2008 and energy improvements in 2009 that will be paid off in 2020.

The strategic use of debt has become more important for key projects in recent years. The Town has been judicious with debt. The use of debt spreads out the costs of needed improvements of a capital nature as opposed to the current method of mostly paying as we go. Debt, however, becomes a fixed cost going forward and limits the flexibility that is sometimes needed to finance an operating budget.

FUTURE SIGNIFICANT IMPACTS

The future looks brighter today than it did one year ago prior to the mills being sold to Cate Street Capital. The East Millinocket mill is operating and plans to develop the Thermogen project in Millinocket are looking very promising. If all goes as planned, Thermogen will have its first of a possible five machines in operation during the summer of 2013. The number of jobs per machine is estimated to be approximately 37.

Concerns still abound about the future of Paper Machine #11 in Millinocket. So far, the new company has shown only limited interest in it. However, they are working with the Governor's office to find an operator for the machine and those efforts are continuing.

TOWN OF MILLINOCKET, MAINE
Management's Discussion and Analysis, Continued

The Town is continuing its efforts to increase outdoor recreational opportunities in the area. The new multi-use trail from the Northern Timber Cruisers clubhouse to Seboeis is now completed and operational. People are using it and local businesses are benefiting from it. The future plan is to extend the trail north and east to hook into the Aroostook County trail system.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Millinocket's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Manager, Town of Millinocket, Maine, 197 Penobscot Avenue, Millinocket, Maine 04462.

Respectfully submitted,

Eugene J. Conlogue
Millinocket Town Manager

BASIC FINANCIAL STATEMENTS

TOWN OF MILLINOCKET, MAINE
Statement of Net Assets
June 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,143,501	56,422	2,199,923
Investments	498,715	669,693	1,168,408
Receivables:			
Accounts, net of allowance of \$27,000	174,773	370,842	545,615
Intergovernmental	98,446	-	98,446
Taxes receivable	464,391	-	464,391
Tax liens	133,256	-	133,256
Notes, net of allowance of \$12,667	203,336	-	203,336
Internal balances	(51,063)	51,063	-
Inventory	23,146	-	23,146
Other	-	8,006	8,006
Capital assets, not being depreciated	380,064	-	380,064
Capital assets, net of accumulated depreciation	10,000,587	4,491,202	14,491,789
Total assets	14,069,152	5,647,228	19,716,380
LIABILITIES			
Cash overdraft	155,203	-	155,203
Accounts payable and other current liabilities	171,291	2,780	174,071
Accrued wages and benefits payable	469,673	3,034	472,707
Accrued compensated absences	354,812	44,413	399,225
Other post employment benefits	2,750,406	-	2,750,406
Accrued interest	47,650	-	47,650
Noncurrent liabilities:			
Due within one year	503,537	181,382	684,919
Due in more than one year	4,215,587	1,503,441	5,719,028
Total liabilities	8,668,159	1,735,050	10,403,209
NET ASSETS			
Invested in capital assets, net of related debt	5,661,527	2,806,379	8,467,906
Restricted for:			
Nonexpendable trust principal	16,401	-	16,401
Other purposes	527,794	-	527,794
Unrestricted	(804,729)	1,105,799	301,070
Total net assets	\$ 5,400,993	3,912,178	9,313,171

See accompanying notes to financial statements.

TOWN OF MILLINOCKET, MAINE
Statement of Activities
For the Year Ended June 30, 2012

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net assets		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government		Total
					Governmental activities	Business-type activities	
Primary government:							
Governmental activities:							
General government	\$ 538,752	89,886	-	-	(448,866)	-	(448,866)
Protection	1,608,529	336,382	5,152	-	(1,266,995)	-	(1,266,995)
Town services	1,030,062	202,480	49,108	-	(778,474)	-	(778,474)
Community services	946,395	132,833	83,997	450,933	(278,632)	-	(278,632)
Education	7,225,502	346,950	2,657,403	-	(4,221,149)	-	(4,221,149)
On-behalf payments - Maine PERS	466,352	-	466,352	-	-	-	-
Insurance and fringe benefits	1,027,112	-	-	-	(1,027,112)	-	(1,027,112)
County tax	374,002	-	-	-	(374,002)	-	(374,002)
Food service	323,669	97,261	198,712	-	(27,696)	-	(27,696)
Unclassified	60,831	-	-	-	(60,831)	-	(60,831)
Capital maintenance expenses	16,980	-	-	-	(16,980)	-	(16,980)
Interest on debt	178,386	-	-	-	(178,386)	-	(178,386)
Total governmental activities	13,796,572	1,205,792	3,460,724	450,933	(8,679,123)	-	(8,679,123)
Business-type activities:							
Wastewater treatment plant	653,488	501,775	-	-	-	(151,713)	(151,713)
Total business-type activities	653,488	501,775	-	-	-	(151,713)	(151,713)
Total primary government	\$ 14,450,060	1,707,567	3,460,724	450,933	(8,679,123)	(151,713)	(8,830,836)
General revenues:							
Property taxes, levied for general purposes					\$ 5,167,620	-	5,167,620
Motor vehicle excise taxes					680,261	-	680,261
Interest and lien costs					32,420	-	32,420
Grants and contributions not restricted to specific programs:							
Homestead and BETE exemptions					367,316	-	367,316
Other State aid					94,419	-	94,419
State Revenue Sharing					762,447	-	762,447
Unrestricted investment earnings					8,211	1,977	10,188
Miscellaneous revenues					161,071	-	161,071
Loss on disposal of assets					(19,659)	-	(19,659)
Transfers					13,800	(13,800)	-
Total general revenues and transfers					7,267,906	(11,823)	7,256,083
Change in net assets					(1,411,217)	(163,536)	(1,574,753)
Net assets - beginning					6,812,210	4,075,714	10,887,924
Net assets - ending					\$ 5,400,993	3,912,178	9,313,171

See accompanying notes to financial statements.

TOWN OF MILLINOCKET, MAINE
Balance Sheet
Governmental Funds
June 30, 2012

	General	Capital Reserve Funds	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,004,115	-	139,386	2,143,501
Investments	-	459,755	38,960	498,715
Receivables:				
Accounts, net of allowance of \$27,000	174,773	-	-	174,773
Intergovernmental	-	-	98,446	98,446
Taxes receivable	464,391	-	-	464,391
Tax liens	133,256	-	-	133,256
Notes, net of allowance of \$12,667	-	-	203,336	203,336
Interfund loans receivable	-	142,463	116,919	259,382
Inventory	12,056	-	11,090	23,146
Total assets	\$ 2,788,591	602,218	608,137	3,998,946
LIABILITIES AND FUND BALANCES				
Liabilities:				
Cash overdraft	155,203	-	-	155,203
Accounts payable	165,677	-	5,614	171,291
Accrued wages and benefits	434,081	-	35,592	469,673
Interfund loans payable	251,193	33,790	25,462	310,445
Deferred tax revenues	475,000	-	-	475,000
Total liabilities	1,481,154	33,790	66,668	1,581,612
Fund balances:				
Nonspendable	12,056	-	230,827	242,883
Restricted	-	-	324,458	324,458
Committed	-	568,428	13,425	581,853
Assigned - Town	42,790	-	-	42,790
Unassigned - School	(305,102)	-	(27,241)	(332,343)
Unassigned - Town	1,557,693	-	-	1,557,693
Total fund balances	1,307,437	568,428	541,469	2,417,334
Total liabilities and fund balances	\$ 2,788,591	602,218	608,137	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,380,651
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	475,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds:	
Compensated absences payable	(354,812)
Other post employment benefits	(2,750,406)
Accrued interest	(47,650)
Capital leases payable	(50,529)
Bonds payable	(4,668,595)

Net assets of governmental activities	\$ 5,400,993
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See accompanying notes to financial statements.

TOWN OF MILLINOCKET, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2012

	General	Capital Reserve Funds	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 5,868,301	-	-	5,868,301
Licenses and permits	50,756	-	-	50,756
Intergovernmental	3,788,390	-	881,097	4,669,487
Intergovernmental on-behalf payments	466,352	-	-	466,352
Tuition and other charges for services - education	284,625	-	-	284,625
Charges for services	333,711	-	159,586	493,297
Fees and fines	4,090	-	-	4,090
Unclassified	518,265	13,968	1,862	534,095
Investment earnings	848	203	7,160	8,211
Total revenues	11,315,338	14,171	1,049,705	12,379,214
Expenditures:				
Current:				
General government	511,109	-	-	511,109
Protection	1,554,254	-	1,571	1,555,825
Town services	911,768	-	-	911,768
Community services	832,670	-	-	832,670
Education	5,956,517	-	735,290	6,691,807
Maine Public Employees Retirement on-behalf payments	466,352	-	-	466,352
Insurance and fringe benefits	1,049,947	-	-	1,049,947
County tax	374,002	-	-	374,002
Food services	-	-	323,669	323,669
Unclassified	-	-	60,831	60,831
Capital outlay	552,623	1,465,646	-	2,018,269
Debt service	567,969	-	-	567,969
Total expenditures	12,777,211	1,465,646	1,121,361	15,364,218
Excess (deficiency) of revenues over (under) expenditures	(1,461,873)	(1,451,475)	(71,656)	(2,985,004)
Other financing sources (uses):				
Issuance of debt	-	1,465,000	-	1,465,000
Transfer in from Town	720,000	-	-	720,000
Transfer out to School	(720,000)	-	-	(720,000)
Transfers from other funds	109,953	-	17,988	127,941
Transfers to other funds	(17,988)	(27,743)	(68,410)	(114,141)
Total other financing sources (uses)	91,965	1,437,257	(50,422)	1,478,800
Net change in fund balances	(1,369,908)	(14,218)	(122,078)	(1,506,204)
Fund balances, beginning of year	2,677,345	582,646	663,547	3,923,538
Fund balances, end of year	\$ 1,307,437	568,428	541,469	2,417,334

See accompanying notes to financial statements.

TOWN OF MILLINOCKET, 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, 2012

Net change in fund balances - total governmental funds (from Statement 4)	\$	(1,506,204)
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Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:

<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$2,001,289) exceeded depreciation expense (\$607,750) and loss on disposal (\$19,659).</p>		1,373,880
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the change in deferred revenue.</p>		12,000
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This is the decrease in accrued compensated absences (\$24,770), and increase in other post employment benefits (\$258,336) and accrued interest (\$7,096).</p>		(240,662)
<p>Capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments.</p>		18,090
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds (\$1,465,000) exceeded repayments (\$396,679).</p>		(1,068,321)

Change in net assets of governmental activities (see Statement 2)	\$	(1,411,217)
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See accompanying notes to financial statements.

TOWN OF MILLINOCKET, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the year ended June 30, 2012

	Budgeted amounts		Actual	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Taxes	\$ 5,175,497	5,175,497	5,868,301	692,804
Licenses and permits	43,350	43,350	50,756	7,406
Intergovernmental	4,343,345	4,343,345	3,788,390	(554,955)
Tuition and other charges for services - education	262,670	262,670	284,625	21,955
Charges for services	335,145	335,145	333,711	(1,434)
Fees and fines	4,090	4,090	4,090	-
Unclassified	445,707	445,707	518,265	72,558
Investment earnings	5,000	5,000	848	(4,152)
Total revenues	10,614,804	10,614,804	10,848,986	234,182
Expenditures:				
Current:				
General government	496,547	496,547	511,109	(14,562)
Protection	1,540,308	1,540,308	1,554,254	(13,946)
Town services	964,373	964,373	911,768	52,605
Community services	675,831	675,831	832,670	(156,839)
Education	6,108,121	6,108,121	5,934,767	173,354
Insurance and fringe benefits	1,050,435	1,050,435	1,049,947	488
County tax	374,002	374,002	374,002	-
Capital outlay	565,924	565,924	552,623	13,301
Debt service	571,257	571,257	567,969	3,288
Total expenditures	12,346,798	12,346,798	12,289,109	57,689
Excess (deficiency) of revenues over (under) expenditures	(1,731,994)	(1,731,994)	(1,440,123)	291,871
Other financing sources (uses):				
Use of undesignated fund balance - Town	591,315	591,315	-	(591,315)
Use of undesignated fund balance - School	277,456	277,456	-	(277,456)
Transfer in from Town	-	-	720,000	720,000
Transfer out to School	-	-	(720,000)	(720,000)
Overlay	(14,920)	(14,920)	-	14,920
Transfers from other funds	896,131	896,131	109,953	(786,178)
Transfers to other funds	(17,988)	(17,988)	(17,988)	-
Total other financing sources (uses)	1,731,994	1,731,994	91,965	(1,640,029)
Net change in fund balance - budgetary basis	-	-	(1,348,158)	(1,348,158)
Reconciliation to GAAP basis:				
Change in accrued teacher summer salaries			(21,750)	
Net change in fund balance - GAAP basis			(1,369,908)	
Fund balance, beginning of year			2,677,345	
Fund balance, end of year	\$		1,307,437	

See accompanying notes to financial statements.

TOWN OF MILLINOCKET, MAINE
Statement of Net Assets
Proprietary Funds
June 30, 2012

Business-type Activities - Enterprise Funds		Wastewater Treatment Plant
ASSETS		
Current assets:		
Cash and cash equivalents	\$	56,422
Investments		669,693
Accounts receivable		370,842
Interfund loans receivable		51,063
Loan origination fees - net		8,006
Total current assets		1,156,026
Noncurrent assets:		
Capital assets		12,860,466
Less accumulated depreciation		(8,369,264)
Total noncurrent assets		4,491,202
Total assets		5,647,228
LIABILITIES		
Current liabilities:		
Accounts payable		2,780
Accrued wages		3,034
Accrued compensated absences		44,413
Bonds payable, current		181,382
Total current liabilities		231,609
Noncurrent liabilities:		
Bonds payable		1,503,441
Total noncurrent liabilities		1,503,441
Total liabilities		1,735,050
NET ASSETS		
Invested in capital assets, net of related debt		2,806,379
Unrestricted		1,105,799
Total net assets	\$	3,912,178

See accompanying notes to financial statements.

TOWN OF MILLINOCKET, MAINE
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2012

Business-type Activities - Enterprise Funds		Wastewater Treatment Plant
Operating revenues:		
Charges for services	\$	488,255
Other		13,520
Total operating revenues		501,775
Operating expenses:		
Administration		110,486
Operations		273,715
Depreciation and amortization		243,098
Total operating expenses		627,299
Operating loss		(125,524)
Nonoperating revenue (expense):		
Interest income		1,977
Interest expense		(26,189)
Total nonoperating revenue (expense)		(24,212)
Loss before transfers		(149,736)
Transfers out		(13,800)
Change in net assets		(163,536)
Total net assets, beginning of year		4,075,714
Total net assets, end of year	\$	3,912,178

See accompanying notes to financial statements.

TOWN OF MILLINOCKET, MAINE
Statement of Cash Flows - Proprietary Funds
For the year ended June 30, 2012

Business-type Activities - Enterprise Funds		Wastewater Treatment Plant
Cash flows from operating activities:		
Receipts from customers and users	\$	489,375
Payments to suppliers		(189,612)
Payments to employees		(199,096)
Net cash provided by operating activities		100,667
Cash flows from noncapital financing activities:		
Transfer to other funds		(13,800)
Net cash used in noncapital financing activities		(13,800)
Cash flows from capital and related financing activities:		
Purchase of capital assets		(147,506)
Principal payments on bonds		(180,545)
Interest paid		(26,189)
Net cash used in capital and relating financing activities		(354,240)
Cash flows from investing activities:		
Sale of investments		282,388
Investment income		1,977
Net cash provided by investing activities		284,365
Increase in cash		16,992
Cash, beginning of year		39,430
Cash, end of year	\$	56,422
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$	(125,524)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization		243,098
Increase in operating assets:		
Accounts receivable		(12,400)
Increase (decrease) in operating liabilities:		
Accounts payable		(5,593)
Accrued wages and benefits payable		1,048
Accrued compensated absences		38
Net cash provided by operating activities		100,667

See accompanying notes to financial statements.

TOWN OF MILLINOCKET, MAINE
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

		Agency Fund School Activity Fund
ASSETS		
Cash	\$	82,347
Total assets		82,347
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to student groups		82,347
Total liabilities		82,347
Net assets:		
Held in trust	\$	-

See accompanying notes to financial statements.

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Millinocket, Maine was incorporated as a Town in 1901 under the laws of the State of Maine. The Town operates under a council-manager form of government.

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Town of Millinocket, Maine (the primary government) and its component units. The decision to include a potential component unit was made by applying the criteria set forth in accounting principles generally accepted in the United States of America which defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Application of this criterion and determination of type of presentation involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. Additionally, certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or component unit. Based on the application of these criteria, there were no potential component units required to be included in this report.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period for property taxes and one year for all other revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as certain compensated absences and claims and judgments, are recorded only when the payment is due.

Those revenues susceptible to accrual are property taxes, interest, and charges for services. Other receipts and taxes become measurable and available when cash is received by the Town and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The Town reports the following major governmental funds:

The General Fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Reserve Funds are used to account for transactions related to capital reserves held by the Town.

The Town reports the following major proprietary fund:

The Wastewater Treatment Plant Fund accounts for the operation of a sewer system in Millinocket.

Additionally, the Town reports the following fund type:

Fiduciary funds account for assets held by the Town in a trustee capacity or as an agent on behalf of others. The Town's fiduciary funds include the following fund type:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. The funds are used to account for assets that the Town holds for others in an agency capacity.

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Town has elected not to follow subsequent private-sector guidance. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's proprietary fund is charges to customers for sales and services; operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's practice to use restricted resources first, then unrestricted resources as they are needed.

D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits as well as time deposits and certificates of deposit owned by the Town. State statutes authorize the Town to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, and repurchase agreements.

Investments are stated at fair value, unless otherwise indicated. For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Investments of the Permanent Funds, Wastewater Treatment Plant Fund and Capital Reserve Funds are pooled on a cost basis, with each individual fund subscribing to or disposing of interest in the investment pool on the basis of cost value at the beginning of the fiscal year. As such, investment income, investment expense, and gains and losses on sales of investments are allocated to each fund based on its proportionate interest in the investment pool.

E. Inventory

Inventory consists of airport fuel and supplies and School Lunch Program food, supplies and donated commodities and is recorded at the lower of cost or market on the first-in, first-out basis.

F. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

For the primary government, the following estimated useful lives are used to compute depreciation:

Buildings and improvements	10-50 years
Interceptors	35 years
Sewer lines	35-100 years
Equipment and vehicles	5-50 years
Infrastructure	40 years

G. Compensated Absences

Under the terms of personnel policies and union contracts, vacation and sick leave are granted in varying amounts according to length of service. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

H. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs if material to basic financial statements, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

I. Interfund Transactions

During the course of normal operations, the Town has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets and service debt. These transactions are reported as transfers.

J. Fund Equity

Governmental Fund fund balance is reported in five classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which those funds can be spent. The five classifications of fund balance for the Governmental Funds are as follows:

- *Nonspendable* – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.
- *Restricted* – resources with constraints placed on the use of resources which are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or; b) imposed by law through constitutional provisions or enabling legislation.

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- *Committed* – resources which are subject to limitations the government imposes on itself at its highest level of decision making authority, and that remain binding unless removed in the same manner.
- *Assigned* – resources that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed.
- *Unassigned* – resources which have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

Generally, all unexpended budgetary accounts lapse at the close of the fiscal year. The Town Council has the responsibility for committing fund balance amounts and likewise would be required to modify or rescind those commitments. The Town Council has designated the responsibility for assigning fund balance to the Town Manager.

Although not a formal policy, when both restricted and unrestricted resources are available for use, it is the Town’s intent to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned and unassigned resources are available for use, it is the Town’s practice to use committed or assigned resources first, and then unassigned resources as they are needed.

K. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed by the School Department. Encumbrances, if any, have been shown as assigned of fund balances at year-end.

L. Use of Estimates

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

M. Comparative Data/Reclassifications

Comparative data for the prior year have been presented only for certain funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds.

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary vs. GAAP Basis of Accounting

Through June 30, 2012, the Town did not budget for revenues and expenditures related to teachers’ summer pay on an accrual basis.

As required by accounting principles generally accepted in the United States of America (GAAP), the Town has recorded a revenue and expenditure for Maine Public Employees Retirement contributions made by the State of Maine on behalf of the Town of Millinocket School Department. These amounts have not been budgeted and result in a difference in reporting on a budgetary basis of accounting vs. reporting under accounting principles generally accepted in the United States of America of \$466,352. These amounts have been included as an intergovernmental revenue and an education expenditure in the General Fund on Statement 4 (GAAP basis) and on the Statement of Activities (Statement 2). There is no effect on the fund balance at the end of the year.

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, CONTINUED

Budget Information

The Town utilizes a formal budgetary accounting system to control revenues and expenditures accounted for in the General Fund. These budgets are established in accordance with the various laws of the State of Maine which govern the Town's operations. The budget has been prepared consistent with the modified accrual basis of accounting. Generally, all unexpended appropriations lapse at the close of the fiscal year.

Excess of Expenditures over Appropriations

For the year ended June 30, 2012, expenditures exceeded appropriations in the following categories:

Town Manager and Council	\$ 518	Holiday observation	2,500
Audit and bookkeeping	250	Human resources/assistance	2,641
Legal services	34,529	Airport	33,103
Police department	28,816	Cemeteries	947
DARE Program – donations	3,113*	Public health and welfare agencies	65
Ambulance	7,372	Capital outlay	5,624
Library gifts and donations	3,575*		
KARE	78,496*		
Community Development Block Grant	74,108**		

* The Town used assigned fund balances for DARE and KARE to cover the overages.

** This was offset by grant proceeds for equal amounts.

DEPOSITS AND INVESTMENTS

As of June 30, 2012, the Town had the following investments:

	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Credit rating</u>
Certificate of deposit	\$ 655,424	N/A	N/A
Money market	512,984	N/A	N/A
<u>Total Investments</u>	<u>\$ 1,168,408</u>	<u>N/A</u>	<u>N/A</u>

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town currently does not have a deposit policy for custodial credit risk. As of June 30, 2012, \$869,375 of the Town's bank balance of \$2,441,224 was uninsured and/or uncollateralized.

Custodial credit risk - investments – For investments, this is the risk that in the event of failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Town currently does not have an investment policy for custodial credit risk. Of the Town's \$1,168,408 investment in money market and certificates of deposit, \$248,715 was uninsured and/or uncollateralized.

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

Credit risk – Maine statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and certain corporate stocks and bonds. The Town currently does not have an investment policy for credit risk.

Interest rate risk – The Town does not have a deposit policy for interest rate risk.

As of June 30, 2012, the Town had the following cash and investments:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	Fiduciary <u>Funds</u>	<u>Total</u>
Cash	\$ 2,143,501	56,422	82,347	2,282,270
Investments	498,715	669,693	-	1,168,408
Cash overdraft	(155,203)	-	-	(155,203)
Total	\$ 2,487,013	726,115	82,347	3,295,475

PROPERTY TAX

Property taxes for the current period were committed on October 17, 2011, on the assessed value listed as of April 1, 2011, for all real and personal property located in the Town. Payments of taxes were due in equal installments on November 18, 2011 and April 13, 2012. Interest at the rate of 7% per annum was charged on any amounts remaining unpaid after these dates. Assessed values are periodically established by the Assessor's agent at 100% of assumed market value. The 2012 assessed value was 100% of the estimated market value and 81% of the 2012 state valuation of \$311,250,000.

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 \$14,920 for the period ended June 30, 2012.

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.

Property taxes levied during the period were recorded as receivables at the time the levy was made. The receivables collected during the period and in the first sixty days following the end of the fiscal period have been recorded as revenues. The remaining receivables have been recorded as deferred revenues.

The following summarizes the tax levies:

	<u>2012</u>	<u>2011</u>
Assessed value	\$ 251,048,950	353,820,550
<u>Tax rate (per \$1,000)</u>	<u>25.60</u>	<u>23.20</u>
Commitment	6,426,853	8,209,938
Supplemental taxes assessed	3,166	11,178
	6,430,019	8,221,116
Less:		
<u>Collections and abatements</u>	<u>6,097,384</u>	<u>7,920,415</u>
Receivable at end of period	\$ 332,635	300,701
Collection rate	94.83%	96.34%

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance June 30, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2012</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 283,317	-	-	283,317
Construction in progress	236,095	481,375	620,723	96,747
Total capital assets, not being depreciated	519,412	481,375	620,723	380,064
Capital assets, being depreciated:				
Land improvements	3,197,308	620,723	-	3,818,031
Buildings and building improvements	7,232,833	1,453,625	-	8,686,458
Equipment and vehicles	7,043,194	66,289	167,916	6,941,567
Infrastructure	3,441,980	-	-	3,441,980
Total capital assets being depreciated	20,915,315	2,140,637	167,916	22,888,036
Less accumulated depreciation for:				
Land improvements	352,953	84,564	-	437,517
Buildings and building improvements	3,420,249	261,908	-	3,682,157
Equipment and vehicles	5,251,107	259,278	148,257	5,362,128
Infrastructure	3,403,647	2,000	-	3,405,647
Total accumulated depreciation	12,427,956	607,750	148,527	12,887,449
Total capital assets being depreciated, net	8,487,359	1,532,887	19,659	10,000,587
Governmental activities capital assets, net	\$ 9,006,771	2,014,262	640,382	10,380,651

	Balance June 30, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2012</u>
Business-type activities:				
Capital assets, being depreciated:				
Buildings and building improvements	\$ 4,714,643	-	-	4,714,643
Interceptors	1,113,395	-	-	1,113,395
Equipment and vehicles	678,737	147,506	-	826,243
Infrastructure, sewer lines and equipment	6,206,184	-	-	6,206,184
Total capital assets being depreciated	12,712,959	147,506	-	12,860,465
Less accumulated depreciation for:				
Buildings and building improvements	4,154,698	132,475	-	4,287,173
Interceptors	983,498	31,811	-	1,015,309
Equipment and vehicles	537,411	17,025	-	554,436
Infrastructure, sewer lines and equipment	2,451,892	60,453	-	2,512,345
Total accumulated depreciation	8,127,499	241,764	-	8,369,263
Total capital assets being depreciated, net	4,585,460	(94,258)	-	4,491,202
Business-type activities capital assets, net	\$ 4,585,460	(94,258)	-	4,491,202

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

CAPITAL ASSETS, CONTINUED

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 27,695
Protection	74,719
Town services	125,516
Community services	112,692
<u>Education and libraries</u>	<u>267,128</u>
<u>Total depreciation expense - governmental activities</u>	<u>\$ 607,750</u>
Business-type activities:	
<u>Wastewater Fund</u>	<u>\$ 241,764</u>
<u>Total depreciation expense - business activities</u>	<u>\$ 241,764</u>

PENSION PLANS

Maine Public Employees Retirement System (Maine PERS) - Consolidated Plan

Description of the Plan - The Town contributes to the Maine Public Employees Retirement System Consolidated Plan, a cost sharing multiple-employer retirement system established by the Maine State legislature. The Maine Public Employees Retirement System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits rests with the State Legislature. The Maine Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Consolidated Plan. That report may be obtained by writing to Maine Public Employees Retirement System, 46 State House Station, Augusta, Maine 04333-0046 or by calling 1-800-451-9800.

Funding Policy - Plan members are required to contribute 6.5% of their annual covered salary and the Town is required to contribute an actuarially determined rate. The current rate ranges from 2.8% to 5.3% of annual covered payroll. The contribution rates of plan members and the Town are established and may be amended by the Maine Public Employees Retirement System Board of Trustees. The Town's contributions to the Maine Public Employees Retirement System Consolidated Plan for the year ended June 30, 2012, 2011 and 2010 were \$18,545, \$7,736 and \$0, respectively, equal to the required contributions for each year.

Maine Public Employees Retirement System - School Employees

All School teachers, plus other qualified educators, participate in the Maine Public Employees Retirement System's teacher group. The School Department's payroll for employees covered by this group, for the fiscal year ended June 30, 2012, was \$2,850,564. The State of Maine Department of Education is required, by state statute, to contribute the employer contribution, which amounts to 16.36% of compensation. Contributions paid by the State totaled approximately \$466,352 for the year ended June 30, 2012. There is no contribution required by the School Department except for federally funded teachers for which the School Department contributes 16.36% of their compensation. This cost amounted to \$35,913 for the year ended June 30, 2012, and is charged to the applicable grant.

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

PENSION PLANS, CONTINUED

Deferred Compensation Plan

The Town offers all its employees a deferred compensation plan created in accordance with Internal Revenue (IRC) Section 457. The plan permits participating employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Assets of the plan are placed in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets are not included in the Town's financial statements.

LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2012 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
General obligation bonds	\$ 3,600,274	1,465,000	396,679	4,668,595	485,548
Capital leases	68,619	-	18,090	50,529	17,989
Other post-employment benefits	2,492,070	1,061,246	802,910	2,750,406	-
Accrued compensated absences	379,582	-	24,770	354,812	-
Governmental activity					
<u>long-term liabilities</u>	<u>\$ 6,540,545</u>	<u>2,526,246</u>	<u>1,242,449</u>	<u>7,824,342</u>	<u>503,537</u>
Business-type activities:					
General obligation bonds	1,865,369	-	180,546	1,684,823	181,382
Accrued compensated absences	44,375	38	-	44,413	-
Business-type activities					
<u>long-term liabilities</u>	<u>\$ 1,909,774</u>	<u>38</u>	<u>180,546</u>	<u>1,729,236</u>	<u>181,382</u>

Bonds and notes payable at June 30, 2012 are comprised of the following:

	<u>Date of issue</u>	<u>Original amount issued</u>	<u>Date of maturity</u>	<u>Interest rate</u>	<u>Balance June 30, 2012</u>
Governmental activities:					
School improvements	05/01/98	\$ 4,560,000	2018	Varies	2,122,582
School improvements	10/06/00	716,500	2012	0%	7,930
2006 Series C	10/26/06	1,200,000	2021	Varies	800,000
2009 GOB	08/03/09	341,354	2020	4.96%	273,083
2011 GOB	10/27/11	1,465,000	2026	4.45%	1,465,000
<u>Total governmental activities</u>					<u>\$ 4,668,595</u>

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

LONG-TERM DEBT, CONTINUED

Business-type activities:

Sewer line expansion	04/01/03	\$ 1,922,632	2017	1.33%	769,052
CWSRF	05/16/08	1,050,000	2028	1.80%	868,854
2009 GOB	08/03/09	58,646	2020	4.96%	46,917

Total business-type activities **\$ 1,684,823**

Arbitrage rebate - Pursuant to the Tax Reform Act of 1986, municipalities issuing tax-exempt bonds or entering into note or lease obligations are required to perform an arbitrage rebate calculation upon the fifth anniversary of the obligation and to remit such rebate to the federal government, subject to certain exceptions. There are certain exceptions which result in a municipal issuer not having to calculate or pay the required rebate. The Town of Millinocket has met these exceptions since the effective date of the regulations.

The annual requirements to amortize all long-term debt outstanding as of June 30, 2012 are as follows:

June 30,	Governmental activities			Business-type activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 485,548	215,862	701,410	181,382	27,118	208,500
2014	490,819	196,409	687,228	182,235	24,884	207,119
2015	504,829	175,981	680,810	183,102	22,634	205,736
2016	520,133	154,493	674,626	183,985	20,369	204,354
2017	536,255	132,159	668,414	184,885	18,087	202,972
2018-2022	1,712,439	398,519	2,110,958	414,052	72,207	486,259
2023-2027	418,572	228,174	646,746	293,314	37,341	330,655
2028	-	-	-	61,868	4,263	66,131
Total	\$ 4,668,595	1,501,597	6,170,192	1,684,823	226,903	1,911,726

The Town is subject to a statutory limitation, by the State of Maine, of its general long-term debt equal to 15% of the State's valuation of the Town. The Town's outstanding long-term debt of \$6,353,417 at June 30, 2012 was within the statutory limit.

OBLIGATIONS UNDER CAPITAL LEASES

The Town and School Department have entered into several lease agreements. These leases qualify as capital leases for accounting purposes, and therefore have been recorded in the government-wide financial statements at the present value of future minimum lease payments as of the date of inception. These assets are recorded as capital assets in the government-wide financial statements.

The following items have been capitalized under capital leases as of June 30, 2012:

Copiers	\$ 97,292
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TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

OBLIGATIONS UNDER CAPITAL LEASES, CONTINUED

Minimum future lease payments under capital leases are:

<u>Year ended June 30,</u>	
2013	\$ 20,353
2014	17,888
2015	<u>16,980</u>
Total minimum lease payments	55,221
<u>Less amount representing interest</u>	<u>4,692</u>
Present value of future	
minimum lease payments	<u>\$ 50,529</u>

SHORT-TERM DEBT

The Town issues tax anticipation notes to cover cash shortfalls during the year. The authorized amount is \$1,200,000 and no amounts were drawn during the year. Short-term debt activity for the year ended June 30, 2012, was as follows:

	<u>Beginning</u> <u>balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>balance</u>
Tax anticipation notes	\$ -	-	-	-

FUND BALANCE

The General Fund unassigned fund balance total of \$1,252,591 represents fund balance of \$1,557,693 for the Town and (\$305,102) for the School that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund. Unassigned fund balances totaling (\$4,563) are also reported for a special revenue fund (Adult Education Fund) and (\$1,340) for the School Lunch Fund and (\$21,338) for the School Categorical Program that have negative fund balances as of June 30, 2012 as shown on Statement 3.

As of June 30, 2012, other fund balance components consisted of the following:

	<u>General Fund</u>		
Assigned for subsequent years' expenditures:			
Northern Penobscot Association	\$ 440		
Record preservation	500		
Dog fees	2,500		
DARE	9,880		
Library gifts and donations	1,057		
Community Dev. Block Grant	(43)		
KARE (Fiscal agent)	<u>28,456</u>		
Total assigned	<u>\$ 42,790</u>		
		<u>General</u>	<u>Special</u>
		<u>Fund</u>	<u>Revenue</u>
			<u>Permanent</u>
			<u>Fund</u>
Nonspendable for:			
Inventory	\$ 12,056	11,090	-
Noncurrent notes receivable	-	203,336	-
Trust fund principal	-	-	<u>16,401</u>
Total nonspendable	<u>\$ 12,056</u>	<u>214,426</u>	<u>16,401</u>

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

FUND BALANCE, CONTINUED

	<u>General</u>	<u>Special</u>	<u>Permanent</u>
	<u>Fund</u>	<u>Revenue</u>	<u>Fund</u>
Restricted by external constraints:			
Education grants	\$ -	129,813	-
Federal reimbursement program	-	70,782	-
Other external constraints	-	101,722	-
Trust documents	-	-	22,141
<u>Total restricted</u>	\$ -	302,317	22,141
Committed for:			
Capital	\$ -	568,428	-
Other	-	13,425	-
<u>Total committed</u>	\$ -	581,853	-

NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds and capital leases payable and adding back any unspent proceeds. The Town's net assets invested in capital assets, net of related debt was calculated as follows at June 30, 2012:

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$ 23,268,100	12,860,464
Accumulated depreciation	(12,887,449)	(8,369,263)
Bonds payable	(4,668,595)	(1,684,822)
Capital leases payable	(50,529)	-
<u>Total invested in capital assets net of related debt</u>	\$ 5,661,527	2,806,379

RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which the Town either carries commercial insurance or participates in a public entity risk pool. Currently, the Town participates in a public entity risk pool sponsored by the Maine Municipal Association and the School Department participates in a public entity risk pool sponsored by the Maine School Management Association for workers' compensation coverage.

Based on the coverage provided by the pools, as well as coverage provided by commercial insurance purchased, the Town is not aware of any material actual or potential claim liabilities which should be recorded at June 30, 2012.

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

During the course of normal operations, the Town has numerous transactions between funds including expenditures and transfers. Individual fund interfund receivables and payables balances at June 30, 2012 arising from these transactions were as follows:

	<u>Receivables</u>	<u>Payables</u>	<u>Net transfers in (out)</u>
General Fund	\$ -	251,193	91,965*
Capital reserve funds	142,463	33,790	(27,743)
Nonmajor Special Revenue Fund:			
CDBG loan fund	-	17,099	-
Recreation	3,311	-	-
Comprehensive plan	10,114	-	-
School categorical programs	40,729	-	(68,410)
School lunch	62,765	-	10,000
Other school funds	-	4,563	7,988
Proprietary Fund	51,063	-	(13,800)
Nonmajor Permanent Funds	-	3,800	-
Totals	\$ 310,445	310,445	-

*Included in this amount is a non-budgeted council-approved transfer to the School in the amount of \$720,000 which was to come from the Town's unassigned fund balance. See contingency note on page 37.

SIGNIFICANT TAXPAYER

For the year ended June 30, 2012, the Town of Millinocket committed \$1,884,219 from Katahdin Paper Co. (KP) and \$811,308 from Great Lakes Hydro in real estate and personal property tax revenue. These commitments represent approximately 41.94% of total property taxes assessed.

TAX INCREMENT FINANCING DISTRICT

The Town has established the Katahdin Paper (KP) Municipal Development District - tax increment financing district (TIF). The Town refunds the tax increment on 85% on the new captured assessed value of the property in this TIF District to KP for a period of fifteen years. For the year ended June 30, 2012, \$1,221,541 of tax revenues were captured and refunded as TIF district revenues. The percentage of tax increment revenues that KP will receive in any given year will be based on the number of full-time employee positions retained by the Company.

The Town has established the Specialty Minerals, Inc. Credit Enhancement Agreement - tax increment financing district (TIF). The Town refunds the tax increment on 50% on the new captured assessed value of the property in this TIF District to SMI for a period of ten years. For the year ended June 30, 2012, \$12,544 of tax revenues were captured and refunded as TIF district revenues.

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

CONTINGENCIES

The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

The Town has filed a lawsuit against the State of Maine contesting the amount received in Sudden and Severe revenue due to the loss of valuation in the mill. The State of Maine has offered approximately \$504,000, but the Town calculated that they are due \$720,000. The outcome of this lawsuit is not known at June 30, 2012. Any settlement received will be recorded in the Town's General Fund to reimburse the transfer out of \$720,000 to the School Department.

Grant Funds - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

LONG-TERM RECEIVABLE

In 2001, the Town, through the U.S. Department of Housing and Urban Development made a 30 year, no interest loan to further economic activity within the Town. As required by accounting principles generally accepted in the United States of America, the no-interest loan of \$360,000 was discounted to its present value of \$133,960. The note is being amortized at the Town's rate of borrowing in 2001, at 3.3% each year to reflect its future value of \$360,000. At June 30, 2012, the value of note was:

Year ended		
<u>June 30,</u>	<u>Interest</u>	<u>Total</u>
Current balance	\$ 6,220	192,475
2013	6,448	198,923
2014	6,665	205,580
2015	6,888	212,476
2016	7,119	219,595
Thereafter	140,405	360,000

OTHER POST EMPLOYMENT BENEFITS

GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was implemented, as required, by the Town of Millinocket, Maine for the year ended June 30, 2009. Under this pronouncement, it requires that the long-term cost of retirement health care and obligations for other postemployment benefits be determined on an actuarial basis and reported similar to pension plans.

The Town of Millinocket is a member of the Maine Municipal Employees Health Trust. The Health Trust contracted with an outside consultant to assist in the determination and valuation of the Town's OPEB liability under GASB Statement 45. An OPEB liability actuarial valuation was completed by the consultants in October 2011.

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

OTHER POST EMPLOYMENT BENEFITS, CONTINUED

Plan Descriptions - The Town sponsors a post-retirement benefit plan providing health insurance to retiring employees. Town employees over the age of 55 with 5 years of continuous service are allowed to participate in the plan. Some retirees that are designated in a plan pay 13% of the single coverage premium and 13% of the family coverage premium while others pay nothing towards the cost of coverage. For those Town employees eligible for Medicare (post-65 Retiree Plan), the plan is offered in conjunction with Medicare Parts A and B and the Companion Plan B.

The School Department sponsors a post-retirement benefit plan providing health insurance to retiring employees. School Department employees over the age of 55 with 20-25 years of continuous service are allowed to participate in the plan. Some retirees that are designated in a plan pay 13% to 15% of the single coverage premium and 13% to 50% of the family coverage premium while others pay nothing towards the cost of coverage. For those School Department employees eligible for Medicare (post-65 Retiree Plan), the plan is offered in conjunction with Medicare Parts A and B and the Companion Plan B.

Funding Policy and Annual OPEB Cost - GASB Statement 45 does not mandate the prefunding of postemployment benefits liability. The Town currently plans to fund these benefits on a pay-as-you-go basis. No assets have been segregated and restricted to provide postemployment benefits. The annual required contribution (ARC), an actuarial determined rate, represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities over a period not to exceed thirty years.

The following table represents the OPEB costs for the years ended June 30, 2012, 2011 and 2010 and the annual required contribution:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Normal cost	\$ 95,017	185,109	214,027
Amortization of unfunded	989,192	1,214,746	1,532,433
Adjustment to ARC	(144,117)	(107,059)	(55,283)
Interest	121,154	102,003	73,168
Annual required contribution	\$ 1,061,246	1,394,799	1,764,345

Net OPEB Obligation - The Town's net OPEB obligation was calculated as follows:

OPEB liability, July 1, 2011	\$ 2,492,070	1,851,271	955,944
Annual required contribution	1,061,246	1,394,799	1,764,345
Less: Actual contributions	(802,910)	(754,000)	(869,018)
OPEB liability, June 30, 2012	\$ 2,750,406	2,492,070	1,851,271

TOWN OF MILLINOCKET, MAINE
Notes to Basic Financial Statements, Continued

OTHER POST EMPLOYMENT BENEFITS, CONTINUED

Funding Status and Funding Progress - The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2012, 2011 and 2010 were as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 1,061,246	1,394,799	1,764,345
Actual contribution	802,910	754,000	869,018
Percent contributed	75.66%	54.06%	49.25%
Actuarial accrued liability	17,789,340	21,845,639	27,558,834
Plan assets	-	-	-
Unfunded actuarial accrued liability	\$ 17,789,340	21,845,639	27,558,834
Covered payroll	\$ 4,277,000	4,556,656	4,779,800
Unfunded actuarial accrued liability as a percentage of covered payroll	415.93%	479.42%	576.57%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions – Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Town and plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of plan assets. Significant methods and assumptions were as follows:

Actuarial valuation date	- 1/1/11
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years-closed
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	N/A
Healthcare inflation rate	4.0% - 8.7%

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Retiree Healthcare Plan

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) – Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a) / c]</u>
2009	1/1/09	\$ -	\$27,558,834	\$27,558,834	0.00%	\$4,841,847	569.18%
2010	1/1/09	\$ -	\$27,558,834	\$27,558,834	0.00%	\$4,779,800	576.57%
2011	1/1/11	\$ -	\$21,845,639	\$21,845,639	0.00%	\$4,556,656	479.42%
2012	1/1/11	\$ -	\$17,789,340	\$17,789,340	0.00%	\$4,277,000	415.93%

GENERAL FUND

TOWN OF MILLINOCKET, MAINE
Comparative Balance Sheets - General Fund
June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 2,004,115	2,454,584
Investments	-	1,013,016
Receivables:		
Accounts, net of allowance of \$27,000	174,773	348,804
Taxes receivable	464,391	433,354
Tax liens	133,256	107,215
Inventory	12,056	10,129
Total assets	\$ 2,788,591	4,367,102
LIABILITIES AND FUND BALANCE		
Liabilities:		
Cash overdraft	155,203	243,132
Accounts payable	165,677	341,164
Accrued wages and benefits	434,081	394,882
Interfund loans payable	251,193	247,579
Deferred tax revenues	475,000	463,000
Total liabilities	1,481,154	1,689,757
Fund balance:		
Nonspendable - inventory	12,056	10,129
Assigned - Town	42,790	127,861
Unassigned - School	(305,102)	(206,205)
Unassigned - Town	1,557,693	2,745,560
Total fund balance	1,307,437	2,677,345
Total liabilities and fund balance	\$ 2,788,591	4,367,102

TOWN OF MILLINOCKET, MAINE
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - Budgetary Basis
Year ended June 30, 2012
(with comparative actual amounts for the year ended June 30, 2011)

	2012		Variance positive (negative)	2011 Actual
	Budget	Actual		
Revenues:				
Taxes:				
Property taxes	\$ 6,418,560	6,389,705	(28,855)	8,225,054
Less TIF financing	(1,991,363)	(1,234,085)	757,278	(966,370)
Excise taxes	708,300	680,261	(28,039)	690,258
Interest and lien costs	40,000	32,420	(7,580)	54,997
Total taxes	5,175,497	5,868,301	692,804	8,003,939
Licenses and permits	43,350	50,756	7,406	48,184
Intergovernmental:				
Education	2,700,099	1,975,018	(725,081)	2,133,063
Tree growth reimbursement	10,000	14,664	4,664	10,072
Veterans exemption reimbursement	6,500	6,765	265	6,626
General assistance	20,000	14,571	(5,429)	27,751
State revenue sharing	675,000	762,447	87,447	641,870
Snowmobile grant	69,012	69,426	414	76,449
Airport grant	90,480	87,696	(2,784)	258,625
Route 11 bridge grant	-	-	-	7,899
Walking trail grant	360,000	363,237	3,237	184,719
Community development block grant	-	72,990	72,990	177,010
Public safety grants	-	5,152	5,152	17,155
Homestead exemption reimbursement	178,840	178,840	-	149,501
BETE reimbursement	188,414	188,476	62	193,447
URIP - DOT road grant	45,000	49,108	4,108	47,392
Total intergovernmental	4,343,345	3,788,390	(554,955)	3,931,579
Tuition and other charges for services - education	262,670	284,625	21,955	292,414
Charges for services:				
Ambulance	306,870	310,496	3,626	322,529
Police	7,700	11,524	3,824	11,935
Library	5,999	11,691	5,692	7,719
Recreation	14,576	-	(14,576)	-
Total charges for services	335,145	333,711	(1,434)	342,183
Fees and fines:				
Fire fees/reimbursement	4,090	4,090	-	4,724
Total fees and fines	4,090	4,090	-	4,724
Unclassified:				
Rents - Town property	28,000	30,333	2,333	28,000
Cemeteries	15,000	17,475	2,475	15,525
Public works	20,500	25,614	5,114	18,833
Transfer station	166,340	176,866	10,526	185,476
Code enforcement	12,526	10,272	(2,254)	12,527
Assessing	8,797	8,797	-	8,797
Airport	77,800	103,667	25,867	92,136
Sale of property	2,500	-	(2,500)	1,996
Employee insurance reimbursement/refunds	-	3,888	3,888	5,742
County tax Rebate	3,084	13,464	10,380	-
KARE receipts (fiscal agent)	75,000	75,000	-	142,101
Unclassified - Town	17,160	23,810	6,650	27,997
Unclassified - School	19,000	29,079	10,079	30,098
Total unclassified	445,707	518,265	72,558	569,228
Investment earnings	5,000	848	(4,152)	3,134
Total revenues	10,614,804	10,848,986	234,182	13,195,385

TOWN OF MILLINOCKET, MAINE
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - Budgetary Basis - General Fund, Continued

	2012		Variance positive (negative)	2011 Actual
	Budget	Actual		
Expenditures:				
Current:				
General government:				
Town Manager and Council	\$ 143,555	144,073	(518)	144,492
Town Clerk & Tax Collector	104,913	98,638	6,275	114,207
Elections and registration	5,450	4,897	553	6,059
Assessing	35,379	34,776	603	34,897
Municipal building	72,854	72,273	581	68,955
Audit and bookkeeping	20,000	20,250	(250)	19,210
Town report	1,200	1,198	2	995
Legal services	12,000	46,529	(34,529)	105,705
Administration	53,778	52,185	1,593	56,727
Planning, code, development	28,918	28,633	285	28,153
Economic Development Committee	18,500	7,657	10,843	8,783
Total general government	496,547	511,109	(14,562)	588,183
Protection:				
Police department	458,178	486,994	(28,816)	514,021
DARE Program - donations	2,500	5,613	(3,113)	4,676
Fire department	244,752	225,112	19,640	239,157
Ambulance	279,252	286,624	(7,372)	299,963
Community services	461,600	457,244	4,356	466,317
Insurances	72,999	72,926	73	73,192
School crossing guards	8,110	7,438	672	7,490
Dog constable	10,917	10,303	614	12,549
Enforcement officials	2,000	2,000	-	2,000
Total protection	1,540,308	1,554,254	(13,946)	1,619,365
Town services:				
Public works administration	7,585	7,259	326	7,728
Transfer site	361,992	352,158	9,834	359,762
Street and road maintenance	568,646	526,342	42,304	640,049
Garage maintenance	26,150	26,009	141	22,517
Total Town services	964,373	911,768	52,605	1,030,056
Community services:				
Snowsled program	99,088	84,426	14,662	91,949
Public library	146,969	146,725	244	176,947
Library gifts and donations	3,000	6,575	(3,575)	1,657
KARE	75,000	153,496	(78,496)	75,416
Community development block grant	-	74,108	(74,108)	175,934
Holiday observation	-	2,500	(2,500)	7,600
Human resources/assistance	22,726	25,367	(2,641)	22,449
General assistance	40,000	19,869	20,131	41,868
Recreation	146,325	142,766	3,559	163,008
Airport	100,443	133,546	(33,103)	123,065
Cemeteries	25,880	26,827	(947)	27,873
Public health and welfare agencies	16,400	16,465	(65)	19,700
Total community services	675,831	832,670	(156,839)	927,466

TOWN OF MILLINOCKET, MAINE
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - Budgetary Basis - General Fund, Continued

	2012		Variance positive (negative)	2011 Actual
	Budget	Actual		
Expenditures, continued:				
Current, continued:				
Education	\$ 6,108,121	5,934,767	173,354	6,402,900
Total education	6,108,121	5,934,767	173,354	6,402,900
Insurance and fringe benefits:				
Insurance and fringe benefits	1,050,435	1,049,947	488	1,084,330
Total insurance and fringe benefits	1,050,435	1,049,947	488	1,084,330
Unclassified:				
County tax	374,002	374,002	-	350,412
Total unclassified	374,002	374,002	-	350,412
Debt service:				
Town	169,495	166,209	3,286	172,876
Education	401,762	401,760	2	402,184
Total debt service	571,257	567,969	3,288	575,060
Capital outlay:				
Capital outlay - Town	65,624	71,248	(5,624)	129,061
Special capital improvements	500,300	481,375	18,925	333,209
Total capital outlay	565,924	552,623	13,301	462,270
Total expenditures	12,346,798	12,289,109	57,689	13,040,042
Excess (deficiency) of revenues over (under)				
expenditures	(1,731,994)	(1,440,123)	291,871	155,343
Other financing sources (uses):				
Budgeted utilization of surplus - Town	591,315	-	(591,315)	-
Budgeted utilization of surplus - School	277,456	-	(277,456)	-
Transfer in from Town	-	720,000	720,000	-
Transfer out to School	-	(720,000)	(720,000)	-
Issuance of debt	-	-	-	-
Overlay	(14,920)	-	14,920	-
Transfers in	896,131	109,953	(786,178)	180,896
Transfers out	(17,988)	(17,988)	-	(54,527)
Total other financing sources (uses)	1,731,994	91,965	(1,640,029)	126,369
Net change in fund balance - budgetary basis	-	(1,348,158)	(1,348,158)	281,712
Reconciliation to GAAP basis:				
Change in accrued teacher summer salaries		(21,750)		63,348
Net change in fund balance - GAAP basis		(1,369,908)		345,060
Fund balance, beginning of year		2,677,345		2,332,285
Fund balance, end of year	\$	1,307,437		2,677,345

ALL OTHER GOVERNMENTAL FUNDS

TOWN OF MILLINOCKET
Combining Balance Sheet
All Other Governmental Funds
June 30, 2012

	Special Revenue Funds	Permanent Funds	Total Other Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 136,004	3,382	139,386
Investments	-	38,960	38,960
Intergovernmental receivables	98,446	-	98,446
Notes, net of allowance of \$12,667	203,336	-	203,336
Inventory	11,090	-	11,090
Interfund loans receivable	116,919	-	116,919
Total assets	\$ 565,795	42,342	608,137
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	5,614	-	5,614
Accrued wages and benefits	35,592	-	35,592
Interfund loans payable	21,662	3,800	25,462
Total liabilities	62,868	3,800	66,668
Fund balances:			
Nonspendable	214,426	16,401	230,827
Restricted	302,317	22,141	324,458
Committed	13,425	-	13,425
Unassigned	(27,241)	-	(27,241)
Total fund balance	502,927	38,542	541,469
Total liabilities and fund balances	\$ 565,795	42,342	608,137

TOWN OF MILLINOCKET, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
All Other Governmental Funds
For the year ended June 30, 2012

	Special Revenue Funds	Permanent Funds	Total Other Governmental Funds
Revenues:			
Gifts and donations	\$ 1,862	-	1,862
Intergovernmental	881,097	-	881,097
Charges for services	159,586	-	159,586
Interest revenue	7,156	4	7,160
Total revenues	1,049,701	4	1,049,705
Expenditures:			
Current:			
Protection	1,571	-	1,571
Education	735,290	-	735,290
Food services	323,669	-	323,669
Unclassified	60,831	-	60,831
Total expenditures	1,121,361	-	1,121,361
Excess (deficiency) of revenues over (under) expenditures	(71,660)	4	(71,656)
Other financing sources (uses):			
Transfers from other funds	17,988	-	17,988
Transfers to other funds	(68,410)	-	(68,410)
Total other financing uses	(50,422)	-	(50,422)
Net change in fund balances	(122,082)	4	(122,078)
Fund balances, beginning of year	625,009	38,538	663,547
Fund balances, end of year	\$ 502,927	38,542	541,469

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

TOWN OF MILLINOCKET, MAINE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2012
(with comparative totals for June 30, 2011)

	CDBG Loan Fund	Recrea- tion	Compre- hensive Plan	Project Get- Alarmed	School Categorical Programs	School Lunch	Other School	Totals	
							Special Revenue Funds	2012	2011
ASSETS									
Cash and cash equivalents	\$ 99,553	-	-	19,268	16,955	228	-	136,004	112,584
Intergovernmental receivables	-	-	-	-	80,218	18,228	-	98,446	165,449
Notes, net of allowance of \$12,667	203,336	-	-	-	-	-	-	203,336	263,185
Inventory	-	-	-	-	-	11,090	-	11,090	11,137
Interfund loans receivable	-	3,311	10,114	-	40,729	62,765	-	116,919	150,013
Total assets	\$ 302,889	3,311	10,114	19,268	137,902	92,311	-	565,795	702,368
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	-	-	-	-	5,614	-	-	5,614	28,930
Accrued wages and benefits	-	-	-	-	23,813	11,779	-	35,592	26,767
Interfund loans payable	17,099	-	-	-	-	-	4,563	21,662	21,662
Total liabilities	17,099	-	-	-	29,427	11,779	4,563	62,868	77,359
Fund balances (deficit):									
Nonspendable	203,336	-	-	-	-	11,090	-	214,426	274,322
Restricted	82,454	-	-	19,268	129,813	70,782	-	302,317	343,191
Committed	-	3,311	10,114	-	-	-	-	13,425	13,425
Unassigned	-	-	-	-	(21,338)	(1,340)	(4,563)	(27,241)	(5,929)
Total fund balances (deficit)	285,790	3,311	10,114	19,268	108,475	80,532	(4,563)	502,927	625,009
Total liabilities and fund balances	\$ 302,889	3,311	10,114	19,268	137,902	92,311	-	565,795	702,368

TOWN OF MILLINOCKET, MAINE
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Special Revenue Funds
 For the year ended June 30, 2012
 (with comparative totals for the year ended June 30, 2011)

	CDBG Loan Fund	Recrea- tion	Compre- hensive Plan	Project Get- Alarmed	School Categorical Programs	School Lunch	Other School Special Revenue Funds	Totals	
								2012	2011
Revenues:									
Gifts and donations	\$ -	-	-	1,862	-	-	-	1,862	542
Intergovernmental	-	-	-	-	682,385	198,712	-	881,097	1,151,904
Interest income	7,126	-	-	30	-	-	-	7,156	7,068
Charges for services	-	-	-	-	62,325	97,261	-	159,586	171,545
Total revenues	7,126	-	-	1,892	744,710	295,973	-	1,049,701	1,331,059
Expenditures:									
Current:									
Protection	700	-	-	871	-	-	-	1,571	1,163
Education	-	-	-	-	727,302	-	7,988	735,290	1,005,811
Food services	-	-	-	-	-	323,669	-	323,669	310,026
Bad debt expense	60,831	-	-	-	-	-	-	60,831	-
Total expenditures	61,531	-	-	871	727,302	323,669	7,988	1,121,361	1,317,000
Excess (deficiency) of revenues over (under) expenditures	(54,405)	-	-	1,021	17,408	(27,696)	(7,988)	(71,660)	14,059
Other financing sources (uses):									
Transfers from other funds	-	-	-	-	-	10,000	7,988	17,988	51,490
Transfers to other funds	-	-	-	-	(68,410)	-	-	(68,410)	(108,366)
Total other financing sources (uses)	-	-	-	-	(68,410)	10,000	7,988	(50,422)	(56,876)
Net change in fund balances	(54,405)	-	-	1,021	(51,002)	(17,696)	-	(122,082)	(42,817)
Fund balances (deficit), beginning of year	340,195	3,311	10,114	18,247	159,477	98,228	(4,563)	625,009	667,826
Fund balances (deficit), end of year	\$ 285,790	3,311	10,114	19,268	108,475	80,532	(4,563)	502,927	625,009

TOWN CAPITAL RESERVE FUNDS

TOWN OF MILLINOCKET, MAINE
Combining Balance Sheet
Town Capital Reserve Funds
June 30, 2012
(with comparative totals for June 30, 2011)

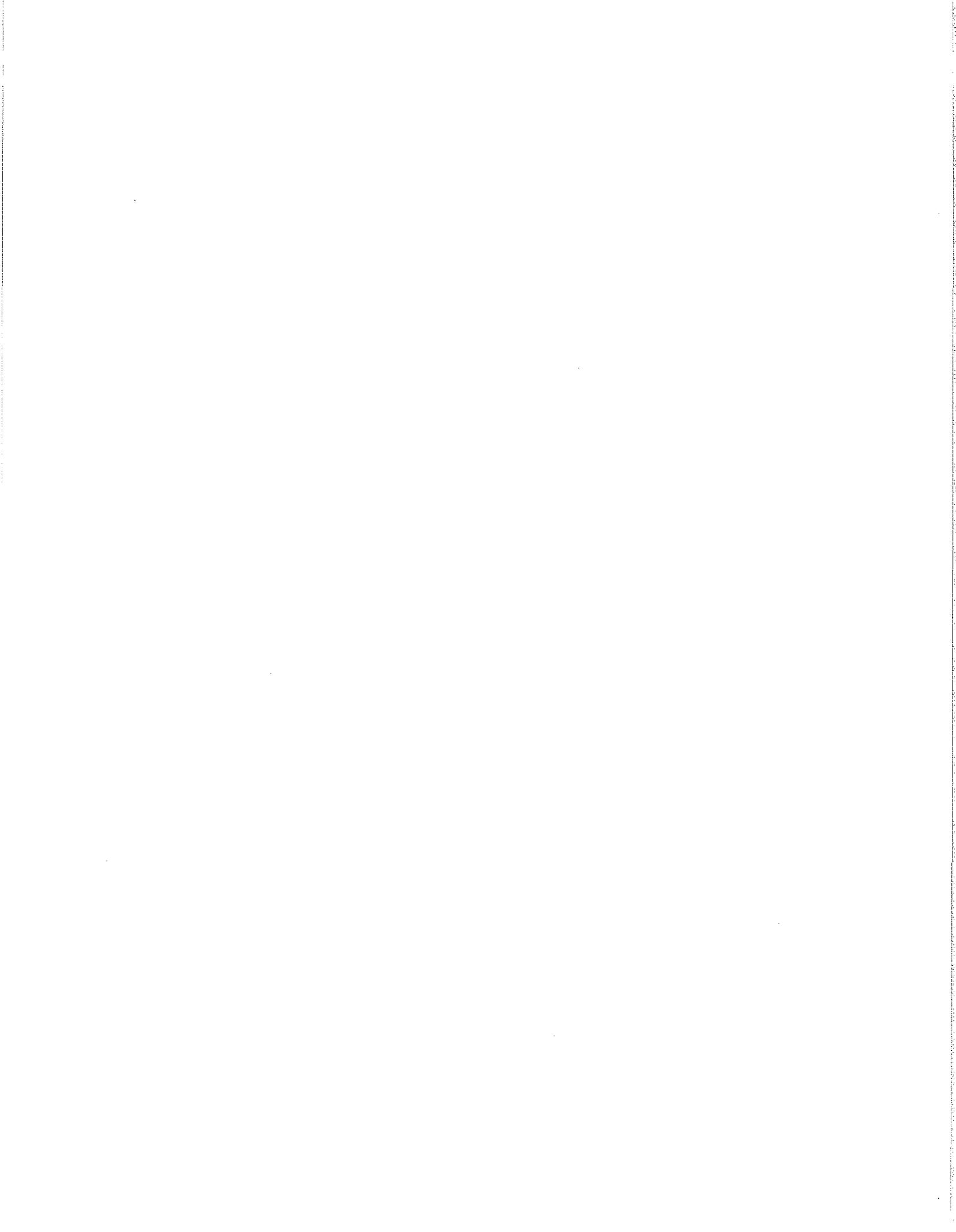
		General Capital Reserve	Airport Capital Reserve	Other Capital Reserves	Equipment Acquisition	SMI TIF Proceeds	School Renovations	Totals	
								2012	2011
ASSETS									
Investments	\$	19,168	84,695	109,955	-	245,937	-	459,755	510,681
Interfund loans receivable		90,338	-	9,764	12,043	-	30,318	142,463	129,985
Total assets	\$	109,506	84,695	119,719	12,043	245,937	30,318	602,218	640,666
LIABILITIES AND FUND BALANCES									
Liabilities:									
Interfund loans payable		-	2,434	-	-	31,356	-	33,790	58,020
Total liabilities		-	2,434	-	-	31,356	-	33,790	58,020
Fund balances:									
Committed		109,506	82,261	119,719	12,043	214,581	30,318	568,428	582,646
Total fund balances		109,506	82,261	119,719	12,043	214,581	30,318	568,428	582,646
Total liabilities and fund balances	\$	109,506	84,695	119,719	12,043	245,937	30,318	602,218	640,666

TOWN OF MILLINOCKET, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Town Capital Reserve Funds
Year ended June 30, 2012
(with comparative totals for the year ended June 30, 2011)

	General Capital Reserve	Airport Capital Reserve	Other Capital Reserve	Equipment Acquisition	SMI TIF Proceeds	School Renovations	Totals	
							2012	2011
Revenues:								
Other revenue	\$ 6,777	-	1,000	5,700	-	491	13,968	-
Interest earnings	2	9	11	-	26	155	203	195
Total revenues	6,779	9	1,011	5,700	26	646	14,171	195
Expenditures:								
Capital outlay	-	-	-	-	-	1,465,646	1,465,646	-
Total expenditures	-	-	-	-	-	1,465,646	1,465,646	-
 Excess (deficiency) of revenues over (under) expenditures	 6,779	 9	 1,011	 5,700	 26	 (1,465,000)	 (1,451,475)	 195
Other financing sources (uses):								
Issuance of debt	-	-	-	-	-	1,465,000	1,465,000	-
Transfers from other funds	-	-	-	-	-	-	-	3,037
Transfers to other funds	-	(2,542)	-	-	(25,201)	-	(27,743)	(58,130)
Total other financing sources (uses)	-	(2,542)	-	-	(25,201)	1,465,000	1,437,257	(55,093)
 Net change in fund balances	 6,779	 (2,533)	 1,011	 5,700	 (25,175)	 -	 (14,218)	 (54,898)
Fund balances, beginning of year	102,727	84,794	118,708	6,343	239,756	30,318	582,646	637,544
Fund balances, end of year	\$ 109,506	82,261	119,719	12,043	214,581	30,318	568,428	582,646

NONMAJOR GOVERNMENTAL FUNDS

PERMANENT FUNDS



TOWN OF MILLINOCKET, MAINE
Combining Balance Sheet
Nonmajor Permanent Funds
June 30, 2012

	Cemetery Perpetual Care	Peluso Welfare Trust	Ministerial and School Fund	Totals
ASSETS				
Cash and cash equivalents	\$ -	2,237	1,145	3,382
Investments	4,240	13,082	21,638	38,960
Total assets	\$ 4,240	15,319	22,783	42,342
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund loans payable	-	-	3,800	3,800
Total liabilities	-	-	3,800	3,800
Fund balances:				
Nonspendable	1,401	4,000	11,000	16,401
Restricted	2,839	11,319	7,983	22,141
Total fund balances	4,240	15,319	18,983	38,542
Total liabilities and fund balances	\$ 4,240	15,319	22,783	42,342

TOWN OF MILLINOCKET, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Permanent Funds
For the year ended June 30, 2012

	Cemetery Perpetual Care	Peluso Welfare Trust	Ministerial and School Fund	Totals
Revenues:				
Investment income	\$ 1	1	2	4
Donations	-	-	-	-
Total revenues	1	1	2	4
Expenditures:				
Current:				
Other miscellaneous	-	-	-	-
Total expenditures	-	-	-	-
Net change in fund balances	1	1	2	4
Fund balances, beginning of year	4,239	15,318	18,981	38,538
Fund balances, end of year	\$ 4,240	15,319	18,983	38,542