

TOWN OF MILLINOCKET, MAINE

Annual Financial Report

For the Year Ended June 30, 2013

TOWN OF MILLINOCKET, MAINE
Annual Financial Report
For the Year Ended June 30, 2013

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Independent Auditor's Report

Town Council
Town of Millinocket, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Town of Millinocket, Maine, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Town of Millinocket, Maine, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for the retiree healthcare plan, 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 about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Millinocket, Maine's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2013 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* in considering the Town of Millinocket, Maine's internal control over financial reporting and compliance.

A handwritten signature in cursive script, reading "Remyon Hudson Ouellette".

November 20, 2013
South Portland, Maine

TOWN OF MILLINOCKET, MAINE
Management's Discussion and Analysis
June 30, 2013

The Town of Millinocket's annual financial report is hereby submitted for Fiscal Year 2013, which covers the period of July 1, 2012 to June 30, 2013. 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 2013 marks the eleventh 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. GASB #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 fifth 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 position 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 position. Net position is 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 Position for Fiscal 2013 compared to Fiscal 2012. It distinguishes between capital and other assets, notes the Town's general liabilities and debt service, and shows the Town's net position by restricted and unrestricted amounts. This information is for the Town's Governmental Activities and Business-type Activities.

| | <u>2013 Govt</u> <u>Activities</u> | <u>2013 Bus-type</u> <u>Activities</u> | <u>2013 Total</u> | <u>2012 Govt</u> <u>Activities</u> | <u>2012 Bus-type</u> <u>Activities</u> | <u>2012 Total</u> |
|--------------------------------|---------------------------------------|---|-------------------|---------------------------------------|---|-------------------|
| Assets: | | | | | | |
| Current and other assets | \$ 4,303,322 | 1,064,082 | 5,367,404 | \$ 3,688,501 | 1,156,026 | 4,844,527 |
| Capital assets | 11,118,349 | 4,251,134 | 15,369,483 | 10,380,651 | 4,491,202 | 14,871,853 |
| Total assets | 15,421,671 | 5,315,216 | 20,736,887 | 14,069,152 | 5,647,228 | 19,716,380 |
| Liabilities: | | | | | | |
| Other liabilities | 4,701,591 | 46,832 | 4,748,423 | 4,719,124 | 1,684,823 | 6,403,947 |
| Long-term debt | 4,590,713 | 1,503,441 | 6,094,154 | 3,949,035 | 50,227 | 3,999,262 |
| Total liabilities | 9,292,304 | 1,550,273 | 10,842,577 | 8,668,159 | 1,735,050 | 10,403,209 |
| Net position: | | | | | | |
| Net invested in capital assets | 6,527,636 | 2,747,693 | 9,275,329 | 5,661,527 | 2,806,379 | 8,467,906 |
| Restricted | 412,006 | - | 412,006 | 544,195 | - | 544,195 |
| Unrestricted | (810,275) | 1,017,250 | 206,975 | (804,729) | 1,105,799 | 301,070 |
| Total net position | \$ 6,129,367 | 3,764,943 | 9,894,310 | 5,400,993 | 3,912,178 | 9,313,171 |

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 position. While total expenses for all departments (including Wastewater) totaled \$14,367,654, other revenues contributed to make the net amount raised by property taxes \$5,269,800 (net of tax increment financing reimbursements). Put another way, property taxes financed 37% in FY13 compared to FY12's 36% 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

| | 2013 Govt Activities | 2013 Bus-type Activities | 2013 Total | 2012 Govt Activities | 2012 Bus-type Activities | 2012 Total |
|---------------------------------|-------------------------|-----------------------------|-------------------|-------------------------|-----------------------------|-------------------|
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services- | | | | | | |
| Municipal | \$ 1,059,237 | - | 1,059,237 | 858,842 | - | 858,842 |
| School | 204,392 | - | 204,392 | 346,950 | - | 346,950 |
| Wastewater | - | 511,649 | 511,649 | - | 501,775 | 501,775 |
| Operating contributions | 808,104 | - | 808,104 | 803,321 | - | 803,321 |
| Capital contributions | 1,375,916 | - | 1,375,916 | 450,933 | - | 450,933 |
| General revenues: | | | | | | |
| Property taxes | 5,269,800 | - | 5,269,800 | 5,167,620 | - | 5,167,620 |
| Vehicle excise taxes | 672,172 | - | 672,172 | 680,261 | - | 680,261 |
| Interest and lien costs | 38,848 | - | 38,848 | 32,420 | - | 32,420 |
| State Educ. Subsidy-Grants | 3,505,317 | - | 3,505,317 | 2,657,403 | - | 2,657,403 |
| Homestead/BETE exemption | 407,892 | - | 407,892 | 367,316 | - | 367,316 |
| Other state aid | 28,583 | - | 28,583 | 94,419 | - | 94,419 |
| State revenue sharing | 892,581 | - | 892,581 | 762,447 | - | 762,447 |
| Investment earnings | 6,866 | 2,070 | 8,936 | 8,211 | 1,977 | 10,188 |
| Loss on disposal of assets | (51,503) | - | (51,503) | - | - | - |
| Miscellaneous | 216,869 | - | 216,869 | 141,412 | - | 141,412 |
| Total revenues | 14,435,074 | 513,719 | 14,948,793 | 12,371,555 | 503,752 | 12,875,307 |
| Expenses: | | | | | | |
| General government | 503,156 | - | 503,156 | 538,752 | - | 538,752 |
| Protection | 1,632,112 | - | 1,632,112 | 1,608,529 | - | 1,608,529 |
| Town services | 1,000,093 | - | 1,000,093 | 1,030,062 | - | 1,030,062 |
| Community services | 813,443 | - | 813,443 | 946,395 | - | 946,395 |
| Education | 7,362,909 | - | 7,362,909 | 7,225,502 | - | 7,225,502 |
| Maine PERS | 474,465 | - | 474,465 | 466,352 | - | 466,352 |
| Insurance/fringe benefits | 1,056,796 | - | 1,056,796 | 1,027,112 | - | 1,027,112 |
| County tax | 360,283 | - | 360,283 | 374,002 | - | 374,002 |
| Food service | 339,945 | - | 339,945 | 323,669 | - | 323,669 |
| Interest on debt | 152,428 | - | 152,428 | 178,386 | - | 178,386 |
| Unclassified | - | - | - | 60,831 | - | 60,831 |
| Capital maintenance expenses | 29,470 | - | 29,470 | 16,980 | - | 16,980 |
| Wastewater | - | 642,554 | 642,554 | - | 653,488 | 653,488 |
| Total expenses | 13,725,100 | 642,554 | 14,367,654 | 13,796,572 | 653,488 | 14,450,060 |
| Transfers | 18,400 | (18,400) | - | 13,800 | (13,800) | - |
| Change in net position | 728,374 | (147,235) | 581,139 | (1,411,217) | (163,536) | (1,574,753) |
| Net position beginning of year | 5,400,993 | 3,912,178 | 9,313,171 | 6,812,210 | 4,075,714 | 10,887,924 |
| Net position end of year | \$ 6,129,367 | 3,764,943 | 9,894,310 | 5,400,993 | 3,912,178 | 9,313,171 |

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 increased during Fiscal 2013. It has been reported to the Town Council, School Board and to the Citizens in open meetings, that the Town has a severely limited cash flow. The Town's fund balance has systematically decreased down to \$1.3 million as reported in the 2012 audit, which could interrupt operations for both Town and School. Last year, the Town's first tax payment was due around mid-November which is the equivalent of filling up your car's gas tank on July 1 and paying for it mid-November. The Town and School's fiscal year starts July 1 each year and yet, community and school services need to be paid from July 1 to when tax monies start to be received at the Town office.

The Cash Flow issues come as a result of a number of actions. 1. The Council applied \$660,000 from Fund Balance to keep the mil rate (tax rate) low. 2. The School Department finished FY 12 with a \$305,000 overdraft which directly decreased the fund balance. 3. The School Department applied the full amount of Sudden and Severe Dislocation monies totaling \$720,000 against their FY 13 budget and as you all know, the Town received a portion of what was anticipated, leaving \$210,000 that was covered from the Town's Fund Balance. In addition, the lawsuit that the Town and School embarked upon resulted in an overdraft to the Town's legal budget that was covered from the Town's Fund Balance in FY 12 and FY 13. All of this contributed in reducing the available cash to operate as we wait for tax payments. Complicating the cash flow was the \$305,000 deficit of the School Fund Balance at the beginning of FY 2013.

The mil rate for Fiscal 2013 increased to .02640 (\$26.40 per \$1,000 in valuation) from a 25.6 rate in Fiscal 2012. The primary driver of the increase was the continued devaluation of the mill by about \$5 million.

On September 15, 2012, the Town borrowed \$1.5 million in Tax Anticipation Note (TAN) (operating loan) due in part to the late issuance of the FY 2013 tax bills with a November and April due date on payment. The decreased Unassigned Fund Balance was not able to sustain Town and School operations from July 1, 2012 to the first tax due date of November 21, 2012 and as a result, the Town now needs to rely on borrowing money to operate the Town and the School. This TAN was not repaid until May 7, 2013.

In early June, 2013, the Town Treasurer and Town Manager commenced the process for the FY 2014 Tax Anticipation Note. This process started earlier than last year because the current balance in the checking account dropped to about \$800,000 with about 3 to 4 more payroll and accounts payable warrants to be processed for year end. The Town and School spend on average about \$303,000 per week and the \$800,000 represents about 2.5 weeks. The Town developed a plan to hold certain payments until the cash flow improved and focused on funding current payroll, utilities and other health and safety operational costs for Town and School.

The Town held back monthly payments made to reimburse former employees for health insurance premiums, \$11,416/month for Town Retirees and \$53,666/month for School Retirees until the cash flow improved. Currently, the Town has a FY 14 obligation of \$137,000 in retiree health insurance premiums and the School has a FY 14 obligation of \$644,000 in retiree health insurance premiums. The Town also held invoices for the full 30 days from date of receipt and held longer for a few invoices from vendors who were willing to wait for payment.

Discussions with the bank indicate that the Town's ability to borrow TAN funds is dependent on the Town's ability to pay the loan back before the end of the fiscal year. The Town's ability to pay the TAN is predicated on having a healthy cash flow and the payment status of major taxpayers such as Great Northern Paper, which is still the Town's major taxpayer.

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

Cate Street Capital (Great Northern Paper) had not paid its second half taxes for FY 2013 and is currently in the process of demolition of the majority of the mill property. This tax payment, which was paid in FY 2014, also delayed the TIF reimbursement back to Cate Street.

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 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. Current employment is approximately 230. The Millinocket mill continues to be shut down and in late Spring 2013, Cate Street Capital commenced demolition of the unused sections of the paper mill facility.

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 fall of 2014.

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. Brimms Ness was written off the accounts by the Council on June 12, 2012.

Reflecting the economic circumstances of the area, the level of property tax collections was 78.56% compared to 94.83% in 2012 and 96.34% in 2011. These figures are below the normal range of tax collections for Millinocket, but are remarkable given the challenges many of our property owners currently face. The 78.56% on property tax collections is due, in part, to the fact that the second half tax payment from Great Northern Paper was not paid as of June 30, 2013. In addition, the Town is also dealing with a number of other residential properties that continue to default on taxes and sewer invoices owed.

SIGNIFICANT BUDGET VARIANCES

Property taxes were committed on October 29, 2012. 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.

As reported in Exhibit A-2, total revenues, including the School Department, were budgeted at \$10,945,600 and the actual amount received was \$13,033,793, for an overage of \$2,088,193. The most significant reason for this was an increase in State Revenue Sharing of \$217,581, increases in Airport Grants of \$270,441, State of Maine S&S monies \$504,225, property taxes received over budget was \$76,811. There is an overstatement for Ambulance Charges. The ambulance charges do not reflect the actual receipts which is about \$200,000 less than billed each year. The major revenue decreases were in Excise Tax collections and Education and School Fund Balances.

Total expenses, including the School, were budgeted at \$13,094,458 while actual expenditures were \$13,017,075 or \$77,383 less than budgeted. In other expenditure areas, the most significant over-expenditures for the municipal part of the budget included \$45,662 in the legal fees account due to continued litigation related to new litigation to recover the S&S funds from the State of Maine, \$20,413 in Ambulance expenditures which was offset

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

by revenues, and \$5,312 in Insurances and \$30,588 at the Airport that was mostly due to increased aviation gas purchases due to sales volume increases. The School had unrealized revenues from the projected revenues of \$317,160 from assigned and unassigned fund balances, decrease in revenues from the State for State Aid, food services enterprise account and other minor accounts.

The FY 2013 year end unassigned fund balance for the Town was \$2,211,806, but the School continues to carry a negative fund balance of \$512,237 which decreased the total Town fund balance to \$1,751,850. The Town is making gains, albeit slow gains.

When all the above factors were taken into account, the Town's total fund balance increased to \$1,751,850 from the previous year's \$1,307,437. That increase is directly related to the receipt from the State of Maine of \$504,225 in S&S monies.

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), but has not routinely funded it using a calculated depreciation schedule as part of the budget. This plan is updated annually as part of the budget cycle. The plan is for equipment needs only and does not include buildings, technical equipment or highway improvements at this time. Also, street paving is a separate sub-account in the Public Works budget.

For Fiscal 2013, the Town Council spent just \$379,463 for capital equipment needs of which only \$78,237 was appropriated. The balance was funded through loans, donations, grants and property insurance reimbursements. Purchases include Computers \$3,739, School Fencing \$2,550, Police Cruiser \$32,230, Police DC3 Cameras \$2,080, Police Radar Unit \$2,013, Pickup Truck \$27,705, Police ATV \$10,775, Trail Groomer, \$32,578, Ski Trail Groomer \$5,299, Aerial Ladder Truck Rebuild \$7,074, Demolition on Aroostook Avenue (Movie Kingdom) \$7,500, Backstop Repair-Replacement \$16,631, two new boilers for Stearns High School and Granite Street School.

The Town continues to be challenged by the condition of its streets and sidewalks. In Fiscal 2013, the Town budgeted \$205,000 for street paving and sidewalks, but did not expend these funds. 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.

In future years, the Town will need to establish reserves to replace or repair all heavy equipment, technical equipment, buildings and roads.

LONG-TERM DEBT

The State allows municipalities to borrow up to 15% of their total state valuation. Since the value of the Town was \$187,100,000 in FY13, the debt limit would be \$28,065,000. Our current bonded debt is \$6,052,710 or just 21.57% of our authorized limit or 3.23% of the total state valuation. This debt includes \$3,235,534 in school projects, \$1,313,734 for municipal purposes (including the new pool, energy improvements and fire trucks) and \$1,503,441 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 municipal loans are for the new pool that is a 15 year obligation and the first payment was made during Fiscal 2008, energy improvements in 2009 that will be paid off in 2020, a 2011 new fire pumper tanker (matures 2019) and an 2002 Fire Kovatch Truck (matures 2017).

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

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. However as the total valuation continues to decline, the percent of the total indebtedness compared to the total valuation will increase placing a larger burden on the remaining property owners to continue to fund.

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 fall of 2014. The number of jobs per machine is estimated to be approximately 25. The bulk of the new value for Thermogen will be machinery and equipment which is tax exempt pursuant to 2007 State laws and the lost value related to the paper mill will not be replaced by the construction of the Thermogen operations.

The Millinocket paper mill facility is currently under demolition. It is anticipated that the Administration and Engineering and Research buildings will remain intact. Number 11 paper machine is still being marketed by Cate Street for sale and the steam plant and industrial wastewater plant is also not included in the earlier demolition project. However, it behooves the Town to consider a worst case scenario of about 75% loss in industrial valuation which equals about \$58 million loss.

In addition, Specialty Minerals, Inc. (SMI) is slated for removal of its machinery and equipment from the mill site in the summer of FY 14. This represents about \$4,040,000 in lost valuation as well. These two properties alone represents a loss of \$62,040,000 or a loss of 24% of the total taxable value for the Town.

As a result, this impending decreased tax valuation will negatively impact the ability of the Town and School to continue to operate "business as usual" and significant changes to services should be expected. The Town Council and School Committee will need to work together to develop a strategic plan of services as well as work with the businesses and citizens to define operations and future developments as part of redefining what the Town of Millinocket will be for future generations.

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 or at manager@millinocket.org

Respectfully submitted,

Margaret N. Daigle
Millinocket Town Manager

BASIC FINANCIAL STATEMENTS

TOWN OF MILLINOCKET, MAINE
Statement of Net Position
June 30, 2013

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,381,080 | 46,131 | 1,427,211 |
| Investments | 417,243 | 568,312 | 985,555 |
| Receivables: | | | |
| Accounts, net of allowance of \$27,000 | 508,834 | 391,904 | 900,738 |
| Intergovernmental | 101,419 | - | 101,419 |
| Taxes receivable | 1,537,278 | - | 1,537,278 |
| Tax liens | 167,259 | - | 167,259 |
| Notes, net of allowance of \$12,667 | 207,273 | - | 207,273 |
| Internal balances | (51,063) | 51,063 | - |
| Inventory | 33,999 | - | 33,999 |
| Other | - | 6,672 | 6,672 |
| Capital assets, not being depreciated | 1,285,043 | - | 1,285,043 |
| Capital assets, net of accumulated depreciation | 9,833,306 | 4,251,134 | 14,084,440 |
| Total assets | 15,421,671 | 5,315,216 | 20,736,887 |
| LIABILITIES | | | |
| Cash overdraft | 42,573 | - | 42,573 |
| Accounts payable and other current liabilities | 797,557 | 431 | 797,988 |
| Accrued wages and benefits payable | 445,575 | 2,480 | 448,055 |
| Accrued compensated absences | 352,113 | 43,921 | 396,034 |
| Other post-employment benefits | 3,021,255 | - | 3,021,255 |
| Accrued interest | 42,518 | - | 42,518 |
| Noncurrent liabilities: | | | |
| Due within one year | 557,074 | 182,235 | 739,309 |
| Due in more than one year | 4,033,639 | 1,321,206 | 5,354,845 |
| Total liabilities | 9,292,304 | 1,550,273 | 10,842,577 |
| NET POSITION | | | |
| Net investment in capital assets | 6,527,636 | 2,747,693 | 9,275,329 |
| Restricted for: | | | |
| Nonexpendable trust principal | 16,401 | - | 16,401 |
| Other purposes | 395,605 | - | 395,605 |
| Unrestricted | (810,275) | 1,017,250 | 206,975 |
| Total net position | \$ 6,129,367 | 3,764,943 | 9,894,310 |

See accompanying notes to financial statements.

TOWN OF MILLINOCKET, MAINE
Statement of Activities
For the Year Ended June 30, 2013

| Functions/programs | Expenses | Program revenues | | | Net (expense) revenue and changes in net position | | |
|---|----------------------|-------------------------|--|--|--|-----------------------------|--------------------|
| | | 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 | \$ 503,156 | 81,773 | - | - | (421,383) | - | (421,383) |
| Protection | 1,632,112 | 540,868 | 16,101 | - | (1,075,143) | - | (1,075,143) |
| Town services | 1,000,093 | 191,231 | 46,416 | 504,225 | (258,221) | - | (258,221) |
| Community services | 813,443 | 149,264 | 69,571 | 871,691 | 277,083 | - | 277,083 |
| Education | 7,362,909 | 204,392 | 3,505,317 | - | (3,653,200) | - | (3,653,200) |
| On-behalf payments - Maine PERS | 474,465 | - | 474,465 | - | - | - | - |
| Insurance and fringe benefits | 1,056,796 | - | - | - | (1,056,796) | - | (1,056,796) |
| County tax | 360,283 | - | - | - | (360,283) | - | (360,283) |
| Food service | 339,945 | 96,101 | 201,551 | - | (42,293) | - | (42,293) |
| Capital maintenance expenses | 29,470 | - | - | - | (29,470) | - | (29,470) |
| Interest on debt | 152,428 | - | - | - | (152,428) | - | (152,428) |
| Total governmental activities | 13,725,100 | 1,263,629 | 4,313,421 | 1,375,916 | (6,772,134) | - | (6,772,134) |
| Business-type activities: | | | | | | | |
| Wastewater treatment plant | 642,554 | 511,649 | - | - | - | (130,905) | (130,905) |
| Total business-type activities | 642,554 | 511,649 | - | - | - | (130,905) | (130,905) |
| Total primary government | \$ 14,367,654 | 1,775,278 | 4,313,421 | 1,375,916 | (6,772,134) | (130,905) | (6,903,039) |
| General revenues: | | | | | | | |
| Property taxes, levied for general purposes | | | | | \$ 5,269,800 | - | 5,269,800 |
| Motor vehicle excise taxes | | | | | 672,172 | - | 672,172 |
| Interest and lien costs | | | | | 38,848 | - | 38,848 |
| Grants and contributions not restricted to specific programs: | | | | | | | |
| Homestead and BETE exemptions | | | | | 407,892 | - | 407,892 |
| Other State aid | | | | | 28,583 | - | 28,583 |
| State Revenue Sharing | | | | | 892,581 | - | 892,581 |
| Unrestricted investment earnings | | | | | 6,866 | 2,070 | 8,936 |
| Miscellaneous revenues | | | | | 216,869 | - | 216,869 |
| Loss on disposal of assets | | | | | (51,503) | - | (51,503) |
| Transfers | | | | | 18,400 | (18,400) | - |
| Total general revenues and transfers | | | | | 7,500,508 | (16,330) | 7,484,178 |
| Change in net position | | | | | 728,374 | (147,235) | 581,139 |
| Net position - beginning | | | | | 5,400,993 | 3,912,178 | 9,313,171 |
| Net position - ending | | | | | \$ 6,129,367 | 3,764,943 | 9,894,310 |

See accompanying notes to financial statements.

TOWN OF MILLINOCKET, MAINE
Balance Sheet
Governmental Funds
June 30, 2013

| | General | Capital Reserve Funds | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,220,779 | - | 160,301 | 1,381,080 |
| Investments | - | 378,278 | 38,965 | 417,243 |
| Receivables: | | | | |
| Accounts, net of allowance of \$27,000 | 508,834 | - | - | 508,834 |
| Intergovernmental | - | - | 101,419 | 101,419 |
| Taxes receivable | 1,537,278 | - | - | 1,537,278 |
| Tax liens | 167,259 | - | - | 167,259 |
| Notes, net of allowance of \$12,667 | - | - | 207,273 | 207,273 |
| Interfund loans receivable | - | 145,126 | 28,455 | 173,581 |
| Inventory | 23,713 | - | 10,286 | 33,999 |
| Total assets | \$ 3,457,863 | 523,404 | 546,699 | 4,527,966 |
| LIABILITIES | | | | |
| Cash overdraft | 42,573 | - | - | 42,573 |
| Accounts payable | 788,327 | - | 9,230 | 797,557 |
| Accrued wages and benefits | 411,802 | - | 33,773 | 445,575 |
| Interfund loans payable | 71,911 | 51,596 | 101,137 | 224,644 |
| Total liabilities | 1,314,613 | 51,596 | 144,140 | 1,510,349 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue - property taxes | 391,400 | - | - | 391,400 |
| Total deferred inflows of resources | 391,400 | - | - | 391,400 |
| FUND BALANCES | | | | |
| Nonspendable | 23,713 | - | 233,960 | 257,673 |
| Restricted | - | - | 188,332 | 188,332 |
| Committed | - | 471,808 | 13,425 | 485,233 |
| Assigned - Town | 28,568 | - | - | 28,568 |
| Unassigned - School | (512,237) | - | (33,158) | (545,395) |
| Unassigned - Town | 2,211,806 | - | - | 2,211,806 |
| Total fund balances | 1,751,850 | 471,808 | 402,559 | 2,626,217 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 3,457,863 | 523,404 | 546,699 | |

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

| | |
|---|-------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 11,118,349 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 391,400 |
| 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 | (352,113) |
| Other post employment benefits | (3,021,255) |
| Accrued interest | (42,518) |
| Capital leases payable | (41,444) |
| Bonds payable | (4,549,269) |

| | |
|--|---------------------|
| Net position of governmental activities | \$ 6,129,367 |
|--|---------------------|

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, 2013

| | General | Capital Reserve Funds | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Taxes | \$ 6,064,420 | - | - | 6,064,420 |
| Licenses and permits | 46,490 | - | - | 46,490 |
| Intergovernmental | 5,592,522 | - | 951,406 | 6,543,928 |
| Intergovernmental on-behalf payments | 474,465 | - | - | 474,465 |
| Tuition and other charges for services - education | 196,985 | - | - | 196,985 |
| Charges for services | 536,328 | - | 103,508 | 639,836 |
| Fees and fines | 4,120 | - | - | 4,120 |
| Unclassified | 592,852 | - | 215 | 593,067 |
| Investment earnings | 76 | 56 | 6,734 | 6,866 |
| Total revenues | 13,508,258 | 56 | 1,061,863 | 14,570,177 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 502,844 | - | - | 502,844 |
| Protection | 1,560,928 | - | 1,280 | 1,562,208 |
| Town services | 858,689 | - | - | 858,689 |
| Community services | 682,349 | - | - | 682,349 |
| Education | 6,031,544 | - | 783,113 | 6,814,657 |
| On-behalf payments - Maine PERS | 474,465 | - | - | 474,465 |
| Insurance and fringe benefits | 1,062,915 | - | - | 1,062,915 |
| County tax | 360,283 | - | - | 360,283 |
| Food services | - | - | 339,945 | 339,945 |
| Capital outlay | 1,455,253 | - | - | 1,455,253 |
| Debt service | 664,887 | - | - | 664,887 |
| Total expenditures | 13,654,157 | - | 1,124,338 | 14,778,495 |
| Excess (deficiency) of revenues over (under) expenditures | (145,899) | 56 | (62,475) | (208,318) |
| Other financing sources (uses): | | | | |
| Proceeds from capital leases | 10,800 | - | - | 10,800 |
| Issuance of debt | 388,001 | - | - | 388,001 |
| Transfers from other funds | 199,067 | - | 7,556 | 206,623 |
| Transfers to other funds | (7,556) | (96,676) | (83,991) | (188,223) |
| Total other financing sources (uses) | 590,312 | (96,676) | (76,435) | 417,201 |
| Net change in fund balances | 444,413 | (96,620) | (138,910) | 208,883 |
| Fund balances, beginning of year | 1,307,437 | 568,428 | 541,469 | 2,417,334 |
| Fund balances, end of year | \$ 1,751,850 | 471,808 | 402,559 | 2,626,217 |

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, 2013

| | | |
|---|-----------|----------------|
| Net change in fund balances - total governmental funds (from Statement 4) | \$ | 208,883 |
| <p>Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:</p> | | |
| <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 (\$1,425,783) exceeded depreciation expense (\$636,582) and loss on disposal (\$51,503).</p> | | |
| | | 737,698 |
| <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> | | |
| | | (83,600) |
| <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 (\$2,699) and accrued interest (\$5,132), and the increase in other post-employment benefits (\$270,849).</p> | | |
| | | (263,018) |
| <p>Capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments (\$19,885) exceeded lease proceeds (\$10,800).</p> | | |
| | | 9,085 |
| <p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments (\$507,327) exceeded proceeds (\$388,001).</p> | | |
| | | 119,326 |
| <hr/> | | |
| Change in net position of governmental activities (see Statement 2) | \$ | 728,374 |

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, 2013

| | Budgeted amounts | | Actual | Variance with final budget positive (negative) |
|--|--------------------|--------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Taxes | \$ 5,269,125 | 5,269,125 | 6,064,420 | 795,295 |
| Licenses and permits | 42,950 | 42,950 | 46,490 | 3,540 |
| Intergovernmental | 4,629,780 | 4,629,780 | 5,592,522 | 962,742 |
| Tuition and other charges for services - education | 186,475 | 186,475 | 196,985 | 10,510 |
| Charges for services | 336,450 | 336,450 | 536,328 | 199,878 |
| Fees and fines | 4,182 | 4,182 | 4,120 | (62) |
| Unclassified | 474,138 | 474,138 | 592,852 | 118,714 |
| Investment earnings | 2,500 | 2,500 | 76 | (2,424) |
| Total revenues | 10,945,600 | 10,945,600 | 13,033,793 | 2,088,193 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 490,948 | 490,948 | 502,844 | (11,896) |
| Protection | 1,552,380 | 1,552,380 | 1,560,928 | (8,548) |
| Town services | 1,129,101 | 1,129,101 | 858,689 | 270,412 |
| Community services | 690,219 | 690,219 | 682,349 | 7,870 |
| Education | 6,144,454 | 6,144,454 | 6,039,327 | 105,127 |
| Insurance and fringe benefits | 1,094,591 | 1,094,591 | 1,062,915 | 31,676 |
| County tax | 360,283 | 360,283 | 360,283 | - |
| Capital outlay | 988,885 | 988,885 | 1,284,853 | (295,968) |
| Debt service | 643,597 | 643,597 | 664,887 | (21,290) |
| Total expenditures | 13,094,458 | 13,094,458 | 13,017,075 | 77,383 |
| Excess (deficiency) of revenues over (under) expenditures | (2,148,858) | (2,148,858) | 16,718 | 2,165,576 |
| Other financing sources (uses): | | | | |
| Use of undesignated fund balance - Town | 660,000 | 660,000 | - | (660,000) |
| Use of undesignated fund balance - School | 317,160 | 317,160 | - | (317,160) |
| Issuance of debt | 228,401 | 228,401 | 228,401 | - |
| Overlay | (24,746) | (24,746) | - | 24,746 |
| Transfers from other funds | 975,599 | 975,599 | 199,067 | (776,532) |
| Transfers to other funds | (7,556) | (7,556) | (7,556) | - |
| Total other financing sources (uses) | 2,148,858 | 2,148,858 | 419,912 | (1,728,946) |
| Net change in fund balance - budgetary basis | - | - | 436,630 | 436,630 |
| Reconciliation to GAAP basis: | | | | |
| Change in accrued teacher summer salaries | | | 7,783 | |
| Net change in fund balance - GAAP basis | | | 444,413 | |
| Fund balance, beginning of year | | | 1,307,437 | |
| Fund balance, end of year | \$ | | 1,751,850 | |

See accompanying notes to financial statements.

TOWN OF MILLINOCKET, MAINE
Statement of Net Position
Proprietary Funds
June 30, 2013

| Business-type Activities - Enterprise Funds | | Wastewater Treatment Plant |
|--|----|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ | 46,131 |
| Investments | | 568,312 |
| Accounts receivable | | 391,904 |
| Interfund loans receivable | | 51,063 |
| Loan origination fees - net | | 6,672 |
| Total current assets | | 1,064,082 |
| Noncurrent assets: | | |
| Capital assets | | 12,848,000 |
| Less accumulated depreciation | | (8,596,866) |
| Total noncurrent assets | | 4,251,134 |
| Total assets | | 5,315,216 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | | 431 |
| Accrued wages | | 2,480 |
| Accrued compensated absences | | 43,921 |
| Bonds payable, current | | 182,235 |
| Total current liabilities | | 229,067 |
| Noncurrent liabilities: | | |
| Bonds payable | | 1,321,206 |
| Total noncurrent liabilities | | 1,321,206 |
| Total liabilities | | 1,550,273 |
| NET POSITION | | |
| Net investment in capital assets | | 2,747,693 |
| Unrestricted | | 1,017,250 |
| Total net position | \$ | 3,764,943 |

See accompanying notes to financial statements.

TOWN OF MILLINOCKET, MAINE
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the year ended June 30, 2013

| Business-type Activities - Enterprise Funds | | Wastewater Treatment Plant |
|--|-----------|---|
| Operating revenues: | | |
| Charges for services | \$ | 496,493 |
| Other | | 15,156 |
| Total operating revenues | | 511,649 |
| Operating expenses: | | |
| Administration | | 108,352 |
| Operations | | 260,029 |
| Depreciation and amortization | | 250,204 |
| Total operating expenses | | 618,585 |
| Operating loss | | (106,936) |
| Nonoperating revenue (expense): | | |
| Interest income | | 2,070 |
| Interest expense | | (23,969) |
| Total nonoperating revenue (expense) | | (21,899) |
| Loss before transfers | | (128,835) |
| Transfers out | | (18,400) |
| Change in net position | | (147,235) |
| Total net position, beginning of year | | 3,912,178 |
| Total net position, end of year | \$ | 3,764,943 |

See accompanying notes to financial statements.

TOWN OF MILLINOCKET, MAINE
Statement of Cash Flows - Proprietary Funds
For the year ended June 30, 2013

| Business-type Activities - Enterprise Funds | | Wastewater Treatment Plant |
|---|-----------|---|
| Cash flows from operating activities: | | |
| Receipts from customers and users | \$ | 490,586 |
| Payments to suppliers | | (168,558) |
| Payments to employees | | (203,218) |
| Net cash provided by operating activities | | 118,810 |
| Cash flows from noncapital financing activities: | | |
| Transfer to other funds | | (18,400) |
| Net cash used in noncapital financing activities | | (18,400) |
| Cash flows from capital and related financing activities: | | |
| Purchase of capital assets | | (8,801) |
| Principal payments on bonds | | (181,382) |
| Interest paid | | (23,969) |
| Net cash used in capital and relating financing activities | | (214,152) |
| Cash flows from investing activities: | | |
| Sale of investments | | 101,381 |
| Investment income | | 2,070 |
| Net cash provided by investing activities | | 103,451 |
| Decrease in cash | | (10,291) |
| Cash, beginning of year | | 56,422 |
| Cash, end of year | \$ | 46,131 |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | \$ | (106,936) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | | 250,204 |
| Increase in operating assets: | | |
| Accounts receivable | | (21,063) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | | (2,349) |
| Accrued wages and benefits payable | | (554) |
| Accrued compensated absences | | (492) |
| Net cash provided by operating activities | | 118,810 |

See accompanying notes to financial statements.

TOWN OF MILLINOCKET, MAINE
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

| | | Agency Fund School Activity Fund |
|--------------------------|----|--|
| ASSETS | | |
| Cash | \$ | 87,616 |
| Total assets | | 87,616 |
| LIABILITIES | | |
| Liabilities: | | |
| Due to student groups | | 87,616 |
| Total liabilities | | 87,616 |
| NET POSITION | | |
| 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 position 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

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. Deferred Inflows of Resources

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category, unavailable revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

H. 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.

I. 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 position. Bond premiums and discounts, 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.

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.

J. 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.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

K. 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.
- *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.

L. 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.

M. 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.

N. 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.

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

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary vs. GAAP Basis of Accounting

Through June 30, 2013, 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 \$474,465. 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.

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, 2013, expenditures exceeded appropriations in the following categories:

| | | | |
|-------------------------------|-----------|---------------------------------|---------|
| Legal services | \$ 45,662 | Recreation | 1,720 |
| Administration | 11,528 | Airport | 30,588 |
| Police department | 673 | Debt service - Town | 37,604 |
| DARE Program – donations * | 2,489 | Capital outlay - Town | 48,489 |
| Ambulance | 20,413 | Special capital Improvements ** | 247,479 |
| Insurances | 5,312 | | |
| Library gifts and donations * | 1,149 | | |
| KARE * | 11,628 | | |

* The Town used assigned fund balances to cover these overages.

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

DEPOSITS AND INVESTMENTS

As of June 30, 2013, the Town had the following investments:

| | <u>Fair value</u> | <u>Weighted average maturity (years)</u> | <u>Credit rating</u> |
|--------------------------|-------------------|--|----------------------|
| Certificate of deposit | \$ 336,176 | N/A | N/A |
| Money market | 649,379 | N/A | N/A |
| Total Investments | \$ 985,555 | N/A | N/A |

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

DEPOSITS AND INVESTMENTS, CONTINUED

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, 2013, all of the Town’s bank balance of \$1,686,495 was insured and/or collateralized.

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 \$985,555 investment in money market and certificates of deposit, \$167,281 was uninsured and/or uncollateralized.

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, 2013, the Town reported the following cash and investments:

| | <u>Governmental</u> <u>Activities</u> | <u>Business-type</u> <u>Activities</u> | <u>Fiduciary</u> <u>Funds</u> | <u>Total</u> |
|----------------|--|---|----------------------------------|------------------|
| Cash | \$ 1,381,080 | 46,131 | 87,616 | 1,514,827 |
| Investments | 417,243 | 568,312 | - | 985,555 |
| Cash overdraft | (42,573) | - | - | (42,573) |
| Total | \$ 1,755,750 | 614,443 | 87,616 | 2,457,809 |

PROPERTY TAX

Property taxes for the current period were committed on October 29, 2012, on the assessed value listed as of April 1, 2012, for all real and personal property located in the Town. Payments of taxes were due in equal installments on November 21, 2012 and April 19, 2013. 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 2013 assessed value was 100% of the estimated market value and 131% of the 2013 state valuation of \$187,100,000.

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 \$24,744 for the period ended June 30, 2013.

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.

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

PROPERTY TAX, CONTINUED

The following summarizes the tax levies:

| | <u>2013</u> | <u>2012</u> |
|------------------------------------|---------------------|----------------|
| Assessed value | \$ 244,847,800 | 251,048,950 |
| Tax rate (per \$1,000) | 26.40 | 25.60 |
| Commitment | 6,463,982 | 6,426,853 |
| Supplemental taxes assessed | - | 3,166 |
| | 6,463,982 | 6,430,019 |
| Less: | | |
| Collections and abatements | 5,077,881 | 6,097,384 |
| Receivable at end of period | \$ 1,386,101 | 332,635 |
| Collection rate | 78.56% | 94.83% |

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

| | Balance June 30, <u>2012</u> | <u>Increases</u> | <u>Decreases</u> | Balance June 30, <u>2013</u> |
|--|------------------------------------|------------------|------------------|------------------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 283,317 | - | - | 283,317 |
| Construction in progress | 96,747 | 904,979 | - | 1,001,726 |
| Total capital assets, not being depreciated | 380,064 | 904,979 | - | 1,285,043 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 3,818,031 | 16,531 | - | 3,834,562 |
| Buildings and building improvements | 8,686,458 | - | - | 8,686,458 |
| Equipment and vehicles | 6,941,567 | 504,273 | 425,231 | 7,020,609 |
| Infrastructure | 3,441,980 | - | - | 3,441,980 |
| Total capital assets being depreciated | 22,888,036 | 520,804 | 425,231 | 22,983,609 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 437,517 | 96,810 | - | 534,327 |
| Buildings and building improvements | 3,682,157 | 290,338 | - | 3,972,495 |
| Equipment and vehicles | 5,362,128 | 247,439 | 373,728 | 5,235,839 |
| Infrastructure | 3,405,647 | 1,995 | - | 3,407,642 |
| Total accumulated depreciation | 12,887,449 | 636,582 | 373,728 | 13,150,303 |
| Total capital assets being depreciated, net | 10,000,587 | (115,778) | 51,503 | 9,833,306 |
| Governmental activities capital assets, net | \$ 10,380,651 | 789,201 | 51,503 | 11,118,349 |

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

CAPITAL ASSETS, CONTINUED

| | Balance June 30, <u>2012</u> | <u>Increases</u> | <u>Decreases</u> | Balance June 30, <u>2013</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 | 826,243 | 8,802 | 20,900 | 814,145 |
| Infrastructure, sewer lines and equipment | 6,206,184 | - | 367 | 6,205,817 |
| Total capital assets being depreciated | 12,860,465 | 8,802 | 21,267 | 12,848,000 |
| Less accumulated depreciation for: | | | | |
| Buildings and building improvements | 4,287,173 | 132,112 | - | 4,419,285 |
| Interceptors | 1,015,309 | 31,724 | - | 1,047,033 |
| Equipment and vehicles | 554,436 | 24,746 | 20,900 | 558,282 |
| Infrastructure, sewer lines and equipment | 2,512,345 | 60,288 | 367 | 2,572,266 |
| Total accumulated depreciation | 8,369,263 | 248,870 | 21,267 | 8,596,866 |
| Total capital assets being depreciated, net | 4,491,202 | (240,068) | - | 4,251,134 |
| Business-type activities capital assets, net | \$ 4,491,202 | (240,068) | - | 4,251,134 |

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

| | |
|---|-------------------|
| Governmental activities: | |
| General government | \$ 18,462 |
| Protection | 78,683 |
| Town services | 127,180 |
| Community services | 128,275 |
| Education and libraries | 283,922 |
| Total depreciation expense - governmental activities | \$ 636,582 |
| Business-type activities: | |
| Wastewater Fund | 248,870 |
| Total depreciation expense - business activities | \$ 248,870 |

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

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 5.3% to 10% 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, 2013, 2012 and 2011 were \$44,757, \$18,545, and \$7,736, 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, 2013 was \$2,991,585. The State of Maine Department of Education is required, by state statute, to contribute the employer contribution, which amounts to 15.86% of compensation. Contributions paid by the State totaled approximately \$474,465 for the year ended June 30, 2013. There is no contribution required by the School Department except for federally funded teachers for which the School Department contributes 16.33% of their compensation. This cost amounted to \$35,551 for the year ended June 30, 2013, and is charged to the applicable grant.

Beginning on July 1, 2013, as a result of the State Biennial budget, the Department will be responsible for approximately half the normal cost of the teacher's plan. This approximates 2.65% of compensation.

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.

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

LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2013 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 | \$ 4,668,595 | 388,001 | 507,327 | 4,549,269 | 539,598 |
| Capital leases | 50,529 | 10,800 | 19,885 | 41,444 | 17,476 |
| Other post-employment benefits | 2,750,406 | 1,024,834 | 753,985 | 3,021,255 | - |
| Accrued compensated absences | 354,812 | - | 2,699 | 352,113 | - |
| Governmental activity long-term liabilities | \$ 7,824,342 | 1,423,635 | 1,283,896 | 7,964,081 | 557,074 |
| Business-type activities: | | | | | |
| General obligation bonds | 1,684,823 | - | 181,382 | 1,503,441 | 182,235 |
| Accrued compensated absences | 44,413 | - | 492 | 43,921 | - |
| Business-type activities long-term liabilities | \$ 1,729,236 | - | 181,874 | 1,547,362 | 182,235 |

Bonds and notes payable at June 30, 2013 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, 2013</u> |
|---------------------------------------|--------------------------|-----------------------------------|-----------------------------|--------------------------|--------------------------------------|
| Governmental activities: | | | | | |
| School improvements | 05/01/98 | \$ 4,560,000 | 2018 | Varies | \$ 1,863,742 |
| 2006 Series C | 10/26/06 | 1,200,000 | 2021 | Varies | 720,000 |
| 2009 GOB | 08/03/09 | 341,354 | 2020 | 4.96% | 238,948 |
| 2011 GOB (1) | 10/27/11 | 1,465,000 | 2026 | 4.45% | 1,371,792 |
| 2011 Int'l. Pumper Fire Truck | 03/29/13 | 228,401 | 2020 | 2.95% | 211,515 |
| Kovatch Fire Truck | 08/14/12 | 159,599 | 2018 | 2.88% | 143,272 |
| Total governmental activities | | | | | \$ 4,549,269 |
| Business-type activities: | | | | | |
| Sewer line expansion | 04/01/03 | \$ 1,922,632 | 2017 | 1.33% | 640,877 |
| CWSRF | 05/16/08 | 1,050,000 | 2028 | 1.80% | 821,512 |
| 2009 GOB | 08/03/09 | 58,646 | 2020 | 4.96% | 41,052 |
| Total business-type activities | | | | | \$ 1,503,441 |

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

LONG-TERM DEBT, CONTINUED

(1) The town has entered into an agreement with the bank to fund the retirement of the 2011 General Obligation Bond with annual payments to a trust account. The payments deposited into the trust account are invested and it is anticipated that earnings on the deposit will fund a significant portion of the debt retirement obligation. As such, the payments made into the trust are less than what would be required under a traditional payment schedule. When the bond matures, there is a possibility that the deposits made plus the investment earnings will not be sufficient to retire the entire principal and interest obligation. In that scenario, the Town would be obligated to make a payment to retire and remaining principal or interest due. As of June 30, 2013, the value of the trust account equaled \$87,803.

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, 2013 are as follows:

| <u>June 30,</u> | <u>Governmental activities</u> | | | <u>Business-type activities</u> | | |
|-----------------|--------------------------------|-----------------|------------------|---------------------------------|-----------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2014 | \$ 539,598 | 141,218 | 680,816 | 182,235 | 24,884 | 207,119 |
| 2015 | 555,389 | 119,009 | 674,398 | 183,102 | 22,634 | 205,736 |
| 2016 | 572,527 | 95,687 | 668,214 | 183,985 | 20,369 | 204,354 |
| 2017 | 590,536 | 71,466 | 662,002 | 184,885 | 18,087 | 202,972 |
| 2018 | 592,369 | 46,299 | 638,668 | 185,799 | 15,790 | 201,589 |
| 2019-2023 | 1,259,136 | 30,381 | 1,289,517 | 284,841 | 58,415 | 343,256 |
| 2024-2028 | 439,714 | - | 439,714 | 298,594 | 32,061 | 330,655 |
| Total | \$ 4,549,269 | 504,060 | 5,053,329 | 1,503,441 | 192,240 | 1,695,681 |

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 \$6,052,710 at June 30, 2013 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.

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

OBLIGATIONS UNDER CAPITAL LEASES, CONTINUED

The following items have been capitalized under capital leases as of June 30, 2013:

| | |
|---------|------------|
| Copiers | \$ 108,092 |
|---------|------------|

Minimum future lease payments under capital leases are:

| <u>Year ended June 30,</u> | |
|--|------------------|
| 2014 | \$ 19,362 |
| 2015 | 19,362 |
| 2016 | 2,382 |
| 2017 | 2,382 |
| 2018 | 1,191 |
| Total minimum lease payments | 44,679 |
| <u>Less amount representing interest</u> | <u>3,235</u> |
| Present value of future | |
| minimum lease payments | \$ 41,444 |

SHORT-TERM DEBT

The Town issues tax anticipation notes to cover cash shortfalls during the year. The authorized amount is \$1,500,000. Short-term debt activity for the year ended June 30, 2013, was as follows:

| | <u>Beginning</u> <u>balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending</u> <u>balance</u> |
|------------------------|------------------------------------|------------------|-------------------|---------------------------------|
| Tax anticipation notes | \$ - | 1,500,000 | 1,500,000 | - |

FUND BALANCE

The General Fund unassigned fund balance total of \$1,699,569 represents fund balance of \$2,211,806 for the Town and (\$512,237) 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 (\$156) for the School Lunch Fund and (\$28,439) for the School Categorical Program that have negative fund balances as of June 30, 2013 as shown on Statement 3.

As of June 30, 2013, 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 | 4,754 |
| DARE | 5,016 |
| Library gifts and donations | 1,031 |
| <u>KARE (Fiscal agent)</u> | <u>16,827</u> |
| Total assigned | \$ 28,568 |

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

FUND BALANCE, CONTINUED

| | <u>General Fund</u> | <u>Special Revenue</u> | <u>Permanent Fund</u> |
|-----------------------------|-------------------------|----------------------------|---------------------------|
| Nonspendable for: | | | |
| Inventory | \$ 23,713 | 10,286 | - |
| Noncurrent notes receivable | - | 207,273 | - |
| Trust fund principal | - | - | 16,401 |
| Total nonspendable | \$ 23,713 | 217,559 | 16,401 |

| | <u>General Fund</u> | <u>Special Revenue</u> | <u>Permanent Fund</u> |
|-------------------------------------|-------------------------|----------------------------|---------------------------|
| Restricted by external constraints: | | | |
| Education grants | \$ - | 34,628 | - |
| Federal reimbursement program | - | 28,109 | - |
| Other external constraints | - | 103,449 | - |
| Trust documents | - | - | 22,146 |
| Total restricted | \$ - | 166,186 | 22,146 |

| | | | |
|------------------------|-------------|----------------|----------|
| Committed for: | | | |
| Capital | - | 471,808 | - |
| Other | - | 13,425 | - |
| Total committed | \$ - | 485,233 | - |

NET POSITION

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds and capital leases payable and adding back any unspent proceeds. The Town's net investment in capital assets was calculated as follows at June 30, 2013:

| | <u>Governmental</u> | <u>Business-type</u> |
|---|---------------------|----------------------|
| Capital assets | \$ 24,268,652 | 12,848,000 |
| Accumulated depreciation | (13,150,303) | (8,596,866) |
| Bonds payable | (4,549,269) | (1,503,441) |
| Capital leases payable | (41,444) | - |
| Total net investment in capital assets | \$ 6,527,636 | 2,747,693 |

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

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, 2013.

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, 2013 arising from these transactions were as follows:

| | <u>Receivables</u> | <u>Payables</u> | <u>Net transfers in (out)</u> |
|--------------------------------|--------------------|-----------------|-----------------------------------|
| General Fund | \$ - | 71,911 | 191,511 |
| Capital reserve funds | 145,126 | 51,596 | (96,676) |
| Nonmajor Special Revenue Fund: | | | |
| CDBG loan fund | - | 17,099 | - |
| Recreation | 3,311 | - | - |
| Comprehensive plan | 10,114 | - | - |
| School categorical programs | - | 75,675 | (83,991) |
| School lunch | 15,030 | - | - |
| Other school funds | - | 4,563 | 7,556 |
| Proprietary Fund | 51,063 | - | (18,400) |
| Nonmajor Permanent Funds | - | 3,800 | - |
| Totals | \$ 224,644 | 224,644 | - |

SIGNIFICANT TAXPAYER

For the year ended June 30, 2013, the Town of Millinocket committed taxes of \$2,049,355 from Katahdin Paper Co. (KP), \$800,501 from Great Lakes Hydro and \$553,028 for Specialty Minerals, Inc. in real estate and personal property tax revenue. These commitments represent approximately 52.68% 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, 2013, \$1,182,886 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 can change based on the number of full-time employee positions retained by the Company and the fact that the Town will retain a flat amount of \$900,000 per year.

Since Kathadin Paper had not paid their taxes in full by June 30, 2013, \$591,443 of their refund was recorded as accounts payable at June 30, 2013.

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

TAX INCREMENT FINANCING DISTRICT, CONTINUED

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, 2013, none of the tax revenues were captured or refunded as TIF district revenues, since the company did not meet the job creation requirement of the TIF agreement.

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.

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, 2013, the value of note was:

| Year ended | | |
|-----------------|-----------------|--------------|
| <u>June 30,</u> | <u>Interest</u> | <u>Total</u> |
| Current balance | \$ 6,448 | 198,923 |
| 2014 | 6,665 | 205,588 |
| 2015 | 6,888 | 212,476 |
| 2016 | 7,119 | 219,595 |
| 2017 | 7,357 | 226,952 |
| Thereafter | 133,048 | 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 2013.

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. Currently retirees are paying 45% of their health insurance premium and the Town is paying 55%. This will change on a yearly basis as retirees drop off the plan or as eligible retirees join the plan. 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, 2013, 2012 and 2011 and the annual required contribution:

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|------------------------------|--------------|-------------|-------------|
| Normal cost | \$ 80,316 | 95,017 | 185,109 |
| Amortization of unfunded | 972,704 | 989,192 | 1,214,746 |
| Adjustment to ARC | (159,056) | (144,117) | (107,059) |
| Interest | 130,870 | 121,154 | 102,003 |
| Annual required contribution | \$ 1,024,834 | 1,061,246 | 1,394,799 |

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

| | | | |
|-------------------------------|--------------|-----------|-----------|
| OPEB liability, July 1, 2012 | \$ 2,750,406 | 2,492,070 | 1,851,271 |
| Annual required contribution | 1,024,834 | 1,061,246 | 1,394,799 |
| Less: Actual contributions | (753,985) | (802,910) | (754,000) |
| OPEB liability, June 30, 2013 | \$ 3,021,255 | 2,750,406 | 2,492,070 |

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, 2013, 2012 and 2011 were as follows:

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|--------------|-------------|-------------|
| Annual required contribution | \$ 1,024,834 | 1,061,246 | 1,394,799 |
| Actual contribution | 753,985 | 802,910 | 754,000 |
| Percent contributed | 73.57% | 75.66% | 54.06% |
| | | | |
| Actuarial accrued liability | 17,492,837 | 17,789,340 | 21,845,639 |
| Plan assets | - | - | - |
| Unfunded actuarial accrued liability | 17,492,837 | 17,789,340 | 21,845,639 |
| | | | |
| Covered payroll | 4,347,748 | 4,277,000 | 4,556,656 |
| Unfunded actuarial accrued liability as a percentage of covered payroll | 402.34% | 415.93% | 479.42% |

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 | 1/1/13 for the Town |
| Actuarial valuation date | 1/1/12 for the School |
| 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 | 3.0% |
| Healthcare inflation rate | 4.25% |

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Retiree Healthcare Plan

| Fiscal Year Ended | Town Actuarial Valuation Date | School Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) – Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|-------------------|-------------------------------|---------------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| 2009 | 1/1/09 | 1/1/09 | \$ - | 27,558,834 | 27,558,834 | 0.00% | 4,841,847 | 569.18% |
| 2010 | 1/1/09 | 1/1/09 | - | 27,558,834 | 27,558,834 | 0.00% | 4,779,800 | 576.57% |
| 2011 | 1/1/11 | 1/1/09 | - | 21,845,639 | 21,845,639 | 0.00% | 4,556,656 | 479.42% |
| 2012 | 1/1/11 | 1/1/12 | - | 17,789,340 | 17,789,340 | 0.00% | 4,277,000 | 415.93% |
| 2013 | 1/1/13 | 1/1/12 | - | 17,492,837 | 17,492,837 | 0.00% | 4,347,748 | 402.34% |

GENERAL FUND

TOWN OF MILLINOCKET, MAINE
Comparative Balance Sheets - General Fund
June 30, 2013 and 2012

| | 2013 | 2012 |
|---|---------------------|------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,220,779 | 2,004,115 |
| Receivables: | | |
| Accounts, net of allowance of \$27,000 | 508,834 | 174,773 |
| Taxes receivable | 1,537,278 | 464,391 |
| Tax liens | 167,259 | 133,256 |
| Inventory | 23,713 | 12,056 |
| Total assets | \$ 3,457,863 | 2,788,591 |
| LIABILITIES | | |
| Cash overdraft | 42,573 | 155,203 |
| Accounts payable | 788,327 | 165,677 |
| Accrued wages and benefits | 411,802 | 434,081 |
| Interfund loans payable | 71,911 | 251,193 |
| Total liabilities | 1,314,613 | 1,006,154 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable revenue - property taxes | 391,400 | 475,000 |
| Total deferred inflows of resources | 391,400 | 475,000 |
| Fund balance: | | |
| Nonspendable - inventory | 23,713 | 12,056 |
| Assigned - Town | 28,568 | 42,790 |
| Unassigned - School | (512,237) | (305,102) |
| Unassigned - Town | 2,211,806 | 1,557,693 |
| Total fund balance | 1,751,850 | 1,307,437 |
| Total liabilities, deferred inflows of resources, and fund balance | \$ 3,457,863 | 2,788,591 |

TOWN OF MILLINOCKET, MAINE
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - Budgetary Basis
Year ended June 30, 2013
(with comparative actual amounts for the year ended June 30, 2012)

| | 2013 | | Variance positive (negative) | 2012 Actual |
|--|-------------------|-------------------|------------------------------------|-------------------|
| | Budget | Actual | | |
| Revenues: | | | | |
| Taxes: | | | | |
| Property taxes | \$ 6,459,475 | 6,536,286 | 76,811 | 6,389,705 |
| Less TIF financing | (1,938,100) | (1,182,886) | 755,214 | (1,234,085) |
| Excise taxes | 707,750 | 672,172 | (35,578) | 680,261 |
| Interest and lien costs | 40,000 | 38,848 | (1,152) | 32,420 |
| Total taxes | 5,269,125 | 6,064,420 | 795,295 | 5,868,301 |
| Licenses and permits | 42,950 | 46,490 | 3,540 | 50,756 |
| Intergovernmental: | | | | |
| Education | 2,790,144 | 2,755,462 | (34,682) | 1,975,018 |
| Tree growth reimbursement | 12,000 | 21,387 | 9,387 | 14,664 |
| Veterans exemption reimbursement | 6,600 | 7,196 | 596 | 6,765 |
| General assistance | 20,000 | 6,407 | (13,593) | 14,571 |
| State revenue sharing | 675,000 | 892,581 | 217,581 | 762,447 |
| Snowmobile grant | 72,000 | 63,164 | (8,836) | 69,426 |
| Airport grant | 601,250 | 871,691 | 270,441 | 87,696 |
| State of Maine - Sudden & Severe | - | 504,225 | 504,225 | - |
| Walking trail grant | - | - | - | 363,237 |
| Community development block grant | - | - | - | 72,990 |
| Public safety grants | - | 16,101 | 16,101 | 5,152 |
| Homestead exemption reimbursement | 181,677 | 181,677 | - | 178,840 |
| BETE reimbursement | 226,109 | 226,215 | 106 | 188,476 |
| URIP - DOT road grant | 45,000 | 46,416 | 1,416 | 49,108 |
| Total intergovernmental | 4,629,780 | 5,592,522 | 962,742 | 3,788,390 |
| Tuition and other charges for services - education | 186,475 | 196,985 | 10,510 | 284,625 |
| Charges for services: | | | | |
| Ambulance | 306,993 | 517,677 | 210,684 | 310,496 |
| Police | 7,600 | 9,653 | 2,053 | 11,524 |
| Library | 6,000 | 8,998 | 2,998 | 11,691 |
| Recreation | 15,857 | - | (15,857) | - |
| Total charges for services | 336,450 | 536,328 | 199,878 | 333,711 |
| Fees and fines: | | | | |
| Fire fees/reimbursement | 4,182 | 4,120 | (62) | 4,090 |
| Total fees and fines | 4,182 | 4,120 | (62) | 4,090 |
| Unclassified: | | | | |
| Rents - Town property | 28,000 | 28,000 | - | 30,333 |
| Cemeteries | 15,000 | 22,125 | 7,125 | 17,475 |
| Public works | 20,500 | 19,115 | (1,385) | 25,614 |
| Transfer station | 152,205 | 172,116 | 19,911 | 176,866 |
| Code enforcement | 12,526 | 9,418 | (3,108) | 10,272 |
| Assessing | 8,797 | 7,283 | (1,514) | 8,797 |
| Airport | 86,400 | 118,141 | 31,741 | 103,667 |
| Sale of property | 2,500 | 19,409 | 16,909 | - |
| Employee insurance reimbursement/refunds | - | 8,930 | 8,930 | 3,888 |
| County tax Rebate | - | - | - | 13,464 |
| KARE receipts (fiscal agent) | 75,000 | 75,000 | - | 75,000 |
| Unclassified - Town | 17,210 | 52,342 | 35,132 | 23,810 |
| Unclassified - School | 56,000 | 60,973 | 4,973 | 29,079 |
| Total unclassified | 474,138 | 592,852 | 118,714 | 518,265 |
| Investment earnings | 2,500 | 76 | (2,424) | 848 |
| Total revenues | 10,945,600 | 13,033,793 | 2,088,193 | 10,848,986 |

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

| | 2013 | | | 2012 Actual |
|------------------------------------|------------|-----------|------------------------------------|----------------|
| | Budget | Actual | Variance positive (negative) | |
| Expenditures: | | | | |
| Current: | | | | |
| General government: | | | | |
| Town Manager and Council | \$ 145,577 | 118,748 | 26,829 | 144,073 |
| Town Clerk & Tax Collector | 105,472 | 102,849 | 2,623 | 98,638 |
| Elections and registration | 5,450 | 3,265 | 2,185 | 4,897 |
| Assessing | 35,865 | 35,022 | 843 | 34,776 |
| Municipal building | 72,502 | 71,398 | 1,104 | 72,273 |
| Audit and bookkeeping | 20,000 | 20,000 | - | 20,250 |
| Town report | 1,200 | - | 1,200 | 1,198 |
| Legal services | 12,000 | 57,662 | (45,662) | 46,529 |
| Administration | 52,080 | 63,608 | (11,528) | 52,185 |
| Planning, code, development | 29,302 | 28,536 | 766 | 28,633 |
| Economic Development Committee | 11,500 | 1,756 | 9,744 | 7,657 |
| Total general government | 490,948 | 502,844 | (11,896) | 511,109 |
| Protection: | | | | |
| Police department | 470,167 | 470,840 | (673) | 486,994 |
| DARE Program - donations | 2,500 | 4,989 | (2,489) | 5,613 |
| Fire department | 245,080 | 235,671 | 9,409 | 225,112 |
| Ambulance | 279,680 | 300,093 | (20,413) | 286,624 |
| Community services | 460,600 | 451,442 | 9,158 | 457,244 |
| Insurances | 73,215 | 78,527 | (5,312) | 72,926 |
| School crossing guards | 8,221 | 7,528 | 693 | 7,438 |
| Dog constable | 10,917 | 9,838 | 1,079 | 10,303 |
| Enforcement officials | 2,000 | 2,000 | - | 2,000 |
| Total protection | 1,552,380 | 1,560,928 | (8,548) | 1,554,254 |
| Town services: | | | | |
| Public works administration | 7,400 | 6,506 | 894 | 7,259 |
| Transfer site | 363,725 | 355,369 | 8,356 | 352,158 |
| Street and road maintenance | 731,726 | 472,693 | 259,033 | 526,342 |
| Garage maintenance | 26,250 | 24,121 | 2,129 | 26,009 |
| Total Town services | 1,129,101 | 858,689 | 270,412 | 911,768 |
| Community services: | | | | |
| Snowsled program | 103,357 | 82,395 | 20,962 | 84,426 |
| Public library | 148,769 | 147,797 | 972 | 146,725 |
| Library gifts and donations | 3,000 | 4,149 | (1,149) | 6,575 |
| KARE | 75,000 | 86,628 | (11,628) | 153,496 |
| Community development block grant | - | - | - | 74,108 |
| Holiday observation | - | - | - | 2,500 |
| Human resources/assistance | 22,999 | 22,943 | 56 | 25,367 |
| General assistance | 40,000 | 12,511 | 27,489 | 19,869 |
| Recreation | 143,303 | 145,023 | (1,720) | 142,766 |
| Airport | 112,865 | 143,453 | (30,588) | 133,546 |
| Cemeteries | 26,025 | 22,549 | 3,476 | 26,827 |
| Public health and welfare agencies | 14,901 | 14,901 | - | 16,465 |
| Total community services | 690,219 | 682,349 | 7,870 | 832,670 |

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

| | 2013 | | Variance positive (negative) | 2012 Actual |
|---|--------------|------------------|------------------------------------|------------------|
| | Budget | Actual | | |
| Expenditures, continued: | | | | |
| Current, continued: | | | | |
| Education | \$ 6,144,454 | 6,039,327 | 105,127 | 5,934,767 |
| Total education | 6,144,454 | 6,039,327 | 105,127 | 5,934,767 |
| Insurance and fringe benefits: | | | | |
| Insurance and fringe benefits | 1,094,591 | 1,062,915 | 31,676 | 1,049,947 |
| Total insurance and fringe benefits | 1,094,591 | 1,062,915 | 31,676 | 1,049,947 |
| Unclassified: | | | | |
| County tax | 360,283 | 360,283 | - | 374,002 |
| Total unclassified | 360,283 | 360,283 | - | 374,002 |
| Debt service: | | | | |
| Town | 160,981 | 198,585 | (37,604) | 166,209 |
| Education | 482,616 | 466,302 | 16,314 | 401,760 |
| Total debt service | 643,597 | 664,887 | (21,290) | 567,969 |
| Capital outlay: | | | | |
| Capital outlay - Town | 331,385 | 379,874 | (48,489) | 71,248 |
| Special capital improvements | 657,500 | 904,979 | (247,479) | 481,375 |
| Total capital outlay | 988,885 | 1,284,853 | (295,968) | 552,623 |
| Total expenditures | 13,094,458 | 13,017,075 | 77,383 | 12,289,109 |
| Excess (deficiency) of revenues over (under) expenditures | (2,148,858) | 16,718 | 2,165,576 | (1,440,123) |
| Other financing sources (uses): | | | | |
| Budgeted utilization of surplus - Town | 660,000 | - | (660,000) | - |
| Budgeted utilization of surplus - School | 317,160 | - | (317,160) | - |
| Transfer in from Town | - | - | - | 720,000 |
| Transfer out to School | - | - | - | (720,000) |
| Issuance of debt | 228,401 | 228,401 | - | - |
| Overlay | (24,746) | - | 24,746 | - |
| Transfers in | 975,599 | 199,067 | (776,532) | 109,953 |
| Transfers out | (7,556) | (7,556) | - | (17,988) |
| Total other financing sources (uses) | 2,148,858 | 419,912 | (1,728,946) | 91,965 |
| Net change in fund balance - budgetary basis | - | 436,630 | 436,630 | (1,348,158) |
| Reconciliation to GAAP basis: | | | | |
| Change in accrued teacher summer salaries | - | 7,783 | - | (21,750) |
| Net change in fund balance - GAAP basis | - | 444,413 | - | (1,369,908) |
| Fund balance, beginning of year | - | 1,307,437 | - | 2,677,345 |
| Fund balance, end of year | \$ | 1,751,850 | - | 1,307,437 |

ALL OTHER GOVERNMENTAL FUNDS

TOWN OF MILLINOCKET
Combining Balance Sheet
All Other Governmental Funds
June 30, 2013

| | Special Revenue Funds | Permanent Funds | Total Other Governmental Funds |
|--|-----------------------------|--------------------|--------------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 156,919 | 3,382 | 160,301 |
| Investments | - | 38,965 | 38,965 |
| Intergovernmental receivables | 101,419 | - | 101,419 |
| Notes, net of allowance of \$12,667 | 207,273 | - | 207,273 |
| Inventory | 10,286 | - | 10,286 |
| Interfund loans receivable | 28,455 | - | 28,455 |
| Total assets | \$ 504,352 | 42,347 | 546,699 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | 9,230 | - | 9,230 |
| Accrued wages and benefits | 33,773 | - | 33,773 |
| Interfund loans payable | 97,337 | 3,800 | 101,137 |
| Total liabilities | 140,340 | 3,800 | 144,140 |
| Fund balances: | | | |
| Nonspendable | 217,559 | 16,401 | 233,960 |
| Restricted | 166,186 | 22,146 | 188,332 |
| Committed | 13,425 | - | 13,425 |
| Unassigned | (33,158) | - | (33,158) |
| Total fund balance | 364,012 | 38,547 | 402,559 |
| Total liabilities and fund balances | \$ 504,352 | 42,347 | 546,699 |

TOWN OF MILLINOCKET, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
All Other Governmental Funds
For the year ended June 30, 2013

| | Special Revenue Funds | Permanent Funds | Total Other Governmental Funds |
|--|-----------------------------|--------------------|--------------------------------------|
| Revenues: | | | |
| Gifts and donations | \$ 215 | - | 215 |
| Intergovernmental | 951,406 | - | 951,406 |
| Charges for services | 103,508 | - | 103,508 |
| Interest revenue | 6,729 | 5 | 6,734 |
| Total revenues | 1,061,858 | 5 | 1,061,863 |
| Expenditures: | | | |
| Current: | | | |
| Protection | 1,280 | - | 1,280 |
| Education | 783,113 | - | 783,113 |
| Food services | 339,945 | - | 339,945 |
| Unclassified | - | - | - |
| Total expenditures | 1,124,338 | - | 1,124,338 |
| Excess (deficiency) of revenues over (under) expenditures | (62,480) | 5 | (62,475) |
| Other financing sources (uses): | | | |
| Transfers from other funds | 7,556 | - | 7,556 |
| Transfers to other funds | (83,991) | - | (83,991) |
| Total other financing uses | (76,435) | - | (76,435) |
| Net change in fund balances | (138,915) | 5 | (138,910) |
| Fund balances, beginning of year | 502,927 | 38,542 | 541,469 |
| Fund balances, end of year | \$ 364,012 | 38,547 | 402,559 |

NONMAJOR GOVERNMENTAL FUNDS

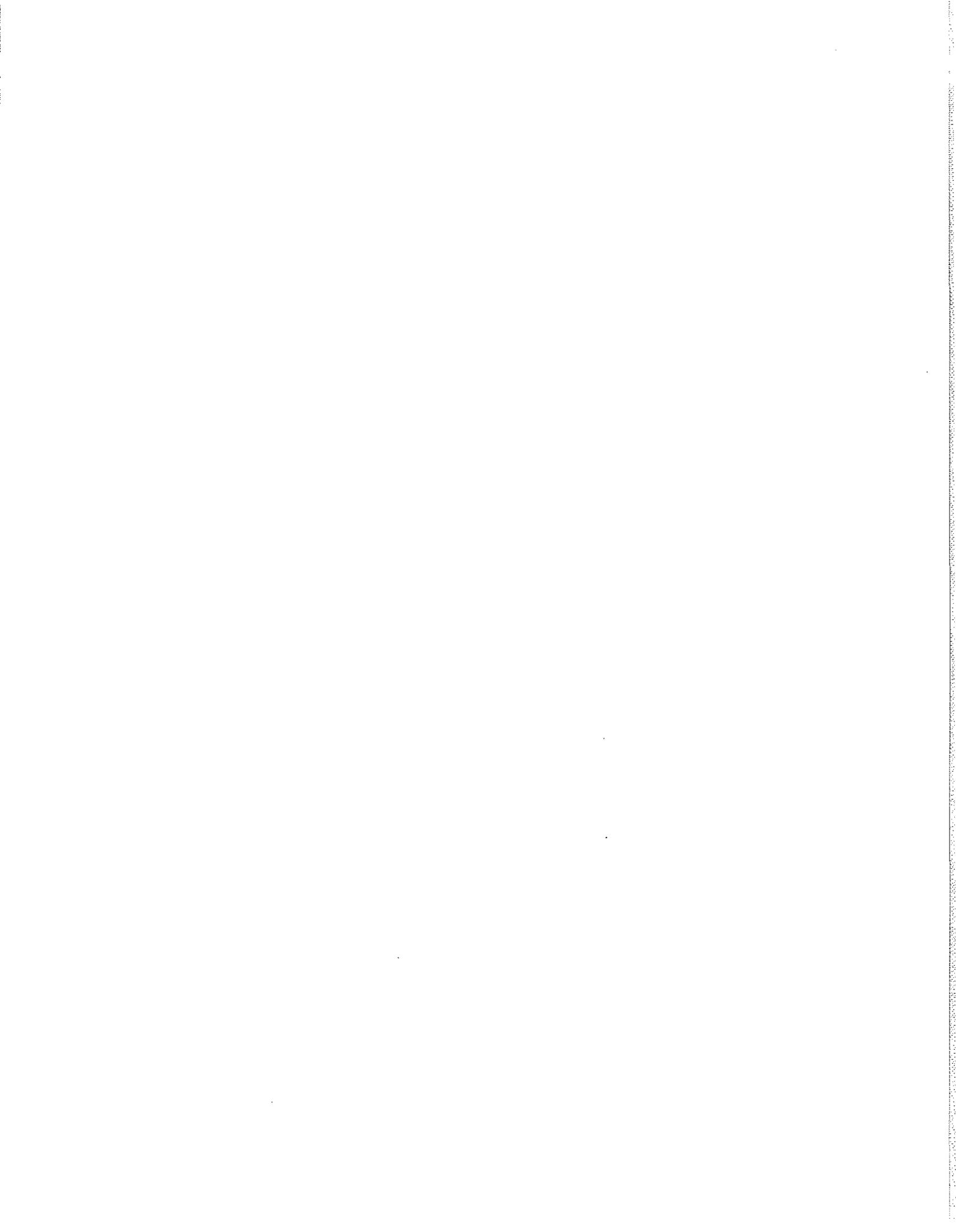
SPECIAL REVENUE FUNDS

TOWN OF MILLINOCKET, MAINE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2013
 (with comparative totals for June 30, 2012)

| | CDBG Loan Fund | Recrea- tion | Compre- hensive Plan | Project Get- Alarmed | School Categorical Programs | School Lunch | Adult Education | Totals | |
|--|----------------------|-----------------|----------------------------|----------------------------|-----------------------------------|-----------------|--------------------|----------------|----------------|
| | | | | | | | | 2013 | 2012 |
| ASSETS | | | | | | | | | |
| Cash and cash equivalents | \$ 102,319 | - | - | 18,229 | 19,087 | 17,284 | - | 156,919 | 136,004 |
| Intergovernmental receivables | - | - | - | - | 85,758 | 15,661 | - | 101,419 | 98,446 |
| Notes, net of allowance of \$12,667 | 207,273 | - | - | - | - | - | - | 207,273 | 203,336 |
| Inventory | - | - | - | - | - | 10,286 | - | 10,286 | 11,090 |
| Interfund loans receivable | - | 3,311 | 10,114 | - | - | 15,030 | - | 28,455 | 116,919 |
| Total assets | \$ 309,592 | 3,311 | 10,114 | 18,229 | 104,845 | 58,261 | - | 504,352 | 565,795 |
| LIABILITIES AND FUND BALANCES | | | | | | | | | |
| Liabilities: | | | | | | | | | |
| Accounts payable | - | - | - | - | 1,120 | 8,110 | - | 9,230 | 5,614 |
| Accrued wages and benefits | - | - | - | - | 21,861 | 11,912 | - | 33,773 | 35,592 |
| Interfund loans payable | 17,099 | - | - | - | 75,675 | - | 4,563 | 97,337 | 21,662 |
| Total liabilities | 17,099 | - | - | - | 98,656 | 20,022 | 4,563 | 140,340 | 62,868 |
| Fund balances (deficit): | | | | | | | | | |
| Nonspendable | 207,273 | - | - | - | - | 10,286 | - | 217,559 | 214,426 |
| Restricted | 85,220 | - | - | 18,229 | 34,628 | 28,109 | - | 166,186 | 302,317 |
| Committed | - | 3,311 | 10,114 | - | - | - | - | 13,425 | 13,425 |
| Unassigned | - | - | - | - | (28,439) | (156) | (4,563) | (33,158) | (27,241) |
| Total fund balances (deficit) | 292,493 | 3,311 | 10,114 | 18,229 | 6,189 | 38,239 | (4,563) | 364,012 | 502,927 |
| Total liabilities and fund balances | \$ 309,592 | 3,311 | 10,114 | 18,229 | 104,845 | 58,261 | - | 504,352 | 565,795 |

TOWN OF MILLINOCKET, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the year ended June 30, 2013
(with comparative totals for the year ended June 30, 2012)

| | CDBG Loan Fund | Recrea- tion | Compre- hensive Plan | Project Get- Alarmed | School Categorical Programs | School Lunch | Adult Education | Totals | |
|--|----------------------|-----------------|----------------------------|----------------------------|-----------------------------------|-----------------|--------------------|------------------|------------------|
| | | | | | | | | 2013 | 2012 |
| Revenues: | | | | | | | | | |
| Gifts and donations | \$ - | - | - | 215 | - | - | - | 215 | 1,862 |
| Intergovernmental | - | - | - | - | 749,855 | 201,551 | - | 951,406 | 881,097 |
| Interest income | 6,703 | - | - | 26 | - | - | - | 6,729 | 7,156 |
| Charges for services | - | - | - | - | 7,407 | 96,101 | - | 103,508 | 159,586 |
| Total revenues | 6,703 | - | - | 241 | 757,262 | 297,652 | - | 1,061,858 | 1,049,701 |
| Expenditures: | | | | | | | | | |
| Current: | | | | | | | | | |
| Protection | - | - | - | 1,280 | - | - | - | 1,280 | 1,571 |
| Education | - | - | - | - | 775,557 | - | 7,556 | 783,113 | 735,290 |
| Food services | - | - | - | - | - | 339,945 | - | 339,945 | 323,669 |
| Bad debt expense | - | - | - | - | - | - | - | - | 60,831 |
| Total expenditures | - | - | - | 1,280 | 775,557 | 339,945 | 7,556 | 1,124,338 | 1,121,361 |
| Excess (deficiency) of revenues over (under) expenditures | 6,703 | - | - | (1,039) | (18,295) | (42,293) | (7,556) | (62,480) | (71,660) |
| Other financing sources (uses): | | | | | | | | | |
| Transfers from other funds | - | - | - | - | - | - | 7,556 | 7,556 | 17,988 |
| Transfers to other funds | - | - | - | - | (83,991) | - | - | (83,991) | (68,410) |
| Total other financing sources (uses) | - | - | - | - | (83,991) | - | 7,556 | (76,435) | (50,422) |
| Net change in fund balances | 6,703 | - | - | (1,039) | (102,286) | (42,293) | - | (138,915) | (122,082) |
| Fund balances (deficit), beginning of year | 285,790 | 3,311 | 10,114 | 19,268 | 108,475 | 80,532 | (4,563) | 502,927 | 625,009 |
| Fund balances (deficit), end of year | \$ 292,493 | 3,311 | 10,114 | 18,229 | 6,189 | 38,239 | (4,563) | 364,012 | 502,927 |



TOWN CAPITAL RESERVE FUNDS

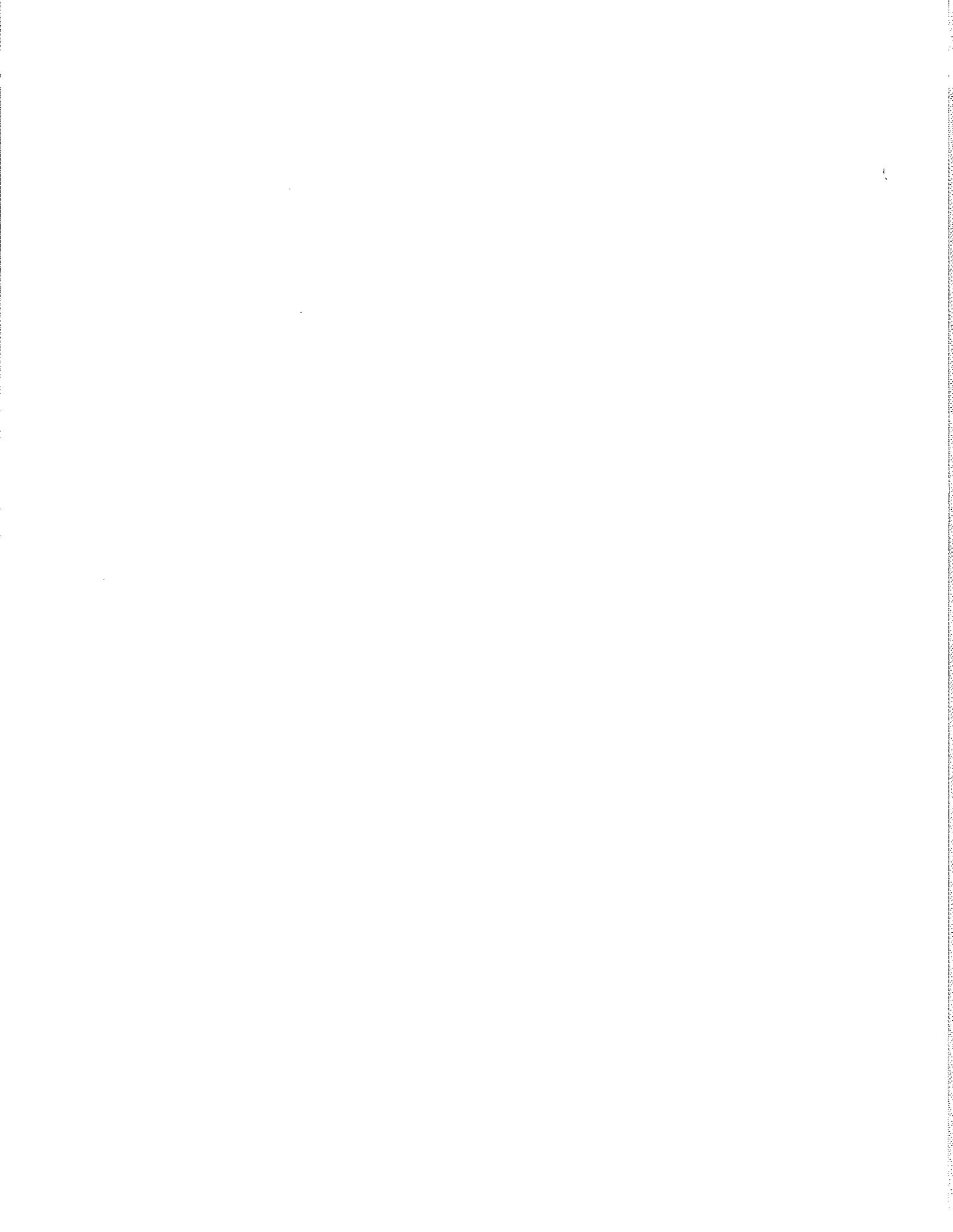
TOWN OF MILLINOCKET, MAINE
Combining Balance Sheet
Town Capital Reserve Funds
June 30, 2013

(with comparative totals for June 30, 2012)

| | | General Capital Reserve | Airport Capital Reserve | Other Capital Reserves | Equipment Acquisition | SMI TIF Proceeds | School Renovations | Totals | |
|--|-----------|-------------------------|-------------------------|------------------------|-----------------------|------------------|--------------------|----------------|----------------|
| | | | | | | | | 2013 | 2012 |
| ASSETS | | | | | | | | | |
| Investments | \$ | 39,574 | 82,163 | 74,860 | - | 181,681 | - | 378,278 | 459,755 |
| Interfund loans receivable | | 69,936 | - | 44,872 | - | - | 30,318 | 145,126 | 142,463 |
| Total assets | \$ | 109,510 | 82,163 | 119,732 | - | 181,681 | 30,318 | 523,404 | 602,218 |
| LIABILITIES AND FUND BALANCES | | | | | | | | | |
| Liabilities: | | | | | | | | | |
| Interfund loans payable | | - | 29,892 | - | 15,549 | 6,155 | - | 51,596 | 33,790 |
| Total liabilities | | - | 29,892 | - | 15,549 | 6,155 | - | 51,596 | 33,790 |
| Fund balances: | | | | | | | | | |
| Committed | | 109,510 | 52,271 | 119,732 | (15,549) | 175,526 | 30,318 | 471,808 | 568,428 |
| Total fund balances | | 109,510 | 52,271 | 119,732 | (15,549) | 175,526 | 30,318 | 471,808 | 568,428 |
| Total liabilities and fund balances | \$ | 109,510 | 82,163 | 119,732 | - | 181,681 | 30,318 | 523,404 | 602,218 |

TOWN OF MILLINOCKET, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Town Capital Reserve Funds
Year ended June 30, 2013
(with comparative totals for the year ended June 30, 2012)

| | General Capital Reserve | Airport Capital Reserve | Other Capital Reserve | Equipment Acquisition | SMI TIF Proceeds | School Renovations | Totals | |
|--|----------------------------|----------------------------|--------------------------|--------------------------|---------------------|-----------------------|-----------------|--------------------|
| | | | | | | | 2013 | 2012 |
| Revenues: | | | | | | | | |
| Other revenue | \$ - | - | - | - | - | - | - | 13,968 |
| Interest earnings | 4 | 10 | 13 | - | 29 | - | 56 | 203 |
| Total revenues | 4 | 10 | 13 | - | 29 | - | 56 | 14,171 |
| Expenditures: | | | | | | | | |
| Capital outlay | - | - | - | - | - | - | - | 1,465,646 |
| Total expenditures | - | - | - | - | - | - | - | 1,465,646 |
| Excess (deficiency) of revenues over (under) expenditures | 4 | 10 | 13 | - | 29 | - | 56 | (1,451,475) |
| Other financing sources (uses): | | | | | | | | |
| Issuance of debt | - | - | - | - | - | - | - | 1,465,000 |
| Transfers from other funds | - | - | - | - | - | - | - | - |
| Transfers to other funds | - | (30,000) | - | (27,592) | (39,084) | - | (96,676) | (27,743) |
| Total other financing sources (uses) | - | (30,000) | - | (27,592) | (39,084) | - | (96,676) | 1,437,257 |
| Net change in fund balances | 4 | (29,990) | 13 | (27,592) | (39,055) | - | (96,620) | (14,218) |
| Fund balances, beginning of year | 109,506 | 82,261 | 119,719 | 12,043 | 214,581 | 30,318 | 568,428 | 582,646 |
| Fund balances, end of year | \$ 109,510 | 52,271 | 119,732 | (15,549) | 175,526 | 30,318 | 471,808 | 568,428 |



NONMAJOR GOVERNMENTAL FUNDS

PERMANENT FUNDS

TOWN OF MILLINOCKET, MAINE
Combining Balance Sheet
Nonmajor Permanent Funds
June 30, 2013

| | | Cemetery Perpetual Care | Peluso Welfare Trust | Ministerial and School Fund | Totals |
|--|-----------|-------------------------------|----------------------------|--------------------------------------|---------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ | - | 2,237 | 1,145 | 3,382 |
| Investments | | 4,241 | 13,083 | 21,641 | 38,965 |
| Total assets | \$ | 4,241 | 15,320 | 22,786 | 42,347 |
| 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 | | 2,840 | 11,320 | 7,986 | 22,146 |
| Total fund balances | | 4,241 | 15,320 | 18,986 | 38,547 |
| Total liabilities and fund balances | \$ | 4,241 | 15,320 | 22,786 | 42,347 |

TOWN OF MILLINOCKET, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Permanent Funds
For the year ended June 30, 2013

| | Cemetery Perpetual Care | Peluso Welfare Trust | Ministerial and School Fund | Totals |
|----------------------------------|-------------------------------|----------------------------|--------------------------------------|--------|
| Revenues: | | | | |
| Investment income | \$ 1 | 1 | 3 | 5 |
| Donations | - | - | - | - |
| Total revenues | 1 | 1 | 3 | 5 |
| Expenditures: | | | | |
| Current: | | | | |
| Other miscellaneous | - | - | - | - |
| Total expenditures | - | - | - | - |
| Net change in fund balances | 1 | 1 | 3 | 5 |
| Fund balances, beginning of year | 4,240 | 15,319 | 18,983 | 38,542 |
| Fund balances, end of year | \$ 4,241 | 15,320 | 18,986 | 38,547 |

